

# ANNUAL REPORT

2017



[www.KMEA.com](http://www.KMEA.com)



## MISSION

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

## VISION

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

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# A MESSAGE FROM

## KMEA's President and General Manager

*Duane Banks and Paul Mahlberg*

As we reflect on the past year for the Agency, 2017 will be marked as one of importance. Two key long-term projects were consummated during this year — the Dogwood Energy Project and the Buckeye Wind Project. Five member cities signed on in July to receive the benefits of KMEA ownership in the Dogwood Facility and twenty-one cities signed on in November to a long-term, low-cost wind energy resource from the Buckeye Project. The cities involved in these projects will start receiving the benefits in 2018. Please see further details of these projects on the following pages of this report. These projects are prime examples of the value of joint action and the agency fulfilling its primary mission of providing reliable and cost effective energy to the member communities.

Membership in our agency continues to increase. In 2017, we had five new cities (Blue Mound, Chetopa, Montezuma, Prescott and Robinson) join the KMEA team bringing the total number of members to 82 (an all-time high). In addition to membership, the City of Prescott also signed on to the EMP1 project further expanding that group to a total of 7 cities.

The agency continues to expand its member services. During 2017 we performed distribution facility assessments for over 27 member cities. Through these efforts with the assistance of an engineering consulting firm, the cities were provided a third party evaluation of their electric distribution systems including areas of strength and areas that need some improvements. In addition, the in-house 24/7 operations group marked their one year anniversary in 2017. This group has been able to bring further benefits to the members through enhanced scheduling features for several of our member resources including the WAPA, SPA and GRDA projects.

As we move into 2018 and beyond, we will follow our mission statement of pledging our relentless focus and dedication to providing new and innovative solutions to help our members achieve reliable and cost effective energy to their communities. Finally, both of us would like to thank the entire membership for all the trust and support that you have provided us both over the last several years.



Duane Banks  
KMEA President



Paul Mahlberg  
KMEA General Manager

# KMEA HIGHLIGHTS OF 2017

## Joint Action at Work

During 2017, two new projects were consummated on the behalf of a number of cities — the Dogwood Project and the Buckeye Project. Only through joint action were these projects possible hence proving out one of our core founding principles where two or more cities join forces for the purpose of securing a reliable and cost effective supply of electricity. Both our larger members and our smaller members were able to realize the benefits of each of these two projects.

### Dogwood Project

On July 19, 2017, KMEA entered into the Asset Purchase Agreement with Dogwood Energy LLC for the purchase of 10.1% ownership interest (approximately 62 megawatts) in the Dogwood Energy Facility on behalf of five member cities (Garden City, Gardner, Lindsborg, Ottawa and Russell). The Dogwood Energy Facility is a 650 MW (nameplate), natural gas fired, combined-cycle facility located in Pleasant Hill, Missouri. This project is the first of its kind — an actual ownership interest in a large facility for the benefit of a number of the Agency member cities. Through this arrangement, the five cities were able to join forces to secure a life-of-unit, reliable and economic power supply resource for each of their communities. After securing the financing and closing on the purchase transaction, the project began providing energy to the five cities on March 30, 2018.



### Buckeye Project

On November 22, 2017, KMEA entered into a renewable energy purchase agreement with Buckeye Wind Energy LLC for the purchase of 40.95 megawatts of capacity and energy from the Buckeye Wind Energy Center located in Ellis County, Kansas. This project is a prime example of joint action at work. Twenty-one (21) of our members are participating in this long-term, very economical renewable energy supply ranging from a 0.2 megawatt share for one of the smaller communities to a 15 megawatt share for one of the larger member communities. This project is the first wind resource for many of the participating members. The project will begin providing renewable energy to our members beginning on June 1, 2018.



## 2017 Golf Outing

The 2017 KMEA Annual Golf Outing was held at Falcon Ridge Gold Club in Lenexa, KS on June 8th. The StressCrete Group of Atchinson, Kansas was the title sponsor of the Golf Outing. Golfers from KMEA Member Cities, Mid States Energy Works, Stresscrete, and KMEA Staff participated.





## KMEA Continues to Grow

In 2017 KMEA gained five Member Cities. At the May Board of Directors meeting KMEA added the Cities of Montezuma and Prescott to the membership. During the 2017 Annual Conference, the Board of Directors approved the addition of Montezuma as a member and in December the Cities of Chetopa and Robinson were added to KMEA through a mail ballot.



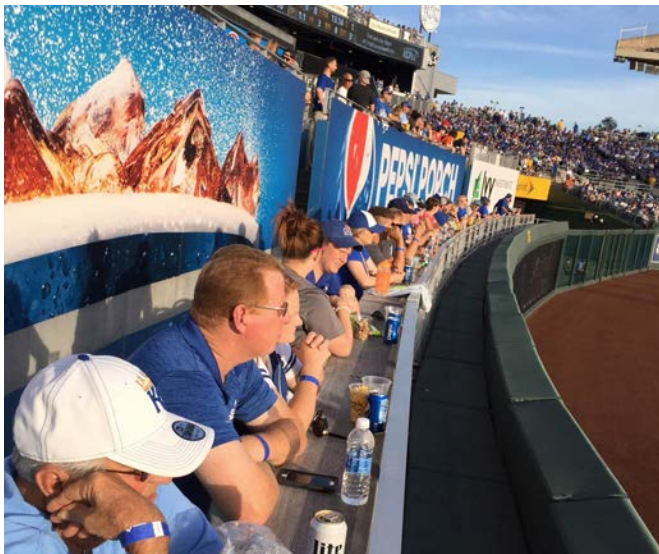
## Power Supply and Finance Committees

### Power Supply Committee

Since its beginnings in 2012 the Power Supply Committee has been tasked with reviewing a number of resources, both long-term and short-term, to meet the future energy needs of KMEA's member cities.

### Finance Committee

The Finance Committee, also established in 2012, was successful in staying on task with its 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.



## The Joint EMP Meeting and Royals Game

The Joint EMP meeting was held on June 7th in Overland Park, KS where the members heard presentations from multiple agencies. The meeting began with a presentation from Jeff Haas, Vice President, Membership and Strategic Planning for the American Public Power Association (APPA). Jeff was followed by Lanny Nickell, Vice President of Engineering for the Southwest Power Pool (SPP) who gave an overview of SPP and how it relates to KMEA. The third presenters for the day were Dong Quach, Manager of the Electric Production Division and Andrew Ferris, Director of Electric Supply Planning for the Kansas City Board of Public Utilities (KCBPU). The meeting concluded with Tom Saitta, Director Electric Operation for KMEA updating members on transmission.

The attendees of the Joint EMP meeting were treated to a night at Kauffman Stadium. Sega Inc. sponsored the event with access to the Pepsi Porch and a Cheeseburger and Hot Dog buffet.





# Annual Conference 2017

The 2017 KMEA Annual Conference was held on October 19-20. A large group of municipal utility personnel and elected officials were in attendance, filling the meeting room to capacity. Day one began with the KMGa and KMEA Board of Directors meetings in the morning. The general session got underway that afternoon with an entertaining and humorous keynote presentation from Steve Gilliland, who shared with the audience how to open doors to success in their careers, their relationships and their lives through his story of perseverance. The Day 2 Keynote Speaker was Kevin Lockett, former Kansas City Chief and Kansas State football player. Kevin talked to the group about the need for change and having the ability to see when it is needed to stay relevant.

Breakout sessions were presented later in the day by individuals from the electric and gas industries. These presentations included "The Value of your Gas Utility" by Allen Dinkel, City of Junction City, "Recruiting and Retaining Quality Employees" by Noel Rasor, KU Public Management Center, "Distributed Generation and Rate Design" by Adam Young, Burns & McDonnell, "Renewables — Square Pegs in Round Holes?" Eugene Mauk, MISO and "Pooling of Services Discussion" Joey Lamond, City of Osage City.



## Six Members Celebrate Power Centennials

The City of Cimarron, City of Dighton, City of Eudora, City of Jetmore, City of Lakin (Not Pictured) and the City of Lucas (Not Pictured) each reached the centennial milestone in 2017 representing 100 years of public power. KMEA recognized the cities at the Annual Conference. To celebrate this achievement KMEA presented each with a plaque commemorating this historic achievement. Jeff Acton, City Manager, was on hand at the annual conference to receive the award on behalf of the City of Cimarron. Craig Collins, City Superintendent, received the award on behalf of the City of Dighton. Eldon Brown, Electric Superintendent, received the award on behalf of the City of Eudora and Michael Ort, City Administrator, received the award on behalf of the City of Jetmore.



**City of Cimarron**  
*Jeff Acton*  
City Manager





| 1 Kevin Lockett | 2 Steve Gilliland | 3 Allen Dinkel, City Manager, Junction City, KS | 4 Noel Rasor, Assistant Director, KU Public Management Center | 5 Adam Young, Senior Utility Consultant, Burns & McDonnell | 6 Eugene Mauk, External Affairs, MISO | 7 Tyson McGreer, Dustin Bedore, Pat Mallory | 8 Shannon Hoskinson, Jeff Acton, Gary Rowden | 9 Dixie Riedel, Wes Colson | 10 Opening Breakfast



## Colin Hansen

### Honored with the *Max Embree Award*

Colin Hansen, Executive Director, Kansas Municipal Utilities (KMU) was selected as the 2017 Max Embree Award. Max Embree was a long-time resident of the City of Colby and 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.



## Duane Moeder

### Presented with the *Gil Hanson Award*

Duane Moeder, City Manager, City of Lacrosse 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.



## Jeff Scott

### Presented with the *Dedicated Commitment to Service Award*

Jeff Scott, Power Plant Superintendent, City of Stockton was selected as the 2017 Dedicated Commitment to Service Award. This award was established to recognize an employee of a KMEA member city who has, over a period of years, demonstrated outstanding performance and made significant local contribution to their municipal utility.



**City of Dighton**  
*Craig Collins*  
City Superintendent



**City of Eudora**  
*Eldon Brown*  
Electric Superintendent



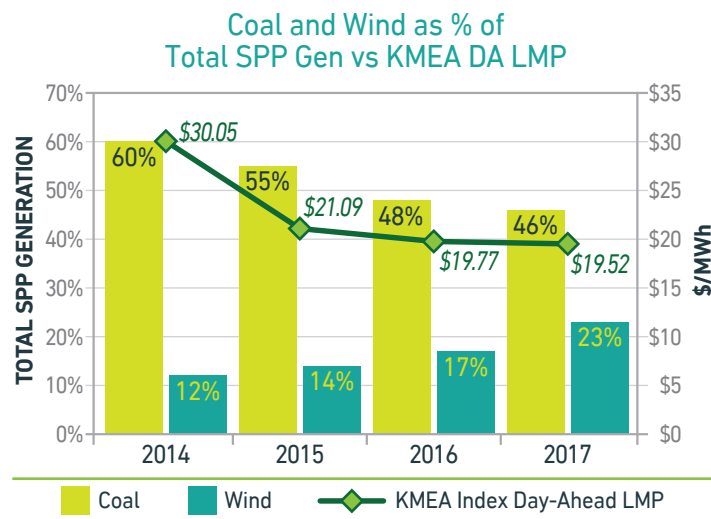
**City of Jetmore**  
*Michael Ort*  
City Administrator

# The Market

Since the launch of the Southwest Power Pool (SPP) Integrated Marketplace in March, 2014, key trends impacting KMEA member cities have emerged and continued throughout 2017. These include increasing wind generation capacity, decreasing coal-fired generation, and continuing relatively low, stable natural gas prices.

First, the remarkable build-out of renewable, wind generation across the Midwest continued during 2017. In 2014 wind accounted for 12% of all electricity generated in SPP. Largely due to significant government subsidies, yet just four years later that share has nearly doubled. In fact, in 2017 wind turbines, many of which are planted in our Kansas home, were responsible for 23% of all generation in SPP, up 6% just since 2016. Wind resources are becoming an integral component of many municipal power supply plans across the United States, including those of KMEA members. For example, since 2016 four EMP1 cities have participated in power purchase agreements with Marshall Wind Farm in northeast Kansas. Garden City has contracted for energy from the Spearville Wind Farm since 2014. And in 2017, twenty-one cities committed to receive power beginning June 1, 2018, through a 15 year purchase agreement for a 40.95 MW share of Buckeye Wind Farm, which is 40 miles south of the City of Stockton, one of the participating communities.

On the other hand, coal-fired generation as a percentage of total SPP generation continued its downward trend as a result of environmental pressures and the less-than-favorable Marketplace economics of an aging fleet (e.g., no federal subsidies for coal). Mirroring the sharp increase in renewables, especially wind, is an equally precipitous decline in coal generation, falling steadily from 60% in 2014 to 46% in 2017.



