

# **Kansas Power Pool**

Auditor's Reports and Financial Statements

December 31, 2014 and 2013





**Kansas Power Pool**  
**December 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
Kansas Power Pool  
Wichita, Kansas

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Kansas Power Pool (KPP), which are comprised of the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and, of cash flows for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KPP as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015, on our consideration of KPP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KPP's internal control over financial reporting and compliance.

***BKD, LLP***

Oklahoma City, Oklahoma  
March 24, 2015

This section of Kansas Power Pool's (KPP) annual financial report presents our discussion and analysis of KPP's financial performance for the years ended December 31, 2014 and 2013. Please read it in conjunction with the financial statements which follow this section.

## ***Overview of the Financial Statements***

### **Financial Statements**

KPP's report includes three financial statements. These statements provide both long-term and short-term information about the overall status of KPP and are presented to demonstrate the extent KPP has met its operating objectives efficiently and effectively using all the resources available and whether KPP can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of the basic financial statements is the balance sheet. This statement presents information that includes all of KPP's assets, liabilities and deferred inflows of resources with the difference reported as net position. Increases and decreases in net position may serve as a useful indicator of whether the financial position of KPP as a whole is improving or deteriorating and identify financial strengths and weaknesses and assess liquidity.

The second statement is the statement of revenues, expenses and changes in net position, which reports how KPP's net position changed during the fiscal year and can be used to assess KPP's operating results in its entirety and analyze how KPP's operations are financed.

The third statement, the statement of cash flows, reports the inflows and outflows of KPP's cash.

### **Notes to Financial Statements**

The accompanying notes to the financial statements provide information essential to gain a full understanding of KPP's financial statements. The notes to the financial statements begin immediately following the basic financial statements.

### ***Nature of Operations***

KPP is a Municipal Energy Agency organized under K.S.A. 12-885 through and including K.S.A. 12-8, 111, of the state of Kansas to provide a means of municipal electric systems in Kansas to jointly plan, finance, acquire and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. KPP is not a discretely presented component unit of the state of Kansas, nor is it included in the financial statements of the state of Kansas.

KPP provides electric power services under its operating agreement. The operating agreement is adopted by each member city and may be cancelled upon two years' notice; but the member shall remain responsible for its respective shares of any obligations made on its behalf prior to its notice of cancellation and shall be entitled to its respective shares of any entitlements obtained for which it has paid when due, subject to the terms under which the entitlements were obtained.

Prior to 2014, 3 member cities gave notice of their intention to leave KPP by the end of January 2014. After the departure of the 3 cities, KPP's membership is now comprised of 23 cities that are considered long-term members in that each had signed an exclusive 20-year power purchase contract with KPP. The net result is that each member pools any existing power purchase contracts with KPP resources, except for agreements with the Western Area Power Administration, which are retained by the cities that have them. Each generating member also assigns its internal generating units to KPP's resource pool if the units meet KPP standards.

KPP energy resources include power generated from coal, wind, hydro, natural gas and fuel oil. This mix of fuels provides KPP with a hedge against price spikes for any one fuel type. During 2014, KPP gave notice of termination to Kansas City Board of Public Utilities on power purchases from KCBPU's Nearman generating unit at 15.5 MW's. KPP began negotiations in 2014 for additional energy from natural gas and wind generation resources to replace the Nearman energy,

KPP is governed by a nine-member Board of Directors, elected by the membership as a whole, serving staggered four-year terms. The Board meets monthly to review and direct the general activity of KPP's staff. KPP's staff is headed by a chief executive officer (CEO)/general manager selected by the Board. The staff is comprised of five members in addition to the CEO/general manager who handle the daily operations of the KPP. The KPP also retains or contracts with consultants in specialized areas of the electric utility industry.

KPP's annual budget process is closely interrelated with its wholesale rate-setting process, both of which involve the direct participation of the Board and the membership. KPP staff first prepares peak demand and energy use forecasts for each member city, which are calculated with anticipated unit costs to project KPP expenditures for the new fiscal year. Wholesale rates are then calculated to provide the revenue levels necessary to cover expenses and to meet the financial objectives set by the Board with regard to debt service coverage and net position. KPP staff makes a presentation of these financial components to the membership at an annual rate forum. At a subsequent meeting, the membership votes on the wholesale rate to be applied the following year and the Board considers approval of a new operating budget.

