Kansas Power Pool

Independent Auditor's Reports and Financial Statements

December 31, 2015 and 2014

BKD LLP
CPAs & Advisors

Kansas Power Pool
December 31, 2015 and 2014

Contents

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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, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of KPP as of December 31, 2015 and 2014, 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.

Emphasis of Matter

As discussed in *Note 2* to the basic financial statements, in 2015, KPP changed its method of accounting for pensions with the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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 audits 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 April 13, 2016, 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
April 13, 2016

Kansas Power Pool
Management's Discussion and Analysis
December 31, 2015 and 2014

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, 2015 and 2014. Please read it in conjunction with the basic financial statements which follow this section.

Overview of the Financial Statements

Financial Statements

KPP's report includes three basic 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, deferred outflows of resources, 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 basic financial statements provide information essential to gain a full understanding of KPP's basic financial statements. The notes to the basic 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.

KPP's membership includes 23 cities that are considered long-term members in that each has signed an exclusive power purchase contract with KPP, the term of which coincides with the KPP's debt service on bonds issued for the purchase of an ownership share of the Dogwood Energy Facility (Dogwood) in 2012. 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 requirements as designated network resources under Southwest Power Pool reliability standards.

In 2013, the KPP extended an existing 50 megawatts (MW) contract with a supplier to 59 MW of capacity through December 2022. In July 2015, KPP issued additional debt to acquire another 20 MW's of Dogwood, bringing its ownership total from this natural gas, combined-cycle generating source to 62 MWs. Beginning in June 2016, KPP will take 25 MWs of energy from a newly-constructed wind farm in north central Kansas, bringing its renewable energy contracts to about 20% of its total energy portfolio. By doing this, KPP was able to terminate an existing 15.5 MW contract for energy from an inefficient coal-fired generating plant at the end of 2015. 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.

KPP applied the practice of locational arbitrage within the Southwest Power Pool Integrated Market beginning in May 2015. Locational arbitrage is the practice of bringing in more revenue in certain locations where transmission congestion occurs by offering excess capacity on a real-time basis rather than selling it in the day ahead market at a lower rate. KPP takes energy at the source of a wind farm where transmission congestion occurs at certain times of the day. Monitoring these times for selling opportunities has netted KPP over $113,000 during an eight-month period starting in May 2015.

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 KPP. 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 prepare 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 make a presentation of these financial components to the membership at an annual rate forum. At a subsequent meeting, the Board considers and recommends to the membership approval of a new operating budget and the wholesale rates to be applied the following year. The budget and wholesale rates are finalized by a vote of the membership.

KPP maintains a $6 million line of credit for operations through Bank of the West, a Moody's rated bank. At the end of 2015, KPP's unrestricted cash balance was able to cover 103.1 days of operating expenses. This is up from 90.7 days at the end of 2014. KPP has exceeded its financial objective of reaching 90 days' expense coverage by 2020.

In 2013, KPP began providing value-added services for its members, such as a financial trend analysis for electric utility operations in each member city. KPP has added an additional review of forecasted finances as well as assessment of member electric distribution system infrastructure to its list of member services. KPP continues to provide energy efficiency rebates and economic development grants as services. Wanting to establish a known presence in its member cities, KPP continues to belong to Chambers of Commerce in each member city with a Chamber organization. KPP also teams with its internet service provider to offer cybersecurity webinars for its members. Each of these value-added services is provided at no additional charge to the member city.

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

Table 1: Financial Highlights

Assets and Deferred Outflows of Resources

	2015	2014	2013
Cash	$ 14,646,573	$ 14,551,766	$ 12,870,257
Cash equivalent, restricted	6,368	637,657	637,657
Investments, restricted	3,502,711	4,792,582	6,443,653
Accounts receivable	4,598,923	4,679,654	5,796,007
Capital assets, net	37,297,172	25,850,724	26,007,928
Noncurrent investments, restricted	3,179,442	-	-
Other assets	10,188,174	9,148,114	7,754,538
Total assets	73,419,363	59,660,497	59,510,040
Deferred outflows of resources	134,280	71,229	-
Total assets and deferred outflows of resources	$ 73,553,643	$ 59,731,726	$ 59,510,040