## HIGHLIGHTS

### June 1

The City of Prescott, with a peak load of 0.5 MW, becomes the seventh participating city in Energy Management Project #1

### July 21

The thirty-four cities represented by KMEA in the SPP Integrated Marketplace set the 2017 KMEA coincident peak load at 365.3 MW

### August 21

The total solar eclipse causes a noticeable dip in load, especially in the northeast Kansas cities, such as Holton

### December 15

SPP set its all-time record with 15,690 MW of wind generation in one hour

## Prescott

In 2016 the number of cities that KMEA is fortunate to represent in the Southwest Power Pool Integrated Marketplace grew by one to thirty-four as the City of Prescott, led by Mayor Kevin Wood, on June 1st became the seventh city in Energy Management Project #1, joining Baldwin City, Gardner, Garnett, Osawatimie, Ottawa, and 2015 addition, Pomona. Prescott's new power supply plan will benefit the eastern Kansas community with economical and reliable electricity for many years to come. KMEA is proud to welcome and serve the City of Prescott.





Thirdly, natural gas-fired generation continues to fill-in the gaps when coal, wind, and other more economical resources are at their limits or can't respond to changes in load. Gas-fired generation has averaged approximately 20% of all generation in SPP over the last four years. Fortunately for consumers, natural gas prices, even with a 16% price increase year-over-year, have remained relatively low and, just as importantly, stable. While up slightly from \$2.41/MMBtu in 2015 and \$2.27/MMBtu in 2016, the \$2.64/MMBtu average price at Southern Star in 2017 marked the third consecutive year with an annual average price in the mid-\$2/MMBtu range. In fact, the monthly average price at Southern Star has been below \$4/MMBtu since late 2014. Monthly average prices during 2017 reflected extremely low volatility with all months but one (January, \$3.15/MMBtu) featuring average prices between \$2.50/MMBtu and \$2.78/MMBtu.

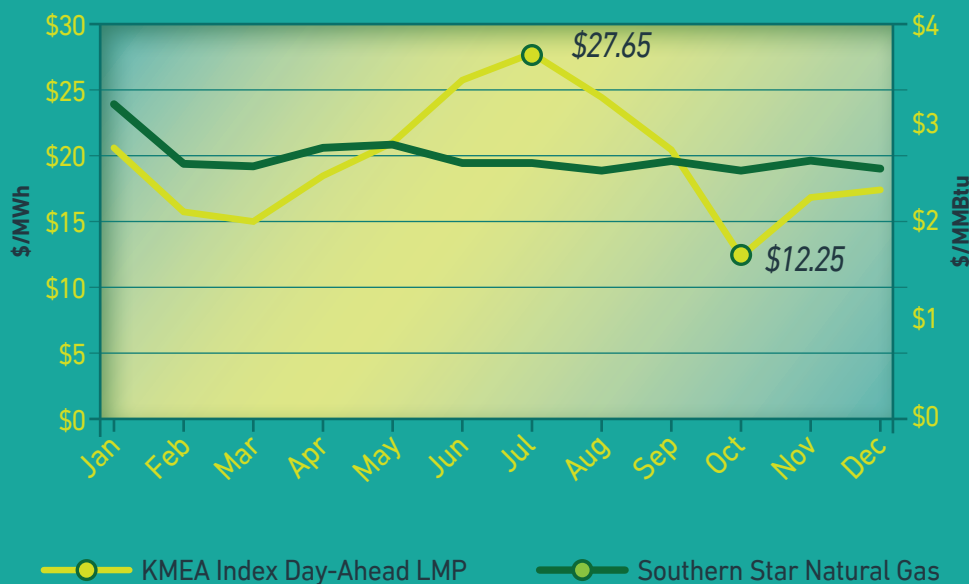
What do these trends matter for the thirty-four cities KMEA represents in the Integrated Marketplace? Favorable Market energy prices and opportunities

for cities to participate in affordable economic power supply projects are among the benefits brought about by current industry conditions. One attribute of abundant wind generation in SPP is downward pressure on the energy component of Market electricity prices, even at times pushing it below \$0/MWh. For example, the average KMEA Day-Ahead Location Marginal Price (LMP) for 2017 was \$19.52/MWh and was below \$20 for the second consecutive year. Monthly average LMPs ranged from a high of \$27.65/MWh in July to a low of \$12.25/MWh in October. In comparison, the 2014 average LMP was \$30.05, over 50% higher than in 2017. At times cities have exposure to SPP Market energy prices. When they do, favorable Market energy prices help to lower the overall cost to rate-payers within the municipal utility communities KMEA serves. The size and enthusiasm in the level of participation in the forthcoming Buckeye Wind project is further testament to the affordability and value of the projects available through KMEA in today's market environment.

## 2017 MARKETPLACE TRENDS

### 2017 Monthly Average Power and Natural Gas Prices

*Southern Star avg. = \$2.641/MMBtu*



The trends highlighted in the graph and the resulting Market conditions are likely to continue into 2018. Contributing to this outlook is the fact that thousands more megawatts of wind generation in SPP are still under construction or waiting in the wings. Barely into the new year, the Southwest Power Pool has recorded an hour in 2018 during which wind generation supplied over 60% of total electric demand, "eclipsing" the 50% benchmark from just one year ago.



# KMEA PROJECTS

## Power Marketing Projects

KMEA actively seeks power marketing arrangements that match member cities' short and long-term power supply and capacity needs with power supply alternatives. KMEA member cities realize a broad range of supply options and competitive supplier pricing due to the larger market presence that the joint action approach brings. KMEA has championed multiple energy and capacity sales between member cities, providing them with opportunities to optimize their resources. Additionally, KMEA has enabling agreements in place with multiple suppliers enabling us to more quickly evaluate and act on proposals. KMEA, along with member cities, have developed strategies to best utilize transmission rights.

- Energy
- Capacity
- Transmission
- Operating Expense
- Agency Expense



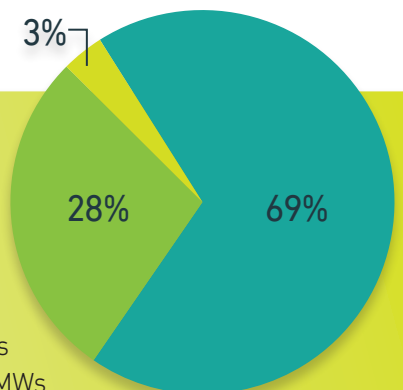
### Cities

Augusta  
Baldwin City  
Beloit  
Ellinwood  
Erie  
Fredonia  
Gardner  
Garnett  
Girard  
Hoisington  
Holton  
Horton  
Larned

**Power Delivered** | 613,368 MWh (Percent of Costs by MWh)

### GRDA Project

On January 19, 2000, KMEA and the Grand River Dam Authority (GRDA) entered into a 10-year purchase power agreement (PPA) for 39 MWs. The agreement consists of base load capacity and energy, which is delivered on long-term firm transmission. In 2005 the agreement was extended to April 30, 2026, and the amount increased to 84 MWs in order to facilitate the addition of eight KMEA member cities.



Lincoln Center  
Neodesha  
Osage City  
Osawatomie

Osborne  
Ottawa  
Pratt  
Russell

Sharon Springs  
Sterling  
Stockton  
Wamego

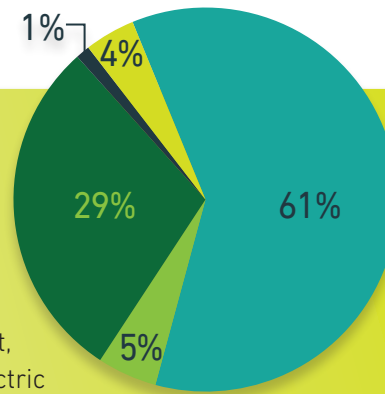
Washington  
Wellington  
Winfield



**Power Delivered** | 157,731 MWh (Percent of Costs by MWh)

## 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. Pomona joined in 2015 and Prescott joined in 2017. 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 GRDA, SPA, and WAPA projects. EMP1 is also used to jointly purchase load following service from KCP&L. KMEA began delivering electricity under EMP1 on June 1, 2006.

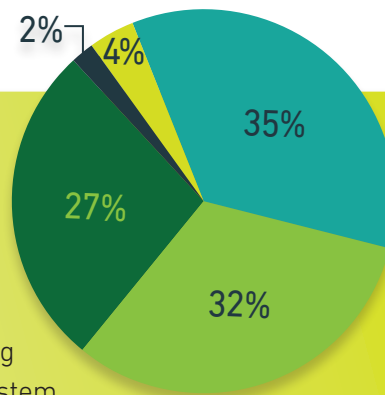


**Cities**  
 Baldwin City  
 Gardner  
 Garnett  
 Osawatomie  
 Ottawa  
 Pomona  
 Prescott

**Power Delivered** | 522,949 MWh (Percent of Costs by MWh)

## Energy Management Project No.2

The cities of Anthony, Ashland, Beloit, Garden City, Hoisington, Lincoln Center, Meade, Osborne, Pratt, Russell, Sharon Springs, Stockton, and Washington saw the potential for achieving substantial benefits for their municipal electric customers through the following actions: coordinating an interconnected electric system under a central dispatching center, sharing capacity and exchanging electricity, and jointly planning new electric power supplies. By enacting Energy Management Project No. 2 (EMP2), these cities built a project governance 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.



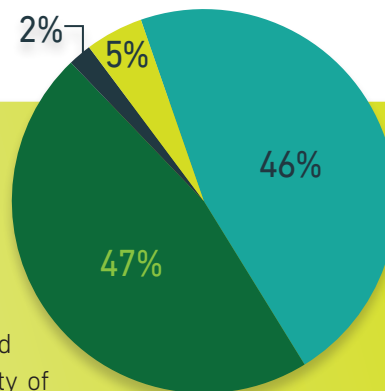
**Cities**  
 Anthony  
 Ashland  
 Beloit  
 Garden City  
 Hoisington  
 Lincoln Center  
 Meade  
 Osborne  
 Pratt  
 Russell  
 Sharon Springs  
 Stockton  
 Washington

**Power Delivered** | 183,450 MWh (Percent of Costs by MWh)

## 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 City of Jetmore joined EMP3 in 2014, the City of Altamont in 2015 and the City of Kiowa in 2016.

The EMP3 project began delivering electricity to the first participating city in May 2013.



**Cities**  
 Altamont  
 Burlingame  
 Chapman  
 Girard  
 Holton  
 Horton  
 Jetmore  
 Kiowa  
 Neodesha  
 Osage City  
 Seneca  
 Sterling  
 Wamego



Cities

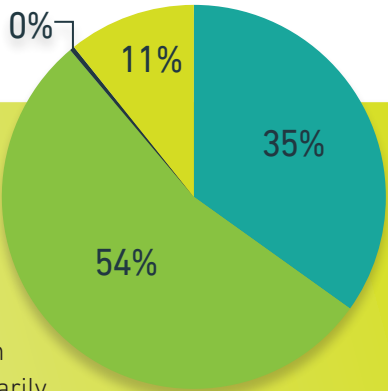
- Augusta
- Baldwin City
- Chanute
- Colby
- Garnett
- Herrington
- Holton
- Horton
- Iola
- LaCrosse
- Lindsborg
- Mulvane
- Neodesha
- Norton
- Oberlin
- Osawatomie
- Ottawa
- St. Francis
- Sharon Springs
- Wamego
- Wellington

Power Delivered | 18,887 MWh (Percent of Costs by MWh)

SPA Hydro Power Pool Project

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

KMEA schedules power and bills participants for their share in the project. Participants annually receive 10,800 MWh of firm energy during peak hours. SPA also offers low-cost supplemental energy when favorable water conditions exist at its hydroelectric facilities. In 2014 six additional member cities began taking SPA power including Holton, Horton, Wamego, Oberlin, St. Francis, and Sharon Springs. On behalf of project participants, KMEA is active in the Southwestern Power Resources Association, an organization of SPA customers.



