

Kansas Power Pool

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015



Kansas Power Pool
December 31, 2016 and 2015

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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 financial statements of Kansas Power Pool (KPP) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise KPP's 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 audit 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, 2016 and 2015, 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.

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 financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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, 2017, on our consideration of KPP's internal control over financial reporting and on 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 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, 2017

Kansas Power Pool

Management's Discussion and Analysis

Years Ended December 31, 2016 and 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, 2016 and 2015. 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 financial statements is the balance sheet. This statement presents information that includes all of KPP's assets deferred outflows of resources and 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 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 2016 membership includes 23 cities that are considered long-term members because each signed an exclusive 20-year power purchase contract with KPP, the term of which coincides with 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 (SPP) reliability standards. Also, in 2016, KPP gained an additional member city that will begin taking wholesale electric service from KPP in July 2017. This addition will bring the total full-service membership to 24 cities.

In 2013, KPP extended an existing 50 megawatt (MW) contract with a supplier to 59 MW of capacity through December 2022. In July 2015, KPP issued additional debt to acquire another 20 MWs of Dogwood, bringing its ownership total from this natural gas, combined-cycle generating source to 62 MWs. In June 2016, KPP began taking 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's 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 SPP 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 energy 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 energy sales opportunities has netted KPP over \$140,000 during 2016.

In June 2016, KPP signed a co-development agreement with Gridliance, an independent transmission company, for opportunities to invest in transmission construction projects within the SPP transmission footprint that will improve transmission reliability for public power communities. KPP expects such investments to enable KPP to earn margins from regionally funded projects to offset transmission rate increases in addition to other significant benefits.

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 six 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's staff first prepares peak demand and energy use forecasts for each member city, which are calculated with anticipated unit costs to project KPP's 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's staff makes 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 fiscal year 2016, KPP's unrestricted cash balance covered 121.4 days of operating expenses. This is up from 103.1 days at the end of 2015. KPP has exceeded its financial objective of reaching 90 days' expense coverage by 2020. Also at the end of fiscal year 2016, KPP reached a debt service coverage ratio of 1.80 before moving funds in excess of the 1.30 bond rating agency target into its rate stabilization fund.

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 Chamber of Commerce in each member city that has 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 tables summarize the financial condition and operations of KPP:

Table 1: Financial Highlights

Assets and Deferred Outflows of Resources

	2016	2015	2014
Cash	\$ 17,081,133	\$ 14,646,573	\$ 14,551,766
Cash and cash equivalents, restricted	142,415	6,368	637,657
Investments, restricted	3,431,826	3,502,711	4,792,582
Accounts receivable	4,917,249	4,598,923	4,679,654
Capital assets, net	37,641,755	37,297,172	25,850,724
Noncurrent investments, restricted	1,589,280	3,179,442	-
Other assets	9,500,818	10,188,174	9,148,114
Total assets	74,304,476	73,419,363	59,660,497
Deferred outflows of resources	380,698	134,280	71,229
Total assets and deferred outflows of resources	\$ 74,685,174	\$ 73,553,643	\$ 59,731,726

Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015	2014
Accounts payable and accrued expenses	\$ 4,013,576	\$ 3,600,964	\$ 4,007,644
Long-term debt, net	50,165,938	53,657,436	39,962,993
Net pension liability	621,998	491,157	382,487
	<u>54,801,512</u>	<u>57,749,557</u>	<u>44,353,124</u>
Total liabilities			
Deferred inflows of resources	<u>5,798,085</u>	<u>3,599,887</u>	<u>3,639,724</u>
Total liabilities, deferred inflows of resources	60,599,597	61,349,444	47,992,848
Net position – invested in capital assets	2,915,009	1,201,497	748,142
Net position – restricted	1,320,838	2,650,136	2,858,885
Net position – unrestricted	9,849,730	8,352,566	8,131,851
	<u>9,849,730</u>	<u>8,352,566</u>	<u>8,131,851</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 74,685,174</u>	<u>\$ 73,553,643</u>	<u>\$ 59,731,726</u>

