



ANNUAL REPORT

◀ 2014 ▶

MISSION

KMEA is passionately committed to the success of our members fulfilling their primary mission of providing reliable and cost effective energy to their communities. We pledge our relentless focus and dedication to providing new and innovative solutions to help our members achieve this mission.

VISION

KMEA will remain steadfast in our ongoing commitment of adding value and helping our members navigate the rapidly evolving and complex industry. Our Agency will be actively engaged and responsive to our members' short-term, intermediate, and long-term energy needs with innovative solutions. KMEA will be at the forefront of emerging industry developments that could adversely or positively impact our members, whether market driven, regulatory, or technological. KMEA will be agile, as member needs and market trends dictate, and every employee will bring their drive and expertise to maximize the value we provide our members. We will maintain a member-centric approach; one of continuous improvement, so that we remain the energy solution provider of choice.

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A MESSAGE FROM KMEA'S PRESIDENT AND GENERAL MANAGER

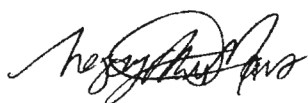
Greg DuMars and Bob Poehling

Challenging, dynamic, and rapidly evolving are all words that characterize our industry. This has long been true and will almost certainly remain so in the future. However, 2014 had an extra measure of each and will undoubtedly go down as a historic year for KMEA.

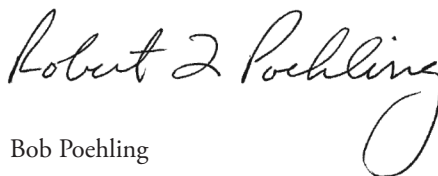
Above all, 2014 will be known as the year KMEA entered the Integrated Market Place. The level of planning, preparation, and execution necessary to transition from the previous market design to the Integrated Market Place cannot be overstated. Yet we remain ever mindful and proud, knowing we took this momentous step together. We hope you will take the opportunity to read the *"KMEA Grows within SPP and Launches into Integrated Market Place"* section of this Annual Report. It is our anticipation that you will find this deeper behind the scenes discussion to be interesting, insightful, and a source of pride.

While there were many accomplishments throughout the year in addition to successfully entering the Integrated Market Place, execution of the Strategic Plan's key performance areas marked significant progress. Among the key performance initiatives accomplished, was the development of a marketing plan and communication strategy. The marketing plan was the strategic vehicle through which we were able to turn plans into progress.

Specific action items successfully executed in 2014 include the development of a progressive new Agency logo and the implementation of a comprehensive branding system, giving the Agency a more distinctive and stronger voice. The new logo strengthens KMEA's visual identity while the rebranding initiative will pay dividends now and in the future as the brand becomes increasingly more recognizable and valued among members, business partners and the communities we serve. 2014 was a transformative year for KMEA; a year we plan to build on and *power* forward into 2015. In closing we want to thank you, our members, whom we are privileged to serve. We appreciate your continued trust and support.



Greg DuMars
KMEA President



Bob Poehling
KMEA General Manager



ANNUAL CONFERENCE

On November 6-7, KMEA member representatives came out in full force, descending on the DoubleTree Wichita Airport, to attend the 2014 KMEA Annual Conference. Reviews from member attendees were overwhelmingly positive, ranging from praise of the new venue to the terrific presentations.

Terry Paulson, regarded as one of the nation's best keynote speakers, kick started the conference with his presentation, *"Leveraging Optimism to Make Change Work,"* a welcome message in today's rapidly evolving and dynamic energy industry. Next up on the program was Chris Rogers, VP of Segra Inc., who presented *"Installing Generation Behind the Meter,"* followed by Antoine Lucas, from the Southwest Power Pool (SPP), who discussed the transmission plan in Kansas. JK Energy's John Krajewski then delivered an engaging presentation titled, *"Developing New Distribution Interconnectivity."* The presentations generated such keen interest and participant requests, that KMEA made the presentations available to all members. KMEA General Manager, Bob Poehling, also took the opportunity to recognize those cities who invested in capital improvements in 2014. Kansas Municipal Utilities (KMU) Director, Colin Hansen, was the final presenter, and provided a legislative and regulatory update. The conference concluded with KMEA's member appreciation reception and awards banquet, followed by the KMEA and KMGa Board of Directors' meetings on day two.

BOB MILLS | HONORED WITH THE MAX EMBREE AWARD

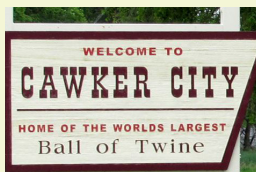
Bob Mills, Power Plant Superintendent for the City of Garnett, became the fourth recipient of the Max Embree Award, since its inception in 2011. Max Embree was a long-time resident of the City of Colby who played a leading role in the early years of KMEA. The award honors his memory and is awarded to individuals who have demonstrated exceptional leadership and devoted service to both KMEA and public power.



Left to right – Bob Mills and Mike Gilliland

MIKE GILLILAND | PRESENTED WITH THE GIL HANSON AWARD

Mike Gilliland, Director of Utilities of Osage City, was selected by past winners to receive the Gilbert E. Hanson Outstanding Service Award. This award, named in honor of KMEA's first General Manager, Gil Hanson, recognizes those who have made significant contributions to Municipal Joint Action, their communities, the electric utility industry and public power.



FOUR MEMBERS REACH THE CENTENNIAL MARK IN 2014

Cawker City, the City of Garnett, the City of Pomona, and the City of St. Francis all reached the centennial milestone in 2014, representing 100 years of public power. KMEA recognized the cities at the Annual Conference. To celebrate this momentous achievement, KMEA visited each city to present an engraved plaque commemorating this historic achievement.

POWER SUPPLY COMMITTEE

In 2012 The Power Supply Committee was established to identify power supply resources to satisfy the long term needs of KMEA member cities. The committee is made up of members from various disciplines in city government. The committee initially explored coal, nuclear, and natural gas options and in 2014 expanded to look also at wind energy. The committee continues to analyze short term and long term resources as well as offering recommendations to the member cities as to their viability. The power supply committee is assisted by the finance committee in seeking low cost finance options for power supply resources.

FINANCE COMMITTEE

The Finance Committee, a member driven committee, also established in 2012, was successful in staying on task with the established mission. The objectives of the committee include assisting the Power Supply Committee in the funding of future projects and identifying financial objectives that meet agency and member needs and interests in a timely and cost effective manner. Additionally, the committee reviews all other financial aspects of the agency. Among the contributions the committee can claim in 2014, is analyzing and finalizing the 2015 agency budget, and reviewing RubinBrown's independent audit. Additional areas of service include presenting two additional "Fiscal Fitness" training sessions, and recommendations for annual funding of the Agency's Regulatory and Dispute Fund.

KMEA GROWS WITHIN SPP AND LAUNCHES INTO INTEGRATED MARKETPLACE

Many months of careful planning and preparation came to fruition in 2014 as KMEA significantly expanded its footprint in the Southwest Power Pool (SPP) market and then took one giant leap into the uncharted landscape of the new Integrated Marketplace.

While at the same time keeping a watchful eye on the fundamental market changes to come just two months later, KMEA helped bring five more member cities into the SPP Energy Imbalance Service (EIS) as the New Year dawned. That was only the beginning of what would be an historic year for KMEA and the SPP.

March 1, 2014, was a much anticipated and landmark day for both KMEA and the Southwest Power Pool. Like Regional Transmission Organization's (RTO) before them, SPP transitioned into a "Day 2" market structure with the introduction of its Integrated Marketplace. By merging sixteen individual Balancing Areas into one Consolidated Balancing Area, the SPP effectively became the sole coordinator for the majority of generation and transmission activity inside of its footprint, which consists of parts of nine states, including all of Kansas. Uniquely, the SPP became the first RTO to achieve this milestone on schedule. The Integrated Marketplace features, among other things, a Day-Ahead energy market, which includes a centralized, footprint-wide, economic-based generation commitment and dispatch, a Real-Time Balancing Market, and a Transmission Congestion Right's (TCR) market.

The changes ushered in on the first day of March were no less significant for KMEA. The transition from the previous market design to the Integrated Marketplace required across-the-board changes to the way KMEA interacts with SPP on a daily basis. Left behind were the days of 'physical' energy schedules and the inherent and

ever-present threat of curtailments, balancing generation and resources to load, and settling only the imbalances with the market. For the seventeen cities that KMEA represented in the SPP market at the time, the coming of the Integrated Marketplace meant that one-hundred percent of their load would be purchased from and financially settled with the SPP in either the Day-Ahead or Real-Time Balancing Market at the applicable Locational Marginal Price (LMP). Registered city generation, while still remaining available at all times for self-scheduling, would be offered to the Market and committed to run by SPP based on economics and reliability. Contracted resources, such as WAPA and GRDA, would now be sold and financially settled in the Marketplace at their LMP.

Behind the scenes, KMEA faced the challenge of how to accurately allocate Integrated Marketplace charges to its members each month. In fact, a by-product of the evolution to the more complex Integrated Marketplace was a more than tenfold increase in the number of regularly occurring charge types KMEA had to verify and process every hour. Holding true to KMEA's commitment to give charge and credit to each member city for that which is specifically theirs, KMEA, with the invaluable assistance and expertise provided by database consultant Caren Grandgenett, developed a database-driven allocation model which accomplishes just that. Taking months to develop and test, the model further sets KMEA apart as an agency that is committed to preserving the independence and individuality of each city it serves in the SPP market.

Truly new to KMEA with the advent of the Integrated Marketplace was the concept of financial "congestion" risk to which cities are exposed that results from the difference between what a city is paid by the SPP for its resources and what a city pays the SPP to serve its load. Built into the Integrated Marketplace construct is a Transmission Congestion Rights, or TCR, market. TCRs are valuable tools available to those who own firm SPP transmission that can be used to offset congestion costs. KMEA, especially given the geographically diverse nature of its membership and the resources they own, realized the importance of congestion cost risk management and took several important steps. The Agency contracted with third-party experts Customized Energy Solutions to provide recommendations, analysis, and projected valuations. KMEA conducted a Joint Energy Management Project (EMP) meeting in June as a forum to provide information about the risk posed by congestion, suggest ways to leverage the group's diversity in the TCR market, and gather feedback and guidance from the large group that participated. Individual protocols were then developed for and approved by each EMP and are in place today to guide KMEA in the implementation of their congestion risk management strategy. From day one, KMEA's primary objective has been to eliminate any adverse financial impacts of congestion so as to preserve the contract rate of resources owned by the member cities.

It is unlikely that any future year will come with as many market-related changes and challenges as were experienced in 2014. The launch of the Integrated Marketplace was an historic event by any measure. By the end of the year KMEA had seen the number of cities it represented in the SPP market more than double, increasing by seventeen to a total of twenty-nine. New skills were developed, new processes were put in place, and new systems were developed throughout 2014, all with the goal of providing an unmatched level of service to KMEA cities.

2014 HIGHLIGHTS

- **January 1** – With its peak load of 67 MW, Garden City at once becomes the newest member of EMP2 and enters the EIS market, joining Meade, who entered the market the previous year.
- **January 1** – Burlingame, Osage City, Seneca, and Sterling and their cumulative peak load of 25.3 MW enter the EIS market, bringing to nine the number of EMP3 cities represented by KMEA in the SPP market.
- **March 1** – The SPP successfully launches the Integrated Marketplace.
- **April 1** – The ten Legacy cities of Ashland, Beloit, Hoisington, Lincoln, Osborne, Pratt, Russell, Sharon Springs, Stockton, and Washington enter the Integrated Marketplace as part of EMP2.
- **April 1** – Wamego, with a peak load of 12.1 MW, becomes the tenth EMP3 city in the SPP market.
- **May 1** – Jetmore becomes the eleventh EMP3 city and enters the SPP market under the KMEA umbrella.
- **By years end**, KMEA represents twenty-nine cities and 359.3 MW of peak load in the SPP market, up from twelve cities and 161.4 MW the prior year.
- **Through the first** ten months of the new market, the EMP cities and Eudora incur \$264K in congestion costs, cumulatively (these costs are more than offset with TCR revenue).
- **Year to date**, KMEA schedules over 750,000 MWh of resources and purchases over \$9.6 million (net) in energy and services in the Integrated Marketplace.

POWER MARKETING PROJECTS

KMEA actively seeks power marketing arrangements that match member cities' short and long-term power supply and capacity needs with power supply alternatives. KMEA member cities realize a broad range of supply options and competitive supplier pricing due to the larger market presence that the joint action approach brings. KMEA has championed multiple energy and capacity sales between member cities, providing cities selling better opportunities to optimize their resources and cities buying a reliable economic supply. Additionally, KMEA has enabling agreements in place with multiple suppliers, enabling us to more quickly evaluate and act on proposals like summer energy products. KMEA, along with member cities, have developed strategies to best utilize transmission rights that are granted firm transmission purchases. In addition to all of this momentum, KMEA has a Power Supply Committee to research and determine new available resources for the membership to assist in securing a stable and economical electrical supply for its members in the future.

ENERGY MANAGEMENT PROJECT NO.1

Energy Management Project No. 1 (EMP1) was officially created in January 2006 by a set of agreements between KMEA and five member cities: Baldwin City, Gardner, Garnett, Osawatomie and Ottawa. Under the EMP1 agreement, project cities operationally combined their municipal electric systems to purchase electric power and transmission as a centrally dispatched group, and to manage power supplied from their entitlements in the Nearman, GRDA, SPA and WAPA projects. EMP1 is also used to jointly purchase load following service from KCP&L. KMEA began delivering electricity under the EMP No. 1 on June 1, 2006.