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014	2013
Accounts payable and accrued expenses	$ 3,600,964	$ 4,007,644	$ 4,925,398
Long-term debt, net	53,657,436	39,962,993	41,472,511
Net pension liability	491,157	382,487	-
Total liabilities	57,749,557	44,353,124	46,397,909
Deferred inflows of resources	3,599,887	3,639,724	2,000,000
Total liabilities, deferred inflows of resources	61,349,444	47,992,848	48,397,909
Net position – invested in capital assets	1,201,497	748,142	(95,377)
Net position – restricted	2,650,136	2,858,885	4,299,859
Net position – unrestricted	8,352,566	8,131,851	6,907,649
Total liabilities and deferred inflows of resources and net position	$ 73,553,643	$ 59,731,726	$ 59,510,040

Revenues, Expenses and Changes in Net Position

	2015	2014	2013
Operating revenues	$ 55,199,423	$ 63,665,316	$ 74,219,464
Operating expenses	(50,894,686)	(57,581,014)	(68,652,808)
Administrative and general expenses	(2,000,503)	(1,824,430)	(1,659,852)
Nonoperating expense, net	(1,838,913)	(1,696,885)	(1,705,041)
Deferred inflows of resources – rate stabilization	-	(1,560,000)	(2,000,000)
Change in net position	$ 465,321	$ 1,002,987	$ 201,763

The 2014 amounts have been restated for adoption of GASB Statement No. 68 (see *Note 2*). The 2013 amounts have not been restated.

KPP's investment in capital assets, net of accumulated depreciation, as of December 31, 2015 and 2014, was as follows:

Table 2: Capital Assets

	2015	2014
Depreciable Assets		
Vehicles	$ 48,971	$ 48,971
Furniture, fixtures, and equipment	281,799	232,588
Dogwood	40,159,244	26,780,755
Total depreciable assets	40,490,014	27,062,314
Accumulated Depreciation	3,192,842	2,198,299
Total capital assets, net	$ 37,297,172	$ 24,864,015

See *Note 4* for additional information.

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.

During 2013, KPP issued the 2013A revenue bonds to fund certain construction projects for member cities for $6,550,000.

During 2015, KPP issued the 2015A revenue bonds for $14,860,000 to finance an additional 3.30% ownership interest in Dogwood.

All bond issues are rated A3 by Moody's.

See *Note 7* for additional information.

Operations

Revenues from operations were approximately $55.2 million for the year ended December 31, 2015. The decrease in operating revenue from 2014 is primarily a result of decreased usage and the termination of certain members in 2014. Operating expenses, which consist mainly of transmission costs, purchased power and payments to the facilitator for scheduling and other administrative functions, totaled approximately $50.9 million in the same period.

For the year ended December 31, 2014, revenues from operations were approximately $63.7 million and operating expenses were approximately $57.6 million. The decrease in operating revenue from 2013 is primarily a result of the termination of certain members in 2014.

Contacting KPP's Financial Management

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

Kansas Power Pool
General Manager
100 N. Broadway, Suite L110
Wichita, KS 67202

Kansas Power Pool

Balance Sheets

December 31, 2015 and 2014

Assets

	2015	2014 (Restated – *Note 2*)
Current Assets		
Cash	$ 14,646,573	$ 14,551,766
Cash and cash equivalents, restricted	6,368	637,657
	14,652,941	15,189,423
Investments, restricted	3,502,711	4,792,582
Accounts receivable	4,598,923	4,679,654
Prepaid expenses and other	843,671	815,165
Materials and supplies	366,938	238,208
Total current assets	23,965,184	25,715,032
Noncurrent Investments, Restricted	3,179,442	-
Capital Assets, Net of Accumulated Depreciation	37,297,172	24,864,015
Other Assets	1,120,402	915,503
Regulatory Assets		
Costs recoverable from future billings	1,129,380	779,346
Unrecovered development costs	6,727,783	7,386,601
	7,857,163	8,165,947
Total assets	73,419,363	59,660,497
Deferred Outflows of Resources	134,280	71,229
Total assets and deferred outflows of resources	$ 73,553,643	$ 59,731,726

