
***WATER DISTRICT NO. 1 OF
JOHNSON COUNTY, KANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2011***

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RubinBrown LLP
Certified Public Accountants
& Business Consultants

10975 Grandview Drive
Suite 600
Overland Park, KS 66210

T 913.491.4144
F 913.491.6821

W rubinbrown.com
E info@rubinbrown.com

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Water District No. 1 of Johnson County, Kansas (WaterOne) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of WaterOne's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of WaterOne as of December 31, 2010 were audited by other auditors, whose report dated February 24, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WaterOne's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of WaterOne as of December 31, 2011 and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 12 and the schedules of funding progress of the employee retirement system and other postemployment benefit plan on pages 41 through 42 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiring of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 43 through 49, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RubinBrown LLP

March 2, 2012

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

This section of Water District No. 1 of Johnson County, Kansas' (WaterOne's) comprehensive annual financial report presents an analysis of WaterOne's financial performance during the fiscal years ended December 31, 2011 and 2010. This information is presented in conjunction with the audited financial statements, which follow this section.

Financial Highlights

WaterOne's capital assets increased \$17.61 million in 2011 (2.14 percent) and \$8.22 million in 2010 (1.01 percent).

During 2011 and 2010, WaterOne received \$6.53 million and \$6.84 million, respectively, in capital contributions.

Operating revenues in 2011 were \$93.28 million. Operating revenues in 2010 were \$82.23 million.

Investment income before unrealized gains and losses for 2011 was approximately \$312,000, compared to \$347,000 in 2010. The 2011 average funds invested of \$80.47 million was more than the 2010 balance of \$73.80 million. In addition, the 2011 rate of return of 0.39 percent was lower than the 2010 rate of .0.47 percent.

The debt service coverage ratio for Senior Parity and Second Lien Debt (excluding System Development Charges) was 2.26 for 2011, compared to 1.94 for 2010.

Overview Of The Financial Statements

The annual Financial Report is presented in the following sections: The Independent Auditor's Report, Management's Discussion and Analysis, Financial Statements with Notes, Required Supplementary Information and Supplementary Information.

Required Financial Statements

The financial statements of WaterOne utilize the full accrual basis of accounting. The financial statements conform to accounting principles that are generally accepted in the United States of America. The Balance Sheet includes information on WaterOne's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to WaterOne's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identifies WaterOne's revenues, expenses and capital contributions for the years ended 2011 and 2010.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

The other required financial statement is the Statement of Cash Flows. From the Statement of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash balance for each of the last two fiscal years. This statement provides information on WaterOne's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities.

Financial Analysis Of WaterOne

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of WaterOne's financial condition and also indicate if the financial condition has improved over the previous year. WaterOne's total net assets increased \$25.96 million (3.92 percent) in 2011 and \$16.96 million (2.63 percent) in 2010.

Table 1
Balance Sheet
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Capital assets	\$ 839,638	\$ 822,031	\$ 17,607	2.14%	\$ 813,808	\$ 8,223	1.01%	
Total specific funds	37,124	47,686	(10,562)	(22.15)%	36,477	11,209	30.73%	
Total current assets	70,869	70,143	726	1.04%	57,950	12,193	21.04%	
Deferred and noncurrent assets	1,677	1,565	112	7.16%	1,516	49	3.23%	
Total Assets	\$ 949,308	\$ 941,425	\$ 7,883	0.84%	\$ 909,751	\$ 31,674	3.48%	
Long-term liabilities	\$ 240,305	\$ 256,470	\$ (16,165)	(6.30)%	\$ 238,818	\$ 17,652	7.39%	
Current and other liabilities	20,222	22,129	(1,907)	(8.62)%	25,065	(2,936)	(11.71)%	
Total Liabilities	260,527	278,599	(18,072)	(6.49)%	263,883	14,716	5.58%	
Invested in capital assets, net of debt	596,549	567,711	28,838	5.08%	569,488	(1,777)	(0.31)%	
Restricted	28,371	29,237	(866)	(2.96)%	28,042	1,195	4.26%	
Unrestricted	63,861	65,878	(2,017)	(3.06)%	48,338	17,540	36.29%	
Total Net Assets	688,781	662,826	25,955	3.92%	645,868	16,958	2.63%	
Total Liabilities And Net Assets	\$ 949,308	\$ 941,425	\$ 7,883	0.84%	\$ 909,751	\$ 31,674	3.48%	

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Table 2
Statement of Revenues, Expenses, and Changes in Net Assets
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Operating revenues	\$ 93,281	\$ 82,229	\$ 11,052	13.44%	\$ 70,462	\$ 11,767	16.70%	
Operating expenses	43,613	41,411	2,202	5.32%	41,602	(191)	(0.46)%	
Net Operating Income (Before Depreciation)	49,668	40,818	8,850	21.68%	28,860	11,958	41.43%	
Depreciation	20,378	18,225	2,153	11.81%	15,794	2,431	15.39%	
Net Operating Income	29,290	22,593	6,697	29.64%	13,066	9,527	72.91%	
Total other income	647	521	126	24.18%	441	80	18.14%	
Total other expenses	10,508	12,999	(2,491)	(19.16)%	8,501	4,498	52.91%	
Net Income Before Capital Contributions	19,429	10,115	9,314	92.08%	5,006	5,109	102.06%	
Capital contributions	6,525	6,843	(318)	(4.65)%	9,159	(2,316)	(25.29)%	
Change In Net Assets	25,954	16,958	8,996	53.05%	14,165	2,793	19.72%	
Beginning Net Assets	662,826	645,868	16,958	2.63%	631,703	14,165	2.24%	
Ending Net Assets	\$ 688,780	\$ 662,826	\$ 25,954	3.92%	\$ 645,868	\$ 16,958	2.63%	
Total Revenues	\$ 100,453	\$ 89,593			\$ 80,062			
Total Expenses	\$ 74,499	\$ 72,635			\$ 65,897			

The largest source of WaterOne's operating revenue has historically been water sales. Additional sources of operating revenue include income received from delinquent service charges, administrative service charges, and miscellaneous income. WaterOne's other income is derived from interest income earned on WaterOne investments and gains and losses from investments.

Operating expenses are the expenses necessary to keep the water system in good repair and working order and include (but are not limited to) salaries, benefits, costs of materials, supplies, insurance, power and chemicals, and depreciation. Other expenses primarily include the payment of interest on WaterOne's outstanding Senior Parity Bonds and Second Lien Bonds.

Variances in water sales from year to year are generally the product of three major factors: water rate changes, changes in customer consumption patterns due to weather influences, and changes in the number of customers.

1. **Water Rate Changes** – Effective January 1, 2011, WaterOne's retail water rates increased 4.9 percent. Effective January 1, 2010, WaterOne's retail water rates also increased 4.9 percent.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

2. **Changes in customer consumption due to weather influences** – A wet spring and early summer coupled with a dry late summer and fall resulted in 2011 water sales of \$92.04 million. Sales for 2011 were \$2.37 million more than projected and 11.15 million more than those in 2010. Wet weather in 2010 resulted in sales of \$80.90 million, which were \$5.82 million less than projected and \$11.64 more than those in 2009. Approximately 65 percent of the water sales revenue is from sales to single-family residences. The remaining 35 percent represent sales to multifamily and commercial customers.

3. **Changes in the number of customers** – Excluding temporary fire hydrant meters, 648 new retail customers were added in 2011, which were 50 (8.36 percent) more than the 598 new customers added in 2010. The new 2010 customers were 23 (3.70 percent) less than the 621 new customers added in 2009.

Interest income (before gain/loss on investments) decreased from \$347,000 in 2010 to \$312,000 in 2011. Interest income (before gain/loss on investments) decreased from \$973,000 in 2009 to \$347,000 in 2010.

	2011	2010	2009
Average funds invested	\$ 80.47 Million	\$ 73.80 Million	\$ 83.46 Million
Average rate of return	0.39%	0.47%	0.87%

As reflected on the Statements of Revenue, Expense and Changes in Net Assets, the operating expenses for WaterOne are divided into the following five functional categories: Water Source, Treatment, and Pumping; Transmission and Distribution; Customer Service; Administrative and General; and Depreciation.

1. Total operating expenses (before depreciation) were \$2.20 million (5.32 percent) more in 2011 than in 2010. The increase in operating costs during 2011 is primarily due to increased chemical, power and other production costs.
 - Water Source, Treatment, and Pumping expenses were nearly \$2.35 million (11.99 percent) more in 2011 than 2010, primarily due to:
 - A \$1.28 million (25.73 percent) increase in power cost.
 - A 506,000 (11.79 percent) increase in chemical cost.
 - Net Labor costs were 147,000 higher in 2011 than 2010.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- Transmission and Distribution expenses were \$176,000 (1.74 percent) less in 2011 when compared to 2010, primarily due to:
 - A decrease in net labor costs of \$216,000.
 - A decrease of allocated indirect fleet costs of nearly \$73,000.
 - An offsetting increase in maintenance of mains cost, primarily materials, pavement repair and contractor costs.
 - Customer Service expenses were \$116,000 (3.40 percent) lower in 2011 than in 2010, primarily due to:
 - A decrease in net labor of \$49,000.
 - A \$77,000 decrease in the cost of bad debts.
 - Administrative and General expenses were \$146,000 (1.77 percent) higher in 2011 than in 2010, primarily due to:
 - An increase in the net Clean Drinking Water fee expense of \$56,000.
 - An increase in training expense of \$64,000.
2. Total operating expenses (before depreciation) were \$192,000 (0.46 percent) less in 2010 than in 2009. The slight decrease in operating costs during 2010 is primarily due to decreased chemical and net labor cost, offset by an increase in power, net benefits, materials and supplies and maintenance of main costs.
- Water Source, Treatment, and Pumping expenses were nearly \$29,000 (0.15 percent) less in 2010 than 2009, primarily due to:
 - A \$374,000 (8.02 percent) decrease in chemical cost.
 - An offsetting \$228,000 (4.79 percent) increase in power cost.
 - Transmission and Distribution expenses were \$255,443 (2.58 percent) more in 2010 when compared to 2009, primarily due to:
 - An increase in maintenance of mains cost of \$82,000 including inventory and materials cost and pavement repairs.
 - Other expense increases include \$46,000 of allocated benefits cost.
 - An increase in net labor costs of nearly \$30,000.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- Customer Service expenses were \$192,000 (5.32 percent) lower in 2010 than in 2009, primarily due to:
 - A decrease in net labor of \$173,000.
 - An \$18,000 decrease in allocated net employee benefits.
- Administrative and General expenses were \$227,000 (2.67 percent) lower in 2010 than in 2009, primarily due to:
 - A decrease of net labor cost by \$168,000
 - A decrease in allocated net employee benefits by \$102,000.
 - An offsetting \$37,000 increase in inventory withdrawals and materials and supplies.