In 2013, KPP began providing value-added services for its members, such as a financial health checkup for electric utility operations in each member city. In 2014, KPP also began offering ten-year financial forecasts and distribution system infrastructure assessments for member electric utilities. KPP staff also attends member governing body meetings throughout the year to provide updates and answer questions about KPP activities and hosts a member planning retreat to maintain strong communications with its membership. KPP continued its economic development grant program in 2014 as well as its energy efficient appliance replacement rebate program. Wanting to maintain a known presence in its member cities, KPP continues Chamber of Commerce (Chamber) memberships in each city with a Chamber organization.

In 2014, KPP acquired a line of credit in the amount of \$6 million for KPP operations through Bank of the West to meet an objective of establishing a line of credit with a Moody's rated bank. By the end of 2014, KPP's unrestricted cash balance equated to nearly 90 days of operating expenses, up from 67 days at the end of 2013.

As a member of the Southwest Power Pool (SPP), KPP began operating within the integrated market structure of the SPP on March 1, 2014. Intended to bring comprehensive oversight to the availability and pricing of both generation and transmission resources, SPP members prepared well in advance by cooperating with all market trials and protocols. KPP determined its readiness early on and had a successful experience in accommodating and cooperating with the Integrated Market. KPP formed the position of Assistant General Manager – Operations and promoted the Operations Manager to that position. KPP then hired an Operations Manager. These organizational changes add depth, redundancy and experience to KPP's participation in the SPP Integrated Market.

The following table summarizes the financial condition and operations of KPP:

### **Financial Highlights**

#### **Assets**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Cash	\$ 14,551,766	\$ 12,870,257	\$ 9,861,348
Cash equivalent, restricted	637,657	637,657	637,415
Investments, restricted	4,792,582	6,443,653	5,561,628
Accounts receivable	4,679,654	5,796,007	6,194,326
Capital assets, net	25,850,724	26,007,928	26,446,032
Other assets	9,148,114	7,754,538	3,084,635
	<u>59,660,497</u>	<u>59,510,040</u>	<u>51,785,384</u>
Total assets	<u>\$ 59,660,497</u>	<u>\$ 59,510,040</u>	<u>\$ 51,785,384</u>

#### **Liabilities, Deferred Inflows of Resources and Net Position**

Accounts payable and accrued expenses	\$ 4,007,644	\$ 4,925,398	\$ 5,471,413
Payable to members	-	-	302,000
Long-term debt, net	39,962,993	41,472,511	35,101,603
Deferred inflows of resources – rate stabilization	3,560,000	2,000,000	-
Net position – invested in capital assets	748,142	(95,377)	214,732
Net position – restricted	2,858,885	4,299,859	2,896,687
Net position – unrestricted	8,522,833	6,907,649	7,798,949
	<u>59,660,497</u>	<u>59,510,040</u>	<u>51,785,384</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 59,660,497</u>	<u>\$ 59,510,040</u>	<u>\$ 51,785,384</u>

#### **Revenues, Expenses and Changes in Net Position**

Operating revenues	\$ 63,665,316	\$ 74,219,464	\$ 75,259,767
Operating expenses	(57,611,531)	(68,652,808)	(67,173,369)
Administrative and general expenses	(1,779,171)	(1,659,852)	(1,843,450)
Nonoperating expense, net	(1,696,885)	(1,705,041)	(940,610)
Deferred inflows of resources – rate stabilization	(1,560,000)	(2,000,000)	-
	<u>1,017,729</u>	<u>201,763</u>	<u>5,302,338</u>
Increase in net position	<u>\$ 1,017,729</u>	<u>\$ 201,763</u>	<u>\$ 5,302,338</u>

#### **Capital Assets**

KPP's investment in capital assets, net of accumulated depreciation, as of December 31, 2014 and 2013, was \$25,850,724 and \$26,007,928, respectively.