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014 (Restated – *Note 2*)
Current Liabilities		
Current portion of bonds payable	$ 2,185,000	$ 1,665,000
Accounts payable	42,459	31,501
Accounts payable – power bill	2,770,287	3,111,017
Accrued expenses	375,833	675,122
Accrued interest	412,385	190,004
Total current liabilities	5,785,964	5,672,644
Long-Term Debt		
Revenue bonds payable	49,815,000	37,140,000
Unamortized bond premiums and discounts, net	1,657,436	1,157,993
	51,472,436	38,297,993
Net Pension Liability	491,157	382,487
Total liabilities	57,749,557	44,353,124
Deferred Inflows of Resources	3,599,887	3,639,724
Net Position		
Net investment in capital assets	1,201,497	748,142
Restricted – expendable for		
Debt service	1,178,017	1,203,167
Member projects	1,472,119	1,655,718
Unrestricted	8,352,566	8,131,851
	12,204,199	11,738,878
Total liabilities, deferred inflows of resources and net position	$ 73,553,643	$ 59,731,726

Kansas Power Pool

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2015 and 2014

	2015	2014 (Restated – *Note 2*)
Operating Revenues	$ 55,199,423	$ 63,665,316
Operating Expenses		
Purchased power	36,989,035	44,140,119
Transmission expense	11,117,430	10,956,526
Dogwood operating costs	1,106,602	1,018,220
Amortization of unrecovered development costs	670,876	648,096
Depreciation	1,010,743	818,053
	50,894,686	57,581,014
Administrative and General Expenses		
Salaries and benefits	864,039	751,264
Legal expenses	171,736	216,497
Consulting fees	41,649	93,716
Outside services	187,780	213,813
Insurance	105,113	94,152
Dues and memberships	143,527	129,098
Miscellaneous	261,070	258,605
Rent	32,525	27,863
Payment in lieu of taxes	193,064	30,517
Loss on sale of equipment	-	8,905
	2,000,503	1,824,430
Operating Income	2,304,234	4,259,872
Nonoperating Revenue (Expense)		
Interest income	33,253	9,332
Interest expense on debt	(1,929,168)	(1,759,522)
Amortization of bond premiums and discounts, net	113,943	104,518
Net costs recoverable	(56,941)	(51,213)
	(1,838,913)	(1,696,885)
Deferred Inflows for Future Periods – Rate Stabilization	-	(1,560,000)
Change in Net Position	465,321	1,002,987
Net Position, Beginning of Year, as Previously Reported	11,738,878	11,112,131
Change in Accounting Principle	-	(376,240)
Net Position, Beginning of Year, as Restated	11,738,878	10,735,891
Net Position, End of Year	$ 12,204,199	$ 11,738,878

Kansas Power Pool

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014 (Restated – *Note 2*)
Operating Activities		
Receipts from members	$ 55,280,154	$ 64,781,669
Payments to suppliers	(51,361,179)	(59,966,383)
Payments to employees	(849,863)	(719,290)
Net cash provided by operating activities	3,069,112	4,095,996
Noncapital Financing Activities		
Payments of costs recoverable from future billings	(406,975)	-
Principal payments on non-capital bonds	(635,000)	(405,000)
Interest paid on revenue bonds	(356,668)	(577,969)
Interest paid line of credit	(469)	(12,000)
Net cash used in noncapital financing activities	(1,399,112)	(994,969)
Capital and Related Financing Activities		
Capital expenditures	(13,443,900)	(700,271)
Proceeds from issuance of revenue bonds	14,860,000	-
Proceeds from discounts	613,386	-
Principal payments on revenue bonds	(1,030,000)	(1,000,000)
Interest payments on revenue bonds	(1,349,650)	(1,379,650)
Net cash used in capital and related financing activities	(350,164)	(3,079,921)
Investing Activities		
Interest income	33,253	9,332
Purchase of investments, net	(1,889,571)	1,651,071
Net cash provided by (used in) investing activities	(1,856,318)	1,660,403
Increase (Decrease) in Cash and Cash Equivalents	(536,482)	1,681,509
Cash and Cash Equivalents, Beginning of Year	15,189,423	13,507,914
Cash and Cash Equivalents, End of Year	$ 14,652,941	$ 15,189,423