Energy Capacity Transmission Operating Expense Agency Expense

Cities

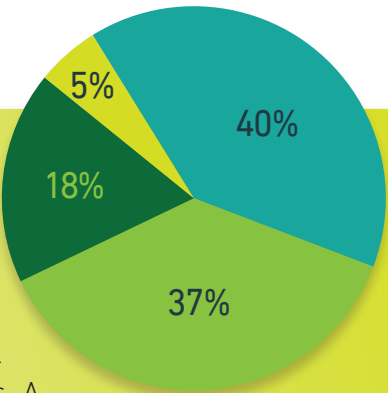
- Arcadia
- Arma
- Ashland
- Baldwin City
- Belleville
- Beloit
- Burlingame
- Cawker City
- Centralia
- Chapman
- Cimarron
- Colby
- Dighton
- Enterprise
- Eudora
- Garden City
- Gardner
- Garnett
- Glasco
- Glen Elder
- Goodland

Power Delivered | 103,567 MWh (Percent of Costs by MWh)

WAPA Hydro Power Pool Project

Under contracts with the Western Area Power Administration (WAPA), 49 project participants were entitled to firm hydroelectric capacity totaling 33.5 MW in the summer and 28.8 MW in the winter, with associated energy of 103,108 MWh annually. The "B" cities' individual entitlements were temporarily reassigned to 18 "Class A Cities" that were able to arrange for economical transmission across intervening utility systems. In October 1989, they began receiving hydroelectric power.

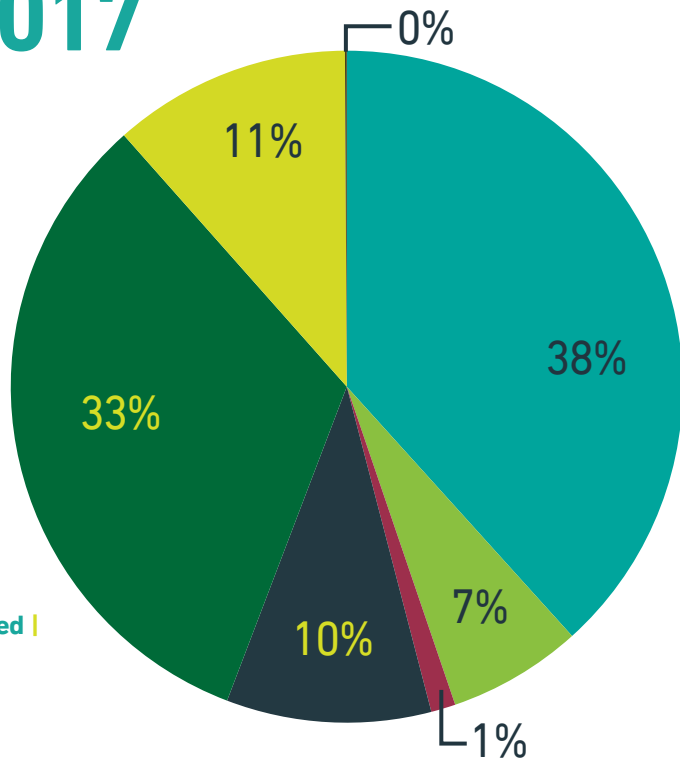
WAPA energy is being scheduled to enable the participating cities to avoid demand charges and replace high-cost, peak-hour energy. KMEA schedules power and handles the billing and accounting for the cities, while serving as a liaison between the Cities and WAPA. In 2014 three additional cities began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



Herrington	Lakin	Mankato	Osawatomie	St. Francis	Troy
Hill City	Lincoln	Meade	Osborne	Seneca	Wamego
Holton	Center	Norton	Ottawa	Sharon	Washington
Horton	Lindsborg	Oberlin	Pomona	Springs	
Jetmore	Lucas	Osage City	Russell	Stockton	



# Project Megawatt-Hour 2017



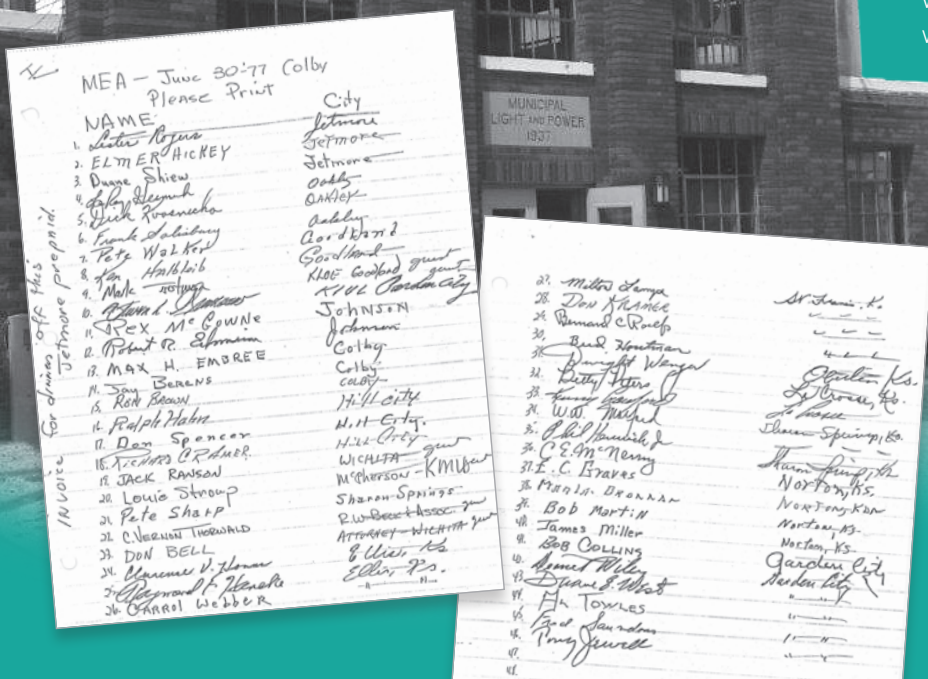
**Total Power Delivered |**  
1,601,370 MWh  
(Total MWh by Project)

Project	Megawatt-Hour
GRDA	613,368
WAPA Hydro	103,567
SPA Hydro	18,887
EMP1	157,731
EMP2	522,949
EMP3	183,450
Eudora	1,418
<b>TOTAL</b>	<b>1,601,370</b>

## HISTORY FACT ABOUT KMEA

Plans to establish a "municipal energy agency" date back to the early to mid 1970's. On June 30, 1977, a steering committee of 13 municipals was formed and met for the first time at the Ramada Inn in Colby, Kansas. Committee members paid \$5 each to attend the dutch dinner/business meeting. It soon became evident that a municipal energy agency would be beneficial, and the Northwest Kansas Municipal Energy Agency (NWKMEA) was formed. NWKMEA's first Board of Directors meeting was held June 24, 1978.

In July 1979, Gilbert E. Hanson, Jr., came aboard as the NWKMEA's first General Manager. Then, in January 1980, discussions were held regarding the possible merger of the NWKMEA and the proposed East Kansas Municipal Energy Agency. In March 1980, a resolution was passed to accept new members and change the name of the agency to the Kansas Municipal Energy Agency (KMEA). The First Annual Board Meeting of the KMEA was held May 21, 1980.



# KMEA MEMBER CITIES & BOARD OF DIRECTORS

## *Data as of November*

1. Director
2. Director
3. Alternate

### **Alma**

1. Michael Slobodnik
2. Jeff Clark
3. Sharon White

### **Altamont**

1. Lizabeth Finley
2. LeaAnn Myers
3. Peggy Ybarra

### **Anthony**

1. Steve Wilkinson
2. Larry Berry
3. Paul Southwick

### **Arma**

1. Johnie Joe Logiudici
2. Scott Popejoy
3. Ray Vail

### **Ashland**

1. Doug Graff
2. Doug Roberts
3. Rock Hill

### **Attica**

1. Michael Swonger
2. Angela Alexander
3. Charles Berry

### **Augusta**

1. Jim Sutton
2. Mike Rawlings
3. Josh Shaw

### **Baldwin City**

1. Tony Brown
2. Glenn Rodden
3. Rob Culley

### **Belleville**

1. Neal Lewis
2. Russ Piroutek
3. Brian Phillips

### **Beloit**

1. Jason Rabe
2. Manny Milbers
3. Ronald Sporleder

### **Blue Mound**

1. Max Krull
2. Don Rhynerson
3. Byron Coates

### **Burlingame**

1. Wes Colson
2. Patty Atchison
- 3.

### **Burlington**

1. Alan Schneider
2. R. Standley Luke
- 3.

### **Cawker City**

1. Greg Linton
2. Janice Cornely
3. Drew Duskie

### **Chanute**

1. Larry Gates
2. Jeff Cantrell
3. Rick Willis

### **Chapman**

1. John Dudte
2. Bobby Kamm
3. Tim Jury

### **Chetopa**

1. Terry Robinson
2. Debra Darnell
3. Toni Crumrine

### **Cimarron**

1. Jeff Acton
2. Shannon Hoskinson
3. Darrell DuPree

### **Centralia**

1. John Holland
2. Keith Heideman
3. Dustin Walters

### **Coffeyville**

1. Kendal Francis
2. Gene Ratzlaff
3. Mike Shook

### **Colby**

1. Pat Mallory
2. Tyson McGreer
3. Gary Adrian

### **Dighton**

1. Craig Collins
2. George VonLeonrod
3. Christine Birney

### **Enterprise**

1. Paul Froelich
2. Deana Payne
- 3.

### **Erie**

1. Darrell Bauer
2. Jason Thompson
- 3.

### **Eudora**

1. Mike Hutto
2. James Eldon Brown
3. Nathan Jones

### **Fredonia**

1. Bill Jones
2. Carolyn Anderson
- 3.

### **Garden City**

1. Mike Muirhead
2. Cliff Sonnenberg
3. Kent Pottorf

### **Gardner**

1. Andrew Krievins
2. Gonzalo Garcia
3. Clint Barney

### **Garnett**

1. Chris Weiner
2. Bob Mills
3. W. Gordon Blackie

### **Girard**

1. Brandon Foraker
2. Chris Franklin
- 3.

### **Glasco**

1. Mike Dove
2. Edward Bellows
- 3.

### **Glen Elder**

1. Jerri Senger
2. Eldon Behymer
3. Ryan Duskie

### **Goodland**

1. Dustin Bedore
2. Annette Fairbanks
3. Lukas Wolak

### **Greensburg**

1. Sandra Jungemann
2. Kyler Ludwig
3. Mick Kendall

### **Herington**

1. David Kahle
2. David Gerhke
3. Kathleen Souza

### **Hill City**

1. Mort Plunkett
2. Dennis Mersch
3. Greg Deines

### **Hillsboro**

1. Mike Duerksen
2. Larry Paine
3. Bob Watson

### **Hoisington**

1. Jonathan Mitchell
2. Donita Crutcher
3. Bernard Kruse

### **Holton**

1. Kerwin McKee
2. Ira Harrison
3. Scott Fredrickson

### **Horton**

1. Wade Edwards
2. James Martin
3. Tim Lentz

### **Hugoton**

1. Gary Rowden
2. Charlie Wagner
3. Logan Fredrick

### **Iola**

1. Mike Phillips
2. Chuch Heffern
3. Brandon Westerman

### **Jetmore**

1. Michael Ort
2. Derek Olson
3. Brian Beil

### **Johnson City**

1. Tyce McMillan
2. Seth Nelson
- 3.

### **Kansas City BPU**

1. Don Gray
2. Jerry Ohmes
3. Jerin Purtee

### **Kiowa**

1. Lou Leone
2. Trish Brewer
3. Brandon Farney

### **LaCrosse**

1. Duane Moeder
2. Bruce Jones
3. Roland Holopirek



**Lakin**

1. Robbie McComb
2. Nick Hansen
3. Amanda Riedl

**Larned**

1. Bradley Eilts
2. Harry Zielke
3. Ralph Streit

**Lincoln Center**

1. Jack Crispin JR
2. Jeff Ahring
3. Melodee Larsen

**Lindsborg**

1. Gregory DuMars
2. Bill Taylor
3. Blaine Heble

**Lucas**

1. Mitchall Woodruff
2. Travis Naegele
3. Craig Langdon

**Mankato**

1. Donald Koester
2. Chris Rhea
- 3.

**Marion**

1. Travis Schafers
2. Randy Kelsey
3. Marty Fredrikson

**Meade**

1. Armando Gonzales
2. JD Hegwood
3. Dean Cordes

**Montezuma**

1. Dwight Watson
2. Staci Gibson
3. Matthew Axtell

**Moundridge**

1. Kevin Schmidt
2. Larry Stucky
3. Randy Frazer

**Neodesha**

1. Brandon Hearn
2. Eddy Truelove
3. Bobby Busch

**Norton**

1. Chad Buckley
2. Jim Miller
3. Dan Sisk

**Oberlin**

1. Halley Roberson
2. Ladd Wendelin
3. David Sporn

**Osage City**

1. Rodney Willis
2. Joye Lamond
3. Dennis Combes

**Osawatomie**

1. Don Cawby
2. Stewart Kasper
3. Mark Govea

**Osborne**

1. Scott Nuzum
2. Marvin McCormick
3. Jason Kibbe

**Ottawa**

1. Sara Caylor
2. Dennis Tharp
3. Jeff Oleson

**Prescott**

1. Rolland Grigsby
2. Kevin Wood
3. Kathy Wood

**Pomona**

1. Dean Wineinger
2. Steven Lemons
- 3.

**Pratt**

1. Bill Hlavachick
2. Jamie Huber
3. Roy Eckert

**Robinson**

1. Mark Lieneman
2. Stephen Brown
3. David Taylor

**Russell**

1. Duane Banks
2. Jon Quinday
3. Jim Cross

**St. Francis**

1. Scott Schultz
2. J.R. Landenberger
3. Bruce Swihart

**St. John**

1. Jeff Williamson
2. Marshal Sanders
3. Ryan Christie

**Seneca**

1. Jim Mitchell
2. Matthew Rehder
3. Bruce Deters

**Sharon Springs**

1. Patrick Gibbs
2. Brad Hatfield
3. Dennis Sharp

**Stafford**

1. Patrick Dick
2. Jamie Downing
3. Dennis Dye

**Sterling**

1. John Wagerle
2. Taggart Wall
3. John Wagerle

**Stockton**

1. Kim Thomas
2. Jeff Scott
3. Keith Schlaegel

**Troy**

1. Margaret Sutherland
2. Gary Clary
3. Robert Jenkins

**Wamego**

1. Thomas Beem
2. Merl Page
- 3.

**Washington**

1. Richard Applegarth
2. Don Imhoff
3. Carl Chalfant

**Waterville**

1. Chuck Tryon
2. Jonathan Oatney
3. Tony Mann

**Wellington**

1. John Bales
2. Roger Estes
3. Shane Shields

**Winfield**

1. Gus Collins
2. Jeremy Willmoth
3. Gregory Thompson

In 2017, KMEA Contracted  
with Segal Engineering/Power  
Engineers to complete 27  
Distribution System Assessments  
for participating member cities

