

KANSAS MUNICIPAL ENERGY AGENCY

KMEA

2013 ANNUAL REPORT

GROWING IN A CHANGING ENERGY WORLD

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MISSION

KMEA’s mission is to support and educate its members in fulfilling their responsibility to provide reliable electric power to their communities.

VISION

KMEA will comprehensively assess all regulatory and market-related issues that impact its gas and electric members, strive to educate, inform and advise its members on the outcomes, and assist members in meeting new challenges. Our Agency will continue to establish long-term partnerships with member cities and provide all necessary resources required for a secure and economical source of electrical energy and gas supply. We will continue to grow in stature as “sought-after” energy management providers, while seeking relationships and solutions that directly benefit the revenue stream of the members.

POSITIONING STATEMENT

KMEA is a member-owned, service-driven organization dedicated to providing the expertise and stewardship necessary to secure power in a financially responsible manner. Unlike energy providers who dictate the terms of the marketplace to citizens, or other organizations whose focus is spread across an array of utilities, KMEA is the only organization – our owners – can trust to deliver dependable, cost effective, energy solutions now and in the future.

2013 IN REVIEW

A LETTER FROM KMEA'S PRESIDENT AND GENERAL MANAGER

Greg DuMars and Bob Poehling

In reviewing KMEA's results for 2013, a statement we made to the Membership at our 2011 Annual Meeting comes to mind. We said:

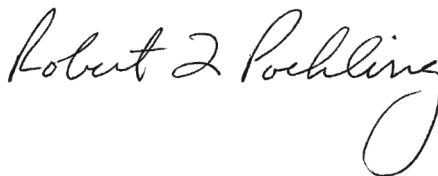
"In the future, KMEA will have created a sustainable business model that has a relatively fixed cost, year over year. The focus will be shifted to increasing the revenue line. The result will be an overall reduction in the costs borne by those cities participating in projects."

We set the foundation for this vision in 2012. We were able to achieve the desired results in 2013. If there is one word used to describe KMEA in 2013 it would be "Growth."

On January 2, 2013, KMEA was selected by the City of Garden City to provide 100% of their energy and capacity requirements. Service to Garden City began January 1, 2014. We started serving some of the cities of our new EMP 3 in 2013 as well. By the end of the year, the EMP 3 Cities of Girard, Chapman, Horton, Neodesha and Holton received service from KMEA. Service to the EMP 3 Cities of Burlingame, Osage City, Seneca, Sterling and Wamego was initiated in 2014. KMEA began providing service to the City of Eudora on June 1, 2013 and to the City of Meade on July 1, 2013. When you sum up the cumulative load of all these new cities, we added roughly 170 MW's of new load, which will be online in 2014. The result is a reduction in the rates paid by cities participating in projects of \$0.43/MWh.

Not only did your Agency grow in the number of new cities and projects in 2013, we forged new strategic relationships with vendors, while maintaining relationships with our existing vendors. In total, we formed 14 new partnerships in 2013. These are firms from the fields of law, engineering, materials, capital & finance and risk management. Many of these newly formed relationships provided financial support for our Annual Meeting. And, I have no doubt they will continue to provide the Agency with great value in the years to come.

Finally, your Agency successfully issued \$42.8 million of municipal bonds at an equivalent rating of "A" to "A-." In the history of the Agency, we've never had an issuance that large or more highly rated. 2013 was a very successful year for KMEA. You have a lot to be extremely proud of and we look forward to continuing our trajectory of "Growth" in 2014. As always, a special thanks to you, our members, for your continued trust and support.



Greg DuMars and Bob Poehling

HIGHLIGHTS OF 2013



ANNUAL CONFERENCE

On November 7 – 8, 2013 KMEA held its Annual Conference of Member Cities. The conference was dynamic and engaging, replete with information regarding the opportunities and challenges facing our ever changing industry. There were over 130 attendees who participated in the two-day event.

The Conference kicked off with keynote speaker and former Kansas City Royals great, Frank White, giving us a peek behind the scenes of life as a major league baseball player. Day one's programming and presentations then shifted gears into a case study entitled "A Municipal Utility's Experience after a Day-2 Environment is implemented," presented by Billy Cutsor, from Municipal Energy Agency of Nebraska and LeaAnne Niehuis, from American Public Power Association, who presented "Creating a Financially Strong Utility." KMEA General Manager, Bob Poehling, also took the opportunity to recognize those cities that invested in capital improvements. KMEA's member appreciation reception and awards banquet brought day one to a close.

Day two of the conference was packed with both the KMEA and KMGa Board of Directors' meetings followed by Power Supply and Finance Committee updates and presentations updating EMP 1, EMP 2, and EMP 3.

MERL PAGE | HONORED WITH THE MAX EMBREE AWARD

Merl Page, City Manager of Wamego, became the third 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.

ROB CULLEY | PRESENTED WITH THE GIL HANSON AWARD

Baldwin City's Rob Culley, Power Plant Supervisor, 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.

GARY ROWDEN | RECIPIENT OF THE DARYLE NIELSEN AWARD

Gary Rowden, Electric System Supervisor for the city of Hugoton, was recognized for demonstrating exemplary leadership, initiative and service to KMEA's Mutual Aid Program (MAP). The Daryle Nielsen Distinguished Service Award was established to honor the contribution of Daryle Nielsen, a founding member of the KMEA Mutual Aid Program. He provided calm leadership and an invaluable service to cities affected by power emergencies.

ANOTHER MEMBER REACHES THE CENTENNIAL MARK

The city of Osawatomie reached a distinguished milestone in 2013, joining the exclusive Century Club, marking 100 years of providing electrical service to the residents of Osawatomie. To celebrate this momentous achievement, the city was presented with an engraved plaque from KMEA.

EIGHTH ANNUAL GOLF CLASSIC IS A GREAT DAY ON THE LINKS

Turkey creek Golf course, located in McPherson, was the site of the 8th Annual KMEA/StressCrete Golf Classic, which took place on Friday, September 20th. For another year we were graced with a nice fall day as seven teams competed on the 18-hole golf course.

This year's winning team members were:

1st place Jared Hagemann and Bob Saunders from McPherson and Eric Reddig and Mark Hamel from Russell.

2nd place Nathan Sprague from REMC, Neal Daney from KMEA, Jim Meis from Dodge City, and David Hunsaker from Ottawa.

3rd place Drew Friebus and Dan Leiker from Russell, Bret Bauer from Holton, and Tom Lowery from Dodge City.

POWER AND FINANCE COMMITTEE UPDATES

Power Supply Committee

The Power Supply Committee, established in 2012, continued to identify future power supply options in 2013. Based on the 2012 survey of 88 municipalities across the state, the committee undertook a comprehensive “Due Diligence” project, which resulted in the creation and execution of an interviewing and ranking initiative, engaging several top consulting and engineering firms. Kiewit Power Engineers, Burns & McDonnell, and Curtis-Wright were the companies selected by the committee to perform due diligence evaluations on prospective resources. Key considerations of the interview and ranking process included the company’s ability to grasp the overall project approach as well as their qualifications, experience, and knowledge. The ability to develop reasonable timelines and provide competitive costs were additional factors of emphasis. This process proved valuable in equipping the committee with information to better make well informed recommendations to meet or exceed the agency’s and members’ future needs.

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 accomplishments the committee can claim in 2013, is analyzing and finalizing the 2014 agency budget, reviewing RubinBrown’s independent audit, as well as the quarterly credit and risk report. Additional achievements include, presenting six additional “Fiscal Fitness” training sessions for 84 member city attendees, and recommendations for annual funding of the agency’s Regulatory and Dispute Fund. Finally, the committee was successful in securing short and long term financing for the Jameson Energy Center in Garden City.

BOND OFFERING FOR JAMESON ENERGY CENTER

On January 2, 2013, KMEA was awarded the contract with Garden City to supply the City’s electrical needs beginning January 1, 2014. As part of the total supply plan for Garden City, the Jameson Energy Center, a simple-cycle gas turbine peaking facility consisting of three gas turbine generator sets, would be constructed to meet the peak energy needs of the city. In May 2013, KMEA signed a contract with Siemens Energy, Inc. for the purchase of the three gas turbines and a contract with Sega, Inc. for the design and construction of the Jameson Energy Center. The first step in meeting the cash requirement of the project was for KMEA to secure a \$5,000,000 short-term bond with UMB Bank in June 2013. In August 2013, the full Board of KMEA authorized the long-term bond for the Jameson Energy Center. With the assistance of Columbia Capital Management, Gilmore & Bell and BMO Capital Management, KMEA issued the Series 2013 long-term bonds in the amount of \$42,725,000 with a Standard & Poor’s rating of A- for the Jameson Energy Center in September 2013. Through the construction and bond offering process, KMEA built new relationships that can be leveraged into the future.