Revenues, Expenses and Changes in Net Position

Operating revenues	\$ 59,014,369	\$ 55,199,423	\$ 63,665,316
Operating expenses	(50,761,170)	(50,894,656)	(57,581,014)
Administrative and general expenses	(2,083,578)	(2,000,503)	(1,824,430)
Nonoperating expense, net	(2,088,243)	(1,838,913)	(1,696,885)
Deferred inflows of resources – rate stabilization	(2,200,000)	-	(1,560,000)
	<u>(2,200,000)</u>	<u>-</u>	<u>(1,560,000)</u>
Change in net position	<u>\$ 1,881,378</u>	<u>\$ 465,351</u>	<u>\$ 1,002,987</u>

KPP's investment in capital assets, net of accumulated depreciation, as of December 31, 2016 and 2015, was as follows:

Table 2: Capital Assets

	2016	2015
Depreciable Assets		
Vehicles	\$ 48,971	\$ 48,971
Furniture, fixtures and equipment	294,726	281,799
Dogwood	41,801,634	40,159,244
	<u>42,145,331</u>	<u>40,490,014</u>
Total depreciable assets		
Accumulated Depreciation	<u>4,503,576</u>	<u>3,192,842</u>
Total capital assets, net	<u>\$ 37,641,755</u>	<u>\$ 37,297,172</u>

See Note 3 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.

The decrease in debt during 2016 was related to scheduled principal payments. 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 6* for additional information.

Operations

Revenues from operations were approximately \$59.0 million for the year ended December 31, 2016. The increase in operating revenue of \$3.8 million (6.9%) from 2015 is primarily a result of an increase in the debt service rider from 2015. Operating expenses, which consist mainly of transmission costs, purchased power, depreciation and payments to the facilitator for scheduling and other administrative functions, totaled approximately \$50.8 million in the same period.

For the year ended December 31, 2015, revenues from operations were approximately \$55.2 million and operating expenses were approximately \$50.9 million. The decrease in operating revenue from 2014 is primarily a result of decreased usage and 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, 2016 and 2015

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash	\$ 17,081,133	\$ 14,646,573
Cash and cash equivalents, restricted	142,415	6,368
	<u>17,223,548</u>	<u>14,652,941</u>
Investments, restricted	3,431,826	3,502,711
Accounts receivable	4,917,249	4,598,923
Prepaid expenses and other	896,184	843,671
Materials and supplies	323,256	366,938
	<u>26,792,063</u>	<u>23,965,184</u>
Noncurrent Investments, Restricted	<u>1,589,280</u>	<u>3,179,442</u>
Capital Assets, Net of Accumulated Depreciation	<u>37,641,755</u>	<u>37,297,172</u>
Other Assets	<u>978,614</u>	<u>1,120,402</u>
Regulatory Assets		
Costs recoverable from future billings	1,035,593	1,129,380
Unrecovered development costs	6,267,171	6,727,783
	<u>7,302,764</u>	<u>7,857,163</u>
Total regulatory assets	<u>7,302,764</u>	<u>7,857,163</u>
Total assets	<u>74,304,476</u>	<u>73,419,363</u>
Deferred Outflows of Resources		
Deferred loss on refunding	161,471	-
Pensions	219,227	134,280
	<u>380,698</u>	<u>134,280</u>
Total deferred outflows of resources	<u>380,698</u>	<u>134,280</u>
Total assets and deferred outflows of resources	<u>\$ 74,685,174</u>	<u>\$ 73,553,643</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current portion of bonds payable	\$ 2,450,000	\$ 2,185,000
Accounts payable	84,467	42,459
Accounts payable – power bills	3,100,215	2,770,287
Accrued expenses	612,211	375,833
Accrued interest	216,683	412,385
	<u>6,463,576</u>	<u>5,785,964</u>
Long-Term Debt		
Revenue bonds payable	46,220,000	49,815,000
Unamortized bond premiums and discounts, net	1,495,938	1,657,436
	<u>47,715,938</u>	<u>51,472,436</u>
Net Pension Liability		
	<u>621,998</u>	<u>491,157</u>
Total liabilities	<u>54,801,512</u>	<u>57,749,557</u>
Deferred Inflows of Resources		
Rate stabilization fund	5,760,000	3,560,000
Pensions	16,742	39,887
Other	21,343	-
	<u>5,798,085</u>	<u>3,599,887</u>
Net Position		
Net investment in capital assets	2,915,009	1,201,497
Restricted – expendable for		
Debt service	1,268,863	1,178,017
Member projects	51,975	1,472,119
Unrestricted	9,849,730	8,352,566
	<u>14,085,577</u>	<u>12,204,199</u>
Total net position	<u>14,085,577</u>	<u>12,204,199</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 74,685,174</u>	<u>\$ 73,553,643</u>