City	Population	kWhs Sold	Peak kW
Alma	895	12,035,662	3,197
Altamont	1,206	7,388,263	2,460
Anthony	2,300	30,161,757	8,500
Arma	1,451	10,515,948	3,102
Ashland	867	11,612,469	4,000
Attica	622	6,124,936	1,923
Augusta	9,321	66,039,445	21,909
Baldwin City	4,677	30,691,992	9,086
Belleville	1,991	21,915,356	6,375
Beloit	3,800	41,992,141	13,500
Blue Mound	279	1,191,897	400
Burlingame	935	7,300,274	2,300
Burlington	2,610	30,101,180	8,965
Cawker City	456	5,964,600	1,356
Centralia	500	3,774,800	1,117
Chanute	9,300	281,271,611	56,400
Chapman	1,394	10,573,791	3,390
Chetopa	1,125	7,767,225	2,522
Cimarron	2,242	14,774,683	4,182
Coffeyville	10,295	721,218,450	114,625
Colby	5,387	66,084,792	18,000
Dighton	1,038	8,779,720	2,666
Enterprise	900	4,508,819	1,635
Erie	1,120	9,498,299	3,437
Eudora	6,300	40,451,316	12,222
Fredonia	2,300	28,347,822	8,234
Garden City	31,293	269,066,505	68,516
Gardner	22,881	136,154,383	38,100
Garnett	3,264	25,603,966	8,700
Girard	2,787	25,859,886	9,100
Glasco	498	3,108,265	876
Glen Elder	435	3,891,642	1,129
Goodland	4,441	50,468,110	12,500
Greensburg	777	10,934,618	2,931
Herington	2,526	16,903,574	5,842
Hill City	1,580	12,857,737	4,174
Hillsboro	2,993	22,632,692	7,025
Hoisington	2,706	20,287,000	6,305
Holton	3,278	43,446,314	12,110
Horton	1,700	13,555,113	4,200
Hugoton	3,964	37,070,614	10,947
Iola	5,704	98,189,842	24,232

City	Population	kWhs Sold	Peak kW
Jetmore	842	7,628,941	2,600
Johnson City	1,358	15,093,324	4,012
Kansas City	152,000	2,352,158,000	494,000
Kiowa	980	10,585,000	3,200
La Crosse	1,300	10,923,148	4,200
Lakin	2,209	15,241,122	4,600
Larned	4,236	38,813,805	12,000
Lincoln Center	1,211	11,873,403	4,300
Lindsborg	3,427	26,190,784	8,822
Lucas	392	5,820,611	1,761
Mankato	863	7,790,863	2,295
Marion	1,894	16,314,364	5,355
Meade	1,721	14,424,819	4,705
Montezuma	988	10,148,011	2786
Moundridge	1,830	29,474,324	7,564
Neodesha	2,486	36,664,283	10,800
Norton	2,812	24,478,738	8,334
Oberlin	1,850	13,642,929	5,500
Osage City	2,943	31,285,179	8,357
Osawatomie	4,388	27,389,478	8,500
Osborne	1,300	13,506,000	4,500
Ottawa	12,356	140,885,020	37,200
Pomona	832	6,679,175	2,100
Pratt	6,850	82,241,120	24,369
Prescott	262	1,497,735	500
Robinson	250	1,043,233	339
Russell	4,500	106,623,000	28,100
Seneca	2,000	33,074,165	8,900
Sharon Springs	749	7,023,297	2,200
St. Francis	1,294	10,917,178	3,729
St. John	1,214	8,956,711	5,588
Stafford	1,002	8,183,431	2,739
Sterling	2,328	22,161,900	6,190
Stockton	1,290	12,730,016	4,096
Troy	2,010	6,977,000	2,161
Wamego	4,875	46,714,660	13,820
Washington	1,076	10,771,200	3,939
Waterville	671	4,379,332	1,482
Wellington	8,172	99,848,390	30,023
Winfield	12,301	290,457,000	63,600
Combined City Data	419,200	5,890,728,198	1,381,456





## A MESSAGE FROM

### KMGA's President and General Manager

*Randy Frazer and Paul Mahlberg*

2017 was the year of “*continued momentum*.” The agency has continued to grow over the last few years and 2017 was no different with the addition of the cities of Altamont and Louisburg. This brings our total membership to 45 including our affiliate member cities. In addition, we continue to diversify our natural gas supply arrangements with the addition of 3 new gas supply providers. We now have over 20 different suppliers that we can competitively bid which allows us to find the lowest gas prices for our members.

We continue to expand our services that we provide to our members. This couldn't be more evident in the efforts related to pooling of cities for Operator Qualifications (OQ) requirements that our staff has been so instrumental in jump starting. We expect that the fruits of these efforts will be formalized and realized in 2018.

We continue to bolster the presence of the gas agency at our Annual Conference event. In 2017, we had two separate breakout sessions related to the gas industry for our KMGA members. In addition, this was the 2nd year that we presented annual awards to our member cities — Congratulations goes out to John Sweet of the City of Lyons who received the Ron Huxman Distinguished Service Award and to Larry Kallenberger of the City of Kechi who received the Mike Gilliland Honor Award.

We continue to provide a stable, low priced supply of natural gas to our member communities. Our agency members' average natural gas price was \$2.81MMBtu.


As we move into 2018, we look forward to continuing the momentum from the last few years and continuing to providing reliable and cost effective gas supply to all of our members. Thank you for your continued support!



Randy Frazer  
KMGA President



Paul Mahlberg  
KMGA General Manager





# KMGA HIGHLIGHTS OF 2017

## KMGA Recognize Gas Utility Centennial in 2017

*The City of Humboldt reached the Centennial Milestone in 2017 representing 100 years of public gas service to their community.*

### **Cole Herder** | Honored with the *"Gas Utility Centennial Award"*

The City of Humboldt reached the centennial milestone in 2017 representing 100 years of public gas service to their community. KMGA recognized the city at the Annual Conference. To celebrate this achievement KMGA presented the city with a plaque commemorating this historic achievement. Cole, the City Administrator, received the award at the annual conference on behalf of the City of Humboldt.



### **John Sweet** | Honored with the *Ron Huxman "Distinguished Service Award"*

John Sweet, City Administrator, City of Lyons was selected as the 2017 recipient of the Ron Huxman "Distinguished Service Award". The Ron Huxman "Distinguished Service Award" was established in 2016 in honor of Ron. He played a leading role in the day-to-day activities of the agency, as well as serving as President, Executive Committee member and Joint Board member. The award honors his contributions to KMGA and is awarded to individuals who have demonstrated exceptional leadership and devoted service to both KMGA and to the Municipal Natural Gas Industry.



### **Larry Kallenberger** | Honored with the *Mike Gilliland "Honor Award"*

Larry Kallenberger, Director of Public Works, City of Kechi was selected as the 2017 recipient of the Mike Gilliland "Honor Award". The Mike Gilliland "Honor Award" was established in 2016 to recognize Mike's efforts. Mike played a leading role in the agency serving multiple terms as President, Vice President, and Executive Committee Member. The award honors his contributions to KMGA and is to recognize an employee of a KMGA member city who has, over a period of years, demonstrated outstanding performance and made significant local contributions to their municipal utility.



# KMGA Gas Supply Project

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, consists of seven members and carries on the day-to-day activities of the Agency. The Board of Directors annually elects officers and Executive Committee members, ratifies the actions taken by the Executive Committee, and adopts the annual budget of the Agency.

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

KMGA also manages pipeline transportation services, monitors gas usage and storage balances, reviews and assists in cities' rate calculation processes, and administers the daily gas nomination and balancing process. Pipelines serving KMGA cities include Atmos Energy, Black Hills Energy, Enable Gas Transmission, Kansas Gas Service, Natural Gas Pipeline, Panhandle Eastern Pipe Line, and Southern Star Central Gas Pipeline.

## THE HISTORY OF KMGA

Kansas Municipal Gas Agency (KMGA) was founded in 1990 under the authority of the Kansas Interlocal Cooperative Act. The Agency was originally created by a group of 27 cities that wanted to join together to form a market pool for purchasing their natural gas in order to give them market power they would not have individually.

*Since its inception, KMGA has grown in size and now has 45 members. KMGA procures natural gas supply for 27 municipals that own their distribution system. We also manage supply for 16 power plants, eight individual facilities and a unified school district.*

Beginning in 1993 KMGA started contracting with KMEA for the provision of management services.



# NATURAL GAS INDUSTRY REVIEW

## 2017 Natural Gas Production, Exports, Storage and Prices

Through shale development, U.S. natural gas production grew during 2017. Between January and December of this year, U.S. shale gas output increased from about 47.6 billion cubic feet per day (Bcf/d) to over 62.2 Bcf/d — almost a 31 percent increase.

With increased production volumes, the Energy Information Agency (EIA) reported the U.S. liquefied natural gas (LNG) exports averaged 1.9 Bcf/day. Ten years ago the U.S. was importing over 3 Bcf of LNG per day. For the first time in nearly 60 years, the U.S. became a net exporter of natural gas in 2017.

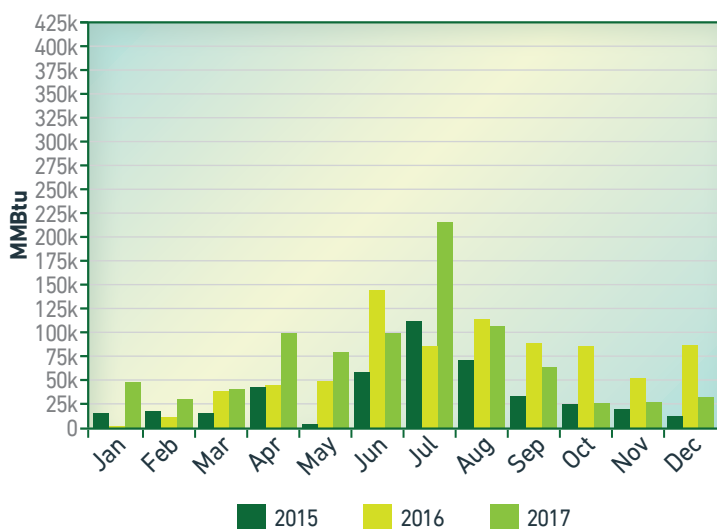
Mild winter temperatures in early 2017 limited natural gas storage withdrawals. The first ever net storage injection was recorded in the month of February.

Until the last few days of 2017, relatively warm winter weather limited natural gas consumption in the residential and commercial sectors compared with 2016 levels.

In 2017, natural gas spot prices at Henry Hub averaged \$2.96 per MMBtu, about 50 cents per MMBtu higher than in 2016.