#### **Revenue Bonds**

In conjunction with the purchase of Dogwood, KPP issued the 2012A revenue bonds for \$29,135,000. In addition, KPP issued the 2012B and 2012C revenue bonds to fund certain construction projects for member cities of approximately \$3,180,000 and \$1,455,000, respectively.

The bonds are rated Baa1 by Moody's.

During 2013, KPP issued the 2013A revenue bonds to fund certain construction projects for member cities for \$6,550,000. These bonds are rated Baa1 by Moody's.

## **Operations**

Revenues from operations were approximately \$63.7 million for the year ended December 31, 2014. Operating expenses, which consist mainly of transmission costs, purchased power and payments to the facilitator for scheduling and other administrative functions, totaled approximately \$57.6 million in the same period.

For the year ended December 31, 2013, revenues from operations were approximately \$74.2 million and operating expenses were approximately \$68.7 million.

## ***Contacting Kansas Power Pool's Financial Management***

Questions about this report or requests for additional financial information should be directed to:

Kansas Power Pool  
General Manager  
250 W. Douglas, Suite 110  
Wichita, KS 67202

**Kansas Power Pool**  
**Balance Sheets**  
**December 31, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash	\$ 14,551,766	\$ 12,870,257
Cash and cash equivalents, restricted	637,657	637,657
	15,189,423	13,507,914
Investments, restricted	4,792,582	6,443,653
Accounts receivable	4,679,654	5,796,007
Prepaid expenses and other	743,959	292,719
Materials and supplies	238,208	243,900
Total current assets	25,643,826	26,284,193
<b>Capital Assets, Net of Accumulated Depreciation</b>	25,850,724	26,007,928
<b>Regulatory Assets</b>		
Costs recoverable from future billings	779,346	830,559
Unrecovered development costs	7,386,601	6,387,360
	8,165,947	7,217,919
Total assets	\$ 59,660,497	\$ 59,510,040

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Current portion of bonds payable	\$ 1,665,000	\$ 1,405,000
Accounts payable	31,501	140,478
Accounts payable – power bill	3,111,017	4,028,485
Accrued expenses	<u>865,126</u>	<u>756,435</u>
Total current liabilities	<u>5,672,644</u>	<u>6,330,398</u>
<b>Long-Term Debt</b>		
Revenue bonds payable	37,140,000	38,805,000
Unamortized bond premiums and discounts, net	<u>1,157,993</u>	<u>1,262,511</u>
	<u>38,297,993</u>	<u>40,067,511</u>
Total liabilities	<u>43,970,637</u>	<u>46,397,909</u>
<b>Deferred Inflows of Resources – Rate Stabilization</b>	<u>3,560,000</u>	<u>2,000,000</u>
<b>Net Position</b>		
Net investment in capital assets	748,142	(95,377)
Restricted – expendable for		
Debt service	1,203,167	1,162,662
Member projects	1,655,718	3,137,197
Unrestricted	<u>8,522,833</u>	<u>6,907,649</u>
	<u>12,129,860</u>	<u>11,112,131</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 59,660,497</u>	<u>\$ 59,510,040</u>

**Kansas Power Pool**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>	\$ 63,665,316	\$ 74,219,464
<b>Operating Expenses</b>		
Purchased power	44,140,119	52,888,653
Transmission expense	10,956,526	13,487,058
Dogwood operating costs	1,018,220	982,153
Amortization of unrecovered development costs	648,096	468,893
Depreciation	848,570	826,051
	<u>57,611,531</u>	<u>68,652,808</u>
<b>Administrative and General Expenses</b>		
Salaries and benefits	736,522	662,954
Legal expenses	216,497	166,238
Consulting fees	93,716	79,773
Outside services	213,813	236,930
Insurance	94,152	78,407
Dues and memberships	129,098	191,775
Miscellaneous	258,605	212,886
Rent	27,863	30,889
Loss on sale of equipment	8,905	-
	<u>1,779,171</u>	<u>1,659,852</u>
<b>Operating Income</b>	<u>4,274,614</u>	<u>3,906,804</u>
<b>Nonoperating Revenue (Expense)</b>		
Interest income	9,332	11,234
Interest expense on debt and payables to members	(1,759,522)	(1,771,938)
Amortization of bond premiums and discounts, net	104,518	105,105
Net costs recoverable	(51,213)	(49,442)
	<u>(1,696,885)</u>	<u>(1,705,041)</u>
<b>Deferred Inflows for Future Periods – Rate Stabilization</b>	<u>(1,560,000)</u>	<u>(2,000,000)</u>
<b>Change in Net Position</b>	1,017,729	201,763
<b>Net Position, Beginning of Year</b>	<u>11,112,131</u>	<u>10,910,368</u>
<b>Net Position, End of Year</b>	<u>\$ 12,129,860</u>	<u>\$ 11,112,131</u>