See Notes to Financial Statements

	2015	2014 (Restated – *Note 2*)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 2,312,467	$ 4,259,872
Depreciation and amortization	1,874,683	1,496,666
Loss on sale of capital assets	-	8,905
Net pension liability	108,670	(7,951)
Changes in		
Accounts receivable	80,731	1,116,353
Accounts payable and accrued expenses	(629,061)	(707,657)
Deferred inflows	(71,284)	-
Deferred outflows	(39,837)	-
Prepaid expenses and other current assets	(555,199)	(445,548)
Unrecovered development costs	(12,058)	(1,647,337)
Net cash provided by operating activities	$ 3,069,112	$ 4,073,303

Kansas Power Pool
Notes to Financial Statements
December 31, 2015 and 2014

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 the 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 7* for additional reference.

On July 29, 2015, KPP entered into an asset purchase agreement with Dogwood Energy, LLC to acquire an additional 3.3% undivided ownership interest in Dogwood. The purchase was financed through the issuance of revenue bonds in July 2015. See *Note 7* 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 (GAAP).

Basis of Accounting and Presentation

The accompanying basic 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 are available.

KPP's accounting policies also follow the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the basic 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, 2015 and 2014, 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, 2015, consisted of money market mutual funds with a broker and certificates of deposit. Investments at December 31, 2014, 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.

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, 2015 and 2014, 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.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of a deposit with Southwest Power Pool (SPP) as collateral for purchases through SPP and payments in lieu of taxes (PILOT) in relation to Dogwood and is being amortized over the life of the PILOT which is 15 years. At December 31, 2015 and 2014, the deposit with SPP was approximately $703,000 and $685,000, respectively. At December 31, 2015 and 2014, the amortized balance of the PILOT was approximately $1,192,000 and $987,000, respectively. Amortization of the PILOT was approximately $193,000 and $31,000 in 2015 and 2014, respectively. During 2015, in conjunction with the issuance of the 2015 Series A bonds, an additional PILOT of approximately $398,000 was recognized as part of KPP's additional ownership in Dogwood.

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 3 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, 2015 and 2014, 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.

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 balance sheet 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 – Rate Stability

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 2015, there were no changes in the rate stabilization. During 2014, there was an increase in the rate stabilization of $1,560,000. 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. The deferred inflows of resources related to rate stability were $3,560,000 as of December 31, 2015 and 2014.

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 is 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 net position.

Revenues

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

Defined Benefit Pension Plan

KPP's full-time employees are eligible to participate in the Kansas Public Employee Retirement Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. Investments are reported at fair value.

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 (IRC) and a similar provision of state law.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net position.

Note 2: Change in Accounting Principles

During 2015, KPP implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. GASB Statement No. 68, as amended, establishes standards for measuring and recognizing assets and liabilities, deferred outflows of resources, deferred inflows of resources and expenses for employers providing pension plans. It also includes certain note disclosures and required supplementary information. The provisions of these statements were retroactively applied and accordingly, KPP's net position as of January 1, 2014, was decreased by $376,240 which was comprised of the net pension liability at December 31, 2013, reduced by KPP's contributions from July 1, 2013 through December 31, 2013. Restatement of the 2014 financial statements for adoption of GASB Statement No. 68 also resulted in an increase in deferred outflows of resources of $71,229, an increase in net pension liability of $382,487, an increase in deferred inflows of resources of $79,724 and a decrease in unrestricted net position of $390,982, all as of December 31, 2014, and a decrease in change in net position of $14,742 for the year ended December 31, 2014. See *Note 8*.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits (including certificates of deposit) 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 of the state of Kansas; or bonds of any city, county, school district or special road district of the state of Kansas.