Natural gas prices in the Midcontinent region averaged \$2.687 per MMBtu compared to the 2016 average of \$2.313 per MMBtu. The highest daily price in the Midcontinent region throughout 2017 was \$3.52 per MMBtu posting on the first day of 2017. On February 25<sup>th</sup>, the lowest daily price for the Midcontinent region during 2017 was \$2.23 per MMBtu.

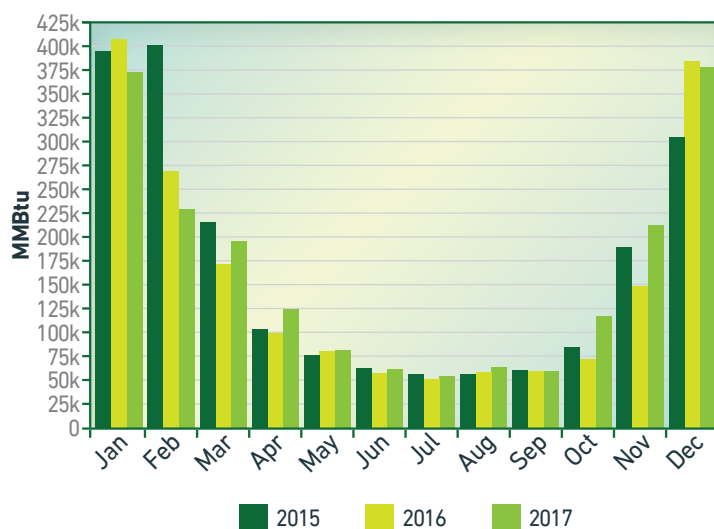
**Monthly Volumes | Power Plants** (in thousands)



### Increase in Natural Gas-Fired Generation

2017 KMGAs power plant usage volumes increased by 8% over 2016 volumes. KMGAs supplies natural gas for 17 power plants across Kansas. These power plants consumed 865,964 MMBtu of gas supply in 2017. The total volume for 2016 was 800,770.

**Monthly Volumes | Cities** (in thousands)



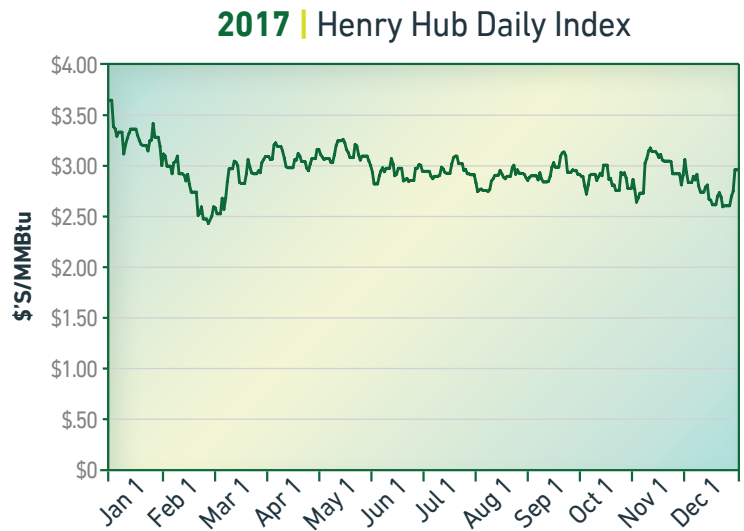
### City Gas Usage Volumes Higher in 2017

Volumes for KMGAs cities throughout 2017 increased around 5% over volumes from 2016. Contributing to this increase in volume was the City of Louisburg, who joined KMGAs in April of 2017. Total volume for 2017 was just under 2 million MMBtu.



## Natural Gas Prices | Henry Hub

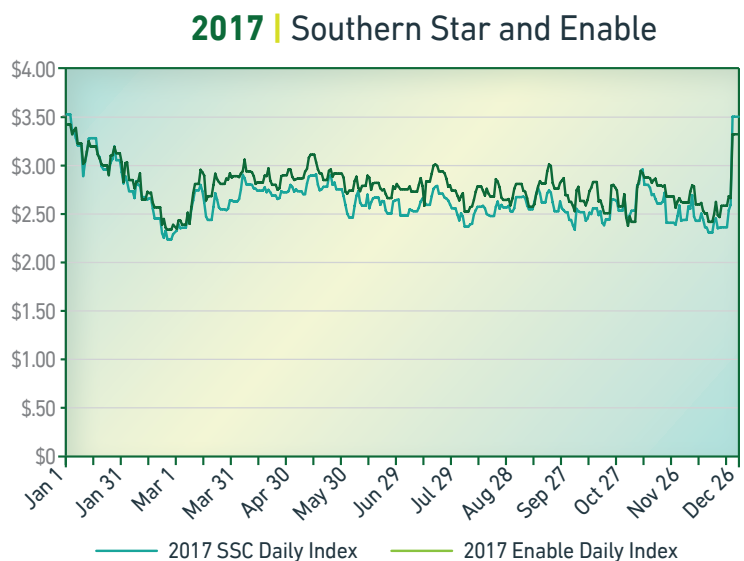
Daily spot prices at the Henry Hub in Louisiana averaged \$2.96 per MMBtu in 2017. The lowest Henry Hub daily spot price was \$2.435 which posted on February 28th. On January 1st the highest Henry Hub daily spot price for 2017 posted at \$3.65 per MMBtu.



## Natural Gas Prices | Midcontinent Prices

Natural gas daily index prices in the Midcontinent region averaged \$2.687 per MMBtu compared to the 2016 average of \$2.313 per MMBtu. The highest daily price in the Midcontinent region throughout 2017 was \$3.52 per MMBtu posting on the first day of 2017. On February 25th, the lowest daily price for the Midcontinent region during 2017 was \$2.23 per MMBtu.

Throughout 2017, Southern Star Central (SSC) daily index price posted below \$3.00 for 338 days.



Midcontinent pipelines Enable Gas Transmission (EGT) and SSC both posted their lowest daily index price for 2017 on February 25th; \$2.33 and \$2.23 per MMBtu respectively. Both pipelines highest daily index price was posted on January 1st. EGT's highest daily price for 2017 was \$3.41 per MMBtu and SSC's highest posted daily price was \$3.515.

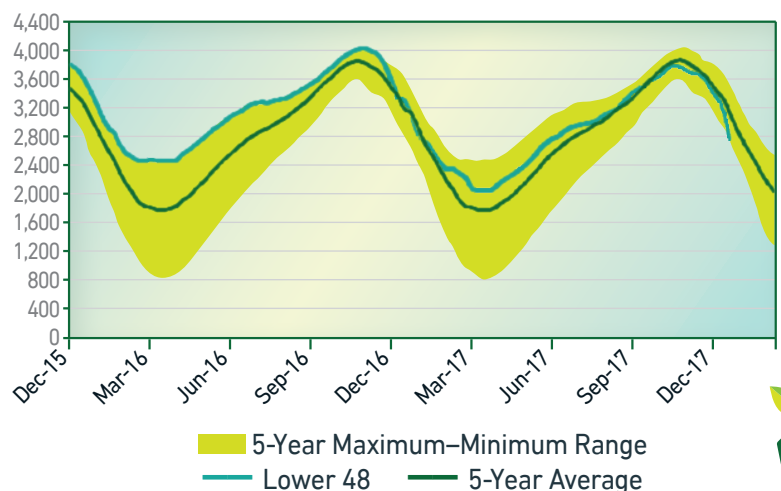
## Storage Levels

Storage inventory began 2017 at 3,311 Bcf. Inventory levels finished 2017 at 3,126 Bcf.

2017 saw the first recorded net natural gas injection during a week in February since weekly storage data has been collected. Storage inventory for the week ending February 24th increased by 7 Bcf.

The week ending December 2nd recorded an injection of 2 Bcf. This is the first time in five years the Energy Information Administration (EIA) reported a build to storage during a week ending in December.

## Working Gas in Underground Storage Compared with the 5-Year Maximum and Minimum





# KMGA MEMBER CITIES & BOARD OF DIRECTORS

## *Data as of November*

1. Director
2. Director
3. Alternate

## **Alma**

1. Michael Slobodnik
2. Jeff Clark

## **Altamont**

1. Peggy Ybarra
2. LeaAnn Myers

## **Anthony**

1. Larry Berry
2. Steve Wilkinson

## **Argonia**

1. Alan Brundage
2. Wayne Vineyard

## **Attica**

- 1.
2. Bret Ricke

## **Augusta**

1. Bill Webster
2. Jim Sutton

## **Baldwin City**

1. Glenn Rodden
2. Rob Culley

## **Beloit**

- 1.
2. Manny Milbers

## **Burlingame**

1. Wes Colson
2. David Panches

## **Burrton**

1. Jon Roberts
2. Kim Ryan

## **Cassoday**

1. Joy Nelson
- 2.

## **Coffeyville**

1. Mike Shook
2. Kendal Francis

## **Concordia**

1. Jeremy Arnold
2. Gary Strait

## **Ellinwood**

1. Chris Komarek
2. James McMullen

## **Esckridge**

1. Mike Bohn
2. Justin Rush

## **Gardner**

1. Gonzalo Garcia
- 2.

## **Garnett**

1. Christopher Weiner
2. Bob Mills

## **Halstead**

1. Ethan Reimer
2. Jamie Eberly

## **Hesston**

1. Gary Emry
2. Scott Robertson

## **Hoisington**

1. Jonathan Mitchell
2. Bernard Kruse

## **Howard**

1. Becky Oakleaf
2. Ernest Tousley

## **Humboldt**

1. Cole Herder
2. Jeremy Bulk

## **Kechi**

1. Larry Kallenberger
2. Laura Hill

## **LaCygne**

1. Devona Herrin
2. Jerome Moore

## **Larned**

1. Ralph Streit
- 2.

## **Louisburg**

1. Nathan Law
2. Patrick McQueen

## **Lyons**

1. John Sweet
2. Chris Veatch

## **McLouth**

1. Kim Everley
2. Gary Tullis

## **Moundridge**

1. Randy Frazer
- 2.

## **Osage City**

1. Joseph Lamond
2. Rodney Willis

## **Ottawa**

1. Dennis Tharp
2. Jeff Oleson

## **Partridge**

1. Dustin Covert
2. Debbie Baughman

## **Russell**

1. Jon Quinday
2. Duane Banks

## **Spearville**

1. Rakel Halling
2. Tammy Konrade

## **Sterling**

1. John Wagerle
2. Taggart Wall

## **Uniontown**

1. Josh Hartman
2. Hazel Ward

## **Walton**

1. Merlyn Johnson
2. Stephanie Ashby

## **Wamego**

1. Merl Page
- 2.

## **Washington**

1. Richard Applegarth
2. Carl Chalfant

## **Wellington**

1. Roger Estes
2. Ryan Hain

## **Winfield**

1. Gus Collins
2. Jeremy Willmoth

## **Affiliate Members**

- Abbyville
- Chanute
- Denison
- Little River
- Sylvia

# KMGA MEMBER CITIES SUMMARY

City	Population	Total MMBtu Purchased
Abbyville	89	3,211
Anthony	2,300	20,725
Argonia	501	16,852
Attica	622	12,782
Augusta	9,321	3,195
Augusta Water	NA	730
Baldwin City	4,677	1,441
Burlingame	935	38,988
Burrton	901	21,031
Cassoday	129	6,338
Coffeyville	10,295	794,175
Concordia	5,395	1,168
Denison	187	8,142
Ellinwood	2,131	92
Eskridge	534	48,486
Gardner	22,881	4,244
Garnett	3,264	128,824
Halstead	2,085	192,956
Hesston	3,709	280,805
Hoisington	2,706	449
Howard	687	24,039
Humboldt	1,953	62,809
Kechi	1,909	42,923

City	Population	Total MMBtu Purchased
La Cygne	1,149	64,465
Lyons	3,739	131,082
Louisburg	4,322	57,725
Manhattan	NA	16,135
McLouth	880	26,997
Moundridge	1,830	99,691
Osage City	2,943	96,247
Ottawa	12,356	14,091
Partridge	248	7,543
Russell	4,500	2,711
Spearville	773	28,415
Sterling	2,328	917
Sylvia	218	6,501
Uniontown	272	7,919
Walton	235	8,462
Wamego	4,875	2,568
Washington USD	NA	4,917
Washington-PP	1,076	553
Wellington	8,172	7,842
Wellington FD	NA	1,724
Winfield	12,301	518,024
<b>Combined City Data</b>	<b>139,428</b>	<b>2,818,934</b>



In 2017, KMGA facilitated multiple meetings related to Joint Operator Qualification efforts and Regional Pooling of these efforts.