Capital Contributions

Capital contributions are recognized as “Contributions” on the Statements of Revenues, Expenses and Changes in Net Assets. Capital contributions for the years 2011, 2010 and 2009 consisted of the following:

	Capital Contributions (Dollars in thousands)							
	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Main extensions	\$ 1,954	\$ 1,211	\$ 743	61.35%	\$ 4,396	\$ (3,185)	(72.45)%	
System development charges	4,130	5,050	(920)	(18.22)%	4,263	787	18.46%	
Kansas Water Co.	(29)	—	—	—	—	—	—	
Benefit areas	—	4	(4)	n/a	45	(41)	(91.11)%	
New services	470	578	(108)	(18.69)%	455	123	27.03%	
Total Capital Contributions	\$ 6,525	\$ 6,843	\$ (289)	(4.22)%	\$ 9,159	\$ (2,316)	(25.29)%	

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Capital Assets

As of December 31, 2011, WaterOne's investment in capital assets totaled \$839.63 million, which is an increase of \$17.61 million (2.14 percent) over the 2010 balance of \$822.03 million. Capital assets in 2010 were \$8.22 million (1.01 percent) more than the \$813.81 million balance at the end of 2009. Capital assets include all of WaterOne's major capital assets, including land, infrastructure assets, water treatment facilities, water mains, services, hydrants, pump stations, reservoirs, administrative/service center facilities, fleet, and other general assets. A comparison of WaterOne's capital assets over the past three years is presented in Table 4 below.

	December 31,		Variance		December 31,		Variance	
	2011	2010	Dollars	Percentage	2009	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Land	\$ 23,190	\$ 22,891	\$ 299	1.31%	\$ 22,651	\$ 240	1.06%	
Intake, purification, and pumping system	340,567	332,987	7,580	2.28%	234,959	98,028	41.72%	
Transmission and distribution distribution system	638,089	624,353	13,736	2.20%	534,900	89,453	16.72%	
Buildings, improvements, furniture and equipment	47,146	45,556	1,590	3.49%	46,034	(478)	(1.04)%	
Construction work in progress	43,692	31,567	12,125	38.41%	197,135	(165,568)	(83.99)%	
Capital Assets Before Depreciation	\$ 1,092,684	\$ 1,057,354	\$ 35,330	3.34%	\$ 1,035,679	\$ 21,675	2.09%	
Less accumulated depreciation	(253,046)	(235,323)	(17,723)	7.53%	(221,871)	(13,452)	6.06%	
Net capital Assets	\$ 839,638	\$ 822,031	\$ 17,607	2.14%	\$ 813,808	\$ 8,223	1.01%	

Additions to WaterOne's capital assets reflect a capital plan to replace and maintain existing facilities and equipment, adopt more efficient technologies, ensure compliance with applicable water quality rules and regulations and provide for the expansion of supply, treatment and distribution facilities per WaterOne's long-term capital expansion program. Since the mid-1980s, WaterOne has been consistently adding facilities in response to a history increasing customer base.

During 2011, WaterOne began construction on a new pump station, reservoir and related transmission mains in the southeast portion of our service area. These Phase V projects will expand pumping and storage capacity in that portion of WaterOne's service territory. WaterOne also began addressing the aging distribution facilities by beginning work on rehabilitation and upgrade of two pump stations in the oldest part of the service territory.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

During 2010, WaterOne continued with the construction of WaterOne's Phase V facilities, which include a new source and treatment site on the Missouri River, a new 17-mile 60" transmission main, additional pumping and storage facilities, and improvements on existing facilities. Phase V-A facilities related to the new source and treatment facilities on the Missouri River and the 60" transmission main were put into service in March 2010.

Long-Term Debt

WaterOne finances its capital assets through a combination of water rates, investment income, System Development Charges and revenue bonds. As indicated in the Notes to Financial Statements, WaterOne makes a monthly prorated deposit to the Principal and Interest Fund that is then used to fund the semi-annual principal and interest payments on the outstanding debt.

All Senior Parity bonds are rated Aaa by Moody's and AAA by Standard and Poor's. Second Lien bonds are rated Aa1 by Moody's and AAA by Standard and Poor's.

At the end of 2011, WaterOne had \$239.40 million of outstanding bonds, compared to \$259.70 million at the end of 2010. The decrease is the result of principal payments of \$12.65 million and the call of the remaining \$7.65 million of Series 2001 Senior Parity bonds.

At the end of 2010, WaterOne had \$259.70 million of outstanding bonds, compared to \$241.74 million at the end of 2009. The increase is the result of principal payments of \$10.94 million and the issuance of \$28.89 Second Lien water revenue bonds.

As discussed in Note 4 of the Notes to Financial Statements, the current debt service schedule extends to 2032 and includes bonds with interest rates ranging from 2.00 percent to 5.00 percent. Bond covenants require that WaterOne maintain a debt service coverage ratio on its Senior Parity Debt of 1.25; however, current Board policy stipulates that the budgeted debt service coverage ratio be maintained at a minimum of 2.00 (before inclusion of System Development Charges). For 2011, the actual debt service coverage ratio for WaterOne's Senior Parity Bonds and Second Lien Bonds (excluding System Development Charges) was 2.26, which was higher than the comparable ratio of 1.94 for 2010 and higher than the 2009 ratio of 1.58.

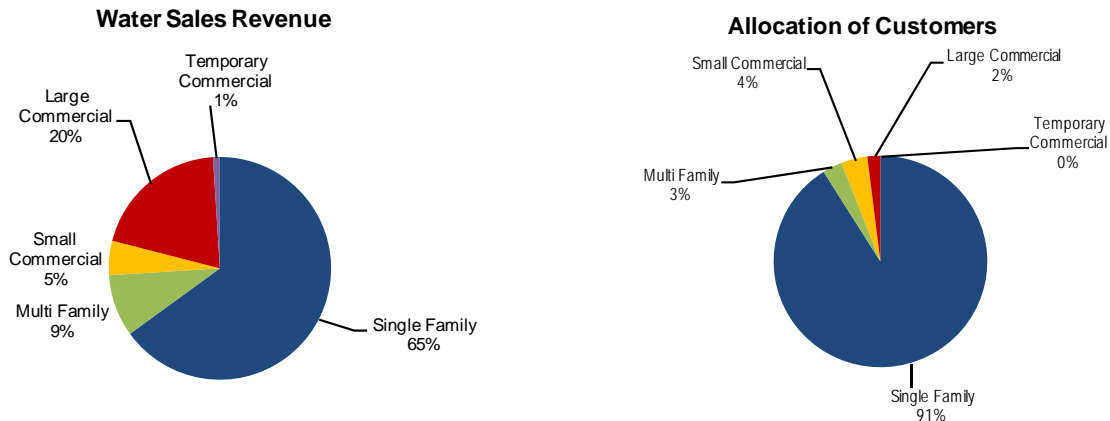
The actual Debt Service Coverage Ratio (excluding System Development Charges) for 2011 of 2.26 was higher than the budget amount of 2.07 due to drier and warmer conditions during the late summer and fall of 2011.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Projections and Rates

WaterOne's service territory includes approximately 272 square miles, located primarily in Johnson County, Kansas. In addition, WaterOne has the exclusive right to provide potable water to all or a portion of 17 municipalities as well as unincorporated areas. As of December 31, 2011, WaterOne served 138,456 customers, of which 91 percent were single-family residential homes.



Customer growth in the Johnson County area has slowed during the last three years. Economic factors contributing to the customer slow down are similar to those economic factors affecting growth across the nation. WaterOne, however, is somewhat insulated from economic downturns because 65 percent of our annual water sales are to single family residential homes and the remaining 35 percent is scattered among many relatively small commercial users. As of the end of 2011, WaterOne's top 15 commercial customers contributed to only 3.82 percent of total 2011 annual water sales revenue.