Kansas Power Pool
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 59,014,369	\$ 55,199,423
Operating Expenses		
Purchased power	36,088,628	36,989,035
Transmission expense	11,582,466	11,117,430
Dogwood operating costs	1,211,372	1,106,602
Amortization of unrecovered development costs	564,859	670,876
Depreciation	1,313,845	1,010,743
	<u>50,761,170</u>	<u>50,894,686</u>
Total operating expenses		
Administrative and General Expenses		
Salaries and benefits	913,696	864,039
Legal expenses	219,335	171,736
Consulting fees	42,994	41,649
Outside services	193,501	187,780
Insurance	136,428	105,113
Dues and memberships	158,546	143,527
Miscellaneous	268,381	261,070
Rent	42,072	32,525
Payment in lieu of taxes	108,625	193,064
	<u>2,083,578</u>	<u>2,000,503</u>
Total administrative and general expenses		
Operating Income	<u>6,169,621</u>	<u>2,304,234</u>
Nonoperating Revenue (Expense)		
Interest income	63,395	33,253
Interest expense on debt	(2,231,452)	(1,929,168)
Amortization of bond premiums and discounts, net	161,498	113,943
Net costs recoverable	(81,684)	(56,941)
	<u>(2,088,243)</u>	<u>(1,838,913)</u>
Total nonoperating revenue (expense)		
Deferred Inflows of Resources – Rate Stabilization	<u>(2,200,000)</u>	<u>-</u>
Change in Net Position	1,881,378	465,321
Net Position, Beginning of Year	<u>12,204,199</u>	<u>11,738,878</u>
Net Position, End of Year	<u>\$ 14,085,577</u>	<u>\$ 12,204,199</u>

Kansas Power Pool
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from members	\$ 58,696,043	\$ 55,280,154
Payments to suppliers	(49,427,737)	(51,361,179)
Payments to employees	(1,040,191)	(849,863)
	8,228,115	3,069,112
Noncapital Financing Activities		
Payments of costs recoverable from future billings	-	(406,975)
Principal payments on non-capital bonds	(1,795,000)	(635,000)
Interest paid on revenue bonds	(317,717)	(356,668)
Interest paid on line of credit	(100)	(469)
	(2,112,817)	(1,399,112)
Capital and Related Financing Activities		
Capital expenditures	(1,658,428)	(13,443,900)
Proceeds from issuance of revenue bonds	-	14,860,000
Proceeds from discounts	-	613,386
Principal payments on revenue bonds	(1,535,000)	(1,030,000)
Interest payments on revenue bonds	(2,087,808)	(1,349,650)
	(5,281,236)	(350,164)
Investing Activities		
Interest income	63,395	33,253
Proceeds from sales and maturities of investments	6,159,150	5,186,613
Purchases of investments	(4,486,000)	(7,076,184)
	1,736,545	(1,856,318)
Increase (Decrease) in Cash and Cash Equivalents	2,570,607	(536,482)
Cash and Cash Equivalents, Beginning of Year	14,652,941	15,189,423
Cash and Cash Equivalents, End of Year	\$ 17,223,548	\$ 14,652,941
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 6,169,621	\$ 2,304,234
Depreciation and amortization	1,987,329	1,874,683
Net pension liability	130,841	108,670
Changes in		
Accounts receivable	(318,326)	80,731
Accounts payable and accrued expenses	608,314	(629,061)
Deferred inflows	(1,802)	(39,837)
Deferred outflows	(267,947)	(63,051)
Prepaid expenses and other current assets	24,332	(555,199)
Unrecovered development costs	(104,247)	(12,058)
	\$ 8,228,115	\$ 3,069,112

Kansas Power Pool

Notes to Financial Statements

December 31, 2016 and 2015

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 Energy Facility (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 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 (MW). The purchase was financed through the issuance of revenue bonds in April 2012. See *Note 6* 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 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 (GAAP).