At December 31, 2015 and 2014, approximately $511,000 and $310,000, 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, 2015 and 2014, approximately $18,678,000 and $14,240,000, respectively, of KPP's bank balances were not exposed to custodial credit risk.

Investments

KPP may legally invest in the following:

- Direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities
- Direct and general obligations of the state of Kansas provided that the obligations rated in either of the two highest rating categories by a nationally recognized bond rating agency
- Certificates of deposit issued by any bank or trust company organized under the laws of the U.S. which are insured by the Federal Deposit Insurance Corporation (FDIC)
- Bank repurchase agreements

It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2015 and 2014, KPP held $2,146,861 and $4,792,582, 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. Certain certificates of deposit are classified as current investments due to the certificates of deposit maturing within one year of the balance sheet date. Certain certificates of deposit are classified as noncurrent investments due to the certificates of deposit maturing greater than one year from the balance sheet date. All noncurrent investments mature within one to five years of the balance date.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2015 and 2014, KPP is invested 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. At December 31, 2015, KPP is invested in certificates of deposit that are insured by FDIC.

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 the possession of an outside party. All of the underlying securities for KPP's investments at December 31, 2015 and 2014, are held by the counterparty in other than KPP's name.

Concentration of Credit Risk – At December 31, 2015, and 2014, approximately 32% and 100%, respectively, of KPP's investments are in the Federated Government Obligations Fund money market mutual fund.

Summary of Carrying Values

	2015	2014
Carrying Value		
Deposits	$ 19,188,233	$ 15,189,423
Investments	2,146,861	4,792,582
	$ 21,335,094	$ 19,982,005
Included in the Following Balance Sheet Captions		
Cash	$ 14,646,573	$ 14,551,766
Cash equivalents, restricted	6,368	637,657
Investments, restricted	3,502,711	4,792,582
Noncurrent investments, restricted	3,179,442	-
	$ 21,335,094	$ 19,982,005

Kansas Power Pool
Notes to Financial Statements
December 31, 2015 and 2014

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2015 and 2014, is as follows:

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Vehicles	$ 48,971	$ -	$ -	$ -	$ 48,971
Furniture, fixtures and equipment	232,588	66,534	(16,524)	-	282,598
Dogwood	26,831,616	13,378,488	(50,860)	-	40,159,244
	27,113,175	13,445,022	(67,384)	-	40,490,813
Less accumulated depreciation					
Vehicles	(27,110)	(9,657)	-	-	(36,767)
Furniture, fixtures and equipment	(151,982)	(58,709)	15,725	-	(194,966)
Dogwood	(2,070,068)	(942,377)	50,537	-	(2,961,908)
	(2,249,160)	(1,010,743)	66,262	-	(3,193,641)
Net capital assets	$ 24,864,015	$ 12,434,279	$ (1,122)	$ -	$ 37,297,172

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Vehicles	$ 38,996	$ 28,970	$ (18,995)	$ -	$ 48,971
Furniture, fixtures and equipment	199,744	32,844	-	-	232,588
Dogwood	26,203,942	642,708	(15,034)	-	26,831,616
	26,442,682	704,522	(34,029)	-	27,113,175
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)	(756,057)	1,879	-	(2,070,068)
	(1,451,980)	(818,053)	20,873	-	(2,249,160)
Net capital assets	$ 24,990,702	$ (113,531)	$ (13,156)	$ -	$ 24,864,015

Note 5: Unrecovered Development Costs

Unrecovered development costs represent costs incurred on behalf of member cities to be recovered in future periods. At December 31, 2015 and 2014, unrecovered development costs consisted of the following:

	2015	2014
City of Clay Center	$ 3,727,337	$ 4,144,624
Cities of Rice and Neshap	2,034,251	2,186,211
City of Erie	589,324	665,726
City of Luray	366,871	390,040
City of Kingman	10,000	-
	$ 6,727,783	$ 7,386,601

Amortization of unrecovered development costs of $670,876 and $648,096 was expensed during the years ended December 31, 2015 and 2014, respectively.