WaterOne budgets revenues and expenses based on anticipated water consumption for a "normal" weather year. Revenues for a given budget year need to be sufficient to provide funds for operation and maintenance expenses, debt service funding and annual capital expenditures. In addition, Net Revenues for a given year may be budgeted to provide funds for contributions to the Master Plan capital program, the Transmission & Distribution capital program and/or the Negative Cash Flow Reserve. Finally, Board policy #16 stipulates that rates must be at such a level that budgeted net operating income (before depreciation) combined with budgeted investment income (i.e. balance of revenues available for debt service) must be at least two times annual debt service for Senior Parity and Second Lien bonds in a normal year.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

WaterOne Contact Information

This financial report is designed to provide our customers and creditors with a general overview of WaterOne's finances and to demonstrate accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact:

Ron Appletoft, Director of Finance
Water District No. 1 of Johnson County, Kansas
10747 Renner Boulevard
Lenexa, Kansas 66219
Telephone: 913-895-5595
E-mail: rappletoft@waterone.org

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET ASSETS

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	December 31,	
	2011	2010
Assets		
Current Assets		
Cash and short-term investments:		
Water system general fund	\$ 45,696,106	\$ 41,594,800
System development account	12,295,778	16,664,995
Accounts receivable and accrued water sales	8,796,147	8,161,462
Interest receivable	104,924	127,527
Materials and supplies	2,899,929	2,624,747
Contractor extension receivables	266,348	176,516
Prepayments and deposits	809,335	793,250
Total Current Assets	70,868,567	70,143,297
Noncurrent Assets		
Capital assets, net of accumulated depreciation:		
Nondepreciable capital assets:		
Land	23,189,761	22,891,474
Construction in progress	43,692,199	31,566,666
Total nondepreciable capital assets	66,881,960	54,458,140
Depreciable capital assets:		
Intake, purification, and pumping system	227,415,293	228,459,286
Transmission and distribution system	520,592,658	514,981,668
Building, improvements, furniture, and equipment	24,748,230	24,131,777
Total depreciable capital assets, net of accumulated depreciation	772,756,181	767,572,731
Net Capital Assets	839,638,141	822,030,871
Restricted Cash And Investments		
Special funds created by bond resolutions:		
Principal and interest	1,884,818	1,572,491
Construction fund	—	9,194,970
Senior bond reserve fund	15,892,036	17,161,883
Second Lien bond reserve fund	2,809,572	2,809,493
Water system general fund	16,537,693	16,946,875
Total Special Funds Created By Bond Resolutions	37,124,119	47,685,712
Deferred Charges		
Debt issuance costs	648,533	726,051
Other	1,028,472	838,632
Total Deferred Charges	1,677,005	1,564,683
Total Noncurrent Assets	878,439,265	871,281,266
Total Assets	\$ 949,307,832	\$ 941,424,563

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET ASSETS

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Liabilities And Net Assets

	December 31,	
	2011	2010
Current Liabilities		
Accounts payable	\$ 5,478,053	\$ 5,135,174
Customer advances for system development charges	640,875	686,060
Retainages on construction contracts	1,570,512	380,560
Current maturities of revenue bonds payable	9,380,000	12,650,000
Accrued interest on revenue bonds payable	700,870	767,835
Compensated employee absences	1,257,900	1,269,642
Other current liabilities	1,193,782	1,239,354
Total Current Liabilities	20,221,992	22,128,625
Noncurrent And Other Liabilities		
Revenue bonds payable	230,015,000	247,045,000
Unamortized charge - refunded bonds	(225,107)	(393,821)
Premium on revenue bonds payable	3,888,717	4,214,078
Customer advances for construction	1,512,561	1,503,466
Other post-employment	4,670,356	3,397,040
Other	443,610	704,759
Total Noncurrent Liabilities	240,305,137	256,470,522
Total Liabilities	260,527,129	278,599,147
Net Assets		
Invested in capital assets, net of related debt	596,548,308	567,710,585
Restricted by bond resolution	28,370,953	29,237,152
Unrestricted	63,861,442	65,877,679
Total Net Assets	688,780,703	662,825,416
Total Liabilities And Net Assets	\$ 949,307,832	\$ 941,424,563

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For The Years	
	Ended December 31,	
	2011	2010
Operating Revenues		
Water sales	\$ 92,044,865	\$ 80,897,855
Other operating revenues	1,235,783	1,330,771
Total Operating Revenues	93,280,648	82,228,626
Operating Expenses		
Water source, treatment, and pumping	21,940,400	19,591,583
Transmission and distribution	9,964,532	10,141,354
Customer service	3,295,362	3,411,357
Administrative and general	8,412,358	8,266,352
Depreciation of utility plant	20,377,735	18,225,440
Total Operating Expenses	63,990,387	59,636,086
Operating Income	29,290,261	22,592,540
Nonoperating Revenues (Expenses)		
Investment income	392,734	296,794
Miscellaneous, net	45,910	32,250
Bond interest expense	(10,286,421)	(10,429,189)
Amortization expense - refunded bonds	(130,893)	(644,878)
Amortization of debt issuance costs, premiums and other interest charges	209,146	192,112
Loss on disposal of capital assets	(90,888)	(1,925,142)
Net Nonoperating Revenues (Expenses)	(9,860,412)	(12,478,053)
Income Before Capital Contributions	19,429,849	10,114,487
Capital Contributions	6,525,438	6,842,791
Change In Net Assets	25,955,287	16,957,278
Net Assets - Beginning Of Year	662,825,416	645,868,138
Net Assets - End Of Year	\$ 688,780,703	\$ 662,825,416

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

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	For The Years	
	Ended December 31,	
	2011	2010
Cash Flows From Operating Activities		
Receipts from customers	\$ 92,645,963	\$ 81,899,566
Payments to suppliers	(24,421,404)	(18,998,508)
Payments to employees	(21,821,074)	(20,376,716)
Net Cash Provided By Operating Activities	46,403,485	42,524,342
Cash Flows From Noncapital Financing Activities, Miscellaneous	9,095	32,250
Cash Flows From Capital And Related Financing Activities		
Proceeds from sale of capital assets	327,954	146,703
System development charges	4,085,025	3,530,229
Acquisition and construction of capital assets	(30,956,275)	(31,204,992)
Principal payments on revenue bonds	(20,300,000)	(10,935,000)
Interest payments on revenue bonds	(10,860,035)	(10,728,649)
Issuance of long-term debt, net of premium and issuance costs	—	29,646,958
Net Cash Used In Capital And Related Financing Activities	(57,703,331)	(19,544,751)
Cash Flows From Investing Activities		
Purchase of short-term investments	(59,860,745)	(79,350,722)
Interest received on investments	461,247	417,138
Maturities of short-term investments	70,804,072	53,034,989
Net Cash Provided By (Used In) Investing Activities	11,404,574	(25,898,595)
Net Increase (Decrease) In Cash	113,823	(2,886,754)
Cash - Beginning Of Year	13,948,078	16,834,832
Cash - End Of Year	\$ 14,061,901	\$ 13,948,078
Investments	\$ 81,054,102	\$ 91,997,429
Cash	14,061,901	13,948,078
Total Cash And Investments	\$ 95,116,003	\$ 105,945,507
Principal and interest fund - restricted	\$ 1,884,818	\$ 1,572,491
Water system general fund	45,696,106	41,594,800
Water system general fund - restricted	16,537,693	16,946,875
Construction fund - restricted	—	9,194,970
Cash bond reserve fund - restricted	18,701,608	19,971,376
System development account	12,295,778	16,664,995
	\$ 95,116,003	\$ 105,945,507

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 2 Of 2

	For The Years	
	Ended December 31,	
	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 29,290,261	\$ 22,592,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,377,735	18,225,440
Changes in assets and liabilities:		
Increase in receivables and accrued water sales	(634,685)	(633,198)
(Increase) decrease in materials and supplies	(275,182)	218,683
(Increase) decrease in contractor extension receivables	(89,832)	406,641
Increase in prepayments and deposits	(16,085)	(85,020)
Increase in deferred charges	(189,840)	(17,483)
Increase (decrease) in accounts payable	(3,013,740)	1,224,003
Increase in other liabilities and compensation	954,853	592,736
Net Cash Provided By Operating Activities	46,403,485	42,524,342
Noncash capital and related financing activities:		
Property contributed to WaterOne	\$ 2,395,230	\$ 1,224,358
Acquisition of capital assets through retainage payable	1,189,952	(4,288,037)
Acquisition of capital assets through accounts payable	3,467,132	110,513
Noncash investing activities,		
Appreciation (depreciation) of fair value	80,302	(50,018)
Capitalized interest payments	506,648	268,828

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2011

Note 1. Summary Of Significant Accounting Policies

Water District No. 1 of Johnson County, Kansas (WaterOne) is a water utility that provides service to 138,456 and 137,800 customers as of December 31, 2011 and 2010, respectively. WaterOne was organized on November 2, 1953 as a quasi-municipal body corporate with the power of eminent domain. WaterOne is governed by a seven-member Water District Board. Election is for overlapping terms voted on by the qualified electors residing in the WaterOne service area.

Basis Of Accounting

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. WaterOne has authority to issue bonded debt without the approval of another government. It has the right to sue and be sued and has the right to buy, sell, lease or mortgage property in its own name. Based on these criteria, WaterOne is considered a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

WaterOne accounts for the water utility as a governmental enterprise fund. The accrual basis and economic measurement focus of accounting is utilized, under which revenues are recognized when earned, and expenses are recorded when liabilities are incurred or deferred charges are amortized. Under this basis of accounting, all assets and all liabilities associated with the operation of WaterOne are included in the balance sheet.

WaterOne follows accounting principles and financial reporting requirements as established by the Governmental Accounting Standards Board (GASB), as well as pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB pronouncements. WaterOne has not elected to follow FASB guidance issued subsequent to November 30, 1989.

WaterOne prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to regulated utilities. The accounting and rates of WaterOne are established by the Water District Board.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities, and investing activities.

When both restricted and unrestricted resources are available for use, it is WaterOne's policy to use restricted resources first and then unrestricted resources, as they are needed.