Power Delivered: 2014—120,544 MWh

CITIES

Baldwin City
Gardner
Garnett

Osawatomie
Ottawa

ENERGY MANAGEMENT PROJECT NO.2

The cities of Ashland, Beloit, Garden City, Hoisington, Lincoln Center, Meade, Osborne, Pratt, Russell, Sharon Springs, Stockton and Washington saw the potential for achieving substantial benefits for their municipal electric customers through the following actions: coordinating an interconnected electric system under a central dispatching center; sharing capacity and exchanging electricity; and by jointly planning new electric power supplies. By enacting Energy Management Project No. 2 (EMP2), these cities built a project governing structure, established common reliability and metering standards, and set rules for sharing and exchanging power resources and determining project power supply pricing. The project began delivering electricity on November 1, 2007.

Power Delivered: 2014—520,642 MWh

CITIES

Ashland	Osborne
Beloit	Pratt
Garden City	Russell
Hoisington	Sharon Springs
Lincoln Center	Stockton
Meade	Washington

ENERGY MANAGEMENT PROJECT NO.3

Energy Management Project No. 3 (EMP3) was officially created in 2012 by a set of agreements between KMEA and 10 member cities: Burlingame, Chapman, Girard, Holton, Horton, Neodesha, Osage City, Seneca, Sterling and Wamego. In 2014, the City of Jetmore joined EMP3. The EMP3 Project began delivering electricity to the first participating city in May, 2013.

Power Delivered: 2014—167,149 MWh

CITIES	
Burlingame	Neodesha
Chapman	Osage City
Girard	Seneca
Holton	Sterling
Horton	Wamego
Jetmore	

GRDA PROJECT

On January 19, 2000, KMEA and the Grand River Dam Authority (GRDA) entered into a 10 year agreement for KMEA to purchase 39 MW of low-cost, base load power. In 2005, the contract was extended to April 30, 2026. GRDA is a state authority in Oklahoma, producing power from hydro and coal-fired generation. After arranging for long-term firm transmission, KMEA began scheduling the power to member cities on May 1, 2000.

Power Delivered: 2014—613,368 MWh

CITIES	
Augusta	Neodesha
Baldwin City	Osage City
Beloit	Osawatomie
Ellinwood	Osborne
Erie	Ottawa
Fredonia	Pratt
Gardner	Russell
Garnett	Sharon Springs
Girard	Sterling
Hoisington	Stockton
Holton	Wamego
Horton	Washington
Larned	Wellington
Lincoln Center	Winfield

NEARMAN PROJECT

KMEA has contracted to purchase a 37.5 MW share of the output from Nearman Creek Unit No. 1, a 235 MW, coal-fired unit owned and operated by the Board of Public Utilities of Kansas City, Kansas (KCKBPU). KMEA schedules the Nearman power and associated energy to seven Nearman Project participating cities, in portions ranging from 2.5 to 12.5 MW. The agreement was amended in 1994, whereby the price was reduced and the basic term extended to 2020.

The Nearman Project supplies economical, base load energy to participants, who also benefit from the capacity credits associated with their Nearman shares.

Power Delivered: 2014—111,874 MWh

CITIES	
Baldwin City	Osawatomie
Fredonia	Ottawa
Mulvane	Winfield
Neodesha	

SPA HYDRO POWER POOL PROJECT

In 1983, a group of KMEA cities authorized the Agency to enter into a contract with the Southwestern Power Administration (SPA) whereby the cities would take their individual entitlements to federal hydroelectric power, which totaled 11.2 MW. Due to power transmission constraints, the individual entitlements were temporarily reassigned to nine project cities (“Class A Cities”) that could economically take the power. In December, 2000, the project participants, KMEA and SPA, entered into new contracts that extend the power supply through 2018.

KMEA schedules power and bills participants for their share in the power pool; the participants annually receive 13,440 MWh in firm energy during peak hours. SPA also offers low-cost supplemental energy when favorable water conditions exist at its hydroelectric facilities. In 2014, six additional member cities began taking SPA power, including Holton, Horton, Wamego, Oberlin, St. Francis, and Sharon Springs. On behalf of project participants, KMEA is active in the Southwestern Power Resources Association, an organization of SPA customers.

Power Delivered: 2014—12,497 MWh

CITIES

Augusta	Mulvane
Baldwin City	Neodesha
Chanute	Norton
Colby	Oberlin
Garnett	Osawatomie
Herington	Ottawa
Holton	St. Francis
Horton	Sharon Springs
Iola	Wamego
LaCrosse	Wellington
Lindsborg	



WAPA HYDRO POWER POOL PROJECT

Under contracts with the Western Area Power Administration (WAPA), in 2014, 49 project participants were entitled to firm hydroelectric capacity totaling 35 MW in the summer and 30 MW in the winter, with associated energy of 98,737 MWh annually. The “B” cities’ individual entitlements were temporarily reassigned to 18 “Class A Cities” that were able to arrange for economical transmission across intervening utility systems; in October 1989, they began receiving hydroelectric power.

WAPA energy is being scheduled to enable the participating cities to avoid demand charges and replace high-cost, peak-hour energy. KMEA schedules power and handles the billing and accounting for the cities, while serving as a liaison between the Cities and WAPA. In 2014, four additional cities began taking WAPA power, including Eudora, Horton, Jetmore, and Wamego. In 1997, the WAPA power supply was extended 20 years, until 2024.

Power Delivered: 2014—104,071 MWh

Project	Kilowatt-hours	Peak Mo Capacity
GRDA Project	613,368,000	84.0
Nearman Project	111,874,000	37.5
WAPA Hydro Power Pool Project	104,071,000	33.9
SPA Hydro	12,497,000	9.0
EMP1	120,544,000	—
EMP2	520,642,000	29.0
EMP2	167,149,000	—
Eudora	4,200,000	
Total	1,654,345,000	193.4

CITIES

Arcadia	Horton
Arma	Jetmore
Ashland	Lakin
Baldwin City	Lincoln Center
Belleville	Lindsborg
Beloit	Lucas
Burlingame	Mankato
Cawker City	Meade
Centralia	Norton
Chapman	Oberlin
Cimarron	Osage City
Colby	Osawatomie
Dighton	Osborne
Enterprise	Ottawa
Eudora	Pomona
Garden City	Russell
Gardner	St. Francis
Garnett	Seneca
Glasco	Sharon Springs
Glen Elder	Stockton
Goodland	Troy
Herington	Wamego
Hill City	Washington
Holton	Waterville

KMEA EXECUTIVE COMMITTEE



Back row left to right: Duane Banks, Secretary/Treasurer, Electric Utility Director, City of Russell; Duane Moeder, City Manager, City of LaCrosse; Greg DuMars, President, City Administrator, City of Lindsborg; Merl Page, City Manager, City of Wamego; Dave Howard, Vice President, City Manager, City of Pratt. Front row left to right: Jeff Oleson, Assistant Director of Utilities, City of Ottawa; Mike Muirhead, Public Utilities Director, City of Garden City. Not pictured: Chris Lowe, City Administrator, City of Baldwin City; Kent Hixson, City Administrator, City of Mulvane

