

Kansas Power Pool

Independent Auditor's Reports and Financial Statements

December 31, 2020 and 2019



Kansas Power Pool

December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 that the management's discussion and analysis and pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2021, 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 solely 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 effectiveness of KPP's 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 12, 2021

Kansas Power Pool

Management's Discussion and Analysis

Years Ended December 31, 2020 and 2019

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, 2020 and 2019. Please read it in conjunction with the accompanying 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 sheets. These statements present information that includes all of KPP's assets and 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 to identify financial strengths and weaknesses and assess liquidity.

The second statement is the statements of revenues, expenses, and changes in net position, which report 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 is the statements of cash flows, which report 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 for 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 and a power purchase contract for wholesale electric energy, both of which are adopted by each member city. The term of the operating agreement is governed by termination language in the power purchase contract, 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 2020 membership includes 23 cities that are considered long-term members in that each has signed an exclusive 20-year power purchase contract with KPP, the term of which is the later of 20 years from the First Supplemental Power Purchase Contract date or the date upon which the principal, premium, and interest on all bonds are paid in full and the bonds are retired. An additional member city has signed a 20-year power purchase contract with KPP, the term of which is 20 years from the First Supplemental Power Purchase Contract date. 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.

In 2013, KPP extended and amended an existing 50 MW contract with a supplier to 59 MW of capacity through December 2022. KPP is underway in executing a long-term power supply plan intended not only to replace the capacity from that contract but also to achieve a lower cost structure following that replacement. Said power supply plan will result in the installation of low heat rate, high capacity factor, gas-fired, quick-start technology well suited to overcome the intermittent characteristics of renewable energy resources within the SPP. Tax-exempt bonds are intended for use in financing the project. Accordingly, KPP should be poised to acquire more fixed assets while reducing cost.

In July 2015, KPP issued additional debt to acquire another 20 MW of the Dogwood Energy Facility, bringing its ownership total from this natural gas, combined-cycle generating source to 62 MW. In June 2016, KPP began taking 25 MW of energy from a newly constructed wind farm in north central Kansas, bringing its renewable energy contracts to approximately 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 SPP integrated power 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 two wind farms where transmission congestion occurs at certain times of the day.

KPP is the sole purchaser of the output of the Greensburg wind project, which completed 10 years of commercial operation in the summer of 2020. Consequently, and because the project developer no longer receives the Production Tax Credit, KPP has been free to implement changes in market operations practices, which have provided for additional market and transmission cost and price benefits to KPP.

In June 2017, KPP began the sale of 50 MW of excess capacity to the Omaha Public Power District, which is scheduled to continue through May 2022, with the capacity amount decreasing to 25 MW in June 2019. In June 2020, KPP extended the existing contract to May 2023 and increased the sale of capacity amount to 50 MW during this one-year period.

In August 2018, the KPP Board of Directors approved an engineering contract to be signed with ZEMAC for installing six 25-KW solar arrays in KPP member cities. These projects are a joint effort between KPP and the member city where the solar arrays will reside. The City of Winfield completed the installation in November 2019. The City of Marion has received the materials and expects construction to be completed in 2021. The City of Waterville will move forward with the solar project in 2021.

KPP is well underway building an interconnection substation and facilities to an MKEC 115 kV transmission line north and east of Cunningham, Kansas. Construction is expected to be completed in May 2021. The substation will provide the City of Kingman 100% connection to the high voltage transmission grid easing the need for internal generation to support the load of Kingman. This connection also allows the City of Kingman the ability to generate back to the SPP integrated power market.

The City of Marion has worked the last several years converting its electric system from 4160 V to 12470 V. This project will complete the voltage conversion on the remaining three circuits of the city and retire the old 4160 V distribution facilities. This will benefit the city by decreasing losses, along with better performance of the electric system. This project is being financed through KPP.

KPP has begun a battery storage project with the assistance of Kelson Energy. It will be located at the City of Minneapolis, a KPP member. The city is connected on a long distribution line of Evergy. In the past, this has caused the city to experience low voltage issues and long restoration periods in the wake of storms. The project will provide Minneapolis with voltage support and black start capabilities for its internal generation. KPP will also offer this resource into the SPP integrated power market, allowing its membership experience with a battery resource.

KPP is working with seven members to install automated metering infrastructure (AMI) technology. KPP is working with Vision Metering as the vendor and support of the AMI systems. KPP is currently in the design phase of the projects and expects the roll-out to occur during spring 2021. Members will install all of the equipment and work with their customer information system software vendors to integrate the meter readings for customer billing. This will allow these cities the ability for automated meter reading, monitor system performance, and open up ways to work with customers on billing and payment options.

The City of Waterville and KPP will be replacing the substation that connects the city to the Evergy system. This project will consist of replacing old equipment that has reached the end of useful life. The project will consist of installing pad mounted equipment, which is safer to work around and less prone to outages from storms and wildlife. The city and KPP can do this project at a savings compared to Evergy's cost of construction. Waterville will be the operator of the substation, taking over the responsibility from Evergy. Construction is expected to be completed in 2021.

Each member city taking wholesale electric service through KPP is represented by a voting delegate to the KPP Membership Committee. Voting delegates and their alternates are appointed by the governing bodies of the respective member cities.

KPP is governed by a nine-member Board of Directors, elected by the Membership Committee, serving staggered four-year terms. The Board meets monthly to review and direct the general activity of KPP's staff. KPP's staff is led 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 inter-related with its wholesale rate-setting process, both of which involve the direct participation of the Board and the Membership Committee. KPP's staff first prepare peak demand and energy numbers using 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 make a presentation of these financial components to the membership at an annual rate forum. At a subsequent meeting, the Board approves the budget and recommends to the Membership Committee approval of the wholesale rates to be applied the following year. The wholesale rates are finalized by a vote of the Membership Committee.