**Kansas Power Pool**  
**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Receipts from members	\$ 64,781,669	\$ 74,617,783
Payments to suppliers	(59,966,383)	(73,336,662)
Payments to employees	(719,290)	(663,316)
	<u>4,095,996</u>	<u>617,805</u>
Net cash provided by operating activities		
<b>Noncapital Financing Activities</b>		
Proceeds from bond issuance	-	6,550,000
Payments of costs recoverable from future billings	-	(175,719)
Proceeds from discounts	-	36,013
Net payments to members	-	(302,000)
Interest paid on payables to members	-	(55,368)
Interest paid on revenue bonds	(577,969)	-
Interest paid on line of credit	(12,000)	(22,500)
	<u>(589,969)</u>	<u>6,030,426</u>
Net cash provided by (used in) noncapital financing activities		
<b>Capital and Related Financing Activities</b>		
Capital expenditures	(700,271)	(387,947)
Principal payments on revenue bonds	(1,405,000)	(110,000)
Interest payments on revenue bonds	(1,379,650)	(2,270,342)
	<u>(3,484,921)</u>	<u>(2,768,289)</u>
Net cash used in capital and related financing activities		
<b>Investing Activities</b>		
Interest income	9,332	11,234
Sale (purchase) of investments, net	1,651,071	(882,025)
	<u>1,660,403</u>	<u>(870,791)</u>
Net cash provided by (used in) investing activities		
<b>Increase in Cash and Cash Equivalents</b>	1,681,509	3,009,151
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>13,507,914</u>	<u>10,498,763</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 15,189,423</u>	<u>\$ 13,507,914</u>

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Change in Net Position to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 4,274,614	\$ 3,906,804
Depreciation and amortization	1,496,666	1,294,944
Loss on sale of capital assets	8,905	-
Changes in		
Accounts receivable	1,116,353	398,319
Accounts payable and accrued expenses	(707,657)	30,257
Prepaid expenses and other current assets	(445,548)	(225,002)
Unrecovered development costs	<u>(1,647,337)</u>	<u>(4,787,517)</u>
Net cash provided by operating activities	<u>\$ 4,095,996</u>	<u>\$ 617,805</u>

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Kansas Power Pool (KPP) is a Municipal Energy Agency organized under K.S.A. 12-885 through and including K.S.A. 12-8.111 of the state of Kansas to provide a means of municipal electric systems in Kansas to jointly plan, finance, acquire and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers.

KPP provides electric power services under its operating agreement with member cities. The operating agreement is adopted by each member city and may be cancelled upon two years' notice. The operating agreement was an initial governing document that preceded KPP's entrance into the bond market for purposes of financing its purchase of its portion of the Dogwood Combined Cycle plant in 2012. Consequently, KPP member cities have individually signed a 20-year agreement with KPP in connection with the bond issuance. Although the operating agreement may be cancelled with two years' notice, the member shall remain responsible for its respective shares of any obligations made on its behalf, prior to its notice of cancellation, and shall be entitled to its respective shares of any entitlements obtained for which it has paid when due, subject to the terms under which the entitlements were obtained. The maximum amount of power KPP is required to furnish, and each member city is required to take and pay for, may be limited by either KPP or each member city to amounts generally equal to the municipality's peak demand for power during the 12 months prior to exercise of this option by either party, less any existing purchase power contracts. KPP has not elected to limit any obligation to provide power under the operating agreement, nor have any of the member cities elected to limit their obligation to purchase power from KPP.