KMEA MEMBER CITIES & BOARD OF DIRECTORS 2014

Alma

1. Jon Bolinder
2. Michael Slobodnik
- A. Sharon White

Altamont

1. Charles Traxson
2. Lizabeth Finley
- A. Joe Carson

Anthony

1. Lonnie Teel
2. Steve Wilkinson
- A. Larry Berry

Arma

1. Johnnie Joe Logiudici
2. Scott Popejoy
- A. Ray Vail

Ashland

1. Doug Graff
2. Doug Roberts
- A. Rick Preisner

Attica

1. Johnny O'Conner
2. Angela Alexander
- A. Charles Berry

Augusta

1. Jim Sutton
2. Mike Rawlings
- A. Josh Shaw

Baldwin City

1. Marilyn Pearce
2. Chris Lowe
- A. Rob Culley

Belleville

1. Neal Lewis
2. Russ Piroutek
- A. David Svoboda

Beloit

1. Glenn Rodden
2. Ronald Sporleder
- A. Henry Eilert

Burlingame

1. Joe Lamond
2. Wes Colson

Burlington

1. Alan Schneider
2. R. Standley Luke

Cawker City

1. Wayne Musgrove
2. Janice Cornely
- A. Jim Hughes

Chanute

1. Larry Gates
2. Luke Lewis
- A. Sam Budreau

Chapman

1. Bobby Kam
2. Gerald Bieker
- A. Tim Jury

Cimarron

1. Jeff Acton
2. Patty Duncan
- A. Darrell DuPree

Coffeyville

1. Gary Bradley
2. Gene Ratzlaff
- A. Mike Shook

Colby

1. Pat Mallory
2. Tyson McGreer
- A. Gary Adrian

Dighton

1. Eugene Wilson
2. George VonLeonrod
- A. Christine Birney

Erie

1. Darrell Bauer
2. Scott Ewen
- A. Darrell Bauer

Eudora

1. Mike Hutto
2. James Eldon Brown
- A. Nathan Jones

Fredonia

1. Allen Miller
2. Carolyn Anderson

Garden City

1. Mike Muirhead
2. Cliff Sonnenberg
- A. Kent Pottorf

Gardner

1. Lance Boyd
2. David Franco
- A. Lee Moore

Garnett

1. Joyce Martin
 2. Bob Mills
- A. Preston Peine

Girard

1. Larry R. Dillon
 2. Ken Bradshaw
- A. Brandon Foraker

Glasco

1. Mike Dove

Glen Elder

1. Jerri Senger
 2. Eldon Behymer
- A. Ryan Duskie

Goodland

1. Dustin Bedore
 2. Mike Abbey
- A. Lukas Wolak

Greensburg

1. Matt Christenson
 2. Ed Truelove
- A. Mick Kendall

Herington

1. Mike Wendt
 2. David Gerhke
- A. Fred Olsen

Hill City

1. Mort Plunkett
 2. Dennis Mersch
- A. Greg Deines

Hillsboro

1. Mike Duerksen
 2. Larry Paine
- A. Bob Watson

Hoisington

1. Jonathan Mitchell
 2. Donita Crutcher
- A. Randy Miller

Holton

1. Bret Bauer
 2. Ira Harrison
- A. Scott Fredrickson

Horton

1. Wade Edwards
 2. James Martin
- A. Brent Shaffer

Hugoton

1. Gary Rowden
 2. Charlie Wagner
- A. Jan Leonard

Iola

1. Mike Phillips
 2. Chuck Heffern
- A. Carl Slaugh

Jetmore

1. Grayson Path
 2. Derek Olson
- A. Brian Beil

Johnson City

1. Alan Schweitzer
2. Wade Tucker

Kansas City

1. Don Gray
 2. Bob Adam
- A. Jerry Ohmes

LaCrosse

1. Duane Moeder
 2. Bruce Jones
- A. Roland Holopirek

Lakin

1. Robbie McComb
 2. Kendal Francis
- A. Cindy Broeckelman

Larned

1. Lane Massey
 2. Harry Zielke
- A. Austin Battin

Lincoln Center

1. Jack Crispin JR
 2. Travis Schwerdtfager
- A. Melodee Larsen

Lindsborg

1. Gregory DuMars
 2. Bill Taylor
- A. Jody Sare

Mankato

1. Donald Koester
 2. Terry Ortman
- A. Thomas Roane

Marion

1. Christian Pedersen
 2. Randy Kelsey
- A. Marty Fredrikson

Meade

1. Randy Vanderpool
 2. Roger Musgrove
- A. Dean Cordes

Minneapolis

1. Barry Hodges
2. Brian Bowles

Moundridge

1. Kevin Schmidt
 2. Hank Siemens
- A. Randy Frazer

Mulvane

1. Kent Hixson
2. Brad Modlin

Neodesha

1. Brandon Hearn
 2. Allen Dinkel
- A. Bobby Busch

Norton

1. David N Corns
2. Curt Bozarth

Oberlin

1. Karen Larson
 2. Rob McFee
- A. Dan Castle

Osage City

1. Mike Gilliland
 2. Dennis Combes
- A. Dennis Combes

Osawatomie

1. Don Cawby
 2. Mark Govea
- A. Nick Hampson

Osborne

1. Scott Nuzum
 2. Marvin McCormick
- A. Barry Curry

Ottawa

1. Linda Reed
 2. Dennis Tharp
- A. Jeff Oleson

Pomona

1. Charles Campfield
 2. Dean Wineinger
- A. Linda Grob

Pratt

1. Bill Hlavachick
 2. Dave Howard
- A. Kelly Hemphill

Russell

1. Duane Banks
 2. Jon Quinday
- A. Jim Cross

St. Francis

1. Bruce Swihart
 2. J.R. Landenberger
- A. Scott Schultz

St. John

1. Mel Chesbro
2. Kevin Davis

St. Marys

1. Adam Moats
 2. Mike Drippe
- A. Ed Lester

Seneca

1. Jim Mitchell
 2. Matthew Rehder
- A. Galen Niehues

Sharon Springs

1. Patricia Miller
 2. Brad Hatfield
- A. Dennis Sharp

Stafford

1. Dennis Bronson
 2. Shawn Burgey
- A. Frank Smiley

Sterling

1. John Wagerle
2. Taggart Wall

Stockton

1. Kim Thomas
 2. Jeff Scott
- A. Keith Schlaegel

Troy

1. Michael Brissett
 2. Margaret Sutherland
- A. Robert Jenkins

Wamego

1. Victor Enns
2. Merl Page

Washington

1. Richard Applegarth
 2. Roxanne Schottel
- A. Larry Pape

Waterville

1. Chuck Tryon
 2. Johnathan Oatney
- A. Tony Mann

Wellington

1. Cliff Zens
 2. Gus Collins
- A. Shane Shields

Winfield

1. Gregory Thompson
 2. James Ging
- A. Merrill Gordon

1. Director #1
 2. Director #2
- A. Alternate

KMEA MEMBER CITIES SUMMARY

City	Population	kWhs Sold	Peak Kw
Alma	975	13,413,912	3,090
Altamont	1,100	8,010,372	2,765
Anthony	2,300	33,484,981	9,000
Arma	1,492	9,985,406	3,299
Ashland	856	10,535,863	3,510
Attica	626	6,321,040	2,070
Augusta	9,274	65,255,367	21,677
Baldwin City	4,400	33,005,154	9,475
Belleville	1,888	20,476,599	6,235
Beloit	3,835	46,952,140	13,872
Burlingame	934	7,780,774	2,490
Burlington	2,643	30,057,707	9,500
Cawker City	469	5,620,272	1,510
Chanute	8,094	265,476,258	54,700
Chapman	1,395	11,225,681	3,414
Cimarron	2,204	15,116,153	4,488
Coffeyville	10,295	837,379,870	121,382
Colby	5,438	59,777,554	19,000
Dighton	1,038	9,426,131	3,100
Erie	1,121	9,674,359	3,678
Eudora	6,500	44,288,000	12,849
Fredonia	2,482	30,677,806	8,628
Garden City	30,761	281,461,820	66,168
Gardner	20,128	134,881,064	37,100
Garnett	3,402	26,922,256	8,900
Girard	2,789	24,894,129	8,800
Glasco	498	3,164,221	1,076
Glen Elder	443	3,988,478	1,178
Goodland	4,489	51,236,659	12,200
Greensburg	825	12,252,992	2,970
Herington	2,526	17,796,657	5,944
Hill City	1,465	12,856,175	4,583
Hillsboro	2,993	23,632,655	7,779
Hoisington	2,685	20,232,923	6,120
Holton	3,500	34,248,511	11,238
Horton	1,772	13,807,329	3,940
Hugoton	3,927	37,218,673	11,030

KMEA MEMBER CITIES SUMMARY

Iola	5,710	107,063,845	25,230
Jetmore	867	7,758,344	2,600
Johnson City	1,455	14,185,229	4,175
Kansas City	148,500	2,494,779,800	459,000
LaCrosse	1,250	11,739,825	4,300
Lakin	2,260	15,333,880	4,300
Larned	4,236	39,278,524	11,500
Lincoln Center	1,253	13,258,400	4,500
Lindsborg	3,458	27,149,062	8,511
Mankato	861	6,549,640	2,244
Marion	1,927	17,271,524	6,106
Meade	1,721	14,924,009	4,894
Minneapolis	2,087	17,877,653	5,800
Moundridge	1,753	28,181,950	7,137
Mulvane	6,287	38,336,684	11,950
Neodesha	2,486	39,136,371	10,670
Norton	2,486	25,346,806	8,320
Oberlin	1,770	13,846,972	4,694
Osage City	2,943	33,033,402	8,803
Osawatomie	4,550	29,233,403	8,700
Osborne	1,354	13,806,789	4,300
Ottawa	12,649	140,888,784	41,200
Pomona	952	7,125,981	2,080
Pratt	6,986	80,766,194	22,529
Russell	4,506	110,234,006	24,000
Seneca	2,120	33,461,329	9,143
Sharon Springs	748	6,864,604	2,034
St. Francis	1,310	11,045,078	3,404
St. John	1,200	10,488,796	3,284
St. Marys	2,678	18,183,851	5,793
Stafford	1,054	9,456,516	2,700
Sterling	2,328	20,346,180	6,254
Stockton	1,200	14,088,166	3,923
Troy	1,010	8,704,259	2,152
Wamego	4,725	48,039,293	12,900
Washington	1,083	11,930,439	3,756
Waterville	616	4,746,723	1,548
Wellington	8,172	109,242,276	29,300
Winfield	12,333	306,830,913	63,408
Combined City Data	416,830	6,233,071,441	1,355,900

A MESSAGE FROM KMGGA'S PRESIDENT AND GENERAL MANAGER

J.R. Hatfield and Bob Poehling

KMGGA remains committed to diversifying our natural gas supply by implementing a variety of purchasing solutions. We purchase, schedule, and manage gas supply on seven upstream pipelines throughout the state of Kansas. In 2014 KMGGA entered into NAESB contracts with six additional natural gas suppliers. KMGGA now has nine reputable suppliers to seek bids from to ensure we provide our member cities competitive natural gas pricing.

KMGGA is more than simply just a supplier of natural gas. We work closely with member cities to provide assistance in many different areas. KMGGA reviews city ordinances and guidelines for establishing gas rates, evaluates the process of rate calculations, determines the line loss volume and percentage for city distribution systems, and keeps member cities informed of upstream pipeline operations that could affect their system or service, including rate cases filed by upstream pipelines. We also compile and provide data required by state and federal commissions and agencies.

Also worth noting is the exceptional working relationship KMGGA has with the Kansas Corporation Commission (KCC). KMGGA works jointly with KCC staff to address issues cities encounter. KMGGA staff even presented at the KCC seminar held in Manhattan, Kansas on October 28, 2014.

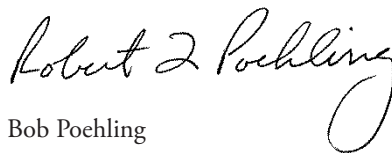
Throughout 2014, KMGGA staff visited 22 of our member cities. During the course of these on-site visits, KMGGA reviewed each city's natural gas system volumes, provided historical usage data, and discussed additional services available to the city. We also contacted and met with several prospective cities in an effort to grow. 2014 saw the City of Winfield join KMGGA. We now purchase natural gas for Winfield's city distribution system and power plant as well as manage their storage contract.

In May, KMGGA welcomed Dixie Riedel as the new Director of Natural Gas. Dixie comes to KMGGA with more than 25 years of experience in the natural gas industry. As Director of Natural Gas, Dixie's responsibilities include maintaining a strong working relationship with member cities and vendors within the natural gas industry. Additionally, Dixie prepares RFPs, negotiates contracts with natural gas suppliers, and represents KMGGA in matters of concern for both KMGGA and member cities.

KMGGA made great strides in 2014 and we thank you for your continued support. As we move into 2015, we do so with great optimism. We feel confident about KMGGA's future growth and ability to deliver reliable services.



J.R. Hatfield
KMGGA President



Bob Poehling
KMGGA General Manager

CITIES SUMMARY

Kansas Municipal Gas Agency (KMGA) was founded in 1990 under the authority of the Kansas Interlocal Cooperative Act. The Agency was originally created by a group of 27 cities that wanted to join together to form a market pool for purchasing their natural gas in order to give them market power they would not have individually. Since its inception, KMGA has grown in size and now provides natural gas to 38 municipalities, seven individual city facilities, a unified school district, a water treatment plant, a municipal airport, and a jail. Beginning in 1993, KMGA started contracting with KMEA for the provision of management services.

KMGA members are cities that either own or operate a gas distribution utility or use natural gas in other municipal utility operations. A city that joins KMGA becomes an owner as well as a member. Each full member city exercises its ownership with an equal vote on the Board of Directors. A separate committee of the Board of Directors, known as the Executive Committee, consisting of seven members, carries on the day-to-day activities of the Agency. The Board of Directors annually elects officers and Executive Committee members, ratifies the actions taken by the Executive Committee, and adopts the annual budget of the Agency.

The Agency provides comprehensive assistance to cities dealing with natural gas issues affecting their utilities. The Gas Agency's primary mission is to obtain reliable, competitively priced natural gas for its member cities. To protect members from volatile pricing, KMGA's Executive Committee and Board of Directors established a gas purchasing policy for purchasing natural gas for its member cities. The Agency is diversified in its natural gas purchasing, adopting a strategy of hedging, index pricing and daily market buys.

KMGA also manages arranging for pipeline transportation services, monitoring gas usage and storage balances, and reviews and assist in the City's rate calculation process and administering the daily gas nomination and balancing process. Pipelines serving KMGA cities include: Atmos Energy, Black Hills Energy, Enable Gas Transmission, Kansas Gas Service, Natural Gas Pipeline, Panhandle Eastern Pipe Line, and Southern Star Central Gas Pipeline.

City	Population	Total MMBtu Purchased	2014 Peak Day MMBtu	City	Population	Total MMBtu Purchased	2014 Peak Day MMBtu
Abbyville	89	4,265	48	Manhattan-Airport	N/A		Not available
Anthony*	2,300	8,888	510	Manhattan-Sewer	N/A		100
Argonia	497	22,425	305	Moundridge	1,753	112,517	1,037
Attica	626	33,161	419	Mulvane*	6,287	15	1
Augusta*	9,274	2,526	580	Osage City	2,943	125,028	1,439
Baldwin City*	4,400	1,102	116	Ottawa*	12,649	9,636	1,010
Burlingame	934	51,590	583	Partridge	241	10,417	122
Cassoday	128	9,092	113	Spearville	806	28,391	461
Coffeyville*	10,295	207,282	7,870	Sterling*	2,328	393	Not available
Concordia	5,261	956	9	Sylvia	216	9,621	112
Denison	186	11,189	125	Uniontown	264	11,423	154
Ellinwood*	2,114	5	4	Walton	233	15,637	221
Eskridge	527	63,434	683	Wamego*	4,725	5,549	1,446
Gardner*	20,128	1,942	968	Washington*	1,083	1,736	Not available
Garnett	3,402	170,231	1,933	Washington USD	N/A	5,972	Not available
Halstead	2,083	194,802	1,278	Wellington*	8,172	50,826	3,024
Hesston	3,736	424,515	3,703	Winfield	12,333	421,968	7,286
Hoisington*	2,685	130	110	Winfield Power Plant*	N/A		5,327
Howard	633	34,190	411	*Natural gas used in electric power generation			
Humboldt	1,927	94,829	949				
Kechi	1,961	47,593	548				
LaCygne	1,125	62,462	508				
Lyons	3,737	162,978	1,763				
McLouth	858	33,375	385				
				COMBINED CITY TOTALS:			
				Population	132,939		
				MMBtu Purchased	2,452,091		
				Peak Day MMBtu	45,661		

KMGA EXECUTIVE COMMITTEE



*Back row left to right: Gary Emry, City Administrator, City of Hesston; Gus Collins, Director of Gas/Wastewater Utilities, City of Winfield; Randy Frazer, Secretary/Treasurer, City Administrator, City of Moundridge
Front row left to right: John Sweet, City Administrator, City of Lyons; Laura Hill, Vice President, City Clerk, City of Kechi; J.R. Hatfield, President, City Administrator, City of Halstead
Not pictured: Mike Gilliland, Director of Utilities, City of Osage City*

KMGA MEMBER CITIES & BOARD OF DIRECTORS 2014

FULL MEMBERS

Alma

1. John Bolinder
2. Michael Slobodnik

Anthony

1. Lonnie Teel
2. Larry Berry

Argonia

1. Alan Brundage
2. Wayne Vineyard

Attica

1. Johnny O'Conner
2. Bret Ricke

Augusta

1. Bill Webster
2. Jim Sutton

Baldwin City

1. Chis Lowe
2. Rob Culley

Beloit

1. Glenn Rodden
2. Ronald Sporleder

Burlingame

1. Joe Lamond
2. Wes Colson

Burlington

1. Alan Schneider
2. David Panches

Cassoday

1. Jim Vaught
2. Joy Nelson

Coffeyville

1. Gene Ratzlaff
2. Gary Bradley

Concordia

1. Chad Buckley
2. Larry Uri

Ellinwood

1. Robert Peter
2. Dave Lloyd

Eskridge

1. Drew Kemp
2. Justin Rush

Gardner

1. Lee Moore
2. David Franco

Garnett

1. Joyce Martin
2. Bob Mills

Halstead

1. J. R. Hatfield
2. Ethan Reimer

Hesston

1. Gary Emry
2. Scott Robertson

Hoisington

1. Dave Wondra
2. John Carey

Howard

1. Becky Oakleaf
2. Kevin Mitchell

Humboldt

1. Cole Herder
2. Otis Crawford
2. Joann Evans

Kechi

1. Larry Kallenberger
2. Laura Hill

LaCygne

1. Devona Herrin
2. Jerome Moore

Larned

1. Ralph Streit

Lyons

1. John Sweet
2. Brian Vagts

McLouth

1. Gary Tullis
2. Kim Everley

Moundridge

1. Randy Frazer

Mulvane

1. Galen Cummins
2. Kent Hixson

Osage City

1. Mike Gilliland
2. Duane Peroo

Ottawa

1. James Bradley
2. Jeff Oleson

Partridge

1. Sam Askew
2. Larry Creason

Spearville

1. Bruce Vierthaler
2. Tammy Konrade

Russell

1. Duane Banks
2. Jon Quinday
- A. Jim Cross

Sterling

1. John Wagerle
2. Taggart Wall

Uniontown

1. Amber Kelly
2. Jess Ervin

Walton

1. Merlyn Johnson

Wamego

1. Merl Page

Washington

1. Richard Applegarth
2. Gene Martin

Wellington

1. Roger Estes

Winfield

1. Warren Porter
2. James Ging

AFFILIATE MEMBERS

Abbyville
Altamont
Chanute
Denison
Little River
Sylvia

1. Director #1
2. Director #2
- A. Alternate
- * Data as of November

The City of Winfield operates the largest municipal gas utility in the state of Kansas. Administrative Staff and the city Manager scrutinized all options to assure that the 5,200 Winfield customers would receive reliable service at the very best rate. After interviewing KMGA, based on the expertise of the staff, the decision was made to engage or contract KMGA services to assist in the administration and managing of this utility. The city has been very pleased with the responsiveness and capability of the staff at KMGA. Winfield is not alone in their opinion. We are certainly looking forward to a long term relationship with this Agency.