KPP maintains a \$6,000,000 line of credit for operations through Bank of the West, a Moody's rated bank. At the end of FY 2020, KPP's unrestricted cash balance covered 160 days of operating expenses. KPP has exceeded its financial objective of reaching 90 days' expense coverage by 2020. At the end of FY 2020, KPP reached a debt service coverage ratio of 1.65.

KPP has many value-added services offered to its members at no additional cost to them. These services include: Annual Financial Scorecard Analysis on the member's electric utility, Electric Utility Long-Term Planning and Fund Analysis, Assessment of Utility's Electric Distribution System Infrastructure, Pole

Testing Analysis, Cyber Security Training and Onsite Cyber Analyst Assistance, Energy Efficiency Rebate Program, Economic Development Grants, and Cost of Service and Rate Design. KPP wants to establish a presence in its member cities and, therefore, joins the membership of the respective Chamber of Commerce or Community Foundation and offers support to various city events. KPP has partnered with the American Public Power Association, the Department of Energy, and Custom Internet Services, LLC to offer cybersecurity training and assistance for its members.

The following tables summarize the financial condition and operations of KPP:

Table 1: Financial Highlights

Assets and Deferred Outflows of Resources

	2020	2019	2018
Cash	\$ 21,576,304	\$ 24,495,451	\$ 23,164,482
Cash and cash equivalents, restricted	137,975	1,229	1,578
Investments, restricted	4,960,378	5,103,236	778,366
Accounts receivable	5,971,595	4,935,171	5,044,393
Capital assets, net	37,369,726	35,392,836	35,443,631
Noncurrent investments, restricted	-	-	4,350,000
Other assets	7,633,784	7,667,260	7,832,156
Total assets	77,649,762	77,595,183	76,614,606
Deferred outflows of resources	1,350,849	1,010,017	1,159,709
Total assets and deferred outflows of resources	\$ 79,000,611	\$ 78,605,200	\$ 77,774,315

Liabilities, Deferred Inflows of Resources, and Net Position

Accounts payable and accrued expenses	\$ 3,394,696	\$ 3,856,100	\$ 4,108,172
Long-term debt, net	40,604,397	43,124,049	45,884,341
Net pension liability	843,665	679,418	711,822
Total liabilities	44,842,758	47,659,567	50,704,335
Deferred inflows of resources	11,364,431	11,377,188	9,360,211
Total liabilities and deferred inflows of resources	56,207,189	59,036,755	60,064,546
Net position – investment in capital assets	5,130,827	4,318,201	2,823,395
Net position – restricted	1,317,687	1,301,180	1,319,595
Net position – unrestricted	16,344,908	13,949,064	13,566,779
Total liabilities, deferred inflows of resources, and net position	\$ 79,000,611	\$ 78,605,200	\$ 77,774,315

Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating revenues	\$ 54,135,640	\$ 58,326,190	\$ 63,492,538
Operating expenses	(46,772,520)	(50,147,226)	(54,810,525)
Administrative and general expenses	(2,649,386)	(2,813,909)	(2,765,797)
Nonoperating expense, net	(1,488,757)	(1,506,379)	(1,750,037)
Deferred inflows of resources – emergency stabilization	-	(2,000,000)	(2,400,000)
Change in net position	\$ 3,224,977	\$ 1,858,676	\$ 1,766,179

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

Table 2: Capital Assets

	2020	2019
Depreciable Assets		
Vehicles	\$ 48,971	\$ 48,971
Furniture, fixtures, and equipment	449,574	405,705
Dogwood	44,743,592	43,398,659
Total depreciable assets	45,242,137	43,853,335
Construction Work in Progress	2,760,478	610,761
Accumulated Depreciation	10,632,889	9,071,260
Total capital assets, net	\$ 37,369,726	\$ 35,392,836

See *Note 3* for additional information.

Revenue Bonds

In conjunction with the purchase of the Dogwood Energy Facility, KPP issued the 2012A revenue bonds for approximately \$29,135,000. In addition, KPP issued the 2012B and 2012C revenue bonds to fund certain construction projects for member cities for 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 approximately \$6,550,000.

During 2017, KPP issued the 2017A revenue bonds for approximately \$9,800,000 for advance refunding of approximately \$8,535,000 of the 2012A revenue bonds. These bonds were issued through a private placement.

During 2020, KPP issued the 2020A and 2020B revenue bonds for approximately \$5,875,000 for advance refunding of approximately \$5,345,000 of the 2012A revenue bonds. KPP also issued the 2020C revenue bonds for approximately \$1,115,000 for advance refunding of approximately \$1,040,000 of the 2013A revenue bonds. These bonds were issued through a private placement.

All bond issues are rated A3 by Moody's, except for the 2017A, 2020A, 2020B, and 2020C revenue bonds, which are not rated.

See *Note 6* for additional information.

Operations

Revenues from operations were approximately \$54,100,000 for the year ended December 31, 2020. The decrease in operating revenue of \$4,200,000 (-7.2%) from 2019 is primarily a result of a decrease in MW sales of approximately 21,600 MW. Operating expenses, which consist mainly of transmission costs, purchased power, depreciation, and payments to the facilitator for scheduling and other administrative functions, totaled approximately \$46,800,000 in the same period.