KMEA'S PARTICIPATION IN THE **SPP MARKET GROWS**

2013 saw the number of member cities represented by KMEA in the Southwest Power Pool (SPP) Energy Imbalance Service (EIS) Market more than double, growing from five to twelve. The Agency fully appreciated the responsibility to which it had been entrusted from each and every city. While there were some challenges along the way, each city's market-launch was executed on-time and was an undeniable success. Since then, each city has had the opportunity to realize the financial benefit of having access to the entire SPP footprint-wide portfolio of resources with which to settle their imbalance.

Building from positive feedback from previous city visits, KMEA Staff adopted a policy of facilitating "on-boarding" meetings at each city, just prior to their entry into the SPP Market. These face-to-face meetings provided a great opportunity for KMEA Staff to visit with and assist the cities, so they knew what to expect as they took the big and exciting step into the Market.

2013 was also a time of preparation for even more changes in the year to come. The ground-work was laid for 17 more cities to participate in the SPP Market. Additionally, considerable Staff resources were allocated to preparing for the March 1, 2014, launch of the SPP Integrated Marketplace. Much more sophisticated in its design, the Integrated Marketplace, which will replace the EIS Market, will afford member cities even more wide-ranging access to energy from the lowest-cost regional resources available. Be it training, participation in Structured Market Trials, readying systems, transacting in the very first binding TCR Auction, and everything in between, the year was one of much anticipation for the monumental changes that lie just over the horizon.

EMP GROWING WITH THE ADDITION OF NEW CITIES

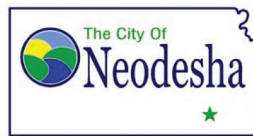
KMEA was pleased to grow our members, beginning with the city of Girard on May 1, 2013, and the city of Chapman on June 1, 2013, both joining EMP 3. KMEA began servicing Eudora on June 1, 2013, as well. On July 1, 2013, KMEA began service to both the city of Meade and Horton, joining EMP2 and EMP3, respectively. KMEA welcomed the city of Neodesha on September 1, 2013, which joined EMP3, followed by Holton, which also joined EMP3 on November 1, 2013.



EMP2



EMP3



COMING
IN 2014



Visit to
Burlingame, KS



KMEA PROJECTS

POWER MARKETING PROJECTS

KMEA actively seeks other power marketing arrangements where KMEA can match member cities' short-term needs with one of among many new power supply alternatives. With the joint action approach, KMEA members expect to profit from a larger market presence and a broader range of supply options. As part of this strategy, KMEA has arranged to package and sell the combined excess capacity from several cities. We also have enabling agreements in place with local utilities, so we can purchase capacity and energy on a spot market basis, and have been using this option to make economic purchases for resale to cities facing high energy costs during the summer. Additionally, KMEA has turned open access transmission into an opportunity for Member Cities to exercise their firm-capacity transmission rights by utilizing existing transmission paths to redirect existing power sources and add new suppliers. In addition to all of this momentum, KMEA has added the 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, SWPA and WAPA projects. EMP1 is also used to jointly purchase load following service from KCPL. KMEA began delivering electricity under the EMP No. 1 on June 1, 2006.

Power Delivered: 2013—127,012 MWh

CITIES

BALDWIN CITY
GARDNER • GARNETT
OSAWATOMIE • OTTAWA

ENERGY MANAGEMENT PROJECT NO. 2

The cities of Ashland, Beloit, 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: 2013—241,970 MWh

CITIES

ASHLAND • BELOIT
HOISINGTON
LINCOLN CENTER
MEADE • OSBORNE
PRATT • RUSSELL
SHARON SPRINGS
STOCKTON
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. The EMP3 Project began delivering electricity to the first participating city in May, 2013, with four additional cities receiving power by the end of 2013. The remaining five cities will be receiving power by April, 2014.

Power Delivered: 2013— 29,379 MWh

CITIES

BURLINGAME • CHAPMAN • GIRARD
HOLTON • HORTON • NEODESHA
OSAGE CITY • SENECA
STERLING • WAMEGO

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.

CITIES

AUGUSTA • BALDWIN CITY
BELOIT • ELLINWOOD • ERIE
FREDONIA • GARDNER • GIRARD
HOISINGTON • HOLTON • HORTON
LARNED • LINCOLN CENTER • NEODESHA
OSAGE CITY • OSAWATOMIE • OSBORNE
OTTAWA • PRATT • RUSSELL
SHARON SPRINGS • STERLING
STOCKTON • WAMEGO • WASHINGTON
WELLINGTON • 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: 2013— 86,035 MWh

CITIES

BALDWIN CITY • FREDONIA
MULVANE • NEODESHA
OSAWATOMIE • OTTAWA
WINFIELD

SWPA HYDRO POWER POOL PROJECT

In 1983, a group of KMEA cities authorized the Agency to enter into a contract with the Southwestern Power Administration (SWPA) 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 SWPA, 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. SWPA also offers low-cost supplemental energy when favorable water conditions exist at its hydroelectric facilities. On behalf of project participants, KMEA is active in the Southwestern Power Resources Association, an organization of SWPA customers.

Power Delivered: 2013—20,090 MWh

CITIES

AUGUSTA • BALDWIN CITY
CHANUTE • COLBY
GARNETT • HERRINGTON
HOLTON • HORTON
IOLA • LACROSSE
LINDSBORG • MULVANE
NEODESHA • NORTON
OBERLIN • OSAWATOMIE
OTTAWA • ST. FRANCIS
SHARON SPRINGS • WAMEGO
WELLINGTON

WAPA HYDRO POWER POOL PROJECT

Under contracts with the Western Area Power Administration (WAPA), in 2013, 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 1997, the WAPA power supply was extended 20 years, until 2024.

Power Delivered: 2013—98,737 MWh

CITIES

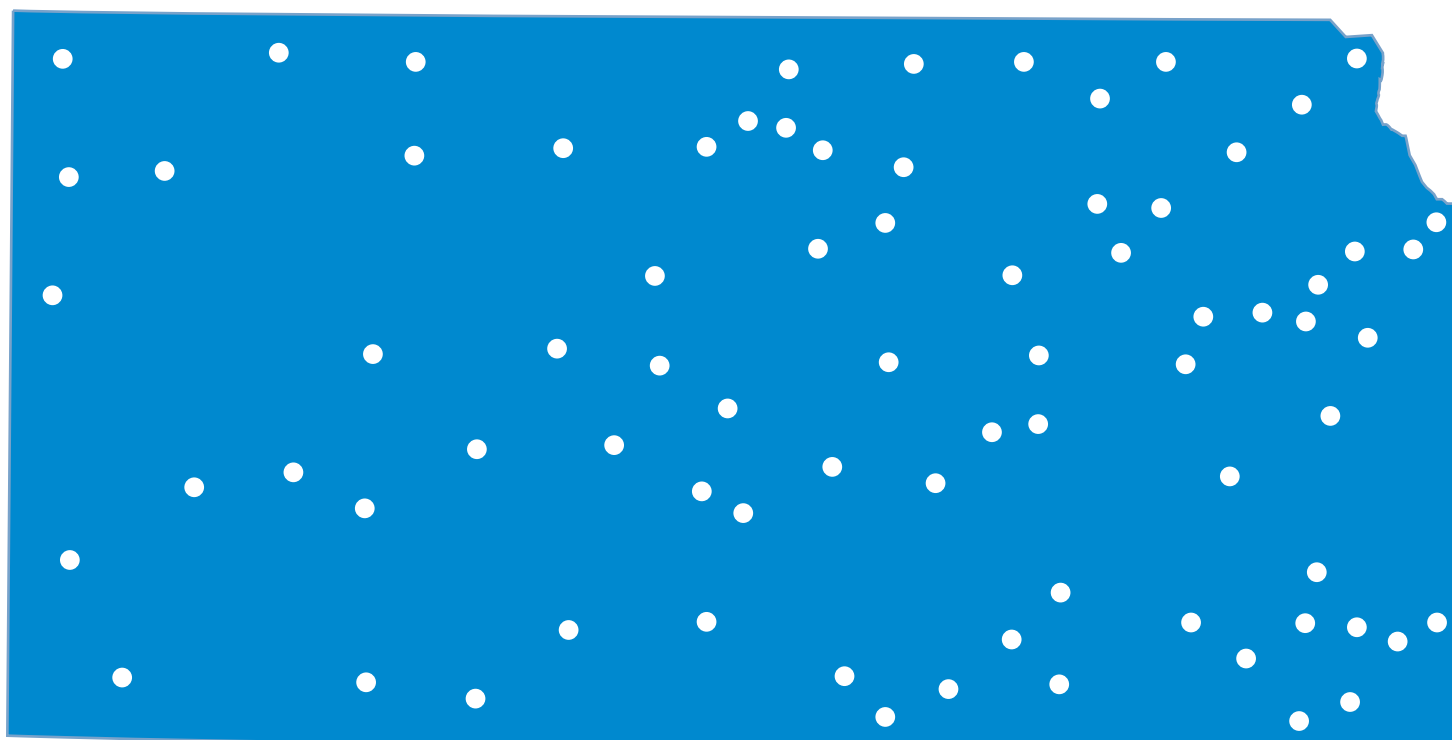
ARCADIA • ARMA
ASHLAND • BALDWIN CITY
BELLEVILLE • BELOIT
BURLINGAME • CAWKER CITY
CENTRALIA • CHAPMAN
CIMARRON • COLBY • DIGHTON
ENTERPRISE • EUDORA • GARDNER
GARNETT • GLASCO • GLEN ELDER
GOODLAND • HERINGTON
HILL CITY • HOLTON • HORTON
JETMORE • LAKIN • LINCOLN CENTER
LINDSBORG • LUCAS • MANKATO
MEADE • MINNEAPOLIS • NORTON
OBERLIN • OSAGE CITY
OSAWATOMIE • OSBORNE • OTTAWA
POMONA • RUSSELL • ST. FRANCIS
ST. MARYS • SENECA
SHARON SPRINGS • STOCKTON
TROY • WAMEGO
WASHINGTON • WATERVILLE