## BOARD OF DIRECTORS

### Kansas Municipal Energy Agency *Overland Park, Kansas*

#### Report on the Financial Statements

We have audited the accompanying basic financial statements of Kansas Municipal Energy Agency, which comprise the statements of net position as of December 31, 2017 and 2016 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 Kansas Municipal Energy Agency as of December 31, 2017 and 2016, 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, schedule of proportionate share of the net pension liability and schedule of contributions on pages 4 through 10 and 36 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 Kansas Municipal Energy Agency's basic financial statements. The combining schedules and related note on pages 37 through 39, 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 are fairly stated in all material respects, in relation to the financial statements as a whole.



## Managements Discussion and Analysis

*For the Years Ended December 31, 2017 and 2016*

*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, 2017 and 2016. 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 82 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 eight major long-term electricity supply Projects on behalf of its Members. They are the (1) Western Area Power Administration Hydro Power Pool Project (WAPA), (2) Southwestern Power Administration Hydro Power Pool Project (SPA), (3) Grand River Dam Authority Power Project (GRDA), (4) Energy Management

Project No. 1 (EMP1), (5) Energy Management Project No. 2 (EMP2), (6) Energy Management Project No. 3 (EMP3), (7) Eudora Project and (8) 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 2017 | Net Position

As of December 31, 2017 and 2016, Agency assets exceeded its liabilities by \$2,613,000 and \$2,693,000 (net position), respectively. Unrestricted cash and cash equivalents increased by \$1,353,000 from \$5,086,000 to \$6,439,000. 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, 2017, the principal due within one year is \$72,000, and the principal due beyond one year is \$416,000. The Agency also has \$41,515,000 of debt associated with the financing of the Jameson Energy Center for the City of Garden City.

Current assets minus current liabilities decreased by \$11,000; from \$(3,370,000) as of December 31, 2016, to \$(3,381,000) as of December 31, 2017.

Change in net position for 2017 totaled \$(80,000), compared to \$(823,000) for 2016. The change in net position in 2016 was primarily due to the return of member retained interest and earnings for the participating member cities related to the Nearman project.

### Fiscal Year 2016 | Net Position

As of December 31, 2016 and 2015, Agency assets exceeded its liabilities by \$2,693,000 and \$3,516,000 (net position), respectively. Unrestricted cash and cash equivalents decreased by \$1,479,000 from \$6,565,000 to

\$5,086,000. 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, 2016, the principal due within one year is \$68,000, and the principal due beyond one year is \$495,000. The Agency also has \$42,595,000 of debt associated with the financing of the Jameson Energy Center for the City of Garden City.

Current assets minus current liabilities decreased by \$1,179,000; from \$(2,191,000) as of December 31, 2015, to \$(3,370,000) as of December 31, 2016 due to the return of member retained interest and earnings for the participating member cities related to the Nearman project.

Change in net position for 2016 totaled \$(823,000), compared to \$728,000 for 2015. The change in net position in 2016 was different from 2015 primarily due to the return of member retained interest and earnings for the participating member cities related to the Nearman project.

**Table 1 | Condensed Statement of Net Position**  
(in thousands)

DECEMBER 31			
Assets & Deferred Outflows	2017	2016	2015
Utility plant, net	\$878	\$955	\$1,009
Restricted funds	7,092	6,897	6,739
Current assets	11,414	10,294	11,841
Noncurrent assets	38,914	39,951	41,098
Deferred outflows of resources	369	340	177
<b>Total Assets &amp; Deferred Outflows</b>	<b>58,667</b>	<b>58,437</b>	<b>60,864</b>
Liabilities & Deferred Inflows			
Long-term obligations, less current portion	41,175	42,013	43,173
Other noncurrent liabilities	—	—	40
Current liabilities	14,795	13,664	14,032
Deferred inflows of resources	84	67	103
<b>Total Liabilities &amp; Deferred Inflows</b>	<b>56,054</b>	<b>55,744</b>	<b>57,348</b>
<b>NET POSITION</b>	<b>\$2,613</b>	<b>\$2,693</b>	<b>\$3,516</b>

**Table 2 | Condensed Statements of Revenues, Expenses & Changes in Net Position**  
(in thousands)

DECEMBER 31			
Revenues	2017	2016	2015
Operating revenues	\$86,706	\$84,770	\$90,322
Interest on investments	2,196	2,250	2,305
<b>Total Revenues</b>	<b>88,902</b>	<b>87,020</b>	<b>92,627</b>
Expenses			
Purchased power	81,029	79,919	85,533
Other expenses	7,953	6,909	6,366
<b>Total Expenses</b>	<b>88,982</b>	<b>86,828</b>	<b>91,899</b>
Return of member retained interest and earnings	—	(1,015)	—
<b>Change in Net Position</b>	<b>\$(80)</b>	<b>\$(823)</b>	<b>\$728</b>
<b>NET POSITION: Beginning of Year</b>	<b>\$2,693</b>	<b>\$3,516</b>	<b>\$2,788</b>
<b>NET POSITION: End of Year</b>	<b>\$2,613</b>	<b>\$2,693</b>	<b>\$3,516</b>

## Fiscal Year 2017 | Change in Net Position

Operating revenues increased by 2% in 2017 from the prior year, as the net result of an increase in market energy costs for the Projects.

Because operating revenues basically reflect the pass-through of purchased power costs, the \$1,936,000 increase in operating revenues in 2017 was accompanied by a \$1,110,000 increase in purchased power costs.

Other expenses increased by \$1,044,000; \$6,909,000 in 2016 compared to \$7,953,000 in 2017. The increase in other expenses was mainly due to an increase in operating expenses of the Agency.

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 (excluding the return of member retained interest of \$1,015,000) increased by \$2,154,000 in 2017, revenues increased by \$1,882,000, resulting in a change in net position for 2017 of \$(80,000).

## Fiscal Year 2016 | Change in Net Position

Operating revenues declined by 6% in 2016 from the prior year, as the net result of a decline in market energy costs for the Projects.

Because operating revenues basically reflect the pass-through of purchased power costs, the \$5,552,000 decrease in operating revenues in 2016 was accompanied by a \$5,614,000 decrease in purchased power costs.

Other expenses increased by \$543,000; \$6,366,000 in 2015 compared to \$6,909,000 in 2016. The increase in other expenses was mainly due to an decrease in funds collected from member cities to offset expenses.

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 \$5,071,000 in 2016, revenues decreased by \$5,607,000, resulting in a change in net position for 2016 of \$(823,000).

**Table 3 | Condensed Statements of Cash Flow**  
(in thousands)

	DECEMBER 31		
	2017	2016	2015
<b>Operating Income (Loss)</b>	\$(134)	\$140	\$667
Issuance of note receivable	—	—	—
Repayments from note receivable	56	83	79
Repayments from direct financing lease	981	1,064	1,006
Proceeds (purchases) of investments	1,161	—	551
Interest received on note, lease and investments	2,196	2,250	2,304
Investment earnings	—	—	—
Issuance of debt	—	—	—
Principal paid on debt	(790)	(759)	(738)
Proceeds from note payable/line of credit	—	—	—
Principal paid on note payable/line of credit	(350)	(504)	(487)
Interest paid	(2,142)	(2,198)	(2,244)
Depreciation	77	81	67
Changes in assets and liabilities	1,652	(436)	362
Return of member retained interest and earnings	—	(1,015)	—
Net additions to plant	—	(27)	(47)
<b>Net increase (decrease) in cash</b>	<b>2,707</b>	<b>(1,321)</b>	<b>1,520</b>
<b>CASH &amp; CASH EQUIVALENTS:</b>			
<i>Beginning of Year</i>	<b>\$9,681</b>	<b>\$11,002</b>	<b>\$ 9,482</b>
<b>CASH &amp; CASH EQUIVALENTS:</b>			
<i>End of Year</i>	<b>\$12,388</b>	<b>\$9,681</b>	<b>\$11,002</b>

## Fiscal Year 2017 | Cash Flow

In comparing the 2017 cash flow statement with that for 2016, the 2017 cash flow statement reflects the proceeds from investments associated with the financing of the Jameson Energy Center.

## Fiscal Year 2016 | Cash Flow

In comparing the 2016 cash flow statement with that for 2015, the 2016 cash flow statement reflects the return of member retained interest and earnings for the participating member cities related to the Nearman project.

## 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 2018, as long as coal and natural gas stay within their recent bands of relatively low prices. Demand for electricity will increase slowly in line with modest growth in the U.S. economy. Over the longer term, the effects of future environmental laws and regulations on electricity demand and cost is uncertain. Because the Agency is structured where it bills Project participants for the actual cost of power delivered, plus a markup to cover administrative costs, Agency revenues and purchase power costs are budgeted to increase in proportion with changes in wholesale electricity prices.

## Requests for Information

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

## Statement of Net Position (*Dollars in Thousands*)

DECEMBER 31		
<i>Assets &amp; Deferred Outflows of Resources</i>	2017	2016
<b>PLANT</b>		
Land	\$97	\$97
Structures and equipment, depreciable	1,221	1,220
Electric plant in service, depreciable	443	444
Accumulated depreciation	(883)	(805)
<i>Total Plant</i>	<b>878</b>	<b>956</b>
<b>RESTRICTED FUNDS</b>		
Cash and investments	7,092	6,897
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6,439	5,086
Accounts receivable	4,951	5,187
Prepaid expenses	24	21
<i>Total Current Assets</i>	<b>11,414</b>	<b>10,294</b>
<b>NONCURRENT ASSETS</b>		
Notes receivable	—	56
Direct financing lease	38,914	39,895
<i>Total Noncurrent Assets</i>	<b>38,914</b>	<b>39,951</b>
<b>TOTAL ASSETS</b>	<b>58,298</b>	<b>58,097</b>
<b>DEFERRED OUTFLOWS OF RESOURCES – PENSION</b>	<b>369</b>	<b>340</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 58,667</b>	<b>\$ 58,437</b>
<i>Liabilities, Deferred Inflows of Resources &amp; Net Position</i>		
<b>LIABILITIES PAYABLE FROM RESTRICTED FUNDS</b>		
Accounts payable	\$ —	\$ —
<b>OTHER NONCURRENT LIABILITIES</b>		
Long-term obligations, less current portion	41,175	42,013
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accrued liabilities	10,413	9,042
Customer deposits	720	716
Accrued vacation and sick leave	211	186
Interest payable	1,149	1,132
Current portion of long-term debt	828	1,145
Net pension liability	1,474	1,443
<i>Total Current Liabilities</i>	<b>14,795</b>	<b>13,664</b>
<b>TOTAL LIABILITIES</b>	<b>55,970</b>	<b>55,677</b>
<b>DEFERRED INFLOWS OF RESOURCES – PENSION</b>	<b>84</b>	<b>67</b>
<b>Net Position</b>		
Net investment in capital assets	391	394
Restricted	2,542	2,519
Unrestricted	(320)	(220)
<b>TOTAL NET POSITION</b>	<b>2,613</b>	<b>2,693</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 58,667</b>	<b>\$ 58,437</b>



## Statement of Revenues, Expenses and Changes in Net Position *(Dollars in Thousands)*

	DECEMBER 31	
	2017	2016
<b>OPERATING REVENUES</b>		
Project power	\$81,046	\$80,067
Other revenues	5,660	4,703
<i>Total Operating Revenues</i>	<b>86,706</b>	<b>84,770</b>
<b>OPERATING EXPENSES</b>		
Purchased power and fuel	81,029	79,919
Administrative and general expense	5,734	4,630
Depreciation and amortization	77	81
<i>Total Operating Expenses</i>	<b>86,840</b>	<b>84,630</b>
<b>NET OPERATING REVENUES (EXPENSES)</b>	<b>(134)</b>	<b>140</b>
<b>Nonoperating Revenues (Expenses)</b>		
Return of member retained interest and earnings	—	(1,015)
Interest on investments	2,196	2,250
Interest expense	(2,142)	(2,198)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>54</b>	<b>(963)</b>
<b>Change in Net Position</b>	<b>(80)</b>	<b>(823)</b>
<b>NET POSITION: Beginning of Year</b>	<b>2,693</b>	<b>3,516</b>
<b>NET POSITION: End of Year</b>	<b>\$2,613</b>	<b>\$2,693</b>