For the year ended December 31, 2019, operating revenues were approximately \$58,300,000 and operating expenses were approximately \$50,100,000. The decrease in operating revenues from 2018 is primarily a result of a decrease in MW sales of approximately 24,400 MW.

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, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	2019
Current Assets		
Cash	\$ 15,564,170	\$ 19,331,867
Cash, board-designated for emergency stabilization	6,012,134	5,163,584
Cash and cash equivalents, restricted	<u>137,975</u>	<u>1,229</u>
	21,714,279	24,496,680
Investments, restricted	4,960,378	5,103,236
Accounts receivable	5,971,595	4,935,171
Prepaid expenses and other	2,354,426	1,659,030
Materials and supplies	<u>409,164</u>	<u>410,666</u>
Total current assets	<u>35,409,842</u>	<u>36,604,783</u>
Capital Assets, Net of Accumulated Depreciation	<u>37,369,726</u>	<u>35,392,836</u>
Other Assets	<u>544,113</u>	<u>652,738</u>
Regulatory Assets		
Costs recoverable from future billings	759,502	862,537
Unrecovered development costs	<u>3,566,579</u>	<u>4,082,289</u>
Total regulatory assets	<u>4,326,081</u>	<u>4,944,826</u>
Total assets	<u>77,649,762</u>	<u>77,595,183</u>
Deferred Outflows of Resources		
Deferred loss on refunding	1,081,197	819,320
Pensions	<u>269,652</u>	<u>190,697</u>
Total deferred outflows of resources	<u>1,350,849</u>	<u>1,010,017</u>
Total assets and deferred outflows of resources	<u><u>\$ 79,000,611</u></u>	<u><u>\$ 78,605,200</u></u>

Liabilities, Deferred Inflows of Resources, and Net Position

	2020	2019
Current Liabilities		
Current portion of bonds payable	\$ 3,015,000	\$ 2,740,000
Accounts payable	130,139	52,789
Accounts payable – power bills	2,636,802	2,825,545
Accrued expenses	473,089	800,481
Accrued interest	154,666	177,285
Total current liabilities	6,409,696	6,596,100
Long-Term Debt		
Revenue bonds payable	37,060,000	39,575,000
Unamortized bond premiums and discounts, net	529,397	809,049
Total long-term debt	37,589,397	40,384,049
Net Pension Liability	843,665	679,418
Total liabilities	44,842,758	47,659,567
Deferred Inflows of Resources		
Emergency stabilization fund	11,337,000	11,337,000
Pensions	27,431	40,188
Total deferred inflows of resources	11,364,431	11,377,188
Net Position		
Net investment in capital assets	5,130,827	4,318,201
Restricted – expendable for debt services	1,317,687	1,301,180
Unrestricted	16,344,908	13,949,064
Total net position	22,793,422	19,568,445
Total liabilities, deferred inflows of resources, and net position	\$ 79,000,611	\$ 78,605,200

Kansas Power Pool

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ 54,135,640	\$ 58,326,190
Operating Expenses		
Purchased power	30,388,555	33,894,687
Transmission expense	12,629,188	12,550,127
Dogwood operating costs	1,672,637	1,638,993
Amortization of unrecovered development costs	520,511	520,511
Depreciation	1,561,629	1,542,908
Total operating expenses	<u>46,772,520</u>	<u>50,147,226</u>
Administrative and General Expenses		
Salaries and benefits	1,223,732	1,326,533
Legal expenses	280,580	239,624
Consulting fees	72,069	65,055
Outside services	283,542	281,722
Insurance	171,106	140,738
Dues and memberships	216,599	207,623
Miscellaneous	231,655	396,666
Rent	61,478	47,323
Payment in lieu of taxes	108,625	108,625
Total administrative and general expenses	<u>2,649,386</u>	<u>2,813,909</u>
Operating Income	<u>4,713,734</u>	<u>5,365,055</u>
Nonoperating Revenues (Expenses)		
Interest income	228,916	368,319
Interest expense on debt	(1,746,849)	(1,908,239)
Amortization of bond premiums and discounts, net	125,957	120,292
Net costs recoverable	(96,781)	(86,751)
Total nonoperating revenues (expenses)	<u>(1,488,757)</u>	<u>(1,506,379)</u>
Deferred Inflows of Resources – Emergency Stabilization	<u>-</u>	<u>(2,000,000)</u>
Change in Net Position	3,224,977	1,858,676
Net Position, Beginning of Year	<u>19,568,445</u>	<u>17,709,769</u>
Net Position, End of Year	<u><u>\$ 22,793,422</u></u>	<u><u>\$ 19,568,445</u></u>

Kansas Power Pool
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from members	\$ 53,099,216	\$ 58,435,412
Payments to suppliers	(47,123,492)	(50,345,287)
Payments to employees	(1,172,595)	(1,272,257)
	<u>4,803,129</u>	<u>6,817,868</u>
Noncapital Financing Activities		
Principal payments on noncapital bonds	(740,000)	(710,000)
Interest payments on noncapital bonds	(197,716)	(234,266)
	<u>(937,716)</u>	<u>(944,266)</u>
Capital and Related Financing Activities		
Capital expenditures	(3,538,519)	(1,421,031)
Principal payments on revenue bonds	(2,105,000)	(1,930,000)
Interest payments on revenue bonds	(1,376,069)	(1,585,400)
	<u>(7,019,588)</u>	<u>(4,936,431)</u>
Investing Activities		
Interest income	228,916	368,319
Proceeds from sales and maturities of investments	4,418,785	4,460,335
Purchases of investments	(4,275,927)	(4,435,205)
	<u>371,774</u>	<u>393,449</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,782,401)	1,330,620
Cash and Cash Equivalents, Beginning of Year	<u>24,496,680</u>	<u>23,166,060</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 21,714,279</u></u>	<u><u>\$ 24,496,680</u></u>