PROJECT KILOWATT-HOUR TOTALS 2013

Project	Energy Purchased-kWh	Peak Monthly Capacity Purchased-MW
GRDA Project	613,368,000	84.0
Nearman Project	86,035,000	37.5
WAPA Hydro Power Pool Project	98,736,895	33.9
SWPA Hydro	20,090,000	9.0
EMP1	127,012,145	—
EMP2	241,970,169	29.0
EMP3	29,379,241	—
Eudora	4,407,925	—
Total	1,220,999,375	193.4

KMEA MEMBER CITIES AND BOARD OF DIRECTORS 2013



1. Alma

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

2. Altamont

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

3. Anthony

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

4. Arma

1. Johnnie Joe Logiudici
2. Marvin Bualle
- A. Ray Vail

5. Ashland

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

6. Attica

1. Alan Woodruff
2. Angela Alexander
- A. Charles Berry

7. Augusta

1. Jim Sutton
2. Mike Rawlings
- A. William M. Keefer

8. Baldwin City

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

9. Belleville

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

10. Beloit

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

11. Burlingame

1. Joe Lamond
2. Wes Colson
- A. Vacant

12. Burlington

1. Alan Schneider
2. R. Standley Luke
- A. Vacant

13. Cawker City

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

14. Chanute

1. Larry Gates
2. J.D. Lester
- A. Sam Budreau

15. Chapman

1. Steve Blacketer
2. Gerald Bieker
- A. Ron Kabat

16. Cimarron

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

17. Coffeyville

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

18. Colby

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

19. Dighton

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

20. Ellinwood

1. Robert Peter
2. David Lloyd
- A. Frank Koehsch

21. Erie

1. Darrell Bauer
2. Larry Weidert
- A. Darrel Bauer

22. Eudora

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

23. Fredonia

1. Allen Miller
2. Carolyn Anderson
- A. Vacant

24. Garden City

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

25. Gardner

1. Darrin McNew
2. David Francq
- A. Randy Tedford

26. Garnett

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

27. Girard

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

28. Glasco

1. Mike Dove
2. Vacant
- A. Amy Cool

29. Glen Elder
1. Jerri Senger
2. Eldon Behymer
A. Ryan Duskie

30. Goodland
1. Dustin Bedore
2. Rod Blake
A. Doug Gerber

31. Greensburg
1. Matt Christenson
2. Ed Truelove
A. Mick Kendall

32. Herington
1. Mike Wendt
2. David Gerhke
A. Fred Olsen

33. Hill City
1. Mort Plunkett
2. Dennis Mersch
A. Greg Deines

34. Hillsboro
1. Mike Duerksen
2. Larry Paine
A. Bob Watson

35. Hoisington
1. Jonathan Mitchell
2. Donita Crutcher
A. Randy Miller

36. Holton
1. Bret Bauer
2. Ira Harrison
A. Scott Fredrickson

37. Horton
1. Wade Edwards
2. James Martin
A. Brent Shaffer

38. Hugoton
1. Gary Rowden
2. Charlie Wagner
A. Jan Leonard

39. Iola
1. Mike Phillips
2. Chuck Heffern
A. Vacant

40. Jetmore
1. Grayson Path
2. Derek Olson
A. Brian Beil

41. Johnson City
1. Alan Schweitzer
2. Wade Tucker
A. Vacant

42. Kansas City
1. Don Gray
2. Bob Adam
A. Jerry Ohmes

43. LaCrosse
1. Duane Moeder
2. Bruce Jones
A. Roland Holopirek

44. Lakin
1. Robbie McComb
2. Kirk Richardson
A. Cindy Broeckelman

45. Larned
1. Lane Massey
2. Harry Zielke
A. Austin Battin

46. Lincoln Center
1. Jack Crispin JR
2. Travis Schwerdtfager
A. Melodee Larsen

47. Lindsborg
1. Gregory DuMars
2. Bill Taylor
A. Jody Sare

48. Mankato
1. Don Koester
2. Terry Ortman
A. Marvin Loomis

49. Marion
1. Christian Pedersen
2. Randy Kelsey
A. Marty Fredrickson

50. Meade
1. Randi Vanderpool
2. Roger Musgrove
A. Dean Cordes

51. Minneapolis
1. Barry Hodges
2. Brian Bowles
A. Vacant

52. Moundridge
1. Kevin Schmidt
2. Hank Siemens
A. Randy Frazer

53. Mulvane
1. Kent Hixson
2. Brad Modlin
A. Vacant

54. Neodesha
1. Jim Shuessler
2. Allen Dinkel
A. Bobby Busch

55. Norton
1. Vacant
2. David Corns
A. Curt Bozarth

56. Oberlin
1. Karen Larson
2. Rob McFee
A. Dan Castle

57. Osage City
1. Mike Gilliland
2. Linda Jones
A. Dennis Combes

58. Osawatomie
1. Don Cawby
2. Karen LaDuex
A. Vacant

59. Osborne
1. Scott Nuzum
2. Robert Gorsuch
A. Barry Curry

60. Ottawa
1. Linda Reed
2. James G. Bradley
A. Jeff Oleson

61. Pomona
1. Charles Campfield
2. Dean Wineinger
A. Linda Grob

62. Pratt
1. Bill Hlavachick
2. Dave Howard
A. Kelly Hemphill

63. Russell
1. Duane Banks
2. Jon Quinday
A. Jim Cross

64. St. Francis
1. Bruce Swihart
2. J.R. Landenberger
A. Scott Schultz

65. St. John
1. Mel Chesbro
2. Mel Chesbro
A. Kevin Davis

66. St. Marys
1. Adam Moats
2. Mike Drippe
A. Ed Lester

67. Seneca
1. Jim Mitchell
2. Matthew Rehder
A. Galen Niehues

68. Sharon Springs
1. Patricia Miller
2. Brad Hatfield
A. Kenny Miller

69. Stafford
1. Dennis Bronson
2. Shawn Burgey
A. Frank Smiley

70. Sterling
1. Rod Willis
2. Vacant
A. John Wagerle

71. Stockton
1. Kim Thomas
2. Jeff Scott
A. Keith Schlaegel

72. Troy
1. Michael Brissett
2. Margaret Sutherland
A. Robert Jenkins

73. Wamego
1. Victor Enns
2. Merl Page
A. Vacant

74. Washington
1. Richard Applegarth
2. Ryan Kern
A. Larry Pape

75. Waterville
1. Chuck Tryon
2. Mickey Swearingen
A. Tony Mann

76. Wellington
1. Cliff Zens
2. Gus Collins
A. Shane Shields

77. Winfield
1. Gregory Thompson
2. Warren Porter
A. Merrill Gordon

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

KMEA MEMBER CITIES SUMMARY

City	Population	kWhs Sold	Peak Kw
Alma	975	13,459,955	3,3440
Altamont	1,154	8,113,699	2544
Anthony	2,300	3,765,216	9100
Arma	1,500	12,706,402	385
Ashland	850	10,353,149	3510
Attica	626	6,263,184	2178
Augusta	9,217	68,332,839	21920
Baldwin City	4,400	31,665,712	9360
Belleville	1,991	22,397,577	7540
Beloit	3,875	46,319,536	13045
Burlingame	934	7,992,845	2400
Burlington	2,562	3,280,023	9361
Cawker City	469	5,771,696	1521
Chanute	8,094	256,613,583	52987
Chapman	1,395	10,960,350	3408
Cimarron	2,150	15,022,063	4701
Coffeyville	10,295	783,598,000	114518
Colby	5,406	60,618,706	17200
Dighton	1,100	10,359,299	2,876
Erie	1,150	9,552,698	3,230
Eudora	6,300	40,587,731	12,000
Fredonia	2,482	26,899,125	8,390
Garden City	26,800	248,473,269	67,318
Gardner	20,318	138,940,000	36,400
Garnett	3,402	28,383,043	8,500
Girard	2,789	31,197,119	8,900
Glasco	495	3,290,721	1,051
Glen Elder	445	4,029,260	1,208
Goodland	4,450	6,114,920	12,500
Greensburg	800	12,304,963	3,121
Herington	2,512	19,220,917	5,658
Hill City	1,607	16,151,500	5,288
Hillsboro	2,993	22,944,202	7,551
Hoisington	2,975	20,537,605	6,160
Holton	3,329	43,441,497	11,312
Horton	1,776	13,524,597	4,690
Hugoton	3,829	33,692,494	10,920