Capital Assets

Utility plant is stated at cost, or cost of construction, including overhead costs. Included in capital assets is the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. Interest of \$506,000 and \$269,000 was capitalized in fiscal year 2011 and 2010, respectively. Fully depreciated plant and equipment are included in the accounts until their disposal. WaterOne's capitalization threshold is \$5,000.

Depreciation is provided on the straight-line method using the following useful lives:

Intake, purification, and pumping system	20 - 100 years
Transmission and distribution systems	10 - 100 years
Buildings, improvements, furniture, and equipment	3 - 50 years

Accounts receivable and unbilled revenue: WaterOne utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by WaterOne is recorded as accounts receivable and accrued water sales, net of an allowance for uncollectable accounts of \$55,000 and \$66,000 as of December 31, 2011 and 2010, respectively.

Investments: Investments consist of U.S. Treasury obligations. Treasury obligations are reported at fair value, based on quoted market prices.

Special funds created by bond resolutions: Special funds created by bond resolutions consist of cash and investments restricted for debt service on WaterOne's outstanding bonds (P & I Fund), bond reserve funds, construction funds, funding of contingencies, and reserves in the general fund.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

Materials and supplies: Materials and supplies inventories are reported at average cost.

Debt issuance costs, premium and unamortized refunded charges: Costs of bond issuances, premium and unamortized refunded charges are deferred and amortized over the life of the related issue using a method which approximates the interest method.

Deferred charges: Costs incurred which benefit future periods are deferred and amortized to expense, based upon recovery of these costs in customer rates. Deferred charges include deferrable maintenance costs, and various other amounts. Amortization periods range from one to five years.

Vacation and sick leave: Under the terms of WaterOne's personnel policy, employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation if proper notice is given by the employee. WaterOne accrues the costs related to earned employee vacation, which includes the employer portion of payroll-related taxes.

Upon retirement or termination, employees are not paid for unused sick leave. The costs of sick leave are recorded when paid and are not accrued.

Cash and cash equivalents: For purposes of the Statements of Cash Flows, WaterOne considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Net assets: Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent bond proceeds. As of December 31, 2010, WaterOne has \$9.19 million of unspent bond proceeds. WaterOne has no unspent bond proceeds as of December 31, 2011. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2011 is as follows:

	Balance -			Balance -
	December 31,	Increases	Decreases	December 31,
	2010			2011
Capital assets not being depreciated:				
Land	\$ 22,891,474	\$ 308,407	\$ 10,120	\$ 23,189,761
Construction work in progress	31,566,666	38,166,931	26,041,398	43,692,199
Total capital assets not being depreciated	54,458,140	38,475,338	26,051,518	66,881,960
Capital assets being depreciated:				
Intake, purification, and pumping system	332,987,417	7,850,085	270,069	340,567,433
Transmission and distribution systems	624,352,682	14,990,106	1,254,133	638,088,655
Building, improvements, furniture, and equipment	45,555,972	3,201,207	1,611,474	47,145,705
Total capital assets being depreciated	1,002,896,071	26,041,398	3,135,676	1,025,801,793
Less accumulated depreciation for:				
Intake, purification, and pumping system	104,528,131	8,810,758	186,749	113,152,140
Transmission and distribution systems	109,371,014	8,531,896	406,913	117,495,997
Building, improvements, furniture, and equipment	21,424,195	3,035,081	2,061,801	22,397,475
Total accumulated depreciation	235,323,340	20,377,735	2,655,463	253,045,612
Total capital assets being depreciated, net	767,572,731	5,663,663	480,213	772,756,181
Net Capital Assets	\$ 822,030,871	\$ 44,139,001	\$ 26,531,731	\$ 839,638,141

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Capital asset activity for the year ended December 31, 2010 is as follows:

	Balance -		Balance -	
	December 31,		December 31,	
	2009	Increases	Decreases	2010
Capital assets not being depreciated:				
Land	\$ 22,650,897	\$ 240,577	\$ —	\$ 22,891,474
Construction work in progress	197,135,454	28,280,077	193,848,865	31,566,666
Total capital assets not being depreciated	219,786,351	28,520,654	193,848,865	54,458,140
Capital assets being depreciated:				
Intake, purification, and pumping system	234,958,446	101,768,591	3,739,620	332,987,417
Transmission and distribution systems	534,900,214	90,141,089	688,621	624,352,682
Building, improvements, furniture, and equipment	46,033,565	1,939,185	2,416,778	45,555,972
Total capital assets being depreciated	815,892,225	193,848,865	6,845,019	1,002,896,071
Less accumulated depreciation for:				
Intake, purification, and pumping system	99,327,431	7,281,211	2,080,511	104,528,131
Transmission and distribution systems	101,879,170	7,809,846	318,002	109,371,014
Building, improvements, furniture, and equipment	20,664,473	3,134,383	2,374,661	21,424,195
Total accumulated depreciation	221,871,074	18,225,440	4,773,174	235,323,340
Total capital assets being depreciated, net	594,021,151	175,623,425	2,071,845	767,572,731
Net Capital Assets	\$ 813,807,502	\$ 204,144,079	\$ 195,920,710	\$ 822,030,871

Note 3. Deposits And Investments

Kansas statutes authorize WaterOne, with certain restrictions, to deposit or invest in various accounts and instruments. Pursuant to WaterOne's bond resolutions, operating funds and bond funds are to be invested in direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, including debt obligations of the Government National Mortgage Association.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Bond funds may also be invested in debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association and/or the Federal Home Loan Bank. Bond funds may also be invested in collateralized repurchase agreements which are collateralized at 100 percent of fair market value by direct obligations of the United States of America or any agency thereof or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, or by debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association, the Federal Home Loan Bank and/or the Government National Mortgage Association.

Bond funds may also be invested in guaranteed investment contracts (GICs) with any bank, non-bank financial institution, or insurance company that has long-term debt (or claims paying ability for insurance companies) rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. In the case of a guaranteed corporation, the long-term debt (or claims-paying ability for insurance companies) of the guarantor must be rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. Upon downgrade below these ratings, the GIC provider must either post collateral or assign the agreement to a provider meeting the rating qualifications above. Acceptable collateral and margin requirements, if any, are to be specified in the GIC agreement.

Investment of operating funds or bond funds in Mortgage Backed Securities (MBS) is prohibited.

Statutes also require that collateral pledged for deposits must have a fair market value equal to 100 percent, less insured amounts, and must be assigned for the benefit of WaterOne. Acceptable collateral is limited to securities that are direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America including U.S. Treasuries and debt obligations of the Government National Mortgage Association, the Federal Home Loan Mortgage Company, the Federal National Mortgage Association or the Federal Home Loan Bank. Use of Mortgage Backed Securities (MBS) as collateral is prohibited.

Deposits

As of December 31, 2011 and 2010, the bank balance of WaterOne's deposits were \$14,165,865 and \$14,140,178, respectively, which were covered by federal depository insurance or by collateral held by the Federal Reserve Bank in WaterOne's name under a joint custody arrangement with WaterOne's bank.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Investments

WaterOne's U.S. Treasury investments are held in safekeeping with the Federal Reserve Bank in WaterOne's treasury direct account in which proper receipts are maintained. All of WaterOne's investments are registered and held by WaterOne or its agent in WaterOne's name. A summary of investments and deposits as of December 31, 2011 and 2010 is as follows:

	Fair Value	
	2011	2010
U.S. Treasury securities	\$ 81,054,102	\$ 91,997,429
Deposits	14,060,051	13,946,228
Petty cash	1,850	1,850
	<u>\$ 95,116,003</u>	<u>\$ 105,945,507</u>

The investments and deposits at December 31, 2011 and 2010 are shown on the balance sheet as follows:

	2011	2010
Cash and temporary investments:		
General account	\$ 45,696,106	\$ 41,594,800
System development account	12,295,778	16,664,995
Special funds created by bond resolutions	37,124,119	47,685,712
	<u>\$ 95,116,003</u>	<u>\$ 105,945,507</u>

Credit risk and concentration of credit risk: Credit risk is the risk that the counterparty will not fulfill its obligations. WaterOne limits credit risk and concentration of credit risk by investing only in obligations explicitly guaranteed by the U.S. government, which are not considered to have credit risk.

Interest rate risk: Interest rate risk is the risk that the fair value of WaterOne's investments will decrease as a result of an increase in interest rates. In accordance with Kansas Statute 12-1675(4), WaterOne manages its exposure to declines in fair values by limiting the total remaining maturity of any single investment to less than two years and by structuring the portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity.

The weighted average maturity in years of U.S. Treasury securities is 0.70 and 0.69 as of December 31, 2011 and 2010, respectively.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Custodial credit risk: Custodial credit risk is the risk that WaterOne will not recover its investments due to the inability of the counterparty to fulfill its obligation. WaterOne's deposits up to \$250,000 are guaranteed by depository insurance and balances above this threshold are collateralized with U.S. government securities held by the Federal Reserve in WaterOne's name.