Kansas Power Pool

Notes to Financial Statements

December 31, 2016 and 2015

Basis of Accounting and Presentation

The accompanying financial statements of KPP have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary 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 revenues and expenses. 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 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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with a bank.

Investments and Investment Income

Investments in equity and debt securities and certificates of deposit are carried at market value. Market value is determined using quoted market prices. Investments at December 31, 2016 and 2015, consisted of money market mutual funds with a broker and certificates of deposit.

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

Kansas Power Pool

Notes to Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, the deposit with SPP was approximately \$703,000. At December 31, 2016 and 2015, the amortized balance of the PILOT was approximately \$1,083,000 and \$1,192,000, respectively. Amortization of the PILOT was approximately \$109,000 and \$193,000 in 2016 and 2015, respectively.

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, 2016 and 2015, 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.

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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 for vacation benefits are recognized when 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 130% of KPP's minimum debt service requirements on its revenue bonds for the most recent fiscal year. During 2016, there was an increase in the rate stabilization of \$2,200,000. During 2015, there were no changes in the rate stabilization. Rate stabilization deferrals or withdrawals are approved by the Board of Directors annually. The deferred inflows of resources related to rate stability were \$5,760,000 and \$3,560,000 as of December 31, 2016 and 2015, respectively.

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 net position.

Revenues

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

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Defined Benefit Pension Plan

KPP's full-time employees are eligible to participate in the Kansas Public Employee Retirement System Plan (KPERS), a cost-sharing multiple-employer defined benefit pension plan. 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. 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.

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 (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, 2016 and 2015, approximately \$577,000 and \$511,000, 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, 2016 and 2015, approximately \$16,798,000 and \$18,678,000, 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 are rated in either of the two highest rating categories by a nationally recognized bond rating agency

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- 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, 2016 and 2015, KPP held \$1,864,564 and \$2,146,861, respectively, in a Federated Government Obligations Fund money market mutual fund. This money market mutual fund has ratings of AAAM and Aaa-mf by Standard & Poor's Ratings Group and Moody's Investors Service, Inc., respectively, and a weighted-average duration of 47 days.

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, 2016 and 2015, 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, 2016 and 2015, KPP is invested in certificates of deposit that are insured by the 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, 2016 and 2015, are held by the counterparty in other than KPP's name.

Concentration of Credit Risk – At December 31, 2016, and 2015, approximately 37% and 32%, respectively, of KPP's investments are in the Federated Government Obligations Fund money market mutual fund.

Fair Value Hierarchy

KPP categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on valuation input used to measure the fair value of the asset. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KPP's recurring fair value measurements as of December 31, 2016 and 2015, are its certificates of deposit, which are valued using Level 2 inputs.

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Summary of Carrying Values

The carrying values of deposits and investments are included in the accompanying balance sheets as follows at December 31:

	2016	2015
Carrying Value		
Deposits	\$ 17,223,548	\$ 14,652,941
Investments	5,021,106	6,682,153
	\$ 22,244,654	\$ 21,335,094
 Included in the Following Balance Sheet Captions		
Cash	\$ 17,081,133	\$ 14,646,573
Cash and cash equivalents, restricted	142,415	6,368
Investments, restricted	3,431,826	3,502,711
Noncurrent investments, restricted	1,589,280	3,179,442
	\$ 22,244,654	\$ 21,335,094

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015, is as follows:

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Vehicles	\$ 48,971	\$ -	\$ -	\$ -	\$ 48,971
Furniture, fixtures and equipment	282,598	16,038	(3,910)	-	294,726
Dogwood	40,159,244	1,642,390	-	-	41,801,634
	40,490,813	1,658,428	(3,910)	-	42,145,331
 Less accumulated depreciation					
Vehicles	(36,767)	(9,657)	-	-	(46,424)
Furniture, fixtures and equipment	(194,966)	(41,900)	3,910	-	(232,956)
Dogwood	(2,961,908)	(1,262,288)	-	-	(4,224,196)
	(3,193,641)	(1,313,845)	3,910	-	(4,503,576)
 Net capital assets	\$ 37,297,172	\$ 344,583	\$ -	\$ -	\$ 37,641,755

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	2015				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Vehicles	\$ 48,971	\$ -	\$ -	\$ -	\$ 48,971
Furniture, fixtures and equipment	232,588	66,534	(16,524)	-	282,598
Dogwood	<u>26,831,616</u>	<u>13,378,488</u>	<u>(50,860)</u>	<u>-</u>	<u>40,159,244</u>
	<u>27,113,175</u>	<u>13,445,022</u>	<u>(67,384)</u>	<u>-</u>	<u>40,490,813</u>
Less accumulated depreciation					
Vehicles	(27,110)	(9,657)	-	-	(36,767)
Furniture, fixtures and equipment	(151,982)	(58,709)	15,725	-	(194,966)
Dogwood	<u>(2,070,068)</u>	<u>(942,377)</u>	<u>50,537</u>	<u>-</u>	<u>(2,961,908)</u>
	<u>(2,249,160)</u>	<u>(1,010,743)</u>	<u>66,262</u>	<u>-</u>	<u>(3,193,641)</u>
Net capital assets	<u>\$ 24,864,015</u>	<u>\$ 12,434,279</u>	<u>\$ (1,122)</u>	<u>\$ -</u>	<u>\$ 37,297,172</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, 2016 and 2015, unrecovered development costs consisted of the following:

	2016	2015
City of Clay Center	\$ 3,514,723	\$ 3,727,337
Cities of Rice and Neshap	1,846,690	2,034,251
City of Erie	512,921	589,324
City of Luray	343,702	366,871
City of Kingman	<u>49,135</u>	<u>10,000</u>
	<u>\$ 6,267,171</u>	<u>\$ 6,727,783</u>

Amortization of unrecovered development costs of \$564,859 and \$670,876 was expensed during the years ended December 31, 2016 and 2015, respectively.

Note 5: 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, 2016 and 2015. 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 2016 and 2015. Interest is payable quarterly. The interest rate at December 31, 2016 and 2015, was 2.02% and 1.68%, respectively.

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Note 6: 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 the 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, 2016 and 2015, 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, 2016 and 2015, 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 2016 and 2015, amortization of approximately \$161,000 and \$114,000, respectively, for premiums and discounts, net, was recorded.

During 2016, KPP defeased a portion of its outstanding Series 2013A bonds in the total principal amount of \$1,145,000. Proceeds from the defeasance of these bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since KPP was legally released from its obligation on a portion of the Series 2013A bonds at the time of the defeasance. Accordingly, a portion of the Series 2013A bonds, aggregating \$1,145,000 at December 31, 2016, remains outstanding, but is excluded from KPP's balance sheets. As a result of the advance refunding, KPP recognized a net loss on advance refunding of approximately \$183,000, which is included in deferred outflows of resources in the accompanying balance sheets of which approximately \$22,000 of amortization expense was recognized during the year ended December 31, 2016.

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The debt service requirements as of December 31, 2016, are as follows:

Bonded Debt Service to Maturity

Fiscal Year Ending December 31,	Principal	Interest	Total to be Paid
2017	\$ 2,450,000	\$ 2,112,068	\$ 4,562,068
2018	2,530,000	2,027,768	4,557,768
2019	2,640,000	1,927,918	4,567,918
2020	2,740,000	1,826,186	4,566,186
2021	2,855,000	1,714,436	4,569,436
2022–2026	15,105,000	6,736,545	21,841,545
2027–2031	<u>20,350,000</u>	<u>3,189,964</u>	<u>23,539,964</u>
	<u>\$ 48,670,000</u>	<u>\$ 19,534,885</u>	<u>\$ 68,204,885</u>