Iola	5,704	106,886,925	25,326
Jetmore	850	8,840,831	2,900
Johnson City	1,455	15,205,329	4,024
Kansas City	145,000	2,176,341,000	495,000
LaCrosse	1,300	1,256,885	4,200
Lakin	2,316	15,687,071	4,300
Larned	4,236	39,421,557	12,300
Lincoln Center	1,285	12,690,573	4,400
Lindsborg	3,466	26,418,092	7,977
Mankato	861	7,614,123	2,154
Marion	1,927	17,271,524	6,106
Meade	1,721	14,924,009	4,915
Minneapolis	2,040	17,565,028	5,420
Moundridge	1,753	28,825,766	7,384
Mulvane	6,243	38,290,233	12,100
Neodesha	2,498	37,935,722	11,431
Norton	2,871	26,365,990	8,282
Oberlin	1,839	13,401,406	5,447
Osage City	2,943	4,036,649	8,283
Osawatomie	4,595	30,040,890	8,400
Osborne	1,374	14,359,150	4,400
Ottawa	12,887	145,876,259	37,400
Pomona	952	7,137,692	687,640
Pratt	6,850	78,099,003	24,168
Russell	4,481	110,234,006	24,871
Seneca	1,993	313,200,000	8,694
Sharon Springs	748	955,643	2,108
St. Francis	1,326	11,027,305	3,791
St. John	1,295	1,036,292	3,360
St. Marys	2,678	18,663,203	6,196
Stafford	1,047	9,344	2,700
Sterling	2,328	2,535,535	5,955
Stockton	1,200	14,200,000	4,049
Troy	1,010	944,320	2,263
Wamego	4,725	46,108,858	13,000
Washington	1,140	11,800,063	3,872
Waterville	616	4,605,409	1,478
Wellington	8,172	88,128,150	31,000
Winfield	13,301	304,842,715	64,734
Combined City Data	411,311	5,909,662,046	2,068,123

2013 IN REVIEW

A LETTER FROM KMGA'S PRESIDENT AND GENERAL MANAGER

J.R. Hatfield and Bob Poehling

KMGA was formed over twenty-five years ago with the sole purpose of creating a natural gas pool for municipal cities in the State of Kansas. The pooling model provided individual cities with market power by combining their volumes with the volumes of other cities. From its inception, KMGA has remained committed to diversifying our natural gas supply purchases by using a variety of pricing mechanisms. This ensures all member Cities of KMGA receive the most competitively priced gas at all times.

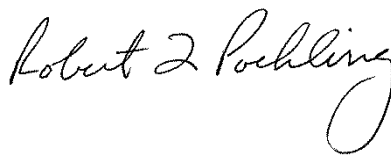
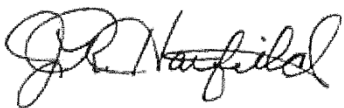
In 2013, KMGA made great strides. In an effort to diversify our gas purchases and add competitive tension to the purchasing process, we increased the number of potential suppliers we solicit for gas supplies. Enabling Agreements were signed with Seminole Energy and BP this year. With the addition of Enserco in 2012, we now have three reputable suppliers available for gas purchases. We continue to remain diligent in seeking bids from our other suppliers to ensure we provide our Members with the most competitive price available.

We also added the City of Concordia as a new member city in 2013. Concordia recently annexed a 50 acre property, located two miles north of the city proper, for industrial development. Currently KMGA is providing natural gas to Concordia's new jail facility. We are optimistic that as industrial or commercial development occurs, there will be additional opportunities for growth.

Additionally, the KMGA Executive Committee and Staff reviewed KMGA's Gas Purchase Program documents and formed a new Gas Supply Committee to update the documents. Last summer, we managed all of our power plants' needs with no punitive cash-out penalties. And, the KMGA staff continued to provide monthly Gas Market Reports to the EMP1 group this year and we received positive feedback on the content provided.

Finally, we said goodbye to a long-term Staff Member. On August 1, 2013, Chris Merritt, our Director of Natural Gas, retired after 16 years of dedicated service.

In conclusion, we are pleased with the Agency's accomplishments in 2013 and thank you for your continued support. As we move into 2014, we pledge our best efforts to meet and exceed your expectations in KMGA's future growth and consistent ability to provide reliable services.



J.R. Hatfield and Bob Poehling

KMGA GAS SUPPLY PROJECT

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 that they would not have individually. Since its inception, KMGA has grown in size and now provides natural gas to 39 municipalities, a water treatment plant, a municipal airport, one school district and a jail. Since 1993, KMGA has contracted 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 in 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, arranging for transportation services, monitoring gas usage and storage balances and administering the daily gas nomination and balancing process. 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 market buys.

Pipelines serving KMGA cities include: Atmos Energy, Black Hills Energy, Kansas Gas Service, Natural Gas Pipeline, Panhandle Eastern, and Southern Star Central.

City	Population	Total MMBtu Purchased	2013 Peak Day MMBtu
Abbyville	975	4,974	63
Anthony*	2,300	9,779	761
Argonia	499	23,022	244
Attica	626	34,060	443
Augusta*	9,217	1,256	96
Aurora	59	5,345	Not available
Baldwin City*	4,400	1,657	225
Burlingame	934	54,620	500
Cassoday	128	8,603	93
Coffeyville*	10,295	205,770	7,893
Concordia	5,320	150	9
Denison	271	11,925	107
Ellinwood*	2,131	80	38
Eskridge	589	64,326	612
Gardner*	20,318	3,767	1,240
Garnett	3,402	171,424	1,611
Halstead	2,085	172,973	1,104
Hesston	4,024	415,595	3,503
Hoisington*	2,975	4,393	647
Howard	671	33,549	339
Humboldt	1,999	95,424	776
Kechi	2,000	48,222	469
LaCygne	1,108	56,720	465
Longford	80	809	Not available
Lyons	3,739	162,978	1,461
McLouth	880	33,392	308
Manhattan-Airport	N/A		Not available
Manhattan-Sewer	N/A	12,077	88
Moundridge	1,753	121,790	912
Mulvane*	6,243	16	1
Osage City	2,943	125,416	1,148
Ottawa*	12,887	14,387	2,034
Partridge	259	9,506	107
Spearville	802	36,547	380
Sterling*	2,328	878	134
Sylvia	218	10,277	101
Uniontown	270	11,592	113
Walton	235	12,839	166
Wamego*	4,725	577	362
Washington*	1,140	1,736	323
Washington USD	N/A	6,317	Not available
Wellington*	8,172	53,497	1,790

* Natural gas used in electric power generation

COMBINED CITY TOTALS:

Population	120,435
MMBtu Purchased	2,042,265
Peak Day MMBtu	30,666

KMGA MEMBER CITIES AND BOARD OF DIRECTORS 2013



FULL MEMBERS

1. Alma

1. Jon Bolinder
2. Michael Slobodnik

2. Anthony

1. Lonnie Teel
2. Larry Berry

3. Argonia

1. Alan Brundage
2. Wayne Vineyard

4. Attica

1. Johnny O'Connor
2. Bret Ricke

5. Augusta

1. Bill Webster
2. Jim Sutton

6. Aurora

1. Tom L'Ecuyer
2. Gerald Bray

7. Baldwin City

1. Chris Lowe
2. Rob Culley

8. Beloit

1. Ronald Sporleder
2. Glenn Rodden

9. Burlingame

1. Joey Lamond
2. Dave Punches

10. Cassoday

1. Don Rommelfanger
2. Joy Nelson

11. Cheney

1. Vacant
2. Bradley Ewy

12. Coffeyville

1. Gene Ratzlaff
2. Gary Bradley

13. Concordia

1. Chad Buckley
2. Larry Uri

14. Ellinwood

1. Robert Peter
2. Dave Lloyd

15. Eskridge

1. Drew Kemp
2. Justin Rush

16. Gardner

1. Evan Rose
2. Bill Krawczyk

17. Garnett

1. Joyce Martin
2. Bob Mills

18. Halstead

1. J. R. Hatfield
2. Stacy McDowell

19. Hesston

1. John Carder
2. Scott Robertson

20. Hoisington

1. Dave Wondra
2. John Carey



20. Howard

1. Becky Oakleaf
2. Tim Rhone

21. Humboldt

1. Larry Tucker
2. Otis Crawford
2. JoAnn Evans

22. Kechi

1. Larry Kallenberger
2. Laura Hill

23. LaCygne

1. Devona Herrin
2. Jerome Moore

24. Larned

1. Ralph Streit
2. Vacant

25. Lyons

1. John Sweet
2. Dave Kendrick

26. McLouth

1. Gary Tullis
2. Kim Everley

27. Moundridge

1. Randy Frazer
2. Vacant

28. Mulvane

1. Galen Cummins
2. Kent Hixson

29. Osage City

1. Mike Gilliland
2. Duane Peroo

30. Ottawa

1. James Bradley
2. Jeff Oleson

31. Partridge

1. Norma Expositio
2. Vacant

32. Spearville

1. Bruce Vierthaler
2. Tammy Konrade

33. Sterling

1. Rod Willis
2. John Wagerle

34. Uniontown

1. Amber Kelly
2. Jess Ervin

35. Walton

1. Merlyn Johnson
2. Vacant

36. Wamego

1. Merl Page
2. Vacant

37. Washington

1. Richard Applegarth
2. Gene Martin

38. Wellington

1. Roger Estes
2. Gus Collins

AFFILIATE MEMBERS

Abbyville
Altamont
Chanute
Denison
Ford
Little River
Longford
McFarland
Sylvia

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

INDEPENDENT AUDITORS' REPORT

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 (the Agency), which comprise the statements of net position as of December 31, 2013 and 2012 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, 2013 and 2012, 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 7, 2014

KMEA MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Years Ended December 31, 2013 And 2012

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, 2013 and 2012. 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 77 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 (SWPA), (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 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 increases 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.