# Statement of Cash Flows (Dollars in Thousands)

DECEMBER 31

<i>Cash Flows from Operating Activities</i>	2017	2016
Cash received from members	\$86,942	\$84,844
Cash paid to suppliers	(83,423)	(83,326)
Cash paid to employees	(1,924)	(1,733)
<i>Net Cash Provided By (Used In) Operating Activities</i>	<b>1,595</b>	<b>(215)</b>
<i>Cash Flows from Investing Activities</i>		
Repayments from note receivable	56	83
Repayments from direct financing lease	981	1,064
Interest received on direct financing lease and note receivable	2,182	2,243
Investment earnings	14	7
<i>Net Cash Provided By Investing Activities</i>	<b>3,233</b>	<b>3,397</b>
<i>Cash Flows from Capital &amp; Related Financing Activities</i>		
Return of member retained interest and earnings	—	(1,015)
Proceeds from sale of investments	1,161	—
Principal paid on note payable	(350)	(504)
Principal paid on debt	(790)	(759)
Additions to plant	—	(27)
Interest paid	(2,142)	(2,198)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<b>(2,121)</b>	<b>(4,503)</b>
<i>Net Increase (Decrease) in Cash &amp; Cash Equivalents</i>	<b>2,707</b>	<b>(1,321)</b>
<b>CASH AND CASH EQUIVALENTS: Beginning of Year</b>	<b>9,681</b>	<b>11,002</b>
<b>CASH AND CASH EQUIVALENTS: End of Year</b>	<b>\$12,388</b>	<b>\$9,681</b>

<i>Reconciliation of Cash &amp; Cash Equivalents to the Balance Sheet</i>		
Restricted cash and investments	\$7,092	\$6,897
Cash and cash equivalents	6,439	5,086
Less: Investments	(1,143)	(2,302)
<b>TOTAL RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET</b>	<b>\$12,388</b>	<b>\$9,681</b>

<i>Reconciliation of Net Operating Revenues to Net Cash Provided by (Used in) Operating Activities</i>		
Net operating revenues (expenses)	\$(134)	\$140
<b>ADJUSTMENTS TO RECONCILE NET OPERATING REVENUES TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Depreciation and amortization	77	81
Changes in assets and liabilities:		
Accounts receivable	236	74
Prepaid expenses	(3)	(6)
Accounts payable and accrued liabilities	1,396	(447)
Net pension liability and related deferred inflows and outflows	19	(12)
Customer deposits	4	(45)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$1,595</b>	<b>\$(215)</b>



## Notes to Basic Financial Statements

December 31, 2017 and 2016

*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, 2017 and 2016, the Agency had 82 and 78 member municipalities, respectively. 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.

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 at December 31, 2017: \$1,102,000 is restricted for the Agency funds held by the Southwest Power Pool; \$199,000 is restricted for cities participating in the WAPA project; \$638,000 is restricted for the GRDA project funds held by the Southwest Power Pool; \$176,000 is restricted for the EMP1 project funds held by the Southwest Power Pool; \$427,000 is restricted as a reserve fund held by the Agency; and \$4,550,000 is held by a trustee related to the Series 2013 bonds and is restricted in the Garden City project for the Jameson Energy Center.

Restricted cash and temporary cash investments are restricted for the following purposes at December 31, 2016: \$1,100,000 is restricted for the Agency funds held by the Southwest Power Pool; \$178,000 is restricted for cities participating in the WAPA project; \$638,000 is restricted for the GRDA project funds held by the Southwest Power Pool; \$176,000 is restricted for the EMP1 project funds held by the Southwest Power Pool; \$427,000 is restricted as a reserve fund held by the Agency; and \$4,378,000 is



held by a trustee related to the Series 2013 bonds and is restricted in the Garden City project for the Jameson Energy Center.

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, 2017 and 2016:

	2017	2016
Deposits held to secure payment of monthly bills	\$720,000	\$716,000

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.

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until then.

## Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees' Retirement System (KPERS) and additions to and deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

## Net Position

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

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

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

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

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

For the year ended December 31, 2016, the Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application*. These statements require measurement of certain assets at fair value using consistent valuation techniques and enhance disclosures to provide a better understanding about the impact of Fair Value Measurement on a government financial statement position.

The Agency categorizes its fair value measurements applicable for reporting its investments within the fair value hierarchy. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**Table 7 | KMEA Assets at Fair Value** (The following tables set forth by level, within the fair value hierarchy, the Agency's assets at fair value as of December 31, 2017)

DECEMBER 31, 2017				
U.S. Government Securities	Level 1	Level 2	Level 3	Total
Federal National Mortgage Association	\$ —	\$ —	\$ —	\$ —
Federal Home Loan Mortgage Corporation	—	—	—	—
Corporate Bonds	—	1,143,000	—	1,143,000
Subtotal	—	1,143,000	—	1,143,000
Money Market Mutual Funds				5,331,000
Deposits				7,057,000
			<b>TOTAL</b>	<b>\$13,531,000</b>

**Table 8 | KMEA Assets at Fair Value** (The following tables set forth by level, within the fair value hierarchy, the Agency's assets at fair value as of December 31, 2016)

DECEMBER 31, 2016				
U.S. Government Securities	Level 1	Level 2	Level 3	Total
Federal National Mortgage Association	\$ —	\$145,000	\$ —	\$145,000
Federal Home Loan Mortgage Corporation	—	1,011,000	—	1,011,000
Corporate Bonds	—	1,146,000	—	1,146,000
Subtotal	—	2,302,000	—	2,302,000
Money Market Mutual Funds				3,997,000
Deposits				5,684,000
			<b>TOTAL</b>	<b>\$11,983,000</b>

The Agency's recurring fair value measurements as of December 31, 2017 and 2016 include the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Corporate bonds and are valued using a matrix pricing technique, which utilizes pricing indices, index spreads and other market reference data (Level 2 inputs). Money Market Mutual Funds are measured at amortized cost.

## 2 Deposits and Investments

Cash and investments held on KMEA's behalf are governed by KMEA's Operating Funds Investment Policy. All deposits must be covered by Federal depository insurance or be adequately collateralized. Such collateral must be held in KMEA's name by KMEA's custodial banks. As stated in the policy, all investments are to be made in U.S. treasury obligations or any other security backed by the full faith and credit of the U.S. Treasury; U.S. government guaranteed bonds; commercial paper with a rating of at least A1/P1; money market funds rated no less than A; and municipal bonds rated no less than Aa at the time of purchase. In the event funds of the Agency are not required for immediate use, including funds resulting from proceeds from the sale of any bonds or notes, the Agency's investing is performed in accordance with K.S.A. 12-895, which permits investments in obligations, securities and other investments, subject to any agreement with bondholders or note holders.

## Credit Risk

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

## Interest Rate Risk

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



**Table 9 | 2017 Deposits and Investments** *At December 31, 2017, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:*

	MATURITIES				Credit Rating S & P
	Fair Value	≤ 12 Months	12 to 24 Months	> 24 Months	
<b>DEPOSITS</b>	\$7,057,000	\$7,057,000	\$ —	\$ —	N/A
<b>MONEY MARKET MUTUAL FUND</b>	1,924,000	1,924,000	—	—	AAAm
<b>AMOUNTS HELD WITH TRUSTEE:</b>					
Corporate bonds	1,143,000	—	—	1,143,000	B1
Money market mutual fund	3,407,000	3,407,000	—	—	AAAm
<b>TOTAL DEPOSITS, INCLUDING INVESTMENTS</b>	<b>\$13,531,000</b>	<b>\$12,388,000</b>	<b>\$ —</b>	<b>\$1,143,000</b>	

**Table 10 | 2016 Deposits and Investments** *At December 31, 2016, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:*

	MATURITIES				Credit Rating S & P
	Fair Value	≤ 12 Months	12 to 24 Months	> 24 Months	
<b>DEPOSITS</b>	\$5,684,000	\$5,684,000	\$ —	\$ —	N/A
<b>MONEY MARKET MUTUAL FUND</b>	1,922,000	1,922,000	—	—	AAAm
<b>AMOUNTS HELD WITH TRUSTEE:</b>					
Federal National Mortgage Association	145,000	—	—	145,000	AA+
Federal Home Loan Mortgage Corporation	1,011,000	—	—	1,011,000	AA+
Corporate bonds	1,146,000	—	—	1,146,000	Ba3
Money market mutual fund	2,075,000	2,075,000	—	—	AAAm
<b>TOTAL DEPOSITS, INCLUDING INVESTMENTS</b>	<b>\$11,983,000</b>	<b>\$9,681,000</b>	<b>\$ —</b>	<b>\$2,302,000</b>	

## 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, 2017 and 2016, 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, 2017 and 2016, the Agency's investments were not exposed to custodial credit risk.

## Concentration Of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments the Agency has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Agency allows a maximum of 100% of the portfolio to be invested in U.S. Treasury obligations; 100% in U.S. government guaranteed bonds; 35% in commercial paper (5% issuer maximum); 35% money market funds (5% issuer maximum); and 35% in municipal obligations (5% issuer maximum). At December 31, 2017, 18% of the Agency's investments were in Corporate Bonds from Banque Centrale De Tunisia and the remaining 82% of the Agency's investments were held in Money Market Mutual Funds that do not qualify for concentration risk because they are held by a trustee as a debt service reserve fund or held by SPP on behalf of KMEA.



## 3 Pension 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, 2017 and 2016 was \$1,924,000 and \$1,733,000, respectively; and the Agency's total payroll was \$1,924,000 and \$1,733,000, 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](http://www.kpers.org).

### Benefits

Benefits are established by statute and may only be changed by the General Assembly. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points". Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Additional information on how eligibility and the benefit amount are determined may be found in the Notes to the Financial Statements of KPERS' CAFR.

### Contributions

Member 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. The contributions and assets are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis. For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers, which includes the state and the school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% and 1.1% of total payroll for the KPERS fiscal years ended June 30, 2017 and 2016, respectively.

The employer contribution rate was 8.46% and 9.18% for the KPERS fiscal years ended June 30, 2017 and 2016, respectively.

Contributions to the pension plan from the Agency were \$160,000 and \$156,000 for the years ended December 31, 2017 and 2016, respectively.

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

At December 31, 2017 and 2016, the Agency reported a liability of \$1,474,000 and \$1,443,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 and December 31, 2015, which was rolled forward to June 30, 2017 and June 30, 2016, respectively.

The Agency's proportion of the net pension liability was based on the Agency's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for KPERS plan year ended June 30, 2017 and June 30, 2016. At December 31, 2017 and 2016, the Agency's proportion was .101777% and .093258%, respectively.

There were no changes in benefit terms during the KPERS plan year ended June 30, 2017 or 2016 that affected the measurement of total pension liability.

For the year ended December 31, 2017 and 2016, the Agency recognized pension expense of \$179,000 and \$146,000. At December 31, 2017 and 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>YEAR ENDED DECEMBER 31, 2017</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$7,100	\$51,000
Changes of assumptions	79,200	11,000
Net difference between projected and actual earnings on pension plan investments	46,200	—
Changes in proportion and differences between Agency contributions and proportionate share of contributions	156,000	22,000
Agency contributions subsequent to the measurement date of June 30, 2017	80,000	—
<b>TOTAL</b>	<b>\$369,000</b>	<b>\$84,000</b>

<b>YEAR ENDED DECEMBER 31, 2016</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$8,400	\$26,000
Changes of assumptions	—	13,000
Net difference between projected and actual earnings on pension plan investments	171,000	—
Changes in proportion and differences between Agency contributions and proportionate share of contributions	81,000	28,000
Agency contributions subsequent to the measurement date of June 30, 2016	80,000	—
<b>TOTAL</b>	<b>\$340,400</b>	<b>\$67,000</b>

At December 31, 2017 and 2016, \$80,000 was reported, as deferred outflows of resources related to pensions which result from Agency contributions subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the Agency's year as follows for the Plan year ending June 30:

<b>Year</b>	<b>Pension Expense</b>
2018	\$34,000
2019	92,000
2020	63,000
2021	2,000
2022	14,000
<b>TOTAL</b>	<b>\$205,000</b>

## Actuarial Assumptions

The total pension liability for the June 30, 2017, measurement date was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75%
Wage inflation	3.5%
Salary increases, including wage increases and inflation	3.5 - 12.0%
Long-term rate of return, net of investment expense, and including price inflation	7.75%

Mortality rates were based on the RP 2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The actuarial cost method is Entry Age Normal. The amortization method is level percentage of payroll, closed.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study completed in November 2016.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2017, are summarized as follows:

<b>Asset Class</b>	<b>Long-Term Target Allocation (%)</b>	<b>Long-Term Expected Real Rate of Return (%)</b>
Global equity	47.0	6.85
Fixed income	13.0	1.25
Yield driven	8.0	6.55
Real return	11.0	1.71
Real estate	11.0	5.05
Alternatives	8.0	9.85
Short-term investments	2.0	(0.25)
<b>TOTAL</b>	<b>100</b>	



## Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The table on the following page presents the net pension liability of the Pension Plan as of June 30, 2017, calculated using the discount rate of 7.75%, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