Revenue Bonds Outstanding

Electric Utility Revenue Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance	
					2016	2015
Series A, 2012	\$ 29,135,000	3.00%–5.00%	4/10/2012	2031	\$ 25,935,000	\$ 26,995,000
Series B, 2012	\$ 3,180,000	3.00%	12/19/2012	2023	2,455,000	2,725,000
Series C, 2012	\$ 1,455,000	2.75%–4.60%	12/19/2012	2031	1,195,000	1,295,000
Series A, 2013	\$ 6,550,000	2.00%–4.00%	5/7/2013	2025	4,700,000	6,125,000
Series A, 2015	\$ 14,860,000	3.00%–5.00%	7/20/2015	2031	<u>14,385,000</u>	<u>14,860,000</u>
					<u>\$ 48,670,000</u>	<u>\$ 52,000,000</u>

Changes in Revenue Bonds Outstanding

	2016					
	Balance, December 31, 2015	Issued	Retired	Balance, December 31, 2016	Due Within One Year	Due After One Year
Series A, 2012	\$ 26,995,000	\$ -	\$ (1,060,000)	\$ 25,935,000	\$ 1,105,000	\$ 24,830,000
Series B, 2012	2,725,000	-	(270,000)	2,455,000	280,000	2,175,000
Series C, 2012	1,295,000	-	(100,000)	1,195,000	100,000	1,095,000
Series A, 2013	6,125,000	-	(1,425,000)	4,700,000	285,000	4,415,000
Series A, 2015	<u>14,860,000</u>	<u>-</u>	<u>(475,000)</u>	<u>14,385,000</u>	<u>680,000</u>	<u>13,705,000</u>
	52,000,000	-	(3,330,000)	48,670,000	<u>\$ 2,450,000</u>	<u>\$ 46,220,000</u>
Premiums and discounts	<u>1,657,436</u>	<u>-</u>	<u>(161,498)</u>	<u>1,495,938</u>		
	<u>\$ 53,657,436</u>	<u>\$ -</u>	<u>\$ (3,491,498)</u>	<u>\$ 50,165,938</u>		

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	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	<u>\$ 2,185,000</u>	<u>\$ 49,815,000</u>
Premiums and discounts	1,157,993	613,384	(113,941)	1,657,436		
	<u>\$ 39,962,993</u>	<u>\$ 15,473,384</u>	<u>\$ (1,778,941)</u>	<u>\$ 53,657,436</u>		

Debt Service Coverage

The bond indenture requires 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, 2016 and 2015:

	2016	2015
Change in net position	\$ 1,881,378	\$ 465,321
Depreciation	1,313,845	1,010,743
Interest expense	2,231,452	1,929,168
Amortization of bond premiums and discounts and unrecovered development costs	485,045	613,874
Amortization of PILOT	108,625	193,064
Non-cash pension expense	22,749	5,782
Rate stabilization	2,200,000	-
	<u>\$ 8,243,094</u>	<u>\$ 4,217,952</u>
Current year debt service requirement	\$ 4,567,625	\$ 3,371,318
Debt service coverage ratio	1.80	1.25

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Note 7: 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 \$679,000 and \$654,000 for the years ended December 31, 2016 and 2015, respectively.

Actuarial valuations are performed annually. The latest actuarial valuation, December 31, 2015, was rolled forward to the June 30, 2016, measurement date for the December 31, 2016, financial statements. Actuarial valuations were also performed at December 31, 2014, which were rolled forward to the measurement date of June 30, 2015, for the December 31, 2015, financial statements.

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. Retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

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 the 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.

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For the fiscal year beginning 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 1.1% of total payroll for KPERS' fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates and the statutory contribution rates were 9.18% and 9.18%, respectively, for KPERS' fiscal year ended June 30, 2016. 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.

Employee contribution rates as a percentage of eligible compensation for KPERS' fiscal year ended June 30, 2016, are 6.0% and 6.0% (based on date of hire) and 5.0% to 6.0% (based on date of hire) for KPERS' fiscal year ended June 30, 2015.

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, 2016 and 2015, were \$63,049 and \$51,919, respectively.