-Gus Collins, Director Gas/Wastewater Utilities, City of Winfield

TO THE BOARD OF DIRECTORS

Kansas Municipal Energy Agency
Overland Park, Kansas



REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Kansas Municipal Energy Agency, which comprise the statements of net position as of December 31, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

AUDITORS' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Agency as of December 31, 2014 and 2013, and the results of its operations and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The combining schedules and related note, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the combining statements and related note is fairly stated in all material respects, in relation to the financial statements as a whole.

RubinBrown LLP

March 16, 2015

KMEA MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Years Ended December 31, 2014 And 2013

The management of Kansas Municipal Energy Agency (KMEA or the Agency) offers readers of the Agency's financial statements this narrative overview of the Agency's financial activities for the years ended December 31, 2014 and 2013. We encourage readers to consider the information provided here in conjunction with the accompanying financial statements and notes to basic financial statements.

OVERVIEW OF THE REPORTING ENTITY

The Agency, a quasi-municipal corporation, was created by a group of cities in May 1980 under authority of Kansas statutes that allow any two or more cities to create a municipal energy agency for the purpose of securing an adequate, economical and reliable supply of electricity, or other energy, and transmitting the energy to the distribution systems of such cities. Today, the Agency consists of 79 Member cities and provides electricity through nine major Projects.

A Board of Directors governs the business affairs of the Agency. Each Member appoints two Directors. The Board elects nine Directors to serve on the Executive Committee, which acts in place of the Board on a day-to-day basis and has all powers of the Board except (1) to adopt annual budgets, (2) to approve contracts that entail the issuance of bond anticipation notes or revenue bonds and (3) to approve interest rates or official financing documents. Full Board of Directors meetings are held in May and November.

The Agency generally maintains its accounts in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC). As a regulated operation, the accounting principles applied by the Agency differ in certain respects from those applied by nonregulated business. The Agency follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accrual basis of accounting is used, with revenues recorded when earned and expenses recorded when incurred.

The Agency manages nine major long-term electricity supply Projects on behalf of its Members. They are the (1) Western Area Power Administration Hydro Power Pool Project (WAPA), (2) Southwestern Power Administration Hydro Power Pool Project (SPA), (3) Nearman Creek Unit Power Project (Nearman), (4) Grand River Dam Authority Power Project (GRDA), (5) Energy Management Project No. 1 (EMP1), (6) Energy Management Project No. 2 (EMP2), (7) Energy Management Project No. 3 (EMP3), (8) Eudora Project and (9) Garden City Project. The Agency also maintains a separate project for its administrative function and the smaller and short-term projects, which are combined in the supplemental information as Miscellaneous Projects.

FINANCIAL OBJECTIVES

The Agency was created by its Member cities as a joint action agency to develop projects that provide economical supplies of electric power to the Members' municipal electric utilities. The Agency is similar to a not-for-profit entity in that it charges its Members for the actual expenditures incurred. Any differences between a project's revenue and expense are retained in the project as part of accumulated net position.

In each power supply project, the Agency has contracted with suppliers and transmission providers on behalf of the Members participating in the project. The Agency then contracts with each participating Member for a proportionate share of the power supply on the same terms and at the same costs the Agency is obligated to pay under the supply and transmission contracts, plus an administrative fee for the Agency. The administrative fee is established by the Members on an annual basis and is used to pay Agency administrative costs.

Because of the Agency's conservative approach to budgeting annual expenses and establishing the administrative fee, the Agency has consistently stayed within budget and has excess funds on hand at the end of the year. Though operating without a profit margin, the Agency has protected its financial integrity by contracting with each of its project participants on the same terms as the Agency contracts with suppliers and transmission providers. This pass-through approach has virtually eliminated financial risks to the Agency.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows and Notes to Basic Financial Statements. The Statement of Net Position presents information on all of the Agency's assets, liabilities and deferred inflows, with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Agency's net position changed during the most recent fiscal year. The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the statements.

Here, the reader is offered an overview and analysis of summary financial statements. Condensed Statement of Net Position are presented in Table 1. Table 2 provides Condensed Statement of Changes in Net Position. Condensed Statement of Cash Flows are summarized in Table 3.

FISCAL YEAR 2014 - NET POSITION

As of December 31, 2014 and 2013, Agency assets exceeded its liabilities by \$4,012,000 and \$2,952,000 (net position), respectively. Unrestricted cash and cash equivalents decreased by \$67,000, from \$5,958,000 to \$5,891,000. The Agency has long-term debt of \$1,000,000 financed under the lease-purchase of its corporate headquarters building, which closed on December 1, 2008. As of December 31, 2014, the principal due within one year is \$62,000, and the principal due beyond one year is \$631,000. The Agency also has \$44,976,000 of debt associated with the financing of the Jameson Energy Center for the City of Garden City.

Current assets minus current liabilities decreased by \$1,371,000; from \$216,000 as of December 31, 2013, to \$(1,155,000) as of December 31, 2014. This decrease was primarily due to increases in interest payable and the current portion of long-term debt.

Change in net position for 2014 totaled \$1,060,000, compared to \$(260,000) for 2013. The positive change in net position in 2014 was due to net revenues for the Agency being positive and net interest associated with the Jameson Energy Center being positive.

FISCAL YEAR 2013 - NET POSITION

As of December 31, 2013 and 2012, Agency assets exceeded its liabilities and deferred inflows by \$2,952,000 and \$3,212,000 (net position), respectively. Unrestricted cash and cash equivalents increased by \$316,000, from \$5,642,000 to \$5,958,000. The Agency has long-term debt of \$1,000,000 financed under the lease-purchase of its corporate headquarters building, which closed on December 1, 2008. As of December 31, 2013, the principal due within one year is \$58,000, and the principal due beyond one year is \$693,000. The Agency also has \$43,642,000 of long-term debt associated with the financing of the Jameson Energy Center for the City of Garden City.

Current assets minus current liabilities decreased by \$1,786,000; from \$2,002,000 as of December 31, 2012, to \$216,000 as of December 31, 2013. This decrease was primarily due to an increase in accounts payable and other accrued liabilities.

Change in net position for 2013 totaled \$(260,000), compared to \$(65,000) for 2012. The negative change in net position in 2013 was due cost of issuance expenses associated with the long-term bond for the Jameson Energy Center. Minimal annual net revenue or expense, relative to total revenues and expenses, is normal.

TABLE 1: CONDENSED STATEMENTS OF NET POSITION (in thousands)

	December 31		
	2014	2013	2012
Assets			
Utility Plant, net	\$43,212	\$31,734	\$1,325
Restricted funds	6,445	15,377	730
Current assets	11,993	10,930	8,784
Total Assets	61,650	58,041	10,839
Liabilities & Deferred Inflows			
Long-term obligations, less current portion	44,450	44,335	756
Other noncurrent liabilities	40	40	40
Current liabilities	13,148	10,714	6,782
Deferred inflows of resources	—	—	—
Total Liabilities & Deferred Inflows	57,638	55,089	7,627
Net Position	\$4,012	\$2,952	\$3,212

There were no significant changes in the balance sheet during 2014. During 2014, total assets increased by \$3,609,000, and total liabilities increased by \$2,549,000; resulting in a net \$1,060,000 increase in net position from \$2,952,000 to \$4,012,000.

The major change in the balance sheet during 2013 was due to the issuance of long-term debt associated with the Jameson Energy Center. During 2013, total assets increased by \$47,202,000, and total liabilities and deferred inflows increased by \$47,462,000; resulting in a net \$260,000 decrease in net position from \$3,212,000 to \$2,952,000.

TABLE 2: CONDENSED STATEMENTS OF NET POSITION (in thousands)

	December 31		
	2014	2013	2012
Revenues			
Operating revenues	\$101,160	\$72,390	\$66,266
Interest on Investments	2,102	1	1
Total Revenues	103,262	72,391	66,267
Expenses			
Purchased Power	95,250	68,180	62,781
Other expenses	6,952	4,471	3,551
Total Expenses	102,202	72,651	66,332
Change in Net Position	\$1,060	\$ (260)	\$ (65)

FISCAL YEAR 2014 – CHANGE IN NET POSITION

Operating revenues increased by 40% in 2014 from the prior year, as the net result of changes in sales volumes for the Projects. Operating revenues for the EMP2 project increased by 84% due to the addition of the City of Garden City to the project in 2014. Operating revenue also increased due to the full year participation of the EMP3 cities during 2014.

Because operating revenues basically reflect the pass-through of purchased power costs, the \$28,770,000 increase in operating revenues in 2014 was accompanied by a \$27,070,000 increase in purchased power costs.

Other expenses increased by \$2,481,000; \$4,471,000 in 2013 compared to \$6,952,000 in 2014. The increase in other expenses was mainly due to an increase in expenditures associated with EMP3 and EMP2 (Garden City). Other expense also increased due to an increase in interest expense for the Garden City Project (Jameson Energy Center).

Since the Agency operates its projects on a cost-plus-administrative fee basis, the major part of any significant increases in operating expenses are billed to the Project participants and reflected as higher operating revenues. As a consequence, while total expenses increased by \$29,551,000 in 2014, revenues increased by \$30,871,000, resulting in a increase in change in net position for 2014 of \$1,320,000. This increase in the change in net position is mostly due to net revenues for the Agency being positive and net interest associated with the Jameson Energy Center being positive.

FISCAL YEAR 2013 – CHANGE IN NET POSITION

Operating revenues increased by 9% in 2013 from the prior year, as the net result of changes in sales volumes for the Projects. Operating revenues for the EMP2 project increased by 21% due to the decrease in internal generation by the cities in 2013 compared to 2012. The internal generation is supplied to the balancing area and is an offset to the overall revenue/cost of the project. Also in 2013, the City of Meade joined the EMP2 project in July. Operating revenue also increased due to the addition of the EMP3 and Eudora projects in 2013.

Because operating revenues basically reflect the pass-through of purchased power costs, the \$6,124,000 increase in operating revenues in 2013 was accompanied by a \$5,399,000 increase in purchased power costs.

Other expenses increased by \$920,000; \$3,551,000 in 2012 compared to \$4,471,000 in 2013. The increase in other expenses was mainly due to an increase in expenditures associated with new projects such as EMP3, Eudora and Garden City.

Since the Agency operates its projects on a cost-plus-administrative fee basis, the major part of any significant increases in operating expenses are billed to the Project participants and reflected as higher operating revenues. As a consequence, while total expenses increased by \$6,319,000 in 2013, revenues increased by \$6,124,000, resulting in a decrease in change in net position for 2013 of \$195,000. This decrease in the change in net position is mostly due to an increase in expenditures incurred related to the new projects.

TABLE 3: CONDENSED STATEMENTS OF CASH FLOW (in thousands)

	December 31		
	2014	2013	2012
Operating Income (loss)	\$663	\$ (218)	\$ (15)
Issuance of note receivable	(244)	—	—
Repayments from note receivable	26	—	—
Repayments from direct financing lease	39	—	—
Sales (purchases) of investments	2	(2,857)	—
Interest received on note, lease and investments	2,102	1	1
Proceeds from debt	—	43,642	—
Principal paid on debt	(58)	(55)	(52)
Proceeds from note payable/line of credit	1,500	100	54
Principal paid on line of credit	(159)	(100)	(54)
Interest paid	(1,189)	(43)	(51)
Depreciation	128	186	187
Changes in assets and liabilities	(380)	1,466	459
Net additions to plant	(11,426)	(30,016)	(15)
Net increase (decrease) in cash	(8,996)	12,106	514
Cash and Cash Equivalents – Beginning of Year	18,478	6,372	5,858
Cash and Cash Equivalents – Beginning of Year	\$9,482	\$18,478	\$6,372

FISCAL YEAR 2014 - CASH FLOW

In comparing the 2014 cash flow statement with that for 2013, the 2013 cash flow statement reflects an operating loss of \$(218,000) compared to an operating income of \$663,000 in 2014. The increase was mainly due to net revenues for the Agency being positive and net interest associated with the Jameson Energy Center being positive.

FISCAL YEAR 2013 - CASH FLOW

In comparing the 2013 cash flow statement with that for 2012, the 2012 cash flow statement reflects an operating loss of \$(15,000) compared to an operating loss of \$(218,000) in 2013. The decrease was mainly due to an increase in expenditures related to the new projects.