On December 22, 2011, KPP entered into an asset purchase agreement with Dogwood Energy, LLC to acquire an undivided 7.0% ownership in the Dogwood Energy Facility (Dogwood), a natural gas combined cycle facility located in Pleasant Hill, Cass County, Missouri. The Dogwood combined cycle unit is a modern and efficient clean generating source and is one of the lowest cost energy resources available to buy and operate. The capacity of the facility is 650 megawatts. The purchase was financed through the issuance of revenue bonds in April 2012. See *Note 6* for additional reference.

KPP bills participants and other power purchasers monthly for power used and services provided. The terms generally require payment within 10 days of the billing date. KPP does not require participants or other power purchasers to collateralize the obligation related to power and services billed.

KPP's accounts are substantially maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission and in conformity with accounting principles generally accepted in the United States of America.

# **Kansas Power Pool**

## **Notes to Financial Statements**

### **December 31, 2014 and 2013**

#### ***Basis of Accounting and Presentation***

The accompanying financial statements of KPP have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses and assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions are recognized when all applicable eligibility requirements are met. KPP considers electric revenues and costs that are directly related to purchase, transmission and distribution of electricity to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating. KPP first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

KPP's accounting policies also follow the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources 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.

#### ***Cash Equivalents***

KPP considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with a bank.

#### ***Investments and Investment Income***

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments at December 31, 2014 and 2013, consisted of money market mutual funds with a broker.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

***Accounts Receivable***

Accounts receivable are stated at the amount billed to members. Accounts receivable are ordinarily due 10 days from the billing date. Delinquent receivables are written off based on individual credit evaluation and specific circumstances. At December 31, 2014 and 2013, there was no allowance for doubtful accounts.

***Materials and Supplies***

Materials and supplies are stated at the lower of cost, determined using the first-in, first-out method or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition. KPP generally capitalizes assets with costs of \$2,500 or more. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Estimated useful lives for capital asset additions range from three to 35 years.

***Costs Recoverable from Future Billings***

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates charged to customers, in accordance with the regulated operations provisions of GASB Statement No. 62. At December 31, 2014 and 2013, costs recoverable from future billings are comprised entirely of costs incurred in relation to KPP's debt issuance.

***Unrecovered Development Costs***

Costs which are recoverable through future rates or directly from the member cities are deferred in accordance with GASB Statement No. 62. The unrecovered development costs are amortized on a straight-line basis over the period in which they are recovered in rates or reduced when payment is received.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

***Compensated Absences***

KPP's policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash, determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned, but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

***Deferred Inflows of Resources***

KPP designs its electric service rates to recover costs of providing power supply services to its member cities. In order to minimize possible future rate increases, each year KPP determines a rate stabilization amount to be charged or credited to revenues, which typically will consist of cash flow in excess of 125% of KPP's minimum debt service requirements on its revenue bonds for the most recent fiscal year ended. During 2014 and 2013, there was an increase in the rate stabilization of \$1,560,000 and \$2,000,000, respectively. This amount is reflected as an increase in deferred inflows of resources in the accompanying balance sheets. Rate stabilization deferrals or withdrawals are approved by the Board of Directors annually.

***Net Position***

Net position of KPP is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to KPP. Unrestricted net position is the remainder that does not meet the definition of net investment in capital assets or restricted expendable.

***Revenues***

Revenues are recognized in the month power is delivered. Costs of power are recognized in the month incurred.

***Income Taxes***

As a quasimunicipal organization, the income of KPP is generally exempt from federal and state income taxes under applicable sections of the Internal Revenue Code and a similar provision of state law.

# Kansas Power Pool

## Notes to Financial Statements

### December 31, 2014 and 2013

#### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

#### **Note 2: Deposits, Investments and Investment Income**

##### ***Deposits***

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. KPP's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury; U.S. agencies or instrumentalities or the state of Kansas; or bonds of any city, county, school district or special road district of the state of Kansas.