FISCAL YEAR 2012 - NET POSITION

As of December 31, 2012 and 2011, Agency assets exceeded its liabilities and deferred inflows by \$3,212,000 and \$3,277,000 (net position), respectively. Unrestricted cash and cash equivalents increased by \$310,000, from \$5,332,000 to \$5,642,000. The Agency's only long-term debt is the \$1,000,000 financed under the lease-purchase of its corporate headquarters building, which closed on December 1, 2008. As of December 31, 2012, the principal due within one year is \$55,000 and the principal due beyond one year is \$751,000.

Current assets minus current liabilities decreased by \$262,000; from \$2,264,000 as of December 31, 2011, to \$2,002,000 as of December 31, 2012. This decrease was primarily due to a combination of decreases in accounts receivable and increases in accounts payable and other accrued liabilities.

Change in net position for 2012 totaled \$(65,000), compared to \$251,000 for 2011. The negative change in net position in 2012 was due to the closing of the Northwest Cities project and the accumulated net position being paid back to the participating cities. 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		
	2013	2012	2011
Assets	\$31,734	\$1,325	\$1,497
Utility Plant, net	15,377	730	526
Restricted funds	10,930	8,784	8,865
Total Assets	58,041	10,839	10,888
Liabilities And Deferred Inflows			
Long-term obligations, less current portion	44,335	756	818
Other noncurrent liabilities	40	40	40
Current liabilities	10,714	6,782	6,601
Deferred inflows of resources	—	49	152
Total Liabilities and Deferred Inflows	55,089	7,627	7,611
Net Position	\$2,952	\$3,212	\$3,277

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.

There were no significant changes in the balance sheet during 2012. During 2012, total assets decreased by \$49,000, and total liabilities and deferred inflows increased by \$16,000; resulting in a net \$65,000 decrease in net position from \$3,277,000 to \$3,212,000.

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

	December 31		
	2013	2012	2011
Revenues			
Operating revenues	\$72,390	\$66,266	\$70,289
Interest on investments	1	1	4
Total Revenues	72,391	66,267	70,293
Expenses			
Purchased power	68,180	62,781	66,879
Other noncurrent liabilities	4,471	3,551	3,163
Total Revenues	72,651	66,332	70,042
Change In Net Position	\$(260)	\$(65)	\$251

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.

FISCAL YEAR 2012 CHANGE IN NET POSITION

Operating revenues decreased by 6% in 2012 from the prior year, as the net result of changes in sales volumes for the Projects. Operating revenues for the Nearman Creek Unit Power Project (Nearman) decreased by 32%, mainly due to outages experienced throughout the year which resulted in less MWh being supplied to the project and a decrease of approximately \$2.6 million. The lower revenue for the EMP2 project is due to internal generation by the cities that was supplied to the balancing area, which offsets the overall revenue/cost of the project.

Because operating revenues basically reflect the pass-through of purchased power costs, the \$4,023,000 decrease in operating revenues in 2012 was accompanied by a \$4,098,000 decrease in purchased power costs.

Other expenses increased by \$388,000; \$3,163,000 in 2011 compared to \$3,551,000 in 2012. The increase in other expenses was mainly due to an increase in expenditures associated with long-term power supply initiatives.

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 decreased by \$3,710,000 in 2012, revenues decreased by \$4,026,000, resulting in a decrease in change in net position for 2012 of \$316,000. This decrease in the change in net position is mostly due to an increase in expenditures incurred by the Agency.

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

	December 31		
	2013	2012	2011
Change In Net Position	\$(260)	\$(65)	\$251
Proceeds from debt	43,642	—	—
Principal paid on debt	(55)	(52)	(50)
Proceeds from line of credit	100	54	2,979
Principal paid on line of credit	(100)	(54)	(2,979)
Depreciation	186	18	199
Changes in assets and liabilities	1,466	459	(532)
Net additions to plant	(30,016)	(15)	(9)
Net increase (decrease) in cash	14,963	514	(141)
Cash and Cash Equivalents Beginning of the Year	6,372	5,858	5,999
Cash and Cash Equivalents End of the Year	\$21,335	\$372	\$5,858

FISCAL YEAR 2013 - CASH FLOW

In comparing the 2013 cash flow statement with that for 2012, the 2012 cash flow statement reflects a negative change in net position of \$65,000 compared to a negative change in net position of \$260,000 in 2013. The decrease was mainly due to an increase in expenditures related to the new projects.

FISCAL YEAR 2012 - CASH FLOW

In comparing the 2012 cash flow statement with that for 2011, the 2011 cash flow statement reflects a positive change in net position of \$251,000 compared to a negative change in net position of \$65,000 in 2012. The decrease was mainly due to the payout to the Northwest Cities due to the project being closed in 2012.

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 2014, 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.

One Agency responsibility is to schedule power deliveries to the Project participants over the Southwest Power Pool (SPP) transmission system. On March 1, 2014, SPP will implement the Integrated Marketplace. SPP's Integrated Marketplace will include functions such as a Day-Ahead Market, Centralized Unit

Commitment, Virtual Offers and Bids, Transmission Congestion Rights and Financial Schedules. The Agency will be instituting systems and procedures to be prepared to participate in SPP's Integrated Marketplace. The costs of implementation will be passed on to the Project participants.

On January 2, 2013, KMEA was selected by the City of Garden City to be their power provider commencing January 1, 2014. All costs incurred by KMEA associated with this project will be passed-through to the City of Garden City.

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.

KANSAS MUNICIPAL ENERGY AGENCY STATEMENT OF NET POSITION

(Dollars In Thousands)

Assets		
	December 31,	
	2013	2012
Plant		
Land	\$ 97	\$ 97
Work-in-Progress	30,586	—
Structures and equipment, depreciable	1,220	1,220
Electric plant in service, depreciable	1,828	1,820
Accumulated depreciation	(1,997)	(1,812)
Total Plant	31,734	1,325
Restricted Funds		
Cash and temporary cash investments	15,377	730
Current Assets		
Cash and cash equivalents	5,958	5,642
Accounts receivable	4,954	3,112
Prepaid expenses	18	30
Total Current Assets	10,930	8,784
Total Assets	\$ 58,041	\$ 10,839
Liabilities, Deferred Inflows And Net Position		
Liabilities Payable From Restricted Funds		
Accounts payable	\$ 40	\$ 40
Other Noncurrent Liabilities		
Long-term obligations, less current portion	44,335	756
Current Liabilities		
Accounts payable and other accrued liabilities	9,226	5,914
Customer deposits	701	658
Accrued vacation and sick leave	140	143
Interest payable	582	4
Current portion of long-term debt	58	55
Current portion of retirement benefits	7	8
Total Current Liabilities	10,714	6,782
Total Liabilities	55,089	7,578
Deferred Inflows Of Resources	—	49
Net Position		
Net investment in capital assets	1,075	519
Restricted	1,315	690
Unrestricted	562	2,003
Net Position	2,952	3,212
Total Liabilities, Deferred Inflows And Net Position	\$ 58,041	\$ 10,839

KANSAS MUNICIPAL ENERGY AGENCY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION *(Dollars In Thousands)*

	For the Years Ended December 31,	
	2013	2012
Operating Revenues		
Project power	\$68,149	\$62,719
Other revenues	4,241	3,547
Total Operating Revenues	72,390	66,266
Operating Expenses		
Purchased power and fuel	68,180	62,781
Administrative and general expense	4,242	3,313
Depreciation and amortization	186	187
Total Operating Expenses	72,608	66,281
Net Operating Expenses	(218)	(15)
Nonoperating Revenues (Expenses)		
Interest on investments	1	1
Interest expense	(43)	(51)
Total Nonoperating Expenses	(42)	(50)
Change In Net Position	(260)	(65)
Net Position - Beginning Of Year	3,212	3,277
Net Position - End Of Year	\$2,952	\$3,212