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

At December 31, 2016 and 2015, KPP reported liabilities of \$610,922 and \$491,157, respectively, for its proportionate share of the net pension liability. The net pension liability at December 31, 2016 and 2015, was measured at June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations at December 31, 2015 and 2014, rolled forward to June 30, 2016 and 2015, respectively. 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, 2016 and 2015. At June 30, 2016 and 2015, KPP's proportion was 0.039490% and 0.037406%, respectively.

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For the years ended December 31, 2016 and 2015, KPP recognized pension expense of approximately \$86,000 and \$58,000, respectively. At December 31, 2016 and 2015, KPP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
Differences between expected and actual experience	\$ 3,546	\$ 11,027
Net difference between projected and actual earnings on pension plan investments	72,168	-
Changes in actuarial assumptions	-	5,715
Changes in proportion	111,797	-
KPP's contributions made subsequent to the measurement date of the net pension liability	31,716	-
Total	\$ 219,227	\$ 16,742
2015		
Differences between expected and actual experience	\$ -	\$ 13,904
Net difference between projected and actual earnings on pension plan investments	-	19,119
Changes in actuarial assumptions	-	6,864
Changes in proportion	113,287	-
KPP's contributions made subsequent to the measurement date of the net pension liability	20,993	-
Total	\$ 134,280	\$ 39,887

At December 31, 2016, KPP reported \$31,716 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

2017	\$ 36,646
2018	36,646
2019	57,262
2020	36,858
2021	3,357
	\$ 170,769

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Actuarial Assumptions

Contributions for the years ended December 31, 2016, 2015 and 2014 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, 2015 and 2014, actuarial valuations were as follows:

Valuation dates	December 31, 2015 and 2014
Actuarial assumptions	
Investment rate of return, net	8.00%
Projected salary increases	4.00%–16.00% including inflation
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, 2015 and 2014, valuations were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2012.

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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, 2016 and 2015, measurement dates, are as follows:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
June 30, 2016		
Global equity	47.00%	6.80%
Fixed income	13.00%	1.25%
Yield driven	8.00%	6.55%
Real return	11.00%	1.71%
Real estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-term investments	2.00%	-0.25%
Total	<u>100.00%</u>	
June 30, 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	<u>100.00%</u>	

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December 31, 2016 and 2015

Discount Rate

The discount rate of 8.00% was used to measure the total pension liability at June 30, 2016 and 2015. 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

KPP's proportionate share of the net pension liability has been calculated using a discount rate of 8.00%. The following presents KPP's proportionate share of the net pension liability using a discount rate 1% higher and 1% lower than the current rate at June 30, 2016.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
June 30, 2016			
KPP's net pension liability	\$ 837,367	\$ 610,922	\$ 418,914

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, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, 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 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.

Required Supplementary Information

Kansas Power Pool

Proportionate Share Information and Schedule of Employer Contributions

I. Schedule of Proportionate Share Information	2016	2015	2014
* KPP's proportion of the net pension liability	0.039490%	0.037406%	0.031076%
* KPP's proportionate share of the net pension liability	\$ 621,998	\$ 491,157	\$ 382,487
KPP's covered-employee payroll	\$ 638,000	\$ 615,000	\$ 504,000
KPP's proportionate share of the net pension liability as a percentage of its covered-employee payroll	97.49%	79.86%	75.89%
Plan fiduciary net position as a percentage of the total pension liability	68.55%	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	2016	2015	2014
Contractually required contribution	\$ 63,049	\$ 51,919	\$ 48,970
Contributions in relation to the contractually required contribution	<u>63,049</u>	<u>51,919</u>	<u>48,970</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KPP's covered-employee payroll	<u>\$ 679,000</u>	<u>\$ 654,000</u>	<u>\$ 552,000</u>
Contributions as a percentage of covered-employee payroll	9.29%	7.94%	8.87%

Note to Schedules

Only 2016, 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 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 financial statements of Kansas Power Pool (KPP), which comprise the balance sheet as of December 31, 2016, 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 financial statements, and have issued our report thereon, dated April 13, 2017.

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 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 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 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, 2017