PLANT

The Agency's headquarters building was purchased on December 1, 2008 for \$953,000. During the next seven months, the Agency added renovations and improvements costing \$320,000. When the staff moved into the building in June 2009, the property costs were transferred from construction-work-in-process (CWIP) to utility plant and depreciation began. The Agency anticipates that the building will be able to accommodate any additional staff into the foreseeable future.

The headquarters building was originally built in 1979. The building is being depreciated over 20 years.

ECONOMIC OUTLOOK

The cost of wholesale electricity is expected to be stable through 2015, as long as coal and natural gas stay within their recent bands of relatively low prices. Demand for electricity will increase slowly in line with modest growth in the U.S. economy. Over the longer term, the effects of future environmental laws and regulations on electricity demand and cost is uncertain. Because the Agency is structured where it bills Project participants for the actual cost of power delivered, plus a markup to cover administrative costs, Agency revenues and purchase power costs are budgeted to increase in proportion with changes in wholesale electricity prices.

REQUESTS FOR INFORMATION

This financial report is designed to provide our members, investors and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kansas Municipal Energy Agency, 6300 West 95th Street, Overland Park, Kansas 66212-1431.

STATEMENT OF NET POSITION (in thousands)

ASSETS		
	December 31	
	2014	2013
Plant		
Land	\$97	\$97
Work-in-progress	—	30,586
Structures and equipment, depreciable	1,220	1,220
Electric plant in service, depreciable	1,837	1,828
Accumulated depreciation	(2,125)	(1,997)
Total Plant	1,029	31,734
Restricted Funds		
Cash and investments	6,445	15,377
Current Assets		
Cash and cash equivalents	5,891	5,958
Accounts receivable	6,081	4,954
Prepaid expenses	21	18
Total Current Assets	11,993	10,930
Noncurrent Assets		
Notes receivable	218	—
Direct financing lease	41,965	—
Total Current Assets	42,183	—
Total Assets	\$61,650	\$58,041
LIABILITIES AND NET POSITION		
Liabilities Payable From Restricted Funds		
Accounts payable	\$40	\$40
Other Noncurrent Liabilities		
Long-term obligations, less current portion	44,450	44,335
Current Liabilities		
Accounts payable and other accrued liabilities	9,899	9,226
Customer deposits	769	701
Accrued vacation and sick leave	156	140
Interest payable	1,105	582
Current portion of long-term debt	1,219	58
Current portion of retirement benefits	—	7
Total Current Liabilities	13,148	10,714
Total Liabilities	57,638	55,089
Net Position		
Net investment in capital assets	336	1,075
Restricted	2,118	1,315
Unrestricted	1,558	562
Net Position	4,012	2,952
Total Liabilities and Net Position	\$61,650	\$58,041

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)

	For the Years Ended December 31	
	2014	2013
Operating Revenues		
Project power	\$95,307	\$68,149
Other revenues	5,853	4,241
Total Operating Revenue	101,160	72,390
Operating Expenses		
Purchased power and fuel	95,250	68,180
Administrative and general expense	5,119	4,242
Depreciation and amortization	128	186
Total Operating Expense	100,497	72,608
Total Operating Revenue (Expenses)	663	(218)
Nonoperating Revenues (Expenses)		
Interest on investments	2,102	1
Interest expense	(1,705)	(43)
Total Nonoperating Revenues (Expenses)	397	(42)
Change in Net Position	1,060	(260)
Net Position – Beginning of Year	2,952	3,212
Net Position – End of Year	\$4,012	\$2,952

STATEMENT OF CASH FLOWS (in thousands)

For The Years Ended
December 31

	2014	2013
Cash Flows from Operating Activities		
Cash received from members	\$100,033	\$70,545
Cash paid to suppliers	(98,041)	(67,667)
Cash paid to employees	(1,581)	(1,444)
Net Cash Provided By Operating Activities	411	1,434
Cash Flows from Investing Activities		
Sale of investments	413	411
Purchase of investments	(411)	(3,268)
Issuance of note receivable	(244)	—
Repayments from note receivable	26	—
Repayments from direct financing lease	39	—
Interest received on direct financing lease and note receivable	2,090	—
Investment earnings	12	1
Net Cash Provided By (Used In) Investing Activities	1,925	(2,856)
Cash Flows From Capital and Related Financing Activities		
Proceeds from note payable	1,500	100
Principal paid on note payable	(159)	(100)
Principal paid on debt	(58)	(55)
Proceeds from issuance of bonds	—	43,642
Additions to plant	(11,426)	(30,016)
Interest paid	(1,189)	(43)
Net Cash Provided By (Used In) Capital & Related Financing Activities	(11,332)	13,528
Net Increase (Decrease) in Cash and Cash Equivalents	(8,996)	12,106
Cash and Cash Equivalents – Beginning of Year	18,478	6,372
Cash and Cash Equivalents – End of Year	\$9,482	\$18,478
Reconciliation of Cash & Cash Equivalents to the Balance Sheet		
Restricted cash and investments	\$6,445	\$15,377
Cash and cash equivalents	5,891	5,958
Less: investments	(2,854)	(2,587)
Total Reconciliation of Cash & Cash Equivalents to the Balance Sheet	\$9,482	\$18,478
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Net operating revenues (expenses)	\$663	\$ (218)
Adjustments to reconcile net operation revenues (expenses) to net cash provided by operating activities:		
Depreciation and amortization	128	186
Changes in assets and liabilities:		
Accounts receivable	(1,127)	(1,842)
Prepaid expenses	(3)	12
Accounts payable and accrued liabilities	682	3,302
Deferred inflows of resources	—	(49)
Customer deposits	68	43
Net Cash Provided by Operating Activities	\$411	\$1,434
Non-Cash Transactions		
Direct Financing Lease for Jameson Energy Center	\$42,003	—
Capitalized Interest	—	579

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014 And 2013

The Kansas Municipal Energy Agency (KMEA or the Agency), a quasi-municipal corporation, was officially organized under the authority of the laws of Kansas, K.S.A. 12-885 to 12-8,111, inclusive, as amended and supplemented (the Act). The Act allows two or more cities to create a municipal energy agency for the purpose of securing an adequate, economical and reliable supply of electricity and other energy and transmitting the same to the electric distribution systems of such cities. As of December 31, 2014 and 2013, the Agency had 79 member municipalities. Two representatives from each member municipality serve on the Agency's Board of Directors. The Agency is considered a jointly governed organization and is a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

I. SIGNIFICANT ACCOUNTING POLICIES

The Agency generally maintains its accounts in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC). As a regulated operation, the accounting principles applied by the Agency differ in certain respects from those applied by nonregulated business. The Agency follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The accrual basis of accounting and economic resources measurement focus is used by the Agency. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Revenue is earned at the time electricity or other services are delivered.

The activities of the Agency consist of planning, financing, developing and constructing projects to supply the energy needs of the Agency's members. The Agency presents the combining schedule of net position and the combining schedule of revenues, expenses and changes in net position by project as supplemental information.

For each power supply project, the Agency has contracted with wholesale electricity suppliers and transmission providers on behalf of those members participating in the project. The Agency then contracts with each participant for a proportionate share of the power supply on the same terms and at the same costs the Agency is obligated to pay under the supply and transmission contracts, plus an administrative fee for the Agency. The administrative fee is established by the members on an annual basis and is used to pay the costs of Agency operations. The Agency has also used portions of the annual administrative fees to create and maintain a working capital account for short-term power supply transactions and transmission service deposits and for a building maintenance reserve for possible major repairs to the headquarters building, which was acquired in December 2008.

Because the Nearman Project had issued long-term bonds, accounting for the project includes revenue and expense deferrals. The deferrals originate from billing project participants for revenues needed to cover current cash flow, including debt service, while recording costs on an accrual basis that includes depreciation charges and excludes debt principal payments. Though the Nearman bonds were fully retired on December 1, 2002, the accounting treatment continues. Specifically, the accounting treatment for Nearman Project includes the following:

- ▶ Charges for operating expenses and costs in excess of current billings to participants and related interest income are capitalized as deferred project costs as appropriate. Deferred project costs would be recorded as deferred outflows of resources on the statement of net position and are recovered over the period during which related future revenues will be recognized.
- ▶ Billings to participants and related interest income in excess of charges for operating expenses and costs are carried as deferred inflows of resources on the statement of net position and are recognized over the period during which related future costs will be incurred.

Project power revenues and related receivables include amounts billed for Agency services rendered.

Restricted cash and temporary cash investments are restricted for the following purposes: \$1,099,000 is restricted for the Agency funds held by the Southwest Power Pool; \$165,000 is restricted for cities participating in the WAPA project; \$638,000 is restricted for the GRDA project funds held by the Southwest Power Pool; \$176,000 is restricted for the EMP1 project funds held by the Southwest Power Pool; \$4,327,000 is held by a trustee related to the Series 2013 bonds and is restricted in the Garden City project for the Jameson Energy Center; \$40,000 is restricted in the Nearman Project to pay for certain payables.

The Agency considers all accounts receivable to be fully collectible. Consequently, management believes that no allowance for doubtful accounts is necessary.

Land, structures and equipment, and electric plant in service are stated at cost. The costs of repairs and minor additions and replacements are charged to operating expense as appropriate. Costs of renewals and betterments are capitalized. Depreciation is computed on the straight-line method based on the estimated useful lives of capital assets, ranging from 5 to 28 years.

Customer deposits consist of refundable deposits from member cities for the following purpose as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Deposits held to secure payment of monthly bills	\$769,000	\$701,000

Vacation leave and a portion of sick leave vest and may be carried forward by an employee. These compensated absences are accrued as a liability as they are earned.

Net Position - Restricted represents payments made by member cities to fund certain working capital reserves as well as retained interest earnings related to certain projects.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, less any outstanding debt that is attributable to the acquisition or construction of those assets.

For purposes of the statement of cash flows, the Agency considers highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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

Operating revenues result from exchange transactions with member cities. Nonoperating revenues consist of investment earnings. Expenses associated with operating the Agency are considered operating. The Agency first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on total net position.

2. DEPOSITS AND INVESTMENTS

Cash and investments held on KMEA's behalf are governed by KMEA's Operating Funds Investment Policy. All deposits must be covered by Federal depository insurance or be adequately collateralized. Such collateral must be held in KMEA's name by KMEA's custodial banks. As stated in the policy, all investments are to be made in U.S. treasury obligations or any other security backed by the full faith and credit of the U.S. Treasury; U.S. government guaranteed bonds; commercial paper with a rating of at least A1/P1; money market funds rated no less than A; and municipal bonds rated no less than Aa at the time of purchase.

In the event funds of the Agency are not required for immediate use, including funds resulting from proceeds from the sale of any bonds or notes, the Agency's investing is performed in accordance with K.S.A. 12-895, which permits investments in obligations, securities and other investments, subject to any agreement with bondholders or note holders.

Investments are stated at fair value. The fair value of marketable securities is based on quotations, which are generally obtained from national securities exchanges. Where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms or national pricing services.

CREDIT RISK

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency manages credit risk by assigning each investment classification a minimum rating as outlined in the first paragraph of Note 2.

INTEREST RATE RISK

The Agency's policy for maturities of investments of proceeds from bonds or notes limits the investment's maturity to a date that does not exceed the expected disbursement of those monies for debt maturities. The policy does not specify maturity guidelines for operating fund investments, only that maturities should not exceed the Agency's time requirements for the use of operating funds.

At December 31, 2014, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:

	Fair Value	Maturities			Credit Rating S&P
		12 Months or Less	12-24 Months	More than 24 Months	
Deposits	\$6,088,000	\$6,088,000	\$ —	\$ —	N/A
Investments					
Money market mutual fund	1,921,000	1,921,000	—	—	AAAm
Investments Held with Trustee:					
Federal National Mortgage Association	142,000	—	—	142,000	AA+
Federal Home Loan Bank	551,000	—	551,000	—	AA+
Federal Home Loan Mortgage Corporation	1,017,000	—	—	1,017,000	AA+
Corporate bonds	1,144,000	—	—	1,144,000	BB
Money market mutual fund	1,473,000	1,473,000	—	—	AAAm
Total Deposits, Including Investments	\$12,336,000	\$9,482,000	\$551,000	\$2,303,000	

At December 31, 2013, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:

	Fair Value	12 Months or Less	12-24 Months	More than 24 Months	Rating S&P
Deposits	\$6,181,000	\$6,181,000	\$ —	\$ —	N/A
Investments					
Money market mutual fund	1,091,000	1,091,000	—	—	AAAm
Investments Held with Trustee:					
Federal National Mortgage Association	142,000	—	—	142,000	AA+
Federal Home Loan Bank	552,000	—	552,000	—	AA+
Federal Home Loan Mortgage Corporation	1,019,000	—	—	1,019,000	AA+
Discount Notes	548,000	548,000	—	—	A-1+
Corporate bonds	1,144,000	—	—	1,144,000	BB
Money market mutual fund	10,658,000	10,658,000	—	—	AAAm
Total Deposits, Including Investments	\$21,335,000	\$18,478,000	\$552,000	\$2,305,000	

CUSTODIAL CREDIT RISK

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency's policy is to collateralize the demand deposits with securities held by the financial institution's agent and in the Agency's name. At December 31, 2014 and 2013, the Agency's deposits were insured by federal depository insurance and uninsured deposits were fully collateralized in accordance with the Agency's policy. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of December 31, 2014 and 2013, the Agency's investments were not exposed to custodial credit risk.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk associated with the amount of investments the Agency has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Agency allows a maximum of 100% of the portfolio to be invested in U.S. Treasury obligations; 100% in U.S. government guaranteed bonds; 35% in commercial paper (5% issuer maximum); 35% money market funds (5% issuer maximum); and 35% in municipal obligations (5% issuer maximum). At December 31, 2014, 9% of the Agency's investments were in Federal Home Loan Bank securities, 16% of the Agency's investments were in Federal Home Loan Mortgage Corporation securities and 18% of the Agency's investments were in Corporate Bonds from Banque Centrale De Tunisia. At December 31, 2013, 7% of the Agency's investments were in Federal Home Loan Mortgage Corporation securities and 8% of the Agency's investments were in Corporate Bonds from Banque Centrale De Tunisia.