KANSAS MUNICIPAL ENERGY AGENCY STATEMENT OF CASH FLOWS

(Dollars In Thousands)

	For The Years Ended December 31,	
	2013	2012
Cash Flows From Operating Activities		
Cash received from members	\$ 70,545	\$ 69,091
Cash paid to suppliers	(67,667)	(67,104)
Cash paid to employees	(1,444)	(1,356)
Net Cash Provided By Operating Activities	1,434	631
Cash Flows From Investing Activities		
Sale of investments	(411)	(411)
Purchase of investments	411	411
Investment earnings	1	1
Net Cash Provided By Investing Activities	1	1
Cash Flows From Capital And Related Financing Activities		
Proceeds from line of credit	100	54
Principal paid on line of credit	(100)	(54)
Principal paid on debt	(55)	(52)
Proceeds from issuance of debt	43,642	—
Additions to plant	(30,016)	(15)
Interest paid	(43)	(51)
Net Cash Provided By (Used In) Capital And Related Financing Activities	13,528	(118)
Net Increase In Cash And Cash Equivalents	14,963	514
Cash And Cash Equivalents - Beginning Of Year	6,372	5,858
Cash And Cash Equivalents - End Of Year	\$ 21,335	\$ 6,372
Reconciliation Of Cash And Cash Equivalents To The Balance Sheet		
Restricted cash and temporary cash investments	\$ 15,377	\$ 730
Cash and cash equivalents	5,958	5,642
Total Reconciliation Of Cash And Cash Equivalents To The Balance Sheet	\$ 21,335	\$ 6,372
Reconciliation Of Net Operating Revenues (Expenses) To Net Cash Provided By Operating Activities		
Net operating revenues (expenses)	\$ (218)	\$ (15)
Adjustments to reconcile net operating revenues (expenses) to net cash provided by operating activities:		
Depreciation and amortization	186	187
Changes in assets and liabilities:		
Accounts receivable	(1,842)	393
Prepaid expenses	12	(2)
Accounts payable and accrued liabilities	3,302	103
Deferred inflows of resources	(49)	(103)
Customer deposits	43	68
Net Cash Provided By Operating Activities	\$ 1,434	\$ 631
Non-Cash Transactions: Capitalized Interest	\$ 579	\$ —

KANSAS MUNICIPAL ENERGY AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013 and 2012

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, 2013 and 2012, the Agency had 77 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.

1. 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: \$1,091,000 is restricted for the Agency

funds held by the Southwest Power Pool; \$184,000 is restricted for cities participating in the WAPA project; \$14,062,000 is held by a trustee related to the Series 2013 bonds and is restricted in the Garden City project for the Jameson Energy Center; and \$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, 2013 and 2012:

	December 31,	
	2013	2012
Deposits held to secure payment of monthly bills	\$701,000	\$658,000

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.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The adoption of this statement requires KMEA to modify the statement of net position and replace the statements of revenues, expenses and changes in net assets with a statement of revenues, expenses and changes in net position. This statement is effective for periods beginning after December 15, 2011. KMEA implemented Statement No. 63 retroactively in 2012.

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement requires KMEA to modify certain items that were previously reported as liabilities. This statement is effective for periods beginning after December 15, 2012. KMEA implemented Statement No. 65 retroactively in 2012.

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 2012 amounts have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on total net position.

2. Deposits And Investments

Cash and temporary investments held on KMEA'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 KMEA's name

by KMEA's custodial banks. As required by statute, all temporary investments are made in U.S. government obligations, securities collateralized by the U.S. government, open accounts, and certain municipal obligations. 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 does not have an investment policy which would further limit investment choices from state statute.

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.

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

	Maturities				Credit Rating S & P
	Fair Value	12 Months Or Less	12 - 24 Months	More Than 24 Months	
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+
Federal Home Loan Mortgage Corporation					
Discount Notes	548,000	548,000	—	—	A-1+
Corporate bonds	1,144,000	—	—	1,144,000	B1
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	

At December 31, 2012, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:

	Maturities				Credit Rating S & P
	Fair Value	12 Months Or Less	12 - 24 Months	More Than 24 Months	
Deposits	\$ 5,881,000	\$ 5,881,000	\$ —	\$ —	N/A
Investments:					
Money market mutual fund	491,000	491,000	—	—	AAAm
Total deposits, including investments	\$ 6,372,000	\$ 6,372,000	\$ —	\$ —	

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, 2013 and 2012, 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, 2013 and 2012, 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 places no limit on the amount the Agency may invest in any one issuer. 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 Tunisie. At December 31, 2012, the Agency had no investment concentrations exceeding 5%.

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, 2013 and 2012 was \$1,444,000 and \$1,356,000, respectively; and the Agency's total payroll was \$1,444,000 and \$1,356,000, 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 1.75 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 4 to 7 percent of their salary to the System. The Agency's contribution rates are established by state law, and are paid by the employee 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 .6 percent of payroll on increases in contribution rates over the prior year for KPERS members. This employer contribution requirement for the year 2013 was 8.79% percent of covered payroll. 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 contributions for the year ended December 31, 2011 were approximately \$159,000, which consisted of \$92,000 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, 2012 and 2011, the date of the most recent actuarial valuations, the System's actuarial accrued liability was \$23.531 billion and \$22.607 billion, respectively. The System's actuarial value of assets on those dates (valued at market) were estimated to be \$13.278 billion and \$13.379 billion, respectively, leaving an unfunded actuarial accrued liability of \$10.253 billion and \$9.228 billion, respectively. The Agency's 2013 and 2012 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 \$43,000 and \$42,000 to the plan for the years ended December 31, 2013 and 2012, 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 \$230,200 and \$267,700 in 2013 and 2012, respectively. As of December 31, 2013 and 2012, accounts receivable from KMGA was \$19,700, and \$50,100, 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, 2013:

	2012 Balance	Additions	Deletions	2013 Balance
Capital assets not being depreciated				
Land	\$ 97,000	\$ —	\$ —	\$ 97,000
Work-in-process	—	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 & 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, net	1,228,000	(177,000)	—	1,051,000
Capital assets, net	\$1,325,000	\$30,409,000	\$ —	\$31,734,000

Capital assets consisted of the following amounts as of December 31, 2012:

	2011 Balance	Additions	Deletions	2012 Balance
Capital assets not being depreciated				
Land	\$ 97,000	\$ —	\$ —	\$ 97,000
Capital assets being depreciated				
Plant in service	1,816,000	4,000	—	1,820,000
Structures & equipment	1,209,000	11,000	—	1,220,000
Total capital assets being depreciated	3,025,000	15,000	—	3,040,000
Less: accumulated depreciation	1,625,000	187,000	—	1,812,000
Total capital assets being depreciated, net	1,400,000	(172,000)	—	1,228,000
Capital assets, net	\$1,497,000	\$ (172,000)	\$ —	\$1,325,000

6. 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, 2013 and 2012 was \$783,000 and \$821,000, respectively. Amortization of the leased building under capital assets is included with depreciation expense.

In May 2013, the Agency (EMP1 Project) entered into a line of credit agreement with a financial institution that matures in May 2014. 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, 2013) less .25%. There were no amounts outstanding as of December 31, 2013 on this line of credit.

In May 2013, the Agency (EMP2 Project) entered into a line of credit agreement with a financial institution that matures in May 2014. 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, 2013) less .25%. There were no amounts outstanding as of December 31, 2013 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, 2013, no amounts were drawn on this letter of credit.

In January of 2014, subsequent to the end of the year, the Agency (Garden City) entered into a line of credit agreement with a financial institution that matures in August 2017. The Agency may draw up to \$1,500,000 on the line of credit, which bears interest at an initial rate of 3.25%. Through the date the financial statements were available to be issued, the Agency had drawn \$244,000 on this line of credit. This line of credit 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 and line of credit transactions for the Agency for the year ended December 31:

	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)	—	—
EMP2LOC	—	—	—	—	—
Series 2013	—	42,725,000	—	42,725,000	—
Bond Premium	—	917,000	—	917,000	—
	\$ 806,00	\$43,742,000	\$(155,000)	\$44,393,000	\$ 58,000

	2011 Balance	Additions	Deletions	2013 Balance	Due Within One Year
Lease purchase agreement	\$858,000	\$ —	\$(52,000)	\$806,000	\$55,000
EMP1LOC	—	54,000	(54,000)	—	—
EMP2LOC	—	—	—	—	—
	\$858,000	\$54,000	\$(106,000)	\$806,000	\$55,000

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Lease Purchase		Long-Term Bond		Total
	Principal	Interest	Principal	Interest	
2014	\$58,000	\$40,000	\$ —	\$1,675,000	\$1,773,000
2015	61,000	37,000	670,000	2,193,000	2,961,000
2016	65,000	34,000	690,000	2,172,000	2,961,000
2017	68,000	30,000	715,000	2,152,000	2,965,000
2018	72,000	26,000	740,000	2,123,000	2,961,000
2019 - 2023	427,000	67,000	4,245,000	10,072,000	14,811,000
2024 - 2028	—	—	5,415,000	8,901,000	14,316,000
2029 - 2033	—	—	6,895,000	7,419,000	14,314,000
2034 - 2038	—	—	8,940,000	5,384,000	14,324,000
2039 - 2043	—	—	11,695,000	2,619,000	14,314,000
2044	—	—	2,720,000	141,000	2,861,000
	\$751,000	\$234,000	\$42,725,000	\$44,851,000	\$88,561,000

During 2013, the Agency incurred \$622,000 of interest, of which \$579,000 was capitalized in work-in-process. During 2012, the Agency incurred \$51,000 of interest, none of which was capitalized.