Note 4. Bonded Indebtedness

Details of revenue bonds outstanding at December 31, 2011 and 2010 are as follows:

Outstanding Bonds	Original Principal	Principal 2011	Principal 2010
Water revenue refunding bonds:			
Series 2001 (4.0% to 5.0%), due 2001 - 2013	\$ 24,280,000	\$ —	\$ 11,230,000
Series 2002 (4.0% to 5.0%), due 2002 - 2019	13,960,000	7,600,000	8,385,000
Series 2003 (2.0% to 4.0%), due 2004 - 2015	29,295,000	8,830,000	10,805,000
Series 2009 (2.0% to 5.0%), due 2010 - 2020	26,190,000	19,870,000	22,690,000
Water revenue improvement bonds:			
Series 2007 (3.57% to 4.36%), due 2010 - 2032	180,245,000	174,205,000	177,695,000
Series 2010 (2.0% to 4.0%), due 2013 - 2030	28,890,000	28,890,000	28,890,000
	<u>\$ 302,860,000</u>	239,395,000	259,695,000
Less principal amount of bonds payable within one year		<u>9,380,000</u>	<u>12,650,000</u>
		<u>\$ 230,015,000</u>	<u>\$ 247,045,000</u>

The annual requirement to retire the revenue bonds outstanding as of December 31, 2011 is as follows:

Year Ending December 31:	Principal	Interest	Total
2012	\$ 9,380,000	\$ 10,027,741	\$ 19,407,741
2013	11,790,000	9,611,994	21,401,994
2014	17,005,000	9,053,429	26,058,429
2015	16,040,000	8,394,344	24,434,344
2016	14,225,000	7,782,407	22,007,407
2017 - 2021	75,785,000	28,881,081	104,666,081
2022 - 2026	51,265,000	13,003,261	64,268,261
2027 - 2031	43,905,000	4,922,675	48,827,675
	<u>\$ 239,395,000</u>	<u>\$ 91,676,933</u>	<u>\$ 331,071,933</u>

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

Following is a schedule of bond activity in 2011:

	Balance - January 1, 2011	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2011	Debt Due Within One Year	Interest Paid
Water revenue							
refunding bonds:							
Series 2001	\$ 11,230,000	\$ —	\$ 3,580,000	\$ 7,650,000	\$ —	\$ —	\$ 517,250
Series 2002	8,385,000	—	785,000	—	7,600,000	815,000	383,331
Series 2003	10,805,000	—	1,975,000	—	8,830,000	2,060,000	397,419
Series 2009	22,690,000	—	2,820,000	—	19,870,000	2,040,000	632,575
Water revenue							
improvement bonds:							
Series 2007	177,695,000	—	3,490,000	—	174,205,000	4,180,000	7,814,023
Series 2010	28,890,000	—	—	—	28,890,000	285,000	1,115,438
	\$ 259,695,000	\$ —	\$ 12,650,000	\$ 7,650,000	\$ 239,395,000	\$ 9,380,000	\$ 10,860,035

Following is a schedule of bond activity in 2010:

	Balance - January 1, 2010	Bonds Issued	Principal Payments	Balance - December 31, 2010	Debt Due Within One Year	Interest Paid
Water revenue						
refunding bonds:						
Series 2001	\$ 14,665,000	\$ —	\$ 3,435,000	\$ 11,230,000	\$ 3,580,000	\$ 690,750
Series 2002	9,135,000	—	750,000	8,385,000	785,000	415,631
Series 2003	12,705,000	—	1,900,000	10,805,000	1,975,000	460,875
Series 2009	24,990,000	—	2,300,000	22,690,000	2,820,000	699,325
Water revenue						
improvement bonds:						
Series 2007	180,245,000	—	2,550,000	177,695,000	3,490,000	7,922,923
Series 2010	—	28,890,000	—	28,890,000	—	557,718
	\$ 241,740,000	\$ 28,890,000	\$ 10,935,000	\$ 259,695,000	\$ 12,650,000	\$ 10,747,222

Included in revenue bonds payable on the balance sheet is an unamortized charge for refunded bonds of \$225,107 and \$393,821 as of December 31, 2011 and 2010, respectively.

The 2002, 2003, 2007, 2009 and 2010 Series Bonds have early redemption provisions at the option of WaterOne. The 2002, 2007, 2009 and 2010 Series Bonds have certain mandatory sinking fund provisions beginning in 2017, 2028, 2020 and 2022, respectively. The 2003 Series Bonds do not have a mandatory sinking provision as they do not include term bonds. All outstanding Water Revenue Refunding and Water Revenue Improvement Bond Series constitute a lien on the water supply and distribution system and on the revenue produced by the system.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Under terms of the Senior Parity Bond resolutions and the Second Lien Bond resolution, WaterOne must maintain debt service coverage of at least 1.25 times the annual debt service requirement. Under the formula for computing debt service coverage in the Bond resolutions, 2011 net revenues designated as available to meet debt service requirements (operating income before depreciation, plus system development charges and interest income) equalled 2.44 times the annual Senior Parity and Second Lien debt service requirement.

The revenue bond resolutions also require that, after all amounts due for operation and maintenance expenses are paid, certain monies be segregated or restricted in special reserves and accounts, as follows:

WaterOne shall deposit on the first day of each month, into the principal and interest account, such amount equal to not less than the pro rata amount of interest and principal that will become due on the bonds on the next succeeding payment date plus amounts that may be required for fiscal agent fees and expenses.

WaterOne shall maintain bond reserve funds for the Senior Parity and Second Lien Bonds, respectively. The funds shall consist of either cash or equivalent security irrevocably available as long as the bonds remain outstanding. The reserve requirement for each fund is equal to the lesser of the maximum annual debt service or 125 percent of the average annual debt service for the respective group of Senior Parity and Second Lien bonds. As of December 31, 2011, there was a balance of \$15,892,036 in the Senior Bond Reserve, \$1,309,580 in the 2009 Second Lien Bond Reserve and \$1,499,992 in the 2010 Second Lien Bond Reserve.

After all requirements in the preceding provisions have been met, the remaining monies may be expended for any lawful purpose, provided WaterOne maintains a balance sufficient to provide for (1) operating and extraordinary renewal and replacement cost contingencies of not less than \$2,000,000, (2) the payment of operation and maintenance expenses for the ensuing 60 days, (3) the necessary material purchase requirements for the ensuing 60 days, and (4) reasonable amounts for unfunded contracts and commitments.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

As of December 31, 2011, WaterOne had committed cash and short-term investments as provided by bond resolutions or Board actions as follows:

General Fund cash and short-term investments	\$ 62,233,799
Less funds reserved by bond resolution (Section 703):	
Contingencies	(2,000,000)
Operation and maintenance	(6,468,199)
Material purchases	(17,197)
Unfunded contracts and commitments	(8,052,297)
<hr/>	
General Fund after bond resolutions reserves (Section 703)	\$ 45,696,106
<hr/>	

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

Additionally, WaterOne, by Board resolution, has established an account consisting of revenues collected from system development charges for the purpose of funding major improvements to the supply and distribution system. As of December 31, 2011 and 2010, the account totaled \$12,295,778 and \$16,664,995, respectively.

On December 1, 2011 WaterOne cash defeased the remaining \$7,650,000 principle portion of the Series 2001 bonds. The interest savings on the defeased 2012 and 2013 principle amounts will be over \$480,000.

In June 2010, WaterOne issued \$28,890,000 of Water Revenue Bonds, Series 2010, with an average interest rate of 3.99% plus a net premium of \$849,168. Net proceeds of \$29,646,958 (after payments of debt issuance costs) were used for the purpose of funding the 2010 Bond Reserve Account, funding Capitalized Interest and providing funds to build a portion of WaterOne's Phase V Master Plan facilities.

Note 5. Customer Advances For Construction

Customer advances for construction are primarily for construction of water main extensions. These are valued at fair value at the time of contribution. Some advances are contingently refundable in accordance with WaterOne's rules and regulations. However, substantially all main extension contracts executed provide for no refunds. The nonrefundable advances are recognized as contributed capital after construction is completed.

Note 6. Customer Advances For New Services, System Development Charges, And Capital Contributions

Customer advances for new services and system development charges are collected at the time the applicant requests a tapping permit. If the tap related to the permit is completed, the new service and system development charges are recognized as contributed capital. If the permit lapses, the new service amounts and the system development amount are refunded to the applicant.

New services contributions consist of a nonrefundable charge assessed on completed new service connections. The new service charge is designed to compensate for the applicable cost of service materials and WaterOne labor and overhead costs related to the permitting, tapping and inspection process.

Intergovernmental contributed capital resulted from historical acquisitions of former rural water districts and municipal service areas.

Contributed capital from WaterOne-owned Benefit Areas (BA) consists of nonrefundable charges to those entities that request a hook-up to specifically designated water mains. These pre-designated mains are usually installed in "leap frog" development areas and the BA charges are designed to recuperate only the actual cost of the specific main that is being hooked on to.

Note 7. Retirement Plan

Plan Description

WaterOne contributed to the Water District No. 1 of Johnson County, Kansas Fifth Revised Retirement Plan as a single-employer defined benefit public employee retirement system (the System) established by WaterOne to provide pension benefits for its employees.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

All full-time employees of WaterOne are eligible for participation on January 1 or July 1 following the attainment of age 21 and completion of one year of service. All benefits vest after five years of service. Employees who retire at or after age 65 are entitled to an annual retirement benefit payable monthly for life in an amount equal to the greater of (a) the sum of 1.91 percent of final average monthly pay plus 0.48 percent of the excess of final average monthly pay over covered compensation times years of credited service, up to 25 years, plus 0.5 percent of final average monthly pay times years of credited service in excess of 25 years, or (b) 1.5 percent times monthly earnings for each year of credited service. Ad hoc cost-of-living increases were granted for retirees and beneficiaries as of January 1, 1991; January 1, 1994; January 1, 1997; January 1, 2000; January 1, 2001; January 1, 2002; January 1, 2003; and January 1, 2004. The Plan was amended to allow for a partial lump sum option at retirement for participants in the pension plan hired prior to January 1, 2005. Participants hired on or after January 1, 2005 are not eligible for a lump sum option at retirement. As of January 1, 2011, the System had 422 participants. This was made up of 310 active participants, 77 participants eligible for a deferred benefit, and 35 retirees and beneficiaries.