At December 31, 2014 and 2013, approximately \$310,000 and \$325,000, respectively, of KPP's bank balances were exposed to custodial credit risk as the deposits held with Dogwood are not collateralized with securities in KPP's name. At December 31, 2014 and 2013, approximately \$14,240,000 and \$12,673,900, respectively, of KPP's bank balances were not exposed to custodial credit risk.

##### ***Investments***

KPP may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2014 and 2013, KPP held \$4,792,582 and \$6,443,653, respectively, in a Federated Government Obligations Fund money market mutual fund.

**Interest Rate Risk** – The money market mutual fund is classified as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2014 and 2013, KPP's investment is in a money market mutual fund, which invests in short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized in full by U.S. Treasury and government agency securities.

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty KPP will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. All of the underlying securities for KPP's investments at December 31, 2014 and 2013, are held by the counterparty in other than KPP's name.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Concentration of Credit Risk** – At December 31, 2014 and 2013, 100% of KPP’s investments are in the Federated Government Obligations Fund money market mutual fund.

**Summary of Carrying Values**

	<b>2014</b>	<b>2013</b>
<b>Carrying Value</b>		
Deposits	\$ 15,189,423	\$ 13,507,914
Investments	4,792,582	6,443,653
	\$ 19,982,005	\$ 19,951,567
 <b>Included in the Following Balance Sheet Captions</b>		
Cash	\$ 14,551,766	\$ 12,870,257
Cash equivalents, restricted	637,657	637,657
Investments, restricted	4,792,582	6,443,653
	\$ 19,982,005	\$ 19,951,567

**Note 3: Capital Assets**

Capital assets activity for the years ended December 31, 2014 and 2013, is as follows:

	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Vehicles	\$ 38,996	\$ 28,970	\$ (18,995)	\$ -	\$ 48,971
Furniture, fixtures and equipment	199,744	32,844	-	-	232,588
Dogwood	27,221,168	642,708	(15,034)	-	27,848,842
	27,459,908	704,522	(34,029)	-	28,130,401
 Less accumulated depreciation					
Vehicles	(37,923)	(8,181)	18,994	-	(27,110)
Furniture, fixtures and equipment	(98,167)	(53,815)	-	-	(151,982)
Dogwood	(1,315,890)	(786,574)	1,879	-	(2,100,585)
	(1,451,980)	(848,570)	20,873	-	(2,279,677)
 Net capital assets	\$ 26,007,928	\$ (144,048)	\$ (13,156)	\$ -	\$ 25,850,724

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

	<b>2013</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Vehicles	\$ 38,996	\$ -	\$ -	\$ -	\$ 38,996
Furniture, fixtures and equipment	98,696	123,375	(22,327)	-	199,744
Dogwood	26,957,094	264,572	(498)	-	27,221,168
	<u>27,094,786</u>	<u>387,947</u>	<u>(22,825)</u>	<u>-</u>	<u>27,459,908</u>
Less accumulated depreciation					
Vehicles	(27,457)	(10,466)	-	-	(37,923)
Furniture, fixtures and equipment	(75,792)	(44,702)	22,327	-	(98,167)
Dogwood	(545,505)	(770,883)	498	-	(1,315,890)
	<u>(648,754)</u>	<u>(826,051)</u>	<u>22,825</u>	<u>-</u>	<u>(1,451,980)</u>
Net capital assets	<u>\$ 26,446,032</u>	<u>\$ (438,104)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,007,928</u>

**Note 4: Unrecovered Development Costs**

Unrecovered development costs represent costs incurred on behalf of member cities to be recovered in future periods. At December 31, 2014 and 2013, unrecovered development costs consisted of the following:

	<b>2014</b>	<b>2013</b>
City of Clay Center	\$ 4,144,624	\$ 3,389,386
Cities of Rice and Neshap	2,186,211	1,842,636
City of Erie	665,726	742,129
City of Luray	390,040	413,209
	<u>\$ 7,386,601</u>	<u>\$ 6,387,360</u>

Amortization of unrecovered development costs of approximately \$648,100 and \$468,900 was expensed during the years ended December 31, 2014 and 2013, respectively.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Note 5: Line of Credit**

KPP has a \$6,000,000 revolving line of credit expiring in May 2016 to finance accounts receivable of municipality utility billings. There were no funds drawn on the line of credit at December 31, 2014 and 2013. The line is secured by all deposit accounts of KPP. Interest is paid at the One-Month London Interbank Offer Rate plus 1.25% for 2014. Interest is paid at the Wall Street Journal prime rate plus 0.75% for 2013. Interest is payable quarterly. The interest rate at December 31, 2014 and 2013, was 1.41% and 4.00%, respectively.