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, 2013 and 2012.

	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

	2011 Balance	Additions	Deletions	2012 Balance	Due Within One Year
Termination benefits	\$19,000	\$ —	\$(6,000)	\$13,000	\$8,000
Compensated absences	143,000	—	—	143,000	143,000
	\$162,000	\$ —	\$(6,000)	\$156,000	\$151,000

7. 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.

Construction Commitments As of December 31, 2013, the Agency had outstanding construction contracts totaling \$9,589,000 that will be paid from the remaining proceeds of long-term debt.

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.

8. 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.

9. Other Postemployment Benefits (OPEB)

Plan Description: The Agency participates in a cost-sharing multiple-employer healthcare plan through the National Rural Electric Coop. Association (NRECA) that provides the same medical and pharmacy benefits to active members as it does to eligible retirees and their spouses. Employees who reach age 55 with 10 years of service or when their age plus their number of years of service equals 85 are eligible. The OPEB plan is organized as a qualified trust (Group Benefit Trust) sponsored by the NRECA, which has separately issued financial statements.

Funding Policy: The Group Benefit Trust establishes and amends contribution requirements. NRECA uses a modified community rating method in which claims experience for all groups are combined into a community pool. The pool is evaluated to determine the overall premium required to support the pool. Currently, retirees pay 100% of the active premium rates. 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, 2013, 2012 and 2011:

	2013	2012	2011
Agency premiums paid for active employees	\$312,241	\$269,249	\$318,793
Retirees premiums paid	31,556	30,205	18,269

COMBINING STATEMENT OF NET POSITION

December 31, 2013 (Dollars In Thousands)

	Hydropower								Garden	Misc.	Agency
	WAPA	SWPA	Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	City	Projects	Total
Assets											
Plant											
Land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$97	\$97
Work-in-progress	—	—	—	—	—	—	—	—	30,586	—	30,586
Structures & equipment, depreciable	—	—	—	—	—	—	—	—	—	1,220	1,220
Electric plant in service, depreciable	105	—	1,468	—	32	—	—	—	—	223	1,828
Accumulated depreciation	(97)	—	(1,422)	—	(32)	—	—	—	—	(446)	(1,997)
Total Plant	8	—	46	—	—	—	—	—	30,586	1,094	31,734
Restricted Funds											
Cash and temporary cash investments	184	—	40	—	—	—	—	—	14,062	1,091	15,377
Current Assets											
Cash and cash equivalents	1,263	119	1,049	2,139	740	256	90	—	—	302	5,958
Accounts receivable	395	80	686	404	740	1,785	473	—	—	391	4,954
Prepaid assets	—	—	—	—	—	—	—	—	—	18	18
Interproject receivables (payables)	(103)	(3)	(1)	1,092	(37)	(618)	(420)	—	—	90	—
Total Current Assets	1,555	196	1,734	3,635	1,443	1,423	143	—	—	801	10,930
Total Assets	\$1,747	\$196	\$1,820	\$3,635	\$1,443	\$1,423	\$143	\$ —	\$44,648	\$2,986	\$58,041
Liabilities, Deferred Inflows And Net Position											
Liabilities											
Payable From Restricted Funds											
Accounts payable	\$ —	\$ —	\$ 40	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$40
Other Noncurrent Liabilities											
Long-term obligations, less current portion	—	—	—	—	—	—	—	—	43,642	693	44,335
Current Liabilities											
Accounts payable and other accrued liabilities	976	83	719	3,226	1,411	1,424	143	—	682	562	9,226
Customer deposits	588	113	—	—	—	—	—	—	—	—	701
Accrued vacation and sick leave	—	—	—	—	—	—	—	—	—	140	140
Interest payable	—	—	—	—	—	—	—	—	579	3	582
Current portion of long-term debt	—	—	—	—	—	—	—	—	—	58	58
Current portion of retirement benefits	—	—	—	—	—	—	—	—	—	7	7
Total Current Liabilities	1,564	196	719	3,226	1,411	1,424	143	—	1,261	770	10,714
Total Liabilities	1,564	196	759	3,226	1,411	1,424	143	—	1,261	1,463	55,089
Deferred Inflows Of Resources	—	—	—	—	—	—	—	—	—	—	—
Net Position											
Net investment in capital assets	8	—	46	—	—	—	—	—	678	343	1,075
Restricted	184	—	40	—	—	—	—	—	—	1,091	1,315
Unrestricted	(9)	—	975	409	32	(1)	—	—	(933)	89	562
Total Net Position	183	—	1,061	409	32	(1)	—	—	(255)	1,523	2,952
Total Liabilities, Deferred Inflows And Net Position	\$1,747	\$196	\$1,820	\$3,635	\$1,443	\$1,423	\$143	\$ —	\$44,648	\$2,986	\$58,041

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2013 (Dollars In Thousands)

	Hydropower		Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	Garden City	Misc. Projects	Agency Total
	WAPA	SWPA									
Revenues											
Project power	\$4,799	\$765	\$6,545	\$29,565	\$6,068	\$18,389	\$1,563	\$439	\$ —	\$16	\$68,149
Other revenues	283	78	294	1,450	543	991	147	105	—	350	4,241
Total Revenues	5,082	843	6,839	31,015	6,611	19,380	1,710	544	—	366	72,390
Operating Expense											
Purchased power and fuel	4,819	765	6,545	29,565	6,068	18,400	1,563	439	—	16	68,180
Administrative and general expense	284	78	245	1,450	543	981	147	105	255	154	4,242
Depreciation and amortization	—	—	103	—	—	—	—	—	—	83	186
Total Operating Expenses	5,103	843	6,893	31,015	6,611	19,381	1,710	544	255	253	72,608
Net Operating Revenues (Expenses)	(21)	—	(54)	—	—	(1)	—	—	(255)	113	(218)
Interest on investments	—	—	—	—	—	—	—	—	—	1	1
Interest expense	—	—	—	—	—	—	—	—	—	(43)	(43)
Net Revenues (Expenses)	(21)	—	(54)	—	—	(1)	—	—	(255)	71	(260)
Net Position - Beginning Of year	204	—	1,115	409	32	—	—	—	—	1,452	3,212
Net Position - End Of Year	\$183	\$ —	\$1,061	\$409	\$32	\$ (1)	\$ —	\$ —	\$ (255)	\$1,523	\$2,952

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 (SWPA), 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.

INDEPENDENT AUDITORS' REPORT

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 (KMGA), which comprise the statement of net position as of December 31, 2013 and 2012, 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 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 KMGMA as of December 31, 2013 and 2012, 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 7, 2014

KMGA MANAGEMENT'S DISCUSSION AND ANALYSIS

For The Years Ended December 31, 2013 And 2012

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, 2013 and 2012. 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, 2013, KMGA has grown to 38 members and 10 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, 2013 and 2012, KMGA's net position was \$504,216 and \$513,547, respectively, and current assets exceeded current liabilities by \$504,216 and \$513,547, respectively. KMGA has no long-term debt.

Changes in net position for the year 2013 were \$(9,331), compared to \$48,405 for 2012.

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		
	2013	2012	2011
Assets			
Utility plant	\$ —	\$ —	\$836
Cash and cash equivalents	1,327,296	1,467,432	1,499,080
Accounts receivable	3,379,243	596,306	161,289
Other current assets	—	2,059	—
Total Assets	4,706,539	2,065,797	1,661,205
Liabilities			
Accounts payable and accrued expenses	4,202,323	1,429,081	963,807
Other current liabilities	—	123,169	232,256
Total Liabilities	4,202,323	1,552,250	1,196,063
Net Position	\$504,216	\$513,547	\$465,142

A comparison of the year-end statement of net position shows that the net position has decreased in 2013 as a result of expenses exceeding revenues for the year. (See below Table 2, Condensed Statements of Changes in Net Position).

A relatively small net position in relation to the level of monthly expenses is mitigated by KMGA's procedure of billing the participants in the Gas Supply Project in advance of service. Generally, revenue from Gas Supply Project participants is collected approximately 30 days prior to the time payments are made to gas suppliers and transporters.