Final average monthly pay is the employee's average basic monthly rate of pay as of each January 1 over the highest five consecutive years. Covered Compensation is defined as the average of the Social Security taxable wages in effect under Section 230 of the Social Security Act for the 35 calendar years ending with the earlier of the calendar year in which the member terminates employment, or the calendar year in which the member attains Normal Retirement Age. Employees with 10 years of service may retire at or after age 55 with a reduced benefit. Benefit and contribution provisions are established by WaterOne.

Funding policy: WaterOne's System funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. WaterOne makes all contributions to fund the System on an actuarial basis; employees do not contribute to the pension plan.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Annual pension cost and net pension obligation: WaterOne's annual pension cost (APC) and net pension obligation (NPO) as of December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Annual Required Contribution (ARC)	\$ 3,348,000	\$ 3,133,000	\$ 3,102,000
Interest on NPO	—	2,000	—
Adjustments to ARC	—	—	—
APC	3,348,000	3,135,000	3,102,000
Contributions	(3,356,000)	(3,181,000)	(3,056,000)
Increase (Decrease) in NPO	(8,000)	(46,000)	46,000
NPO, January 1	—	46,000	—
NPO (Asset), December 31	\$ (8,000)	\$ —	\$ 46,000
Percentage of APC contributed	100.2%	101.5%	98.5%

Actuarial methods and assumptions: The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the Projected Unit Credit method. Under this method, the benefits expected to be paid to each participant are projected based on the applicable actuarial assumptions. The projected benefits are then divided on a pro-rata basis over the applicable years of service. For purposes of this cost method, the applicable years of service commence at the age at which benefit service is first credited. The applicable years of service extend to the date each particular projected benefit is expected to be incurred, or, if earlier, the date at which the credited service requirements for each participant benefit are satisfied. The normal cost for the year is equal to the actuarial present value of the benefits allocated to the current year in accordance with the cost method. The actuarial accrued liability is set equal to the actuarial present value of all benefits allocated to years prior to the valuation date. The unfunded actuarial accrued liability is equal to the excess, if any, of the actuarial accrued liability over the actuarial value of assets.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. Each year the unfunded actuarial accrued liability is expected to be equal to the sum of the unfunded actuarial accrued liability and normal cost from the prior year, plus interest, less the accumulated value of employer contributions made to the fund. The extent to which this expected value differs from the actual value of the unfunded actuarial accrued liability reflects the actuarial experience for the plan year. If the expected value exceeds the actual value, a gain has occurred. Conversely, if the actual value exceeds the expected value, a loss has occurred. The unfunded actuarial accrued liability is further modified for changes in plan provisions, actuarial assumptions or methods. Actuarial gains or losses are amortized over 10 years. Changes in the unfunded actuarial liability due to changes in plan provisions, actuarial assumptions or methods are amortized over 25 years.

The actuarial value of assets is a calculated value determined by starting with the market value of assets as of January 1, 2001. For subsequent years, the calculated value is determined by adjusting the market value of assets to reflect the unrecognized investment actuarial gains and losses (the difference between the actual investment return and the expected investment rate) during each of the last five years or, if fewer, the completed years since January 1, 2001, at the rate of 20 percent per year.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

The following summarizes the actuarial assumptions and cost method employed for the January 1, 2011 annual actuarial valuation:

Interest	8.5% per annum, pre-lump sum, participants in pay status and annuity payments
Mortality	1994 Group Annuity Tables for males and females pre-lump sum, participants in pay status and annuity payments
Lump Sum Basis	40% of 1984 Unisex Pension Mortality Table set forward one year at 5% and 60% of PPA Small Plan Combined Unisex Mortality Table at 6%, with 20% phase-in each year
Retirement	Of those ineligible for enhanced early retirement - 10% will retire at age 55 10% at age 58, 15% at age 60, 25% at age 62, 10% at age 63, 10% at age 64, and the remainder at age 65 Of those eligible for enhanced early retirement - 12.5% will retire at age 55 12.5% at age 58, 18.75% at age 60, 31.25% at age 62, 12.5% at age 63, 12.5% at age 64, and the remainder at age 65
Expenses	None assumed
Disability	None assumed
Withdrawal	Crocker Sarason T-3 Table
Salary Increases	5.0% annually
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method And Period	Level Dollar Closed, 25 years for changes in unfunded liability due to changes in the plan, assumptions or methods, and 10 years for actuarial gains and losses

Funding status and funding progress as of December 31, 2011: As of January 1, 2011, the most recent valuation date, the plan was 74.09 percent funded. The actuarial accrued liability for benefits was \$35,335,274, and the actuarial value of assets was \$26,179,096, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,156,178, and the ratio of the UAAL to the covered payroll was 49.54 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2011 was \$18,483,587. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funding status and funding progress as of December 31, 2010: As of January 1, 2010, the most recent valuation date, the plan was 75.52 percent funded. The actuarial accrued liability for benefits was \$33,070,927, and the actuarial value of assets was \$24,975,402, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,095,525, and the ratio of the UAAL to the covered payroll was 43.21 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2010 was \$18,736,224. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description

WaterOne provides a single-employer health care plan that provides medical, prescription drugs and life insurance benefits to all employees, hired before January 1, 2008, who retire under the provisions of the Water District No. 1 of Johnson County, Kansas, Revised Retirement Plan. Employees who have attained age 55 and retire from active employment with 10 consecutive years of service are eligible for retiree benefits. Eligible retirees and their dependents receive medical, drug, and life insurance coverage through a fully-insured plan. These are the same plans that are available for active employees.

Funding Policy

WaterOne establishes and amends contribution requirements. WaterOne pays a portion of the health insurance premiums for the District's group medical insurance plan and/or an AARP (medicare supplement plan) plan and/or a COBRA plan. The portion of the premiums paid by WaterOne is determined based on the age of the retiree and of the spouse at retirement. The current funding policy of WaterOne is to pay premiums as they occur on a pay-as-you-go basis. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Annual OPEB Cost And Net OPEB Obligation

WaterOne's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of WaterOne's annual OPEB cost for the year ended December 31, 2011 and 2010, the amount actuarially contributed to the plan, and changes in the WaterOne's annual OPEB obligation:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 1,675,706	\$ 1,407,511
Interest on net OPEB obligation	152,867	49,293
Adjustment to annual required contribution	<u>(219,855)</u>	<u>(68,369)</u>
Annual OPEB cost (expense)	1,608,718	1,388,435
Contributions and payments made	<u>(335,402)</u>	<u>(238,335)</u>
Increase in net OPEB obligation	1,273,316	1,150,100
Net OPEB Obligation - Beginning Of Year	<u>3,397,040</u>	2,246,940
Net OPEB Obligation - End Of Year	<u>\$ 4,670,356</u>	<u>\$ 3,397,040</u>

WaterOne's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2009	\$ 1,388,435	17.06%	\$ 2,246,940
December 31, 2010	1,388,435	17.17%	3,397,040
December 31, 2011	1,608,718	20.85%	4,670,356

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funded status and funding progress as of December 31, 2011: As of January 1, 2011, the most recent actuarial valuation date, the plan was 0 percent funded. WaterOne's actuarial accrued liability for benefits was \$14,457,815 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$14,457,815. The covered payroll as of December 31, 2011 (annual payroll of active employees covered by the plan) was \$18,838,987 and the ratio of the UAAL to the covered payroll was 76.7 percent.

Funded status and funding progress as of December 31, 2010: As of the January 1, 2009 actuarial valuation, the plan was 0 percent funded. WaterOne's actuarial accrued liability for benefits was \$12,822,678 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$12,822,678. WaterOne did not have a valuation done as of January 1, 2010. The covered payroll as of December 31, 2010 (annual payroll of active employees covered by the plan) was \$19,504,306 and the ratio of the UAAL to the covered payroll was 65.7 percent.

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

In the January 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, a 5.0 percent salary rate increase and 5.0-9.0 percent healthcare cost trend rates. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of no more than 30 years.

Note 9. Employee Benefits

Deferred Compensation

WaterOne offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time and part-time WaterOne employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Defined Contribution

WaterOne offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The defined contribution plan has two parts, consisting of the following:

WaterOne offers its employees a defined contribution plan, available to all full-time and part-time WaterOne employees, which provides for a WaterOne contribution matching 50 percent of an employee's contribution to the 457 plan, up to 4 percent of the employee's eligible annual compensation. The maximum WaterOne contribution is 2 percent of the employee's eligible compensation.

WaterOne offers its employees a defined contribution plan, available to all full-time WaterOne employees with at least six months of service, which provides for a contribution of 2.5 percent of the employee's eligible annual compensation.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Assets of both portions of the 401(a) plan are not available to employees until termination, retirement, death or unforeseen emergency. New employees are subject to a five-year vesting schedule consisting of 20 percent vested at the end of each year until the employee has five years of service. After five years of service is obtained, all subsequent employer contributions are 100 percent vested. WaterOne had deposited assets for the matching portion of the 401(a) plan in the amount of \$306,320 and \$319,761 during 2011 and 2010, respectively. As of December 31, 2011 and 2010, a liability had been recorded by WaterOne for the annual 2.5 percent base contribution in the amount of \$459,183 and \$470,693, respectively. These amounts were subsequently deposited to the defined contribution plan in January 2012 and 2011. The defined contribution plan assets are held in trust for the exclusive benefit of employees and their beneficiaries.

Compensated Absences

Under the terms of WaterOne's personnel policy, employees are granted vacation leave in varying amounts based on length of service and full-time or part-time status. In the event of termination, an employee is paid for accumulated vacation.