See Notes to Financial Statements

	2020	2019
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 4,713,734	\$ 5,365,055
Depreciation and amortization	2,197,019	2,172,044
Net pension liability	164,247	(32,404)
Changes in		
Accounts receivable	(1,036,424)	109,222
Accounts payable and accrued expenses	(438,785)	(245,008)
Deferred inflows of resources	(12,757)	16,977
Deferred outflows of resources	(85,210)	54,055
Prepaid expenses and other current assets	(693,894)	(622,073)
Unrecovered development costs	(4,801)	-
	<u>\$ 4,803,129</u>	<u>\$ 6,817,868</u>
Net cash provided by operating activities		
Noncash Capital and Financing and Noncapital Financing Activities		
Advance refunding of the Series 2012A and Series 2013A bonds through issuance of Series 2020A, Series 2020B, and Series 2020C bonds in a trustee escrow account		
Proceeds received from Series 2020A, Series 2020B, and Series 2020C issuance, less costs to issue	\$ 6,878,132	\$ -
Retirement of certain Series 2012A and Series 2013A bonds	\$ (6,385,000)	\$ -
Deferred outflows of resources from advance refunding	\$ 451,305	\$ -

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

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 for 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. Although an instrumentality of the state of Kansas, 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 and a power purchase contract for wholesale electric energy, both of which are adopted by each member city. The term of the operating agreement is governed by termination language in the power purchase contract, 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 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).

KPP is no longer be under the regulatory purview of the Kansas Corporation Commission for rate-setting purposes, which is done by the Board of Directors.

Basis of Accounting and Presentation

The accompanying financial statements of KPP have been prepared on the accrual basis of accounting. 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

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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, expenses, and other changes in net position 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, 2020 and 2019, cash equivalents consisted of a money market account with a local financial institution.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Investments in negotiable certificates of deposit (CD) are carried at amortized cost, which approximates fair value. Fair value is determined using quoted market prices. Investments at December 31, 2020, consisted of money market mutual funds with a broker and at December 31, 2019, consisted of money market mutual funds with a broker and CDs.

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, 2020 and 2019, 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 net realizable value.

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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 Energy Facility (Dogwood) and are being amortized over the life of the PILOT, which is 15 years. At December 31, 2020 and 2019, the deposit with SPP was approximately \$2,174,000 and \$1,453,000, respectively. At December 31, 2020 and 2019, the amortized balance of the PILOT was approximately \$648,000 and \$757,000, respectively. Amortization of the PILOT was approximately \$109,000 in 2020 and 2019.

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.

On December 22, 2011, KPP entered into an asset purchase agreement with Dogwood Energy, LLC to acquire a 7% undivided ownership interest 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 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.

Costs Recoverable from Future Billings

Certain income and expense items that 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 62. At December 31, 2020 and 2019, costs recoverable from future billings are comprised entirely of costs incurred in relation to KPP's debt issuance.

Unrecovered Development Costs

Costs that are recoverable through future rates or directly from the member cities are deferred in accordance with GASB 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.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. KPP has a deferred outflow for a bond refunding, which is the difference in the carrying value of a refunded

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debt and its reacquisition price. This amount is deferred or amortized to interest expense over the shorter of the life of the refunded or new debt. In addition, KPP has deferred outflows related to pensions.

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

KPP reports an acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheet. 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 an emergency 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 2020 and 2019, there was an increase in the emergency stabilization of \$0 and \$2,000,000, respectively. Emergency stabilization deferrals or withdrawals are approved by the Board of Directors annually. The deferred inflows of resources related to the emergency stabilization were \$11,337,000 as of December 31, 2020 and 2019. In addition, KPP has deferred inflows of resources related to pensions.

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.

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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 multi-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.

In 2020, KPP entered into an agreement with KPERS to add in a 401(a) plan. KPP matches up to 2% of all full-time employees' salaries. The amount expensed to the 401(a) plan in 2020 was approximately \$16,000.

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.

Change in Accounting Principle

During 2020, KPP implemented GASB Statement No. 84, *Fiduciary Activities*. GASB 84 requires entities to evaluate the need for reporting fiduciary activities within their financial statements. The adoption of GASB 84 did not have an impact on KPP's financial statements.

Revisions

Certain immaterial revisions have been made to the 2019 balance sheet and statement of cash flows to present certain unrecovered development costs as capital assets, net of accumulated depreciation. These revisions did not have a significant impact on the financial statement line items impacted (see *Notes 3 and 4*).

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 CDs) 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.

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At December 31, 2020 and 2019, approximately \$619,000 and \$711,000, 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, 2020 and 2019, approximately \$21,580,000 and \$23,833,000, 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
- CDs issued by any bank or trust company organized under the laws of the U.S. and insured by the Federal Deposit Insurance Corporation (FDIC)
- Bank repurchase agreements

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

At December 31, 2020 and 2019, KPP held \$4,960,378 and \$776,136, 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 36 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. As of December 31, 2019, CDs were classified as current investments due to the CD maturing within one year of the balance sheet date. KPP held no CDs as of December 31, 2020.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2020 and 2019, KPP was 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, 2019, KPP was invested in CDs that were 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, 2020 and 2019, are exposed to custodial credit risk because they are held by the counterparty in other than KPP's name.