1.00% Decrease 6.75%	Current Discount Rate: 7.75%	1.00% Increase 8.75%
\$2,123,000	\$1,474,000	\$927,000

## Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

## 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 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, 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 \$254,400 and \$245,400 in 2017 and 2016, respectively. As of December 31, 2017 and 2016, accounts receivable from KMGA was \$21,500 and \$19,000, 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

AS OF DECEMBER 31, 2017

<i>Capital Assets Not Being Depreciated</i>	2016 Balance	Additions	Deletions	2017 Balance
Land	\$97,000	\$ —	\$ —	\$97,000
Work-in-process	—	—	—	—
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>97,000</b>	<b>—</b>	<b>—</b>	<b>97,000</b>
<i>Capital Assets Being Depreciated</i>				
Plant in service	443,000	—	—	443,000
Structures and equipment	1,220,000	—	—	1,221,000
<b>Total Capital Assets Being Depreciated</b>	<b>1,663,000</b>	<b>—</b>	<b>—</b>	<b>1,664,000</b>
<i>Less: Accumulated Depreciation</i>	<b>805,000</b>	<b>77,000</b>	<b>—</b>	<b>883,000</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<b>859,000</b>	<b>(77,000)</b>	<b>—</b>	<b>781,000</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$956,000</b>	<b>\$ (77,000)</b>	<b>\$ —</b>	<b>\$878,000</b>

AS OF DECEMBER 31, 2016

<i>Capital Assets Not Being Depreciated</i>	2016 Balance	Additions	Deletions	2017 Balance
Land	\$97,000	\$ —	\$ —	\$97,000
Work-in-process	—	—	—	—
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>97,000</b>	<b>—</b>	<b>—</b>	<b>97,000</b>
<i>Capital Assets Being Depreciated</i>				
Plant in service	1,884,000	27,000	(1,468,000)	444,000
Structures and equipment	1,220,000	—	—	1,220,000
<b>Total Capital Assets Being Depreciated</b>	<b>3,104,000</b>	<b>27,000</b>	<b>(1,468,000)</b>	<b>1,664,000</b>
<i>Less: Accumulated Depreciation</i>	<b>2,192,000</b>	<b>81,000</b>	<b>1,468,000</b>	<b>805,000</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<b>912,000</b>	<b>(54,000)</b>	<b>—</b>	<b>859,000</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$1,009,000</b>	<b>\$ (54,000)</b>	<b>\$ —</b>	<b>\$956,000</b>

## 6 Direct Financing Lease and Note Receivable

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

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

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

As part of the agreement to lease the Jameson Energy Center, there is a separate note that is payable by Garden City to the Agency. The interest rate on the note receivable is the same as the rate used in the Agency (Garden City) note payable agreement (Note 7). Repayments from Garden City of principal and interest are due monthly through August 2017. At December 31, 2017, the note receivable was paid off.

### Future Minimum Lease Payments

YEAR ENDED DECEMBER 31	Payment
2018	\$2,863,000
2019	2,863,000
2020	2,862,000
2021	2,863,000
2022	2,865,000
2023 - 2027	14,317,000
2028 - 2032	14,314,000
2033 - 2037	14,321,000
2038 - 2042	14,315,000
2043 - 2046	1,432,000
<b>TOTAL MINIMUM LEASE PAYMENTS RECEIVABLE</b>	<b>73,015,000</b>
<b>LESS: UNEARNED INCOME</b>	<b>34,100,770</b>
<b>PRESENT VALUE OF MINIMUM LEASE PAYMENTS</b>	<b>\$38,914,230</b>

## 7 Lines of Credit, Long-Term Debt and Other Long-Term Obligations

In December of 2008, the Agency entered into a \$1,000,000 lease purchase agreement that matures December 2023 to purchase and make certain renovations to a building which is now being used as the Agency's corporate headquarters. The original lease was payable in semiannual installments of \$49,345, including interest at 5.49%. In December 2016, the lease purchase agreement was renegotiated with a semiannual installment of \$44,817, including interest at 2.75%. 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, 2017 and 2016 was \$631,000 and \$669,000, respectively. Amortization of the leased building under capital assets is included with depreciation expense.

In May 2017, the Agency (EMP1 Project) renewed a line of credit agreement with a financial institution that matures in May 2018. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate (4.0% at December 31, 2017) less .25%. There were no amounts outstanding as of December 31, 2017 or 2016 on this line of credit.

In May 2017, the Agency (EMP2 Project) renewed a line of credit agreement with a financial institution that matures in May 2018. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate (4.0% at December 31, 2017) less .25%. There were no amounts outstanding as of December 31, 2017 or 2016 on this line of credit.

In May 2017, the Agency (EMP3 Project) renewed a line of credit agreement with a financial institution that matures in May 2018. The Agency may draw up to \$1,250,000 on the line of credit, which bears interest at the Prime Rate

(4.0% at December 31, 2017) less .25%. There were no amounts outstanding as of December 31, 2017 or 2016 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 began 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 were 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 2017, the Agency, on behalf of Garden City, renewed a \$630,000 letter of credit agreement with a financial institution that expires December 2018. At December 31, 2017, no amounts were drawn on this letter of credit.

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

**Table | 2017 Summary of Long-Term Debt Transactions**

YEAR ENDED DECEMBER 31, 2017	2016 Balance	Additions	Deletions	2017 Balance	Due Within One Year
Lease purchase agreement	\$563,000	\$ —	\$(75,000)	\$488,000	\$72,000
EMP1LOC	—	—	—	—	—
EMP2LOC	—	—	—	—	—
EMP3LOC	—	—	—	—	—
Garden City note	350,000	—	(350,000)	—	—
Series 2013	41,365,000	—	(715,000)	40,650,000	740,000
Bond Premium	880,000	—	(15,000)	865,000	16,000
<b>TOTAL</b>	<b>\$43,158,000</b>	<b>\$ —</b>	<b>\$(1,155,000)</b>	<b>\$42,003,000</b>	<b>\$828,000</b>

**Table | 2016 Summary of Long-Term Debt Transactions**

YEAR ENDED DECEMBER 31, 2016	2015 Balance	Additions	Deletions	2016 Balance	Due Within One Year
Lease purchase agreement	\$632,000		\$(69,000)	\$563,000	\$68,000
EMP1LOC	—		—	—	—
EMP2LOC	—		—	—	—
EMP3LOC	—		—	—	—
Garden City note	854,000		(504,000)	350,000	346,000
Series 2013	42,055,000		(690,000)	41,365,000	715,000
Bond Premium	895,000		(15,000)	880,000	16,000
<b>TOTAL</b>	<b>\$44,436,000</b>	<b>\$ —</b>	<b>\$(1,278,000)</b>	<b>\$43,158,000</b>	<b>\$1,145,000</b>

**Table | Aggregate Maturities of Long-Term Debt**

YEAR ENDED DECEMBER 31, 2017	Lease Purchase		Long-Term Bond		Total
	Principal	Interest	Principal	Interest	
2018	\$72,000	\$13,025	\$740,000	\$2,123,000	\$2,948,025
2019	77,000	10,904	770,000	2,094,000	2,951,904
2020	82,000	8,724	805,000	2,057,000	2,952,724
2021	84,000	6,484	845,000	2,017,000	2,952,484
2022	86,000	4,181	890,000	1,974,000	2,954,181
2023 - 2027	87,000	1,815	5,160,000	9,158,815	14,407,630
2028 - 2032	—	—	6,570,000	7,743,940	14,313,940
2033 - 2037	—	—	8,460,000	5,858,677	14,318,677
2038 - 2042	—	—	11,105,000	3,211,951	14,316,951
2043 - 2047	—	—	5,305,000	421,313	5,726,313
<b>TOTAL</b>	<b>\$488,000</b>	<b>\$45,133</b>	<b>\$40,650,000</b>	<b>\$36,659,696</b>	<b>\$77,842,829</b>

During 2017, the Agency incurred \$2,196,000 of interest. During 2016, the Agency incurred \$2,250,000 of interest.

LIABILITY YEAR ENDING DECEMBER 31, 2017	2016 Balance	Additions	Deletions	2017 Balance	Due Within One Year
Compensated Absences	\$186,000	\$25,000	\$ —	\$211,000	\$211,000

LIABILITY YEAR ENDING DECEMBER 31, 2016	2015 Balance	Additions	Deletions	2016 Balance	Due Within One Year
Compensated Absences	\$154,000	\$32,000	\$ —	\$186,000	\$186,000



## 8 Commitments and Contingencies

### Risk Management

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

## 9 Concentration of Risk

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

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

## 10 Other Postemployment Benefits (OPEB)

### Plan Description

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

### Funding Policy

SEHP establishes and amends contribution requirements. SEHP coverage is monthly and rates are based on semi-monthly payroll deduction periods. From January through March 2014, retirees paid 100% of active premium rates to the Agency who then remitted the funds to the health care provider. Beginning in April, 2014, retirees pay 100% of the active premium rates directly to SEHP. The Agency pays 100% of active premium rates for active employees. The Agency and retirees contributed the following amounts to the plan which represented 100% of the contractually required contributions to the plan for fiscal years ending December 31, 2017, 2016 and 2015:

	2017	2016	2015
Agency premiums paid for active employees	\$284,094	\$212,399	\$195,183
Retirees premiums paid (remitted by KMEA)	—	—	—

GASB Statement No. 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* will be effective with KMEA's December 31, 2018 financial statements. KMEA has not determined the impact of GASB Statement No. 75 on the financial statements.

## 11 Dogwood Project, Buckeye Wind and Subsequent Events

During 2017, KMEA entered into an Asset Purchase Agreement with Dogwood Energy LLC for the purchase of a 10.1% undivided interest in the Dogwood Energy Facility at a purchase price not to exceed \$37,500,000. According to the terms of the agreement, if adequate financing cannot be obtained by KMEA, then KMEA has the ability to remove itself from this Asset Purchase Agreement. The Agency has a target close date on the financing in the first quarter of 2018. As of the date the financial statements were available to be issued, the financing has not been finalized.

During 2017, KMEA entered into a contract with Buckeye Wind in which KMEA will provide their services to 21 cities under the Buckeye Wind Project. Energy will start flowing to those cities June 1, 2018.

Management has evaluated subsequent events through March 9, 2018, which is the date the financial statements were available to be issued.

## Schedules of Selected Pension Information Kansas Employees' Retirement System

DECEMBER 31

<i>Schedule of Proportionate Share of the Net Pension Liability</i>	2017	2016	2015	2014
Agency's proportion of the net pension liability	0.00101777	0.00093258	0.00095657	0.0008806
Agency's proportionate share of the net pension liability	\$1,474,000	\$1,443,000	\$1,256,000	\$1,084,000
Agency's covered payroll	\$1,843,000	\$1,613,000	\$1,641,000	\$1,473,000
Agency's proportionate share of net pension liability as a percentage of its covered payroll	79.98%	89.46%	79.90%	68.18%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%
<i>Schedule of Contributions</i>				
Required contribution	\$160,000	\$156,000	\$146,000	\$121,000
Contributions made in relation to the required contribution	\$160,000	\$156,000	\$146,000	\$121,000
Contribution deficiency	\$ —	\$ —	—	—
Agency's covered payroll	\$1,924,000	\$1,733,000	\$1,572,000	\$1,590,000
Contributions as a percentage of covered payroll	8.32%	9.00%	9.29%	7.61%

### Notes

Above schedules are intended to show information for 10 years. Additional years will be displayed as they become available. Information provided is based on a measurement date and actuarial valuation as of December 31 rolled forward six months to June 30 of the current year.

## Changes of Benefit Terms or Assumptions

There were no changes to benefit terms in the plan for the year ended December 31, 2017. The following were changes to assumptions in the valuation report for the year ended December 31, 2017:

- Price inflation was lowered from 3.00% to 2.75%
- Investment return was lowered from 8.00% to 7.75%
- General wage growth was lowered from 4.00% to 3.50%
- Payroll growth was lowered from 4.00% to 3.00%



# KMEA AUDITORS REPORT

## Combining Statement of Net Position (Dollars in Thousands)

YEAR ENDED DECEMBER 31, 2017		Hydropower		Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	Garden City	Misc. Projects	Agency Total
Assets		WAPA	SPA									
<b>PLANT</b>												
Land		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$97	\$97
Structures and equipment, depreciable		—	—	—	—	—	—	—	—	—	1,221	1,221
Electric plant in service, depreciable		105	—	—	—	32	—	—	—	—	306	443
Accumulated depreciation		(105)	—	—	—	(32)	—	—	—	—	(746)	(883)
<i>Total Plant</i>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>878</b>	<b>878</b>
<b>RESTRICTED FUNDS</b>												
Cash and temporary cash investments		199	—