3. RETIREMENT PLAN

Plan Description: Employees of the Agency participate in the Kansas Public Employees Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system. The payroll for employees covered by the System for the years ended December 31, 2014 and 2013 was \$1,590,000 and \$1,444,000, respectively; and the Agency's total payroll was \$1,590,000 and \$1,444,000, respectively.

The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by visiting its website at www.kpers.org.

Agency employees are required to participate in the System after one year of employment. Employees who retire at or after age 65 with one year of service, at age 62 with ten years of service credit, or at any age when years of service plus age equals 85 "points" are entitled to a retirement benefit, payable monthly for life, equal to 1 percent of their final average salary for each year of "prior" service and 1.85 percent for each year of "participating" service. Final average salary is the employee's average salary over the higher of four years of credited service including add-ons such as accrued sick leave and vacation leave or a three year average without add-ons. Benefits fully vest on reaching 10 years of service. Vested employees may retire at age 55 and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by state statute.

Funding Policy: Covered employees are required by state statute to contribute 5 to 6 percent of their salary to the System. The Agency's contribution rates are established by state law, and are paid by the employer according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. State legislation placed a statutory limit of .9 percent of payroll on increases in contribution rates over the prior year for KPERS members. This employer contribution requirement for the year 2014 was 8.84% percent of covered payroll. The contributions for the year ended December 31, 2014 were approximately \$225,000, which consisted of \$137,000 from the Agency and \$88,000 from employees.

The contributions for the year ended December 31, 2013 were approximately \$200,000, which consisted of \$128,000 from the Agency and \$72,000 from employees.

The contributions for the year ended December 31, 2012 were approximately \$166,000, which consisted of \$99,000 from the Agency and \$67,000 from employees.

The Actuarial Accrued Liability (AAL) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the System and employers. The System does not make separate measurements of assets and the actuarial accrued liability for individual employers. As of December 31, 2013 and 2012, the date of the most recent actuarial valuations, the System's actuarial accrued liability was \$24.329 billion and \$23.531 billion, respectively. The System's actuarial value of assets on those dates (valued at market) were estimated to be \$14.563 billion and \$13.278 billion, respectively, leaving an unfunded actuarial accrued liability of \$9.766 billion and \$10.253 billion, respectively. The Agency's 2014 and 2013 contribution represented less than 1 percent of total contributions required of all participating entities.

Full-time employees of the Agency have the option to participate in a 457 Deferred Compensation Plan sponsored by ICMA Retirement Trust. The Agency does not contribute to this plan.

Additionally, employees participate in and/or make contributions to a 401a Defined Contribution Plan sponsored by ICMA Retirement Trust. All employees who choose to contribute may make contributions up to 14 percent of their compensation. The Agency makes contributions to the plan equal to 3 percent of all employees' compensation regardless of their choice of contribution to the plan. The Agency contributed approximately \$62,000 and \$43,000 to the plan for the years ended December 31, 2014 and 2013, respectively.

4. TRANSACTIONS WITH AFFILIATES

The Agency is closely related to the Kansas Municipal Gas Agency (KMGA). KMGA is an interlocal municipal agency created to secure natural gas supplies for its member cities, which own gas or electric distribution utilities. In a comparable manner, the Agency secures electricity for its member cities, which own electric distribution utilities. Due to their common membership and similar purposes, the Agency entered into a Management Services Agreement with KMEA on August 9, 1990, whereby Agency employees managed KMGA's general operations and performed project-specific services.

The Management Services Agreement was superceded when the two agencies, on May 20, 1998, entered into the Interlocal Cooperation Agreement for Joint Administration, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). Under the Joint Administration Agreement, which automatically renews annually unless terminated by either party, KMGA will continue to rely on Agency employees to manage and administer KMGA's operations. For the services provided and related expenses incurred, the Agency bills KMGA at cost. The management services fee was approximately \$223,200 and \$230,200 in 2014 and 2013, respectively. As of December 31, 2014 and 2013, accounts receivable from KMGA was \$19,900 and \$19,700, respectively.

The Joint Administration Agreement created the Joint Board for Administration, comprised of seven representatives: three each from the Agency and KMGA Board memberships, who together select the seventh representative. The Joint Board is empowered to (1) recommend annual budgets respecting the administrative activities of the agencies, (2) employ the General Manager of the agencies, (3) hear employment grievances of Agency employees and (4) recommend changes to the Agency employment policies. KMGA has no employees. The Joint Board is expressly prohibited from adopting annual budgets for the Agency or KMGA and from authorizing the issuance of any indebtedness of the Agency or KMGA. Those powers remain with the respective Boards of the two agencies.

5. CAPITAL ASSETS

Capital assets consisted of the following amounts as of December 31, 2014:

	2013 Balance	Additions	Deletions	2014 Balance
Capital Assets Not Being Depreciated				
Land	\$97,000	\$ —	\$ —	\$97,000
Work-in-progress	30,586,000	11,166,000	(41,752,000)	—
Total Capital Assets Not Being Depreciated	30,683,000	11,166,000	(41,752,000)	97,000
Capital Assets Being Depreciated				
Plant in service	1,828,000	11,000	(2,000)	1,837,000
Structures and equipment	1,220,000	—	—	1,220,000
Total Capital Assets Being Depreciated	3,048,000	11,000	(2,000)	3,057,000
Less: Accumulated Depreciation	1,997,000	128,000	—	2,125,000
Total Capital Assets Being Depreciated	1,051,000	(117,000)	(2,000)	932,000
Capital Assets, Net	\$31,734,000	\$11,049,000	\$ (41,754,000)	\$1,029,000

Capital assets consisted of the following amounts as of December 31, 2013:

	2012 Balance	Additions	Deletions	2013 Balance
Capital Assets Not Being Depreciated				
Land	\$97,000	\$ —	\$ —	\$97,000
Work-in-progress	—	30,586,000	—	30,586,000
Total Capital Assets Not Being Depreciated	97,000	30,586,000	—	30,683,000
Capital Assets Being Depreciated				
Plant in service	1,820,000	9,000	(1,000)	1,828,000
Structures and equipment	1,220,000	—	—	1,220,000
Total Capital Assets Being Depreciated	3,040,000	9,000	(1,000)	3,048,000
Less: Accumulated Depreciation	1,812,000	186,000	(1,000)	1,997,000
Total Capital Assets Being Depreciated	1,228,000	(172,000)	—	1,051,000
Capital Assets, Net	\$1,497,000	\$ (172,000)	—	\$31,734,000

6. DIRECT FINANCING LEASE AND NOTE RECEIVABLE

The Agency has a 30-year agreement to lease the Jameson Energy Center to Garden City. For accounting purposes, the Agency has classified the lease as a direct financing lease.

The lease payments to be received coincide with debt service payments the Agency is required to make on the Series 2013 revenue bonds and a portion of the Agency (Garden City) note payable agreement (Note 7). The interest rates on the lease are the same as those used in the bonds and note payable. Payments of principal and interest on the bonds are made annually through July 2044. Payments of principal and interest on the note are made monthly through August 2017. Ownership of the Jameson Energy Center is transferred to Garden City on the date of the final principal and interest payment on the bonds.

At December 31, 2014, the future minimum lease payments to be received under the lease are as follows:

Year Ending December 31,	Payment
2015	\$3,303,000
2016	3,305,000
2017	3,162,000
2018	2,863,000
2019	2,863,000
2020 - 2024	14,317,000
2025 - 2029	14,315,000
2030 - 2034	14,317,000
2035 - 2039	14,318,000
2040 - 2044	10,022,000
Total Minimum Lease Payments Receivable	82,785,000
Less: Unearned Income	40,820,000
Present Value of Minimum Lease Payments	\$41,965,000

Unearned income is amortized to interest income by the interest method using a constant periodic rate over the lease term.

As part of the agreement to lease the Jameson Energy Center, there is a separate note that is payable by Garden City to the Agency. The interest rate on the note receivable is the same as the rate used in the Agency (Garden City) note payable agreement (Note 7). Repayments from Garden City of principal and interest are due monthly through August 2017.

At December 31, 2014, the future minimum lease payments to be received under the note are as follows:

Year Ending December 31,	Payment
2015	\$86,000
2016	86,000
2017	57,000
Total Note Payments Receivable	229,000
Less: Interest	11,000
Present Value of Note Payments	\$218,000

7. LINES OF CREDIT, LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

In December of 2008, the Agency entered into a \$1,000,000 lease purchase agreement that matures December 2023 to purchase and make certain renovations to a building which is now being used as the Agency's corporate headquarters. The lease is payable in semiannual installments of \$49,345, including interest at 5.49%. The lease is secured by capital assets. The net book value of the building and land acquired under the lease purchase agreement as of December 31, 2014 and 2013 was \$745,000 and \$783,000, respectively. Amortization of the leased building under capital assets is included with depreciation expense.

In May 2014, the Agency (EMP1 Project) entered into a line of credit agreement with a financial institution that matures in May 2015. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate (3.25% at December 31, 2014) less .25%. There were no amounts outstanding as of December 31, 2014 on this line of credit.

In May 2014, the Agency (EMP2 Project) entered into a line of credit agreement with a financial institution that matures in May 2015. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate (3.25% at December 31, 2014) less .25%. There were no amounts outstanding as of December 31, 2014 on this line of credit.

In May 2014, the Agency (EMP3 Project) entered into a line of credit agreement with a financial institution that matures in May 2015. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate (3.25% at December 31, 2014) less .25%. There were no amounts outstanding as of December 31, 2014 on this line of credit.

During the year ended December 31, 2013, the Agency issued Series 2013 revenue bonds in the amount of \$42,725,000 that carry interest rates of 3% to 5.75%. Payments are due in annual installments starting July 1, 2014. Principal payments begin on July 1, 2015 and continue until 2044. The bonds carry mandatory sinking fund payments in each of the years 2030 through 2044. The bonds are subject to redemption prior to maturity at par on or after July 1, 2023. These bonds were issued at a premium, which is accounted for under the effective-interest method. The proceeds are being used to finance the acquisition and construction of the Jameson Energy Center related to the Garden City project.

The Agency has a Power Sales Contract related to the Series 2013 bonds with the City of Garden City. The bonds require Garden City to maintain certain rate covenants sufficient to meet its obligations to the Agency under the Power Sales Contract.

In December of 2013, the Agency (Garden City) entered into a \$630,000 letter of credit agreement with a financial institution. At December 31, 2014, no amounts were drawn on this letter of credit.

In January of 2014, the Agency (Garden City) entered into a note payable agreement with a financial institution that matures in August 2017. The Agency may draw up to \$1,500,000 on the note, which bears interest at an initial rate of 3.25%. During the year ended December 31, 2014, \$1,500,000 was drawn on the note. The note is to be paid by Garden City and is secured by the Power Sales Contract between Garden City, Kansas and the Agency.

The following is a summary of long-term debt transactions for the Agency for the year ended December 31:

	2013 Balance	Additions	Deletions	2014 Balance	Due Within One year
Lease purchase agreement	\$751,000	\$ —	\$ (58,000)	\$693,000	\$62,000
Garden City note	—	1,500,000	(159,000)	1,341,000	487,000
Series 2013	42,725,000	—	—	42,725,000	670,000
Bond Premium	917,000	—	(7,000)	910,000	—
	\$44,393,000	\$1,500,000	\$ (224,000)	\$45,669,000	\$1,219,000

	2012 Balance	Additions	Deletions	2013 Balance	Due Within One year
Lease purchase agreement	\$806,000	\$ —	\$ (55,000)	\$751,000	\$58,000
EMP1LOC	—	100,000	(100,000)	—	—
Series 2013	—	42,725,000	—	42,725,000	—
Bond Premium	—	917,000	—	917,000	—
	\$806,000	\$43,742,000	\$ (155,000)	\$44,393,000	\$58,000

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Lease Purchase		Long-Term Bond		Garden City Note		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$61,000	\$37,000	\$670,000	\$2,193,000	\$487,000	\$39,000	\$3,487,000
2016	65,000	34,000	690,000	2,172,000	504,000	22,000	3,487,000
2017	68,000	30,000	715,000	2,152,000	350,000	4,000	3,319,000
2018	72,000	26,000	740,000	2,123,000	—	—	2,961,000
2019	76,000	22,000	770,000	2,094,000	—	—	2,962,000
2020 - 2024	351,000	43,000	4,455,000	9,861,000	—	—	14,710,000
2025 - 2029	—	—	5,685,000	8,630,000	—	—	14,315,000
2030 - 2034	—	—	7,240,000	7,078,000	—	—	14,318,000
2035 - 2039	—	—	9,450,000	4,870,000	—	—	14,320,000
2040 - 2044	—	—	12,310,000	2,005,000	—	—	14,315,000
	\$693,000	\$192,000	\$42,725,000	\$43,178,000	\$1,341,000	\$ 65,000	\$88,194,000

During 2014, the Agency incurred \$1,705,000 of interest. During 2013, the Agency incurred \$622,000 of interest, \$579,000 of which was capitalized in work-in-process.