Concentration of Credit Risk – At December 31, 2020, and 2019, approximately 100% and 15%, respectively, of KPP's investments are in the Federated Government Obligations Fund money market mutual fund.

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Fair Value Hierarchy

KPP categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on valuation inputs 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, 2020 and 2019, are its money market mutual funds, which are valued using quoted market prices (Level 1 inputs), and negotiable CDs, which are valued using Level 2 inputs.

Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 15,702,145	\$ 19,333,096
Investments	<u>4,960,378</u>	<u>5,103,236</u>
	<u>\$ 20,662,523</u>	<u>\$ 24,436,332</u>
Included in the following balance sheet captions		
Cash	\$ 15,564,170	\$ 19,331,867
Cash and cash equivalents, restricted	137,975	1,229
Investments, restricted	<u>4,960,378</u>	<u>5,103,236</u>
	<u>\$ 20,662,523</u>	<u>\$ 24,436,332</u>

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Note 3: Capital Assets

Capital assets activity for the years ended December 31 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
2020				
Vehicles	\$ 48,971	\$ -	\$ -	\$ 48,971
Constuction work in progress	610,761	2,149,717	-	2,760,478
Furniture, fixtures, and equipment	405,705	43,869	-	449,574
Dogwood	43,398,659	1,344,933	-	44,743,592
	<u>44,464,096</u>	<u>3,538,519</u>	<u>-</u>	<u>48,002,615</u>
Less accumulated depreciation				
Vehicles	(46,424)	-	-	(46,424)
Furniture, fixtures, and equipment	(352,090)	(50,469)	-	(402,559)
Dogwood	(8,672,746)	(1,511,160)	-	(10,183,906)
	<u>(9,071,260)</u>	<u>(1,561,629)</u>	<u>-</u>	<u>(10,632,889)</u>
Capital assets, net	<u>\$ 35,392,836</u>	<u>\$ 1,976,890</u>	<u>\$ -</u>	<u>\$ 37,369,726</u>
2019				
Vehicles	\$ 48,971	\$ -	\$ -	\$ 48,971
Constuction work in progress	71,082	539,679	-	610,761
Furniture, fixtures, and equipment	365,510	40,195	-	405,705
Dogwood	42,557,502	841,157	-	43,398,659
	<u>43,043,065</u>	<u>1,421,031</u>	<u>-</u>	<u>44,464,096</u>
Less accumulated depreciation				
Vehicles	(46,424)	-	-	(46,424)
Furniture, fixtures, and equipment	(302,247)	(49,843)	-	(352,090)
Dogwood	(7,179,681)	(1,493,065)	-	(8,672,746)
	<u>(7,528,352)</u>	<u>(1,542,908)</u>	<u>-</u>	<u>(9,071,260)</u>
Capital assets, net	<u>\$ 35,514,713</u>	<u>\$ (121,877)</u>	<u>\$ -</u>	<u>\$ 35,392,836</u>

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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, unrecovered development costs consisted of the following:

	2020	2019
City of Clay Center	\$ 2,664,267	\$ 2,876,881
Rice and Neshap	439,175	647,500
City of Erie	207,310	283,713
City of Luray	251,026	274,195
Other	4,801	-
	<u>\$ 3,566,579</u>	<u>\$ 4,082,289</u>

Amortization of unrecovered development costs of \$520,511 was expensed during the years ended December 31, 2020 and 2019.

Note 5: Line of Credit

KPP has a \$6,000,000 revolving line of credit expiring in May 2021 to finance accounts receivable of municipality utility billings. There were no funds drawn on the line of credit at December 31, 2020 and 2019. The line is secured by all deposit accounts of KPP. Interest is paid at the One-Month London InterBank Offered Rate plus 1.25% for 2020 and 2019. Interest is payable quarterly. The interest rate at December 31, 2020 and 2019, was 1.39% and 3.01%, respectively.

Note 6: Revenue Bonds

Electric Utility Revenue Bond Indentures and Covenants

During 2020, KPP issued bonds for the purposes of advance refunding a portion of the 2012A and 2013A revenue bonds. During 2017, KPP issued bonds for the purposes of advance refunding a portion of the 2012A revenue bonds. During 2015, KPP issued bonds for the purpose of acquiring an additional 3.3% undivided 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

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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, 2020 and 2019, 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, 2020 and 2019, 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 2020 and 2019, amortization of approximately \$126,000 and \$120,000, respectively, for premiums and discounts, net was recorded.

During 2020, KPP issued \$1,965,000 of Series 2020A bonds and \$3,910,000 of Series 2020B bonds through a private placement with an average interest rate of 2.66% to advance refund \$5,345,000 of outstanding Series 2012A bonds with an average interest rate of 5.00%. The net proceeds of \$5,782,257 (after payment of \$92,743 in underwriting fees and other issue costs) were placed in an escrow with a trustee agent to provide future debt service payments on the Series 2012A bonds. As a result, a portion of the Series 2012A bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP. Accordingly, a portion of the Series 2012A bonds, aggregating \$3,475,000 at December 31, 2020, remains outstanding but is excluded from KPP's balance sheets.

During 2020, KPP also issued \$1,115,000 of Series 2020C bonds through a private placement with an average interest rate of 2.66% to advance refund \$1,040,000 of outstanding Series 2013A bonds with an average interest rate of 4.00%. The net proceeds of \$1,095,876 (after payment of \$19,124 in underwriting fees and other issue costs) were placed in an escrow with a trustee agent to provide future debt service payments on the Series 2013A bonds. As a result, a portion of the Series 2013A bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP. Accordingly, a portion of the Series 2013A bonds, aggregating \$1,040,000 at December 31, 2020, remains outstanding but is excluded from KPP's balance sheets.