Note 6: Line of Credit

KPP has a $6,000,000 revolving line of credit expiring in May 2017 to finance accounts receivable of municipality utility billings. There were no funds drawn on the line of credit at December 31, 2015 and 2014. 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 2015 and 2014. Interest is payable quarterly. The interest rate at December 31, 2015 and 2014, was 1.68% and 1.41%, respectively.

Note 7: Revenue Bonds

Electric Utility Revenue Bond Indentures and Covenants

During 2015, KPP issued bonds for the purpose of acquiring an additional 3.3% ownership interest in Dogwood. 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, 2015 and 2014, 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, 2015 and 2014, 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 2015 and 2014, amortization of approximately $114,000 and $105,000, respectively, for premiums and discounts, net, was recorded.

Bonded Debt Service to Maturity

Fiscal Year	Principal	Interest	Total
2016	$ 2,185,000	$ 2,428,425	$ 4,613,425
2017	2,450,000	2,157,868	4,607,868
2018	2,530,000	2,073,568	4,603,568
2019	2,640,000	1,973,718	4,613,718
2020	2,740,000	1,871,986	4,611,986
2021-2025	14,945,000	7,590,331	22,535,331
2026-2030	16,560,000	4,182,354	20,742,354
2031	7,950,000	363,860	8,313,860
	$ 52,000,000	$ 22,642,110	$ 74,642,110

Revenue Bonds Outstanding

Electric Utility Revenue Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance 2015	Principal Balance 2014
Series A, 2012	$ 29,135,000	3.00% to 5.00%	04/10/2012	2031	$ 26,995,000	$ 28,025,000
Series B, 2012	$ 3,180,000	3.00%	12/19/2012	2023	2,725,000	2,985,000
Series C, 2012	$ 1,455,000	2.75% to 4.60%	12/19/2012	2031	1,295,000	1,395,000
Series A, 2013	$ 6,550,000	2.00% to 4.00%	5/7/2013	2025	6,125,000	6,400,000
Series A, 2015	$ 14,860,000	3.00% to 5.00%	7/20/2015	2031	14,860,000	-
					$ 52,000,000	$ 38,805,000

Kansas Power Pool

Notes to Financial Statements

December 31, 2015 and 2014

Changes in Revenue Bonds Outstanding

	2015					
	Balance December 31, 2014	Issued	Retired	Balance December 31, 2015	Due Within One Year	Due After One Year
Series A, 2012	$ 28,025,000	$ -	$ (1,030,000)	$ 26,995,000	$ 1,060,000	$ 25,935,000
Series B, 2012	2,985,000	-	(260,000)	2,725,000	270,000	2,455,000
Series C, 2012	1,395,000	-	(100,000)	1,295,000	100,000	1,195,000
Series A, 2013	6,400,000	-	(275,000)	6,125,000	280,000	5,845,000
Series A, 2015	-	14,860,000	-	14,860,000	475,000	14,385,000
	38,805,000	14,860,000	(1,665,000)	52,000,000	$ 2,185,000	$ 49,815,000
Premiums and discounts	1,157,993	613,384	(113,941)	1,657,436		
	$ 39,962,993	$ 15,473,384	$ (1,778,941)	$ 53,657,436		

	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	$ 1,665,000	$ 37,140,000
Premiums and discounts	1,262,511	-	(104,518)	1,157,993		
	$ 41,472,511	$ -	$ (1,509,518)	$ 39,962,993		

Debt Service Coverage

The bond indenture requires that KPP maintain minimum cash flow to service debt at a ratio of 1.10 to 1.00, as defined in the bond indenture. Below is a summary of KPP's cash flow available to service debt for the years ended December 31, 2015 and 2014:

	2015	2014
Change in net position without rate stabilization	$ 465,321	$ 2,562,987
Depreciation	1,010,743	818,053
Interest expense	1,929,168	1,759,522
Amortization of bond premiums and discounts and unrecovered development costs	613,874	594,791
Amortization of PILOT	193,064	-
Loss on sale of assets	-	8,905
Non-cash pension expense	5,782	14,742
Rate stabilization	-	1,560,000
	$ 4,217,952	$ 7,319,000
110% of current year debt service requirement	$ 3,371,318	$ 3,362,620
Debt service coverage ratio	1.25	2.18

Note 8: Defined Benefit Plan

Plan Description

KPP contributes to KPERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kansas Public Employees Retirement System (the System). KPERS 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. KPP participates in the Local group, one of four groups for which separate actuarial valuations are performed and collective pension amounts are determined, with separate employer allocation percentages determined for each group.

KPP's covered payroll approximated $654,000 and $552,000 for the years ended December 31, 2015 and 2014, respectively.

Actuarial valuations are performed annually. The latest actuarial valuation, December 31, 2014, was rolled forward to June 30, 2015, measurement date for the December 31, 2015 financial statements. Actuarial valuations were also performed at December 31, 2013 and 2012, which were rolled forward to the measurement dates of June 30, 2014 and 2013, respectively, for the December 31, 2014 and 2013, financial statements, respectively.

Benefits Provided

KPERS provides retirement, disability and death benefits to plan members or their beneficiaries. Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefits are then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Kansas legislature and the governor of the state of Kansas.

Contributions

Member contribution rates are established by Kansas state law and are paid by the employee according to the provisions of Section 414(h) of IRC. Kansas state law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation. The contributions and assets are deposited in KPERS established by K.S.A. 74-4921 and are funded on an actuarial reserve basis.

For the fiscal year beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contributions rate is 1.0% of total payroll for KPERS' fiscal year ended June 30, 2015.

The actuarially determined employer contribution rates and the statutory contribution rates were 9.48% and 9.48%, respectively, for KPERS' fiscal year ended June 30, 2015. The actuarially determined employer contribution rates and the statutory contribution rates were 9.77% and 8.44%, respectively, for KPERS' fiscal year ended June 30, 2014. Included in KPERS' fiscal year ended June 30, 2014, employer rate is the bond debt service rate of 0.08% collected by KPERS to transfer to the state of Kansas general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

Employee contribution rates as a percentage of eligible compensation for KPERS' fiscal year ended June 30, 2015, are 5.0% and 6.0% (based on date of hire) and 4.0% to 6.0% (based on date of hire) for KPERS' fiscal year ended June 30, 2014.

KPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for KPERS. 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.

KPP's contributions to KPERS for the years ended December 31, 2015 and 2014, were $51,919 and $48,970, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015 and 2014, KPP reported liabilities of $491,157 and $382,487 for its proportionate share of the net pension liability. KPP's proportion of the net pension liability was based on the ratio of KPP's contributions to KPERS to total employer and nonemployer contributions of the Local group for the fiscal years ended June 30, 2015, 2014 and 2013. At June 30, 2015, 2014 and 2013, KPP's proportionate shares were .037406%, .031076% and .027510%, respectively.

For the years ended December 31, 2015 and 2014, the KPP recognized pension expense of approximately $58,000 and $41,000, respectively. At December 31, 2015 and 2014, KPP reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (13,904)
Net difference between projected and actual earnings on pension plan investments	-	(19,119)
Change in actuarial assumptions	-	(6,864)
Change in KPP's proportionate share	113,287	-
KPP's contributions made subsequent to the measurement date of the net pension liability	20,993	-
Total	$ 134,280	$ (39,887)

	2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (10,861)
Net difference between projected and actual earnings on pension plan investments	-	(68,863)
Change in KPP's proportionate share	44,952	-
KPP's contributions made subsequent to the measurement date of the net pension liability	26,277	-
Total	$ 71,229	$ (79,724)

At December 31, 2015, KPP reported $20,993 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

2016	$	10,897
2017		10,897
2018		10,897
2019		30,337
2020		10,372
	$	73,400

Actuarial Assumptions

Contributions for the years ended December 31, 2015, 2014 and 2013 equaled the required contribution for each of the three years.