TERMINATION BENEFITS PAYABLE AND COMPENSATED ABSENCES

During 2009, two employees provided notice of their retirement which took place in 2010. The Agency agreed to provide both retirees with health insurance coverage typically only offered to current employees until they reach age 65. These agreements were signed by both the Agency and the employees prior to December 31, 2009. Therefore, in accordance with GASB 47, Accounting for Termination Benefits, the Agency has recorded a liability. The total payable was estimated based on the current monthly premium for both employees and the number of months until they both reach the age of 65. See table below for liability as of December 31, 2014 and 2013.

	2013 Balance	Additions	Deletions	2014 Balance	Due Within One year
Termination benefits	\$7,000	\$ —	\$ (7,000)	\$ —	\$ —
Compensated absences	140,000	16,000	—	156,000	156,000
	\$147,000	\$16,000	\$ (7,000)	\$156,000	\$156,000

	2012 Balance	Additions	Deletions	2013 Balance	Due Within One year
Termination benefits	\$13,000	\$ —	\$ (6,000)	\$7,000	\$7,000
Compensated absences	143,000	—	(3,000)	140,000	140,000
	\$156,000	\$ —	\$ (9,000)	\$147,000	\$147,000

8. COMMITMENTS AND CONTINGENCIES

ELECTRIC PLANT IN SERVICE ASSETS

The Agency, pursuant to a Participation Sales Agreement with the Board of Public Utilities of Kansas City, Kansas (BPU), must pay for its proportionate share of additional costs incurred by BPU for improvements to the Nearman Project, either by lump sum payments or through increased monthly demand charges.

RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase

of commercial insurance. Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

9. CONCENTRATION OF RISK

The electric industry in the United States is evolving from a historically regulated, monopolistic market to a more competitive one. The 1992 Energy Policy Act began the process of deregulation of the electricity industry by permitting the Federal Energy Regulatory Commission to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. Several states have moved, in varying degrees, to open retail electric service to competition, while others are delaying action pending the results of retail competition in those states that allow it.

The Agency currently applies accounting standards that recognize the economic effects of rate regulation pursuant to GASB statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62) and, accordingly, has recorded regulatory assets and liabilities related to its operations. In the event the Agency determines that it no longer meets the criteria of GASB 62 related to regulated entities, the accounting impact would be an extraordinary noncash charge to operations of an amount that would be immaterial due to the cost pass-through nature of its sales contracts. Criteria that give rise to the discontinuance include (1) increasing competition that restricts the Agency's ability to establish prices to recover specific costs and (2) a significant change in the manner in which rates are set by regulators from a cost-based regulation to another form of regulation. The Agency periodically reviews these criteria to ensure the continuing application of GASB 62 is appropriate. At this time, the effect of competition and the amount of regulatory assets which could be recovered in such an environment cannot be predicted.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description: The Agency participates in a healthcare plan through the State Employee Health Plan (SEHP). The program provides benefits for persons qualified to participate in the program for medical, prescription drug, dental, vision and other ancillary benefits to participating non state employees and their eligible dependents as defined under the provisions of K.A.R. 108-1-3 and 108-1-4. This program extends health coverage to retiring participating non-state employees, totally disabled former participating non-state employees, surviving spouses and/or dependents of participating non-state employees, and active participating non-state employees who were covered under the health plan immediately before going on approved leave without pay.

Funding Policy: SEHP establishes and amends contribution requirements. SEHP coverage is monthly and rates are based on semi-monthly payroll deduction periods. From January through March 2014, retirees paid 100% of active premium rates to the Agency who then remitted the funds to the health care provider. Beginning in April, 2014, retirees pay 100% of the active premium rates directly to SEHP. The Agency pays 100% of active premium rates for active employees. The Agency and retirees contributed the following amounts to the plan which represented 100% of the contractually required contributions to the plan for fiscal years ending December 31, 2014, 2013 and 2012:

	2014	2013	2012
Agency premiums paid for active employees	\$226,556	\$312,241	\$269,249
Retirees premiums paid (remitted by KMEA)	8,405	31,556	30,205

COMBINING STATEMENT OF NET POSITION

December 31, 2014 (Dollars in Thousands)

	Hydropower								Garden	Misc.	Agency
	WAPA	SPA	Nearman	GRDA	EMPI	EMP2	EMP3	Eudora	City	Projects	Total
Assets											
Plant											
Land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$97	\$97
Structures and equipment, depreciable	—	—	—	—	—	—	—	—	—	1,220	1,220
Electric plant in service, depreciable	105	—	1,468	—	32	—	—	—	—	232	1,837
Accumulated depreciation	(105)	—	(1,468)	—	(32)	—	—	—	—	(520)	(2,125)
Total Plant	—	—	—	—	—	—	—	—	—	1,029	1,029
Restricted Funds											
Cash and temporary cash investments	165	—	40	638	176	—	—	—	4,327	1,099	6,445
Current Assets											
Cash and cash equivalents	1,108	121	694	1,554	828	940	102	—	—	544	5,891
Accounts receivable	374	79	846	9	551	3,011	1,062	—	—	149	6,081
Prepaid assets	—	—	—	—	—	—	—	—	—	21	21
Interproject receivables (payables)	(68)	—	(24)	1,832	799	(2,406)	(819)	—	—	686	—
Total Current Assets	1,414	200	1,516	3,395	2,178	1,545	345	—	—	1,400	11,993
Long-Term Assets											
Notes receivable	—	—	—	—	—	—	—	—	218	—	218
Direct financing lease	—	—	—	—	—	—	—	—	41,965	—	41,965
Total Long-Term Assets	—	—	—	—	—	—	—	—	42,183	—	42,183
Total Long-Term Assets	\$1,579	\$200	\$1,556	\$4,033	\$2,354	\$1,545	\$345	\$ —	\$46,510	\$3,528	\$61,650
Liabilities, Deferred Inflows and Net Position											
Liabilities Payable from Restricted Funds											
Accounts payable	\$ —	\$ —	\$40	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$40
Other Non-Current Liabilities											
Long-term obligations, less current portion	—	—	—	—	—	—	—	—	43,815	635	44,450
Current Liabilities											
Accounts payable and other accrued liabilities	757	76	501	3,624	2,322	1,546	345	—	—	728	9,899
Customer deposits	645	124	—	—	—	—	—	—	—	—	769
Accrued vacation and sick leave	—	—	—	—	—	—	—	—	—	156	156
Interest payable	—	—	—	—	—	—	—	—	1,102	3	1,105
Current portion of long-term debt	—	—	—	—	—	—	—	—	1,157	62	1,219
Total Current Liabilities	1,402	200	501	3,624	2,322	1,546	345	—	2,259	949	13,148
Total Liabilities	\$1,402	\$200	\$541	\$3,624	\$2,322	\$1,546	\$345	\$ —	\$2,259	\$1,584	\$7,638
Net Position											
Net investment in capital assets	—	—	—	—	—	—	—	—	—	336	336
Restricted	165	—	40	638	176	—	—	—	—	1,099	2,118
Unrestricted	12	—	975	(229)	(144)	(1)	—	—	436	509	1,558
Total Net Position	117	—	1,015	409	32	(1)	—	—	436	1,944	4,012
Total Liabilities, Deferred Inflows and Net Position	\$1,579	\$200	\$1,556	\$4,033	\$2,354	\$1,545	\$345	\$ —	\$46,510	\$3,528	\$61,650

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2014 (Dollars in Thousands)

	Hydropower								Garden	Misc.	Agency
	WAPA	SPA	Nearman	GRDA	EMPI	EMP2	EMP3	Eudora	City	Projects	Total
Revenues											
Project power	\$5,108	\$711	\$7,604	\$31,247	\$6,588	\$33,891	\$9,203	\$955	\$ —	\$ —	\$95,307
Other revenues	188	52	266	1,228	499	1,913	652	98	628	329	5,853
Total Revenues	5,296	763	7,870	32,475	7,087	35,804	9,855	1,053	628	329	101,160
Operating Expense											
Purchased power and fuel	5,052	711	7,604	31,247	6,587	33,900	9,220	930	—	(1)	95,250
Administrative and general expense	242	52	266	1,228	500	1,904	635	123	373	(204)	5,119
Depreciation and amortization	8	—	46	—	—	—	—	—	—	74	128
Total Operating Expense	5,302	763	7,916	32,475	7,087	35,804	9,855	1,053	373	(131)	100,497
Net Operating Revenues (Expenses)	(6)	—	(46)	—	—	—	—	—	255	460	663
Interest on investments	—	—	—	—	—	—	—	—	2,101	1	2,102
Interest expense	—	—	—	—	—	—	—	—	(1,665)	(40)	(1,705)
Net Revenues (Expenses)	(6)	—	(46)	—	—	—	—	—	691	421	1,060
Net Position – Beginning of Year	183	—	1,061	409	32	(1)	—	—	(255)	1,523	2,952
Net Position – End of Year	\$177	\$ —	\$1,015	\$409	\$32	\$ (1)	\$ —	\$ —	\$436	\$1,944	\$4,012

NOTE TO SUPPLEMENTARY INFORMATION

In addition to the basic financial statements, the Agency presents a combining statement of net position, and a combining statement of revenues, expenses and changes in net position for its projects within the operation of the Agency.

Major long-term projects undertaken on behalf of Agency's members are accounted for separately, with project-specific financial statements. Currently, the Agency has nine major projects: the Western Area Power Administration Hydro Power Pool Project (WAPA), the Southwestern Power Administration Hydro Power Pool Project (SPA), the Nearman Creek Unit Power Project (Nearman), the Grand River Dam Authority Power Project (GRDA), the Energy Management Project No. 1 (EMP1), the Energy Management Project No. 2 (EMP2), the Energy Management Project No. 3 (EMP3), the Eudora Project and the Garden City Project. The Agency also separately accounts for its administrative costs and its smaller and short-term projects, which is presented as miscellaneous projects.

Interproject transactions occur during the normal course of operations between projects for services and expenses paid by the Agency on each project's behalf. As of December 31, any unsettled receivables and payables are classified as "Interproject receivables/(payables)" on the combining statement of net position.

TO THE BOARD OF DIRECTORS

Kansas Municipal Gas Agency
Overland Park, Kansas



REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Kansas Municipal Gas Agency, which comprise the statement of net position as of December 31, 2014 and 2013, and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

AUDITORS' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 respective financial position of Kansas Municipal Gas Agency as of December 31, 2014 and 2013, and the results of its operations and its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

OTHER MATTERS

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a 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.

RubinBrown LLP

March 16, 2015

KMGA MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Years Ended December 31, 2014 And 2013

The management of Kansas Municipal Gas Agency (KMGA) offers readers of KMGA's financial statements this narrative overview of its financial activities for the years ended December 31, 2014 and 2013. We encourage readers to consider the information provided here in conjunction with the accompanying basic financial statements and notes to basic financial statements.

OVERVIEW OF THE REPORTING ENTITY

Under authority of the Kansas Interlocal Cooperative Act, twenty-seven Kansas municipalities formed KMGA as a separate legal entity in August 1990. Its main purpose was to assist its member cities in acquiring natural gas for their municipal utility systems. As of December 31, 2014, KMGA has grown to 39 members and 6 affiliate members.

KMGA maintains its accounts in accordance with the uniform system of accounts for natural gas utilities prescribed by the Federal Energy Regulatory Commission (FERC). Because the accounting system for regulated utilities is used, the accounting principles applied by KMGA differ in certain respects from those applied by non-utility businesses. KMGA also follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Under the accrual basis of accounting used by KMGA, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

FINANCIAL HIGHLIGHTS

As of December 31, 2014 and 2013, KMGA's net position was \$440,583 and \$504,216, respectively, and current assets exceeded current liabilities by \$440,583 and \$504,216, respectively. KMGA has no long-term debt.

Changes in net position for the year 2014 were \$(63,633), compared to \$(9,331) for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements: Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to Basic Financial Statements. Here, the reader is offered an overview and analysis of summary financial statements. Condensed Statements of Net Position are presented in Table 1. Table 2 provides Condensed Statements of Changes in Net Position. Condensed Statements of Cash Flows are summarized in Table 3. The Statement of Net Position presents information on all of KMGA's assets and liabilities with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how KMGA's capitalization changed during the most recent fiscal year. The statement of cash flows provides information about KMGA's cash receipts and cash payments made during the reporting period. The notes provide additional information that is essential to a full understanding of the data provided in the statements.

TABLE 1: CONDENSED STATEMENTS OF NET POSITION

	December 31		
	2014	2013	2012
Assets			
Cash and cash equivalents	\$1,556,357	\$1,327,296	\$1,467,432
Accounts receivable	4,121,816	3,379,243	596,306
Other current assets	—	—	2,059
Total Assets	5,678,173	4,706,539	2,065,797
Liabilities			
Accounts payable and accrued expenses	5,237,590	4,202,323	1,429,081
Other current liabilities	—	—	123,169
Total Liabilities	5,237,590	4,202,323	1,552,250
Net Position	\$440,583	\$504,216	\$513,547

A comparison of the year-end statement of net position shows that the net position has decreased in 2014 as a result of expenses exceeding revenues for the year. (See below Table 2, Condensed Statements of Changes in Net Position).