The advance refunding of the 2012A bonds resulted in the recognition of an accounting loss of approximately \$366,000 for the year ended December 31, 2020. This loss refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight line method over the respective remaining lives of the old debt issuance. Amortization expense for the year ended December 31, 2020, was approximately \$39,000. KPP reduced its aggregate debt service payments over the next eight years by approximately \$354,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of approximately \$319,000).

The advance refunding of the 2013A bonds resulted in the recognition of an accounting loss of approximately \$86,000 for the year ended December 31, 2020. This loss refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight line method over the respective remaining lives of the old debt issuance. Amortization expense for the year ended December 31, 2020, was approximately \$6,000. KPP reduced its

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aggregate debt service payments over the next 10 years by approximately \$58,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of approximately \$51,000).

During 2017, KPP issued \$9,800,000 of Series 2017 bonds through a private placement with an average interest rate of 3.25% to advance refund \$8,535,000 of outstanding Series 2012A bonds with an average interest rate of 5.00%. The net proceeds of \$9,571,606 (after payment of \$228,394 in underwriting fees and other issue costs) plus an additional \$10,428 of Series 2012A bond sinking fund monies were placed in an escrow with a trustee agent to provide all future debt service payments on the Series 2012A bonds. As a result, the Series 2012A bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP.

The advance refunding resulted in the recognition of an accounting loss of approximately \$903,000 for the year ended December 31, 2017. This loss on refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight line method over the respective remaining lives of the old debt issuance. Amortization expense for the years ended December 31, 2020 and 2019, was approximately \$63,000. KPP reduced its aggregate debt service payments over the next 14 years by approximately \$490,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of \$449,145).

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, 2020, 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 \$32,000 of amortization expense was recognized during the years ended December 31, 2020 and 2019.

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The debt service requirements as of December 31, 2020, are as follows:

Bonded Debt Service to Maturity

Fiscal Year Ending December 31,	Public Placement Bonds Principal	Public Placement Bonds Interest	Notes from Direct Placements Principal	Notes from Direct Placements Interest	Total to be Paid
2021	\$ 2,855,000	\$ 988,186	\$ 160,000	\$ 513,318	\$ 4,516,504
2022	2,965,000	876,055	170,000	504,796	4,515,851
2023	3,485,000	758,780	185,000	487,532	4,916,312
2024	2,755,000	614,630	200,000	482,008	4,051,638
2025	2,885,000	492,430	200,000	476,028	4,053,458
2026–2030	5,970,000	1,242,504	11,165,000	1,787,470	20,164,974
2031	2,475,000	99,510	4,605,000	149,662	7,329,172
	<u>\$ 23,390,000</u>	<u>\$ 5,072,095</u>	<u>\$ 16,685,000</u>	<u>\$ 4,400,814</u>	<u>\$ 49,547,909</u>

Revenue Bonds Outstanding

Electric Utility Revenue Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance 2020	Principal Balance 2019
Public Placement Bonds						
Series 2012A	\$ 29,135,000	3.00%–5.00%	4/10/2012	2028	\$ 7,335,000	\$ 13,945,000
Series 2012B	\$ 3,180,000	3.00%	12/19/2012	2023	1,290,000	1,595,000
Series 2012C	\$ 1,455,000	2.75%–4.60%	12/19/2012	2031	765,000	880,000
Series 2013A	\$ 6,550,000	2.00%–4.00%	5/7/2013	2025	2,465,000	3,815,000
Series 2015A	\$ 14,860,000	3.00%–5.00%	7/20/2015	2031	11,535,000	12,280,000
Notes from Direct Placements						
Series 2017A	\$ 9,800,000	3.00%	9/7/2017	2031	9,800,000	9,800,000
Series 2020A	\$ 1,965,000	2.60%–2.92%	2/27/2020	2028	1,945,000	-
Series 2020B	\$ 3,910,000	2.60%–2.92%	2/27/2020	2027	3,835,000	-
Series 2020C	\$ 1,115,000	2.60%–2.92%	2/27/2020	2030	1,105,000	-
					<u>\$ 40,075,000</u>	<u>\$ 42,315,000</u>

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Changes in Revenue Bonds Outstanding

	Balance, December 31, 2019	Issued	Retired	Balance, December 31, 2020	Due Within One Year	Due After One Year
Public Placement Bonds						
Series 2012A	\$ 13,945,000	\$ -	\$ (6,610,000)	\$ 7,335,000	\$ 1,325,000	\$ 6,010,000
Series 2012B	1,595,000	-	(305,000)	1,290,000	315,000	975,000
Series 2012C	880,000	-	(115,000)	765,000	120,000	645,000
Series 2013A	3,815,000	-	(1,350,000)	2,465,000	325,000	2,140,000
Series 2015A	12,280,000	-	(745,000)	11,535,000	770,000	10,765,000
Notes from Direct Placements						
Series 2017A	9,800,000	-	-	9,800,000	105,000	9,695,000
Series 2020A	-	1,965,000	(20,000)	1,945,000	5,000	1,940,000
Series 2020B	-	3,910,000	(75,000)	3,835,000	45,000	3,790,000
Series 2020C	-	1,115,000	(10,000)	1,105,000	5,000	1,100,000
	42,315,000	6,990,000	(9,230,000)	40,075,000	<u>\$ 3,015,000</u>	<u>\$ 37,060,000</u>
Premiums and discounts	809,049	-	(279,652)	529,397		
	<u>\$ 43,124,049</u>	<u>\$ 6,990,000</u>	<u>\$ (9,509,652)</u>	<u>\$ 40,604,397</u>		