Vacation Liability At 12/31/2010	2011 Earned Vacation	2011 Taken Vacation	Vacation Liability At 12/31/2011	Due Within One Year
\$ 1,269,642	\$ 1,322,580	\$ 1,334,322	\$ 1,257,900	\$ 1,257,900

Vacation Liability At 12/31/2009	2010 Earned Vacation	2010 Taken Vacation	Vacation Liability At 12/31/2010	Due Within One Year
\$ 1,259,504	\$ 1,322,405	\$ 1,312,267	\$ 1,269,642	\$ 1,269,642

Note 10. Commitments And Contingencies

Master Plan projects are part of a comprehensive plan developed by WaterOne's consulting engineers to meet WaterOne's long-term water system needs. As of December 31, 2011, WaterOne had total contractor commitments of \$16.65 million related to various Master Plan projects, including those under Phase V. Approximately \$13.58 million of the Master Plan commitments have been charged to the projects as of December 31, 2011. WaterOne has sufficient monies designated in the system development account and the general account to fund any unpaid Phase V outstanding costs and retainages. Also included in the December 31, 2011 balance of the system development account and the general account are monies for anticipated engineering, legal services and contingencies that may be required to bring these projects to completion.

WaterOne has various lawsuits and claims pending which arise through the normal course of operations. Management believes the ultimate liabilities, if any, of these lawsuits would not be material to the financial position or results of operations of WaterOne.

Note 11. Risk Management

WaterOne is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and malpractice. WaterOne purchases commercial insurance for property and casualty, workers' compensation, employee health, life, and dental insurance. During the last three years, settled claims have not exceeded insurance coverage.

Note 12. Governmental Accounting Standards Board (GASB) Statements

As of December 31, 2011, GASB has issued several statements that are not yet effective for WaterOne and have not yet been implemented. These statements are as follows:

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans” was issued December 2009. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefits (OPEB) plans. This statement is effective for periods beginning after June 15, 2011. This statement will have no effect on WaterOne.

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements” (SCAs), a type of public-private or public-public partnership. SCA is arrangement between transferor (government) and an operator (governmental or nongovernmental entity). This statement is effective for periods beginning after December 15, 2011. This statement will have no effect on WaterOne.

GASB Statement No. 61, “The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34”, strengthens the criteria for blending component units. The amendments stipulate that if a primary government pays entirely or almost entirely for a component unit’s debts, no matter what type of debt, then a financial burden is created and the component unit should be blended. This statement is effective for periods beginning after June 15, 2012. This statement will have no effect on WaterOne.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” was issued in June 2011. This statement defines deferred outflows of resources and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position. This statement is effective for periods beginning after December 15, 2011 and will be implemented by WaterOne with their December 31, 2012 financial statements.

GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions” stipulates that instead of recognizing investment revenue immediately because of the release of the accumulated deferred charges when a derivative terminates, the derivative may not terminate when certain circumstances occur. This statement is effective for periods beginning after December 15, 2011. This statement will have no effect on WaterOne.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedule Of Funding Progress Of Employee Retirement System December 31, 2011

Schedule 1

Fiscal Year Ended	Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability	(a)-(b)	(a)/(b)	(c) Covered Payroll	{(a)-(b)/(c)} Percentage Of Covered Payroll
				Unfunded Assets In Excess Of Actuarial Accrued Liability (UAAL)			
2007	January 1, 2007	\$ 19,928,385	\$ 26,739,176	\$ (6,810,791)	74.53%	\$ 17,593,638	(38.71)
2008	January 1, 2008	20,851,642	28,029,982	(7,178,340)	74.39	18,591,019	(38.61)
2009	January 1, 2009	22,470,820	31,096,787	(8,625,967)	72.26	19,312,634	(44.66)
2010	January 1, 2010	24,975,402	33,070,927	(8,095,525)	75.52	18,736,224	(43.21)
2011	January 1, 2011	26,179,096	35,335,274	(9,156,178)	74.09	18,483,587	(49.54)

Note:

WaterOne contributed 92% of the annual required contribution in 2007. The remaining contribution was made up from a portion of the NPO.

WaterOne contributed 100% of the annual required contribution in 2008.

WaterOne contributed 99% of the annual required contribution in 2009.

WaterOne contributed 101% of the annual required contribution in 2010.

WaterOne contributed 100% of the annual required contribution in 2011.

The information presented in the required supplementary schedule was determined as part of the actuaries valuation as of January 1, 2011.

Additional information is as follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Method
2. Economic assumptions are as follows: discount rate of 8.5%, salary increases of 5.0%.
3. The amortization method is closed, level dollar.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedule of Funding Progress Of Other Postemployment Benefit Plan December 31, 2011

Schedule 2

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value Of Net Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL As A Percentage Of Covered Payroll ((a-b)/c)
2008	January 1, 2006	\$ —	\$ 11,157,561	\$ (11,157,561)	—	\$ 18,554,479	(60.13)%
2009	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%
2010	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%
2011	January 1, 2011	—	14,457,815	(14,457,815)	—	18,838,987	(76.74)%

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2011.
Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: discount rate of 4.5 percent.
4. The amortization method is closed, level dollar.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 1 Of 4 Year Ended December 31, 2011

Schedule 3

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Blanket building and contents per schedule of values	COVERAGE I – Property, Inland Marine, Boiler & Machinery All risk of direct physical loss of or damage to the insured property.	\$200,924	\$200,000,000	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 Policy # - RMP2010729912	07/01/12
	Note: Policy includes COVERAGE II, Boiler and COVERAGE III, Inland Marine				
	<i>Deductible</i>	<i>Coverage</i>			
	\$100,000	Flood/earthquake			
	\$25,000	All other losses			
	\$25,000	Business Income			
	\$5,000	Fine arts coverage			
	\$25,000	Acts of Terrorism			
			Loss Limit		
			Real and personal property \$25,000,000 - Business Income \$5,000,000 - Extra Expense \$50,000,000 Limitation Flood and Earthquake Coverage \$500,000 Fine Arts \$3,800 month/\$49,600 Aggregate Equipment Rental Terrorism - Included		
Boilers, fired storage water heaters, fired coil water heaters, and electric steam generators per schedule	COVERAGE II – Boiler Losses on property of insured, temporary repairs to property of	See COVERAGE I above	\$100,000,000	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/12
<i>Deductible</i>	\$25,000				
Time Element 1MDV					
Per schedule of equipment	COVERAGE III – Inland Marine Physical loss or damage of EDP, mobile equipment,	See COVERAGE I above		Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/12
<i>Deductible</i>	\$25,000	<i>Coverage</i>			
	\$25,000	All other losses			
	\$1,000	Electronic Data Processing	Included		
	\$5,000	Mobile Equipment	\$440,000		
	\$10,000	Scheduled Contractors Equipment	\$2,842,571		
		Leased equipment	\$500,000		
Bodily injury and property damage	COVERAGE IV- General Liability	\$174,353	\$1,000,000 per occurrence \$3,000,000 aggregate \$3,000,000 products-completed operations aggregate	OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0000	07/01/12
Premium is based on exposure of payroll at \$19,367,941	General Liability Deductible \$5,000 per occurrence				
Based on revenue	Management Liability Retroactive Date - None	Included	\$1,000,000 per occurrence \$3,000,000 aggregate		
Includes Wrongful Acts, Employment Practices Liability and Offenses in the Admin. Of Employee Benefit Plans	Deductible - 5,000 per offense				

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 2 Of 4 Year Ended December 31, 2011

Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date											
Coverage extends to all District owned, rented, or leased vehicles	COVERAGE V- Comprehensive Auto Liability:	\$98,563		OneBeason America	07/01/12											
	Liability coverage is combined single limit for bodily injury and property:		\$1,000,000 \$100,000 Statutory	Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0000												
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u>Deductible</u></td> <td style="width: 50%; text-align: center;"><u>Coverage</u></td> </tr> <tr> <td style="text-align: center;">\$5,000 each accident</td> <td style="text-align: center;">Bodily injury and property damage Annual policy</td> </tr> </table>	<u>Deductible</u>	<u>Coverage</u>	\$5,000 each accident	Bodily injury and property damage Annual policy											
<u>Deductible</u>	<u>Coverage</u>															
\$5,000 each accident	Bodily injury and property damage Annual policy															
	Comprehensive automobile physical damage to fleet including fire, explosion, theft, windstorm, hail, earthquake, and flood															
	Deductibles apply to each covered vehicle; there is no deductible on fire or lightning loss		Actual cash value													
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u>Deductible</u></td> <td style="width: 50%; text-align: center;"><u>Coverage</u></td> </tr> <tr> <td style="text-align: center;">\$1,000 each ded.</td> <td style="text-align: center;">Comprehensive</td> </tr> <tr> <td style="text-align: center;">\$1,000 each ded.</td> <td style="text-align: center;">Collision</td> </tr> <tr> <td style="text-align: center;">\$1000 ded comp/\$1,000 coll</td> <td style="text-align: center;">50,000 limit on hired car</td> </tr> <tr> <td style="text-align: center;">\$25,000</td> <td style="text-align: center;">Single Accident all auto PD aggregate</td> </tr> <tr> <td colspan="2" style="text-align: center;">Additional named insured on leased vehicles, or used by others under contract</td> </tr> </table>	<u>Deductible</u>	<u>Coverage</u>	\$1,000 each ded.	Comprehensive	\$1,000 each ded.	Collision	\$1000 ded comp/\$1,000 coll	50,000 limit on hired car	\$25,000	Single Accident all auto PD aggregate	Additional named insured on leased vehicles, or used by others under contract				
<u>Deductible</u>	<u>Coverage</u>															
\$1,000 each ded.	Comprehensive															
\$1,000 each ded.	Collision															
\$1000 ded comp/\$1,000 coll	50,000 limit on hired car															
\$25,000	Single Accident all auto PD aggregate															
Additional named insured on leased vehicles, or used by others under contract																
	COVERAGE VI- Excess Liability - Occurrence	\$50,780	\$5,000,000 Each Occurrence	OneBeason America	7/1/2012											
	Excess over general liability, automobile, employment practices, public officials employers liability		\$5,000,000 General aggregate	Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0000												
Pollution liability	COVERAGE VII – Environmental Impairment Liability (claims made) *Premium includes Addition of the water treatment plant and monofill Retro date 01/01/03 Per occurrence/aggregate	\$80,093 includes tax 3 yr policy	\$2,000,000 Per Occur/Aggr	Chartis Specialty Insurance Company 101 Hudson Street, 31st Floor Jersey City, NJ 07302 Policy # PLC2039548	07/01/13											
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"><u>Deductible</u></td> </tr> <tr> <td style="text-align: center;">Each loss \$25,000</td> </tr> </table>	<u>Deductible</u>	Each loss \$25,000													
<u>Deductible</u>																
Each loss \$25,000																