TABLE 2: CONDENSED STATEMENTS OF CHANGES IN NET POSITION

	December 31		
	2014	2013	2012
Gas Supply Project Margin			
Project revenues	\$12,435,296	\$8,856,545	\$7,855,996
Gas and gas transportation	(12,285,080)	(8,642,149)	(7,549,668)
Total Gas Supply Project Margin	150,216	214,396	306,328
Other operating revenues	22,935	23,587	23,587
Administrative expenses	(236,784)	(247,314)	(280,674)
Depreciation expense	—	—	(836)
Changes in Net Position	(63,633)	(9,331)	48,405
Total Revenues	\$12,458,231	\$8,880,132	\$7,879,583
Total Expenses	\$ (12,521,864)	\$ (8,889,463)	\$ (7,831,178)

Expenses exceeded revenues in 2014 due to a decrease in project margin. As for gas volumes, KMGA transported (in MMBtus) 2,183,559 in 2012, 2,042,265 in 2013, and 2,460,913 in 2014.

TABLE 3: CONDENSED STATEMENTS OF CASH FLOWS

	December 31		
	2014	2013	2012
Net operating revenues	\$ (63,633)	\$ (9,331)	\$48,405
Depreciation	—	—	836
Changes in assets and liabilities	292,694	(130,805)	(80,889)
Net Decrease in Cash	229,061	(140,136)	(31,648)
Cash and Cash Equivalents – Beginning of Year	1,327,296	1,467,432	1,499,080
Cash and Cash Equivalents – End of Year	\$1,556,357	\$1,327,296	\$1,467,432

Cash flows from operating activities are composed primarily of net revenues and changes in assets and liabilities. There are no cash flows from noncapital financing activities because KMGA has no debt and has not engaged in other financing activities.

PLANT

There were no changes in KMGA's plant balance.

ECONOMIC OUTLOOK

The cost of gas is expected to be stable through 2015. Because the Agency is structured where it bills Project participants for the actual cost of gas delivered, plus a markup to cover administrative costs, Agency revenues and gas costs are budgeted to increase in proportion with changes in gas prices.

REQUESTS FOR INFORMATION

This financial report is designed to provide our members, investors and creditors with a general overview of KMGA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kansas Municipal Gas Agency, 6300 W. 95th Street, Overland Park, KS 66212.

STATEMENT OF NET POSITION

ASSETS		
	December 31	
	2014	2013
Plant		
Gas plant in service	\$34,461	\$34,461
Accumulated depreciation	(34,461)	(34,461)
Current Assets		
Cash and cash equivalents	1,556,357	1,327,296
Accounts receivable	4,121,816	3,379,243
Total Current Assets	5,678,173	4,706,539
Total Assets	\$5,678,173	\$4,706,539
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable and accrued liabilities	\$5,237,590	\$4,202,323
Net Position		
Unrestricted	440,583	504,216
Total Liabilities and Net Position	\$5,678,173	\$4,706,539

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Years Ended December 31	
	2014	2013
Operating Revenues		
Gas supply project	\$12,435,296	\$8,856,545
Membership dues	22,935	23,587
Total Operating Revenue	12,458,231	8,880,132
Operating Expenses		
Purchased gas	10,917,942	7,400,978
Gas transportation	1,367,138	1,241,171
Administrative and general	236,784	247,314
Total Operating Expense	12,521,864	8,889,463
Change in Net Position	(63,633)	(9,331)
Net Position – Beginning of Year	504,216	513,547
Net Position – End of Year	\$440,583	\$504,216

STATEMENT OF CASH FLOWS

	For The Years Ended December 31	
	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$11,715,658	\$5,974,026
Cash payments to suppliers for goods and services	(11,486,597)	(6,114,162)
Net Cash Provided By (Used In) Operating Activities	229,061	(140,136)
Net Increase (Decrease) in Cash and Cash Equivalents	229,061	(140,136)
Cash and Cash Equivalents – Beginning of Year	1,327,296	1,467,432
Cash and Cash Equivalents – End of Year	\$1,556,357	\$1,327,296
Reconciliation of Net Operating Loss to Net Cash Provided By (Used In) Operating Activities		
Net operating loss	\$ (63,633)	\$ (9,331)
Adjustments to reconcile net operation revenues loss to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(742,573)	(2,782,937)
Prepaid assets	—	2,059
Advance gas supply project billings	—	(123,169)
Accounts payable and accrued expenses	1,035,267	2,773,242
Net Cash Provided by Operating Activities	\$229,061	\$ (140,136)

NOTES TO BASIC FINANCIAL STATEMENTS

I. ORGANIZATION

The Kansas Municipal Gas Agency (KMGA or Agency) is a Kansas interlocal municipal agency created by twenty-seven Kansas municipalities in August 1990, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). The Interlocal Cooperation Agreement creating KMGA established it as a separate legal entity. As of December 31, 2014, KMGA had 39 full-member cities and 6 affiliate-member cities participating on a project basis. A Board of Directors, consisting of one representative from each full member, oversees the property and business of KMGA. KMGA is considered a jointly governed organization and a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

KMGA members are cities that either own or operate a gas distribution utility or use natural gas in other municipal utility operations. KMGA acquires, manages, schedules and balances natural gas supplies used by its members for local distribution and as fuel for electric generation. KMGA also assists members in complying with state and federal regulations, and provides informational and technical assistance with respect to natural gas supply and use.

2. SIGNIFICANT ACCOUNTING POLICIES

KMGA maintains its accounts in accordance with the uniform system of accounts for natural gas utilities prescribed by the Federal Energy Regulatory Commission (FERC) and the Kansas Corporation Commission. Because the accounting system for regulated utilities is used, the accounting principles applied by KMGA differ in certain respects from those applied by non-utility businesses. KMGA follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting and economic resources measurement focus is used by KMGA. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Revenue is earned, at the time gas supplies or other services are delivered

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

Gas plant in service, comprised of office furniture and equipment, is stated at cost. The costs of repairs and minor replacements are charged to operating expense as appropriate. Costs of renewals and betterments are capitalized. Depreciation is computed using the straight-line method based on an estimated five-year useful life.

KMGA considers all accounts receivable to be fully collectible. Consequently, no allowance for doubtful accounts is necessary. Receivables are carried at original invoice amount.

As discussed in Note 5, all employees used by KMGA are employed by the Kansas Municipal Energy Agency (KMEA) and related costs are charged to KMGA through a management services agreement. Vacation leave and a portion of sick leave vest and may be carried forward by these employees. KMGA's portion of the accrued liability for these compensated absences is funded annually through payments to KMEA.

3. CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments held on KMGA's behalf are governed by Kansas statutes. All deposits and investments must be covered by Federal depository insurance or be adequately collateralized. Such collateral must be held in KMGA's name by KMGA's custodial banks. As required by statute, all investments are made in U.S. government obligations, securities collateralized by the U.S. government, and certain municipal obligations.

As of December 31, 2014 and 2013, KMGA's cash deposits consisted only of cash.

Interest rate risk: The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2014 and 2013, the Agency did not hold any investments.

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency does not have an investment policy which would further limit investment choices from state statute. As of December 31, 2014 and 2013, the Agency did not hold any investments.

Concentration of credit risk: The Agency places no limit on the amount the Agency may invest in any one issuer. As of December 31, 2014 and 2013, the Agency did not have more than 5 percent of the Agency's investments in one issuer.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of December 31, 2014 and 2013, the Agency's deposits were fully collateralized and not exposed to custodial credit risk.

4. PLANT

	Gas Plant In Service	Accumulated Depreciation	Total
Balance – December 31, 2012	\$ 34,461	\$ (34,461)	\$ —
Balance – December 31, 2013	34,461	(34,461)	\$ —
Balance – December 31, 2014	\$ 34,461	\$ (34,461)	\$ —

5. RELATED PARTIES

KMGA is closely related to the KMEA. KMEA is a joint action agency created to secure electricity for its member cities, which own electric distribution utilities. In a comparable manner, KMGA secures natural gas supplies for its member cities, which own gas or electric distribution utilities. Due to their common membership and similar purposes, KMGA entered into a Management Services Agreement with KMEA on August 9, 1990, whereby KMEA employees managed KMGA's general operations and performed project-specific services.

The Management Services Agreement was superseded when the two agencies, on May 20, 1998, entered into the Interlocal Cooperation Agreement for Joint Administration, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). Under the Joint Administration Agreement, KMGA will continue to rely on KMEA employees to manage and administer KMGA's operations. For the services provided and related expenses incurred, KMEA bills KMGA at cost. The management services fee was \$223,200 in 2014 and \$230,200 in 2013. As of December 31, 2014 and 2013, accounts payable to KMEA were \$19,925 and \$19,686, respectively.

The Joint Administration Agreement created the Joint Board for Administration, comprised of seven representatives: three each from the KMGA and KMEA Board memberships, who together select the seventh representative. The Joint Board is empowered to (1) recommend annual budgets respecting the administrative activities of the agencies, (2) employ the General Manager of the agencies, (3) hear employment grievances of KMEA employees, and (4) recommend changes to the KMEA employment policies. KMGA has no employees. The Joint Board is expressly prohibited from adopting annual budgets for KMGA or KMEA or authorizing the issuance of any indebtedness of KMGA or KMEA. Those powers remain with the respective Boards of KMGA and KMEA.

6. COMMITMENTS AND CONTINGENCIES

GAS PURCHASE AGREEMENTS

KMGA and each Gas Supply Project participating city have entered into a Gas Acquisition Management Project Participation Agreement, which states that KMGA may enter into gas purchase agreements on behalf of the Project participant and the Project participant is liable for the gas delivered under the agreement. Pursuant to the Participation Agreements, KMGA periodically enters into Gas Acquisition Management Project Purchase Agreements to purchase gas on behalf of Project participants, where the gas quantity purchased is based on aggregating the nominations submitted by the participants. Some purchases are made in the spot market and others are made at fixed prices and quantities over periods of up to twelve months.

RISK MANAGEMENT

KMGA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. Insurance settlements have not exceeded insurance coverage for the past three years.

JOINT BOARD

J.R. Hatfield - Chairman, KMGa President
City Administrator, City of Halstead

Greg DuMars - Alternate Secretary, KMEA President
City Administrator, City of Lindsborg

Duane Moeder - City Manager, City of LaCrosse
Duane Banks - Electric Utility Director, City of Russell
Mike Gilliland - Director of Utilities, City of Osage City
Randy Frazer - City Administrator, City of Moundridge
Merl Page - City Manager, City of Wamego

KMEA OFFICERS AND EXECUTIVE COMMITTEE

Greg DuMars - President,
City Administrator, City of Lindsborg
Dave Howard - Vice President,
City Manager, City of Pratt
Duane Banks - Secretary/ Treasurer,
Electric Utility Director, City of Russell

Chris Lowe - City Administrator, City of Baldwin City
Duane Moeder - City Manager, City of LaCrosse
Jeff Oleson - Assistant Director of Utilities, City of Ottawa
Kent Hixson - City Administrator, City of Mulvane
Merl Page - City Manager, City of Wamego
Mike Muirhead - Public Utilities Director, City of Garden City

KMGa OFFICERS AND EXECUTIVE COMMITTEE

J.R. Hatfield - President,
City Administrator, City of Halstead
Laura Hill - Vice President,
City Clerk, City of Kechi
Randy Frazer - Secretary/ Treasurer,
City Administrator, City of Moundridge

Gary Emry - City Administrator, City of Hesston
Gus Collins - Director Gas/Wastewater Utilities,
City of Winfield
John Sweet - City Administrator, City of Lyons
Mike Gilliland - Director of Utilities, City of Osage City

KMEA/KMGa STAFF

Bob Poehling - General Manager
Sam Mills - Director, Projects and Asset Management
Jennifer Moore - Director, Finance and Accounting
Dixie Riedel - Director of Natural Gas
Neil Rowland - Director, Transmission and Security
John Seck - Director, Resource Planning and Development
Tom Saitta - Director, Electric Operations
Katia Mitchell - Administrative Assistant

Neal Daney - Manager, Power Supply
Gerry Stephenson - Manager, Finance and Accounting
Paula Campbell - Senior Energy Controller, Electric
David Rosenthal - Energy Controller, Electric
Joni Shadonix - Energy Controller, Gas
Patrick Ryan - Manager, Member Services
Kent Balkenbusch - Compliance and Security Representative

BUSINESS PARTNERS

Blue Gurus
Columbia Capital Management, LLC
Cretcher - Heartland
Gilmore & Bell, P.C.
GRDA - Grand River Dam Authority
HR - Haven, Inc.
Jennings Strouss, PLC
Kansas City Board of Public Utilities
Kansas Municipal Utilities
Lightedge Solutions, Inc.
Lutz, Daily & Brain, LLC
MCG Energy Solutions

Mid-States Energy Works, Inc.
Rainbow Energy Marketing Corporation
RubinBrown, LLP
Sawvel & Associates, Inc.
Sega, Inc
Siemens Energy
Sisco, Inc
Stresscrete Group
SPA - Southwestern Power Administration
WAPA - Western Area Power Administration
UMB Bank





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