	Balance, December 31, 2018	Issued	Retired	Balance, December 31, 2019	Due Within One Year	Due After One Year
Public Placement Bonds						
Series 2012A	\$ 15,150,000	\$ -	\$ (1,205,000)	\$ 13,945,000	\$ 1,265,000	\$ 12,680,000
Series 2012B	1,890,000	-	(295,000)	1,595,000	305,000	1,290,000
Series 2012C	990,000	-	(110,000)	880,000	115,000	765,000
Series 2013A	4,120,000	-	(305,000)	3,815,000	310,000	3,505,000
Series 2015A	13,005,000	-	(725,000)	12,280,000	745,000	11,535,000
Notes from Direct Placements						
Series 2017A	9,800,000	-	-	9,800,000	-	9,800,000
	44,955,000	-	(2,640,000)	42,315,000	<u>\$ 2,740,000</u>	<u>\$ 39,575,000</u>
Premiums and discounts	929,341	-	(120,292)	809,049		
	<u>\$ 45,884,341</u>	<u>\$ -</u>	<u>\$ (2,760,292)</u>	<u>\$ 43,124,049</u>		

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Debt Service Coverage

The bond indenture requires KPP maintain minimum cash flow to service debt at a ratio of 1.1 to 1.0, 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:

	2020	2019
Change in net position	\$ 3,224,977	\$ 1,858,676
Depreciation	1,561,629	1,542,908
Interest expense	1,746,849	1,908,239
Amortization of bond premiums and discounts, unrecovered development costs, and issue costs	491,335	486,970
Amortization of PILOT	108,625	108,625
Pension expense	103,154	38,628
Emergency stabilization	-	2,000,000
	<u>\$ 7,236,569</u>	<u>\$ 7,944,046</u>
Current year debt service requirement	\$ 4,372,985	\$ 4,459,668
Debt service coverage ratio	1.65	1.78

Note 7: Defined Benefit Plan

Plan Description

KPP contributes to KPERS, a cost-sharing multi-employer defined benefit pension plan administered by the Kansas Public Employees Retirement 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 \$871,000 and \$960,000 for the years ended December 31, 2020 and 2019, respectively.

Actuarial valuations are performed annually. The latest actuarial valuation, December 31, 2019, was rolled forward to the June 30, 2020, measurement date for the December 31, 2020, financial statements. Actuarial valuations were also performed at December 31, 2018, which were rolled forward to the measurement date of June 30, 2019, for the December 31, 2019, financial statements.

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

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 postretirement 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

Plan 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.

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 contribution rate is 1.2% of total payroll for KPERS' fiscal year ended June 30, 2020.

The actuarially determined employer contribution and statutory contribution rates were 8.61% and 8.89% for KPERS' fiscal years ended June 30, 2020 and 2019, respectively.

Employee contribution rates as a percentage of eligible compensation were 6.0% for KPERS' fiscal years ended June 30, 2020 and 2019, respectively.

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: 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, 2020 and 2019, were \$81,510 and \$97,704, respectively.

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

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

At December 31, 2020 and 2019, KPP reported liabilities of \$859,390 and \$679,418, respectively, for its proportionate share of the net pension liability. The net pension liability at December 31, 2020 and 2019, was measured at June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations at December 31, 2019 and 2018, rolled forward to June 30, 2020 and 2019, 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, 2020 and 2019. At June 30, 2020 and 2019, KPP's proportion was 0.048923% and 0.048208%, respectively.

For the years ended December 31, 2020 and 2019, KPP recognized pension expense of approximately \$154,000 and \$136,000, respectively. At December 31, 2020 and 2019, 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
2020		
Differences between expected and actual experience	\$ 14,162	\$ 10,904
Net difference between projected and actual earnings on pension plan investments	98,955	-
Changes in actuarial assumptions	51,087	-
Changes in proportion	65,799	16,527
KPP's contributions made subsequent to the measurement date of the net pension liability	39,649	-
	<u>\$ 269,652</u>	<u>\$ 27,431</u>
2019		
Differences between expected and actual experience	\$ 1,475	\$ 16,965
Net difference between projected and actual earnings on pension plan investments	15,849	-
Changes in actuarial assumptions	20,589	1,365
Changes in proportion	103,422	21,858
KPP's contributions made subsequent to the measurement date of the net pension liability	49,362	-
	<u>\$ 190,697</u>	<u>\$ 40,188</u>

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

At December 31, 2020, KPP reported \$39,649 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and prior to year-end that was recognized as a reduction of the net pension liability at December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2020, related to pensions will be recognized in pension expense as follows:

2021	\$ 58,915
2022	60,702
2023	42,609
2024	38,594
2025	<u>1,752</u>
	<u>\$ 202,572</u>

Actuarial Assumptions

Contributions for the years ended December 31, 2020, 2019, and 2018, 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, 2019, actuarial valuation were as follows:

Valuation date	December 31, 2019
Actuarial assumptions	
Investment rate of return, net	7.50%
Projected salary increases	3.25% to 11.75%
Wage inflation	2.75%
Other	RP 2014 combined mortality table for males and/or females, as appropriate, with adjustments for mortality improvements based on Scale MP-2016

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2016.