**Note 6: Revenue Bonds**

***Electric Utility Revenue Bond Indentures and Covenants***

During 2013, KPP issued bonds for the purpose of financing the acquisition, construction, installation and improvements to its members' electric generation facilities. During 2012, KPP issued bonds for the purpose of acquiring interest in Dogwood and financing the acquisition, construction, installation and improvements to its members' electric generation facilities.

The bond indentures and their supplements require the use of revenue, cost of issuance, operations and maintenance, principal and interest, reserve, junior lien indebtedness, rebate and surplus accounts, which have been combined for financial reporting purposes. These accounts are held in trust by a bank and managed pursuant to terms of the indenture agreement. The indentures provide that gross revenues from operations will be deposited into the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis. For the years ended December 31, 2014 and 2013, required accounts were maintained in accordance with the bond indentures.

The bond indentures provide that KPP will fix, establish, maintain and collect such rates, fees and charges for the use of and services furnished by or through KPP facilities that will provide in each year net revenues of at least 110% of the maximum required for debt service to be paid by KPP in such year on all revenue bonds at the time outstanding. For the years ended December 31, 2014 and 2013, the schedule of rates in effect provided revenues in excess of the minimum requirements.

Bond premiums and discounts are capitalized and amortized over the terms of the respective bonds using the effective interest method. During 2014 and 2013, amortization of approximately \$105,000, for premiums and discounts, net, was recorded.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

***Bonded Debt Service to Maturity***

Fiscal Year	Principal	Interest	Total
2015	\$ 1,665,000	\$ 1,706,318	\$ 3,371,318
2016	1,710,000	1,659,368	3,369,368
2017	1,770,000	1,597,718	3,367,718
2018	1,830,000	1,533,818	3,363,818
2019	1,915,000	1,454,968	3,369,968
2020–2024	10,835,000	5,951,538	16,786,538
2025–2029	11,005,000	3,534,964	14,539,964
2030–2031	8,075,000	657,830	8,732,830
	<u>\$ 38,805,000</u>	<u>\$ 18,096,522</u>	<u>\$ 56,901,522</u>

***Revenue Bonds Outstanding***

Electric Utility Revenue Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance	
					2014	2013
Series A, 2012	\$ 29,135,000	3.00% to 5.00%	4/10/2012	2031	\$ 28,025,000	\$ 29,025,000
Series B, 2012	\$ 3,180,000	3.00%	12/19/2012	2023	2,985,000	3,180,000
Series C, 2012	\$ 1,455,000	2.75% to 4.60%	12/19/2012	2031	1,395,000	1,455,000
Series A, 2013	\$ 6,550,000	2.00% to 4.00%	5/7/2013	2025	6,400,000	6,550,000
					<u>\$ 38,805,000</u>	<u>\$ 40,210,000</u>

***Changes in Revenue Bonds Outstanding***

	2014					
	Balance December 31, 2013	Issued	Retired	Balance December 31, 2014	Due Within One Year	Due After One Year
Series A, 2012	\$ 29,025,000	\$ -	\$ (1,000,000)	\$ 28,025,000	\$ 1,030,000	\$ 26,995,000
Series B, 2012	3,180,000	-	(195,000)	2,985,000	260,000	2,725,000
Series C, 2012	1,455,000	-	(60,000)	1,395,000	100,000	1,295,000
Series A, 2013	6,550,000	-	(150,000)	6,400,000	275,000	6,125,000
	40,210,000	-	(1,405,000)	38,805,000	<u>\$ 1,665,000</u>	<u>\$ 37,140,000</u>
Premiums and discounts	1,262,511	-	(104,518)	1,157,993		
	<u>\$ 41,472,511</u>	<u>\$ -</u>	<u>\$ (1,509,518)</u>	<u>\$ 39,962,993</u>		