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Insurance Coverage (Unaudited) Page 3 Of 4

Year Ended December 31, 2011

Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Money and securities	COVERAGE VIII – Crime	\$5,947	\$2,000,000 Per Loss Employee Theft	Hartford Fire Insurance Company Hartford, CT 06115 Policy # 00 FA 0244006	07/01/12
Covered perils: Public employee theft, forgery, or alteration, theft, disappearance, destruction, credit card forgery, and computer fraud each with separate policy limit as shown	<u>Deductible</u> \$10,000 per occurrence/per peril		\$2,000,000 Depositors Forgery or Alteration (including Credit Card Forgery) \$2,000,000 Theft, Disappearance and Destruction \$2,000,000 Computer and Funds Transfer Fraud		
Bodily injury by accident and disease; rating basis total annual remunerations: Waterworks \$12,695,717 Clerical office employees \$6,672,224	COVERAGE IX – Workers’ Compensation <u>COVERAGE A</u> Workers’ compensation applies to the workers’ compensation laws for the State of Kansas. Coverage also included is for employers’ liability, which applies to work in each state listed on the declaration page of the policy	\$571,751	Statutory	Liberty Mutual Insurance Corporation WC5-Z91-424965-021	07/01/12
	<u>COVERAGE B</u> Employers liability limits: Bodily injury by accident (each accident) Bodily injury by disease (policy limit) Bodily injury by diseases (each employee) No deductible		\$500,000 \$500,000 \$500,000		
Violation of any of the duties and responsibilities laws including negligent acts, errors & omissions in administration	Coverage X-Fiduciary <u>Deductible</u> \$10,000 per incident	\$5,016	\$2,000,000	Federal Insurance Company	7/1/2012

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 4 Of 4 Year Ended December 31, 2011

Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
KDHE#29089 001,002,003-7601 Holiday Dr. Kansas City, KS	Underground storage tank liability Bodily injury and property damage caused by "accidental releases" arising from operating these underground storage tanks. Meets statutory compliance <i>Deductible</i> \$2,500 per incident retro date: 06/10/1991	\$357	\$500,000 per incident \$1,000,000 annual aggregate \$100,000 limit of defense-per incident	Great American Alliance Ins. Co. KST773187120	7/1/2012
Bond	Notary Public Errors and Omissions Group Policy \$25,000 Each Person Limit <i>Deductible</i> \$0	\$260	\$25,000 10 Notaries - Total Limit	CNA/Western Surety Co. Sioux Falls, SD. 68809375	01/04/13
Statutory Public Officials Bond for General Manager and Director of Finance	Public official bond: General Manager (Michael J. Armstrong) Director of Finance - Ronald Appletoft	\$1,750 \$1,750	\$500,000 \$500,000	Hartford Fire Insurance Company, as surety for Hartford, Connecticut 37BSBAF3543 Hartford Fire Insurance Company, as surety for Hartford, Connecticut - 37BSBD18292	01/01/13 06/08/12
Board Member	Brenda Cherpitel	\$175	\$10,000	Liberty Mutual Fire Ins. Co. #674011379	4/30/2013
Board Member	Robert Olson	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011377	4/30/2015
Board Member	Richard Noon	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011376	4/30/2015
Board Member	Terrence Frederick	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011375	4/30/2015
Board Member	Joseph Vaughan	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011378	4/30/2015
Board Member	Robert Reese	\$355	\$10,000	Safeco Ins. Co. #EX861994	4/30/2013
Board Member	James Vader	\$355	\$10,000	Safeco Ins. Co. #EX973286	4/30/2013
Performance Bond	City of Leawood	\$125	\$5,000	Liberty Mutual #5983959	2/8/2012
Right of Way Excavation Bond	City of Lenexa	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674010642	3/1/2012
Performance Bond	City of Mission Woods	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674011858	5/7/2012
License & Permit Bond	City of Merriam	\$250	\$2,000	Safeco Ins. Co. #E783505-0000	7/5/2014
License & Permit Bond	City of Mission Hills	\$250	\$5,000	Safeco Ins. Co. #E789981-0000	8/15/2014
License & Permit Bond	City of Olathe	\$250	\$1,000	Safeco Ins. Co. #EX802366	3/9/2012
License & Permit Bond	City of Overland Park	\$250	\$1,000	Safeco Ins. Co. #E731273-0000	5/28/2014
License & Permit Bond	City of Roeland Park	\$250	\$1,000	Safeco Ins. Co. #E783506-0000	7/5/2014
License & Permit Bond	City of Shawnee	\$250	\$5,000	Safeco Ins. Co. #EX790410	11/8/2014
License & Permit Bond	City of Westwood	\$250	\$5,000	Safeco Ins. Co. #EX803026	3/12/2012
License & Permit Bond	Johnson County	\$250	\$5,000	Safeco Ins. Co. #E731273-0000	5/1/2014
License & Permit Bond	Miami County	\$250	\$50,000	Liberty Mutual Fire Ins. Co. #674014712	1/9/2013
License & Permit Bond	State of Kansas	\$250	\$10,000	Liberty Mutual #E782271-0000	5/29/2014

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Fidelity Bonds In Force (Unaudited) Year Ended December 31, 2011

Schedule 4

Fidelity Bonds in Force (Unaudited)

Water District Board Members:

Robert S. Olson - Chairman	\$	10,000
Brenda Cherpitel - Vice Chairman		10,000
Terrance D. Frederick - Member		10,000
H. Richard Noon - Member		10,000
Robert P. Reese - Member		10,000
James E. Vader - Member		10,000
Joe Vaughn - Member		10,000
Mike Armstrong - General Manager		500,000
Ron Appletoft - Director of Finance		500,000
Public Employees' Blanket Bond		1,000,000

All employees are included under the blanket crime section of the comprehensive business policy listed herein.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited)

Years Ended 2011 And 2010

Schedule 5

Customers Served by WaterOne: During 2011, WaterOne served a weighted average of 138,142 customers, as compares to 137,620 customers, during 2010; this is an increase of 522 customers in 2011, as compared to an increase of 467 customers in 2010.

Water Sales and Water Delivered Summary: Water sales by class of customer for the years ended December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Residential:		
Single family	\$ 59,387,677	\$ 52,011,769
Multifamily	8,348,435	7,736,983
Commercial:		
Small	5,051,929	4,395,465
Large	18,938,255	16,418,815
Temporary	318,569	329,303
Wholesale		5,520
	<u>\$ 92,044,865</u>	<u>\$ 80,897,855</u>

During the year ended December 31, 2011, water sales and water delivered to the distribution lines, in terms of thousands of gallons, as compared to 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Delivered to distribution system		
Water produced	\$ 22,338,030	\$ 20,368,240
	<u>22,338,030</u>	<u>20,368,240</u>
Water sales		
Metered water	19,504,784	17,705,166
	<u>19,504,784</u>	<u>17,705,166</u>
Unmetered water	\$ 2,833,246	\$ 2,663,074
	<u>2,833,246</u>	<u>2,663,074</u>
Unmetered water as percentage of total water delivered	12.68%	13.07%

(continued)

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited)

Years Ended 2011 And 2010

Schedule 5 (Continued)

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

	<u>2011</u>	<u>2010</u>
Residential - single family:		
Average number of customers	125,891	125,379
Average gallons per customer	94,828	85,486
Average revenue per customer	\$ 471.74	\$ 414.84
Residential - multifamily:		
Average number of customers	4,342	4,324
Average gallons per customer	451,330	436,530
Average revenue per customer	\$ 1,922.72	\$ 1,789.31
Commercial - small:		
Average number of customers	4,799	4,790
Average gallons per customer	217,116	195,487
Average revenue per customer	\$ 1,052.70	\$ 917.63
Commercial - large:		
Average number of customers	2,958	2,947
Average gallons per customer	1,528,881	1,396,630
Average revenue per customer	\$ 6,402.18	\$ 5,571.37
Commercial - temporary:		
Average number of customers	152	180
Average gallons per customer	281,545	241,741
Average revenue per customer	\$ 2,095.85	\$ 1,829.46
Wholesale (1):		
Number of customers	—	—
Thousand gallons per class	—	—
Revenue per class	\$ —	\$ —

(1) WaterOne sold a small amount of surplus water to the City of Olathe during 2010 on an emergency basis.