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

Actuarial methods and assumptions used to determine the total pension liability in the December 31, 2018, actuarial valuation were as follows:

Valuation date	December 31, 2018
Actuarial assumptions	
Investment rate of return, net	7.75%
Projected salary increases	3.50% to 12.00%
Wage inflation	2.75%
Other	RP 2014 combined mortality table for males and/or females, as appropriate, with adjustments for mortality improvements based on Scale MP-2016

The actuarial assumptions used in the December 31, 2018, valuation were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2015.

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, 2020 and 2019, measurement dates are as follows:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
June 30, 2020		
U.S. equities	23.50%	5.20%
Non-U.S. equities	23.50%	6.40%
Private real estate	11.00%	4.45%
Real return	11.00%	3.25%
Fixed income	11.00%	1.55%
Private equity	8.00%	9.50%
Yield driven	8.00%	4.70%
Short-term investments	4.00%	0.25%
	<hr/>	
Total	<u>100.00%</u>	

Kansas Power Pool
Notes to Financial Statements
December 31, 2020 and 2019

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
June 30, 2019		
Global equity	47.00%	6.85%
Fixed income	13.00%	1.25%
Real estate	11.00%	5.05%
Real return	11.00%	1.71%
Alternatives	8.00%	9.85%
Yield driven	8.00%	6.55%
Short-term investments	2.00%	-0.25%
	<hr/>	
Total	100.00%	
	<hr/> <hr/>	

Discount Rate

The discount rate of 7.50% and 7.75% was used to measure the total pension liability at June 30, 2020 and 2019, respectively. 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 7.50%. 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, 2020:

	1% Decrease	Current Discount Rate	1% Increase
KPP's net pension liability	\$ 1,193,694	\$ 843,665	\$ 557,648

Kansas Power Pool

Notes to Financial Statements

December 31, 2020 and 2019

Funding Status and Funding Progress

The required supplementary information 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: 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 has various power purchase agreements in its resource mix. Two such agreements are for the off-take of wind energy. Those agreements are not nearing expiration. Another contract is a participation agreement on a coal resource providing capacity. That contract expires in 2022. Several others represent contracts pooled by KPP members. Some of those agreements expire in 2026 and others have expiration dates that are decades into the future.

Litigation

In the normal course of business, KPP, from time to time, is subject to allegations that may or do result in litigation. KPP evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 9: Operating Leases

KPP has a noncancelable operating lease for office space that expires in 2025. Future minimum lease payments as of December 31, 2020, were approximately \$224,000.

Note 10: Subsequent Events

Subsequent events have been evaluated through April 12, 2021, which is the date the financial statements were available to be issued.

Severe Winter Storm

In February 2021, virtually all of the 14-state SPP region, including KPP's members' service territory, experienced a winter storm, which resulted in record low temperatures causing a substantial increase in energy usage throughout the region resulting in extraordinarily high natural gas prices. KPP has estimated it has incurred approximately \$20,000,000 in extraordinary costs related to the storm. In March 2021, the Board of Directors approved the use of the emergency

Kansas Power Pool
Notes to Financial Statements
December 31, 2020 and 2019

stabilization fund and moved approximately \$6,000,000 in cash that was reserved for emergency stabilization to the operating account to fund power bills. Management also used approximately \$10,500,000 of cash on hand and drew down \$6,000,000 from the revolving line of credit to fund the power bills. The Board also approved collecting a storm surcharge of 0.01 cent per KWH over the next 24 months starting in February 2021. The Board will re-evaluate the storm surcharge as part of their recovery plan as necessary. The Board also approved deferring approximately \$18,000,000 of power costs from February 2021 as a regulatory asset under GASB 62, which will be amortized into expense as KPP collects the excess costs from the additional storm surcharge.

Required Supplementary Information

Kansas Power Pool

Proportionate Share Information and Schedule of Employer Contributions

I. Schedule of Proportionate Share Information	2020*	2019*	2018*	2017*	2016*	2015*	2014*
KPP's proportion of the net pension liability*	0.048923%	0.048208%	0.050234%	0.043142%	0.039490%	0.037406%	0.031076%
KPP's proportionate share of the net pension liability*	\$ 843,665	\$ 679,418	\$ 711,822	\$ 636,215	\$ 621,998	\$ 491,157	\$ 382,487
KPP's covered payroll	\$ 938,476	\$ 897,640	\$ 893,272	\$ 897,654	\$ 638,000	\$ 615,000	\$ 504,000
KPP's proportionate share of the net pension liability as a percentage of its covered payroll	89.90%	75.69%	79.69%	70.88%	97.49%	79.86%	75.89%
Plan fiduciary net position as a percentage of the total pension liability	66.30%	75.02%	74.22%	72.15%	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	2020**	2019**	2018**	2017**	2016**	2015**	2014**
Contractually required contributions	\$ 81,510	\$ 97,704	\$ 74,104	\$ 72,005	\$ 63,049	\$ 51,919	\$ 48,970
Contributions in relation to the contractually required contribution	81,510	97,704	74,104	72,005	63,049	51,919	48,970
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
KPP's covered payroll**	\$ 871,132	\$ 959,645	\$ 879,844	\$ 848,000	\$ 679,000	\$ 654,000	\$ 552,200
Contributions as a percentage of covered payroll	9.36%	10.18%	8.42%	8.49%	9.29%	7.94%	8.87%

** The amounts presented for each fiscal year are as of the fiscal year-end (December 31).

Note to Schedules

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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

Independent Auditor's Report

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, 2020, 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 12, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KPP's internal control over financial reporting (internal control) as a basis for designing 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 the entity'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 from 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 financial statements. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Oklahoma City, Oklahoma
April 12, 2021