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

	2013					
	Balance December 31, 2012	Issued	Retired	Balance December 31, 2013	Due Within One Year	Due After One Year
Series A, 2012	\$ 29,135,000	\$ -	\$ (110,000)	\$ 29,025,000	\$ 1,000,000	\$ 28,025,000
Series B, 2012	3,180,000	-	-	3,180,000	195,000	2,985,000
Series C, 2012	1,455,000	-	-	1,455,000	60,000	1,395,000
Series A, 2013	-	6,550,000	-	6,550,000	150,000	6,400,000
	<u>33,770,000</u>	<u>6,550,000</u>	<u>(110,000)</u>	<u>40,210,000</u>	<u>\$ 1,405,000</u>	<u>\$ 38,805,000</u>
Premiums and discounts	<u>1,331,603</u>	<u>36,013</u>	<u>(105,105)</u>	<u>1,262,511</u>		
	<u>\$ 35,101,603</u>	<u>\$ 6,586,013</u>	<u>\$ (215,105)</u>	<u>\$ 41,472,511</u>		

**Note 7: Defined Benefit Plan**

***Plan Description***

KPP contributes to the Kansas Public Employees Retirement Plan (the Plan or KPERS), a cost-sharing, multiple-employer public employee retirement plan administered by the Kansas Public Employees Retirement System (the System). The Plan provides retirement, disability and death benefits to plan members and beneficiaries. Membership is mandatory for all employees in covered positions, which is defined as one that is covered by Social Security, not seasonal or temporary and requires at least 1,000 hours of work per year. Eligible employees become members effective with their employment date. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to: Kansas Public Employees Retirement System, 611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

***Funding Policy***

Plan members, state employees, KPP employees and KPP are required to contribute at a rate set by the State of Kansas (the State). The contribution requirements of plan members and KPP are established and may be amended by the legislature of the State. The 2014 contribution rate for KPP and KPP employees hired before January 1, 2010, is 8.84% and 5.00%, respectively. The 2013 contribution rate for KPP and KPP employees hired before January 1, 2010, is 7.94% and 4.00%, respectively. For employees hired after January 1, 2010, the contribution rate is 6.00%.

KPP's contribution to the Plan for the years ended December 31, 2014, 2013 and 2012, was approximately \$53,526, \$43,600 and \$27,300, respectively, and was equal to their required contribution.

**Kansas Power Pool**  
**Notes to Financial Statements**  
**December 31, 2014 and 2013**

**Note 8: Commitments and Contingencies**

***Power Supply***

KPP enters into various purchase agreements for electric power. The electric power agreements specify the amount of electric capacity to be supplied to KPP. These agreements expire through 2022.

**Note 9: Termination of Member Cities**

During 2011, KPP had eight member cities give their two-year termination notice to withdraw from the power pool. All eight of the terminations were effective in 2013. During 2012, KPP had three additional member cities give their two-year termination notice, which allowed the member cities to withdraw from the power pool in 2014.

**Note 10: Future Change in Accounting Principle**

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which will require KPP to accrue their proportionate share of the unfunded pension obligation of KPERS on the balance sheet. GASB Statement No. 68 will be effective for the year ending December 31, 2015. The impact of applying GASB Statement No. 68 has not yet been determined.

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Directors  
Kansas Power Pool  
Wichita, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Kansas Power Pool (KPP), which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon, dated March 24, 2015.

***Internal Control over Financial Reporting***

Management of KPP is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered KPP's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KPP's internal control. Accordingly, we do not express an opinion on the effectiveness of KPP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of KPP's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors  
Kansas Power Pool

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether KPP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KPP's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KPP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Oklahoma City, Oklahoma  
March 24, 2015

**Kansas Power Pool**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2014**

**Reference  
Number**

**Finding**

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No matters are reportable.