TABLE 2: CONDENSED STATEMENTS OF NET POSITION

	December 31		
	2013	2012	2011
Gas Supply Project Margin			
Project revenues	\$8,856,545	\$7,855,996	\$9,083,679
Gas and gas transportation	(8,642,149)	(7,549,668)	(8,787,913)
Total Gas Supply Project Margin	214,396	306,328	295,766
Other operating revenues	23,587	23,587	75,702
Interest income	—	—	91
Total	237,983	329,915	371,559
Administrative expenses	(247,314)	(280,674)	(295,954)
Depreciation expense	—	(836)	(3,644)
Changes In Net Position	(9,331)	48,405	71,961
Total Revenues	\$8,880,132	\$7,879,583	\$9,159,472
Total Expenses	\$(8,889,463)	\$(7,831,178)	\$(9,087,511)

Expenses exceeded revenues in 2013 due to a decrease in project margin. As for gas volumes, KMGAs transported (in MMBtus) 1,882,614 in 2011, 2,183,559 in 2012, and 2,042,265 in 2013.

TABLE 3: CONDENSED STATEMENTS OF CASH FLOWS

	December 31		
	2013	2012	2011
Net operating revenues	\$(9,331)	\$48,405	\$71,870
Depreciation	—	836	3,644
Changes in assets and liabilities	(130,805)	(80,889)	(97,153)
Interest earnings	—	—	91
Net Decrease In Cash	(140,136)	(31,648)	(21,548)
Cash And Cash Equivalents - Beginning Of Year	1,467,432	1,499,080	1,520,628
Cash And Cash Equivalents - End Of Year	\$1,327,296	\$1,467,432	\$1,499,080

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 KMGAs has no debt and has not engaged in other financing activities. Cash flows from investing activities consist of interest earnings.

PLANT

There were no changes in KMGAs plant balance.

ECONOMIC OUTLOOK

The cost of gas is expected to be stable through 2013. 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 KMGAs 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.

KMGAs STATEMENT OF NET POSITION

	December 31,	
	2013	2012
Assets		
Plant		
Gas plant in service	\$34,461	\$34,461
Accumulated depreciation	(34,461)	(34,461)
Current Assets		
Cash and cash equivalents	1,327,296	1,467,432
Accounts receivable	3,379,243	596,306
Prepaid assets	—	2,059
Total Current Assets	4,706,539	2,065,797
Total Assets	\$4,706,539	\$2,065,797
Liabilities And Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$4,202,323	\$1,429,081
Advance gas supply project billings	—	123,169
Total Current Liabilities	4,202,323	1,552,250
Net Position		
Unrestricted	504,216	513,547
Total Liabilities And Net Position	\$4,706,539	\$2,065,797

KMGA STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For The Years Ended December 31,	
	2013	2012
Operating Revenues		
Gas supply project	\$8,856,545	\$7,855,996
Membership dues	23,587	23,587
Total Operating Revenues	8,880,132	7,879,583
Operating Expenses		
Purchased gas	7,400,978	6,395,729
Gas transportation	1,241,171	1,153,939
Administrative and general	247,314	280,674
Depreciation	—	836
Total Operating Expenses	8,889,463	7,831,178
Changes In Net Position	(9,331)	48,405
Net Position - Beginning Of Year	513,547	465,142
Net Position - End Of Year	\$504,216	\$513,547

KMGA STATEMENT OF CASH FLOWS

	For The Years Ended December 31,	
	2013	2012
Cash Flows From Operating Activities		
Cash received from customers	\$5,974,026	\$7,914,261
Cash payments to suppliers for goods and services	(6,114,162)	(7,945,909)
Net Cash Used In Operating Activities	(140,136)	(31,648)
Net Decrease In Cash & Cash Equivalents	(140,136)	(31,648)
Cash And Cash Equivalents Beginning Of Year	1,467,432	1,499,080
Cash And Cash Equivalents End Of Year	\$1,327,296	\$1,467,432
Reconciliation Of Net Operating Revenues To Net Cash Used In Operating Activities		
Net operating revenues	\$(9,331)	\$48,405
Adjustments to reconcile net operating revenues to net cash used in operating activities:		
Depreciation	—	836
Changes in assets and liabilities:		
Accounts receivable	(2,782,937)	143,765
Prepaid assets	2,059	(2,059)
Advance gas supply project billings	(123,169)	(109,087)
Accounts payable and accrued expenses	2,773,242	(113,508)
Net Cash Used In Operating Activities	\$(140,136)	\$(31,648)

KMGA NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013

1. 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, 2013, KMGA had 38 full-member cities and 10 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 6, 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 the KMEA.

In December 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement is intended to enhance the usefulness of GASB codification by incorporating guidance, which previously could only be found in FASB or American Institute of Certified Public Accountants (AICPA) pronouncements. The statement is effective for periods beginning after December 15, 2011. KMGA has adopted Statement No. 62 for the period beginning January 1, 2012.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position. This statement is intended to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The adoption of this statement requires KMGA to modify the statement of net position and replace the statements of revenues, expenses and changes in net assets with a statement of revenues, expenses and changes in net position. This statement is effective for periods beginning after December 15, 2011. KMGA implemented Statement No. 63 in 2012.

In March 2012, GASB issued Statement No. 65 Items Previously Recorded as Assets and Liabilities. This statement is effective for periods beginning after December 15, 2012 and reclassifies certain items currently reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources. This statement had no impact on KMGA.

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on total net position.

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, the Agency's deposits were fully collateralized and not exposed to custodial credit risk.

Investments during the year did not vary substantially from those at year-end in amounts or level of risk.

4. Prepaid/Advance Gas Supply Project Billings - When invoicing the Gas Supply Project participants for gas purchases and transportation, KMGGA bills at the beginning of each month for the estimated gas volumes to be delivered during that month. Three weeks into the following month when actual gas volumes consumed are known, KMGGA bills the participants for the difference between actual and estimated volumes as part of the next monthly invoicing. The estimated billings are recorded as a payable to the individual cities. The actual billings are recorded as a receivable from the individual cities. Revenues are recorded monthly on the basis of actual volumes delivered for that month.

5. Plant

	Gas Plant In Service	Accumulated Depreciation	Total
Balance - December 31, 2011	\$34,461	\$(33,625)	\$836
Additions	—	(836)	(836)
Balance - December 31, 2012	34,461	(34,461)	—
Additions	—	—	—
Balance - December 31, 2013	\$34,461	\$(34,461)	\$ —

6. Related Parties - KMGGA 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, KMGGA secures natural gas supplies for its member cities, which own gas or electric distribution utilities. Due to their common membership and similar purposes, KMGGA entered into a Management Services Agreement with KMEA on August 9, 1990, whereby KMEA employees managed KMGGA'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, KMGGA will continue to rely on KMEA employees to manage and administer KMGGA's operations. For the services provided and related expenses

incurred, KMEA bills KMGGA at cost. The management services fee was \$230,200 in 2013 and \$267,700 in 2012. As of December 31, 2013 and 2012, accounts payable to KMEA were \$19,686 and \$50,112, respectively.

The Joint Administration Agreement created the Joint Board for Administration, comprised of seven representatives: three each from the KMGGA 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. KMGGA has no employees. The Joint Board is expressly prohibited from adopting annual budgets for KMGGA or KMEA or authorizing the issuance of any indebtedness of KMGGA or KMEA. Those powers remain with the respective Boards of KMGGA and KMEA.

7. Commitments And Contingencies

Gas Purchase Agreements: KMGGA and each Gas Supply Project participating city have entered into a Gas Acquisition Management Project Participation Agreement, which states that KMGGA 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, KMGGA 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: KMGGA 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 fiscal years.

BOARD AND OFFICERS

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
Jeff Oleson - Assistant Director of Utilities, City of Ottawa
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
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

Galen Cummins - Utility Generation Director, City of Mulvane
John Carder - City Administrator, City of Hesston
John Sweet - City Administrator, City of Lyons
Mike Gilliland - Director of Utilities, City of Osage City

KMEA/KMGa STAFF

Bob Poehling - General Manager
David Rosenthal - Energy Controller, Electric
Jannsen Bruse - Manager Project and Asset Management
Jennifer Moore - Director, Finance and Accounting
John Seck - Director, Resource Planning and Development
Katia Mitchell - Administrative Assistant
Neal Daney - Manager, Power Supply

Neil Rowland - Director, Transmission and Security
Paula Campbell - Senior Energy Controller, Electric
Sam Mills - Director, Projects & Asset Management
Teena McCloud - Senior Accountant
Tom Saitta - Director, Electric Operations
Joni Shadonix - Energy Controller, Gas
Patrick Ryan - Manager, Member Services

BUSINESS ASSOCIATES

COLUMBIA CAPITAL MANAGEMENT, LLC
CRETCHER- HEARTLAND
GILMORE & BELL, P.C
HR- HAVEN, INC.
JENNINGS STROUSS, PLC
LIGHEDGE SOLUTIONS, LLC
MID STATES ENERGY WORKS, INC
RAINBOW ENERGY MARKETING CORPORATION

SAWVEL & ASSOCIATES, INC
SEGA, INC
SIEMENS ENERGY
SISCO, INC
UMB BANK
CUSTOMIZED ENERGY SOLUTIONS
LUTZ, DAILY & BRAIN, LLC
RUBINBROWN,LLP

KANSAS MUNICIPAL ENERGY AGENCY

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