Actuarial methods and assumptions used to determine the total pension liability in the December 31, 2014, actuarial valuation were as follows:

Valuation date	December 31, 2014
Actuarial assumptions	
Investment rate of return, net	8.00%
Projected salary increases	4.00 – 16.00% including inflation (2015); 4.00 – 12.50% including inflation (2014)
Wage inflation	4.00%
Price inflation	3.00%
Other	RP 2000 combined mortality table for males and/or females, as appropriate, with adjustments for mortality improvements based on Scale AA

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2012.

Plan Assets

There are no assets legally reserved for purposes other than the payment of plan member benefits. KPERS held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net position available for benefits. There are no long-term contracts for contributions.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in KPERS' target asset allocation as of the June 30, 2015 and 2014 measurement dates, are as follows:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
December 31, 2015		
Global equity	47.00%	6.30%
Fixed income	13.00%	0.80%
Yield driven	8.00%	4.20%
Real return	11.00%	1.70%
Real estate	11.00%	5.40%
Alternatives	8.00%	9.40%
Short-term investments	2.00%	-0.50%
Total	100.00%	
December 31, 2014		
Global equity	47.00%	6.00%
Fixed income	14.00%	0.85%
Yield driven	8.00%	5.50%
Real return	11.00%	3.75%
Real estate	11.00%	6.65%
Alternatives	8.00%	9.50%
Short-term investments	1.00%	0.00%
Total	100.00%	

Discount Rate

The discount rate of 8.00% was used to measure the total pension liability at December 31, 2015 and 2014. The projections of cash flows used to determine this discount rate assumed that plan member contributions will be made at the contractually required rate. KPP does not necessarily contribute the full actuarially determined rate. Based on legislation in 1993, the employer contribution rates certified by the KPERS Board of Trustees may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on these assumptions, KPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of KPP's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The net pension liability of KPP has been calculated using a discount rate of 8.00%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate at December 31, 2015 and 2014, respectively.

	1% Decrease	Current Discount Rate	1% Increase
December 31, 2015			
KPP's net pension liability	$ 697,224	$ 491,157	$ 316,453
December 31, 2014			
KPP's net pension liability	$ 549,257	$ 382,487	$ 241,188

Funding Status and Funding Progress

The required supplementary information, including the schedule of funding progress, presents certain 10-year trend information for as many years for which the information measured in conformity with GASB Statement No. 68 is available. A copy of the actuarial report referred to in this note 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.

Note 9: 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.

Required Supplementary Information

Kansas Power Pool

Proportionate Share Information and Schedule of Employer Contributions

December 31, 2015 and 2014

I. Schedule of Proportionate Share Information	2015	2014
* KPP's proportion of the net pension liability	0.037406%	0.031076%
* KPP's proportionate share of the net pension liability	$ 491,157	$ 382,487
KPP's covered-employee payroll	$ 615,000	$ 504,000
KPP's proportionate share of the net pension liability as a percentage of its covered-employee payroll	79.86%	75.89%
Plan fiduciary net position as a percentage of the total pension liability	71.98%	72.56%

*The amounts presented for each fiscal year were determined as of June 30, KPP's measurement date.

II. Schedule of Employer Contributions	2015	2014
Contractually required contribution	$ 51,919	$ 48,970
Contributions in relation to the contractually required contribution	51,919	48,970
Contribution deficiency (excess)	$ -	$ -
KPP's covered-employee payroll	$ 654,000	$ 552,000
Contributions as a percentage of covered-employee payroll	7.94%	8.87%

Note to Schedules

Only 2015 and 2014 are presented because the 10-year data is not yet available.

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 Unites 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, 2015, 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 April 13, 2016, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principle.

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 basic 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 basic 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 basic 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 basic 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 on 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
April 13, 2016

Kansas Power Pool

Schedule of Findings and Responses

Year Ended December 31, 2015

Reference Number	Finding
	No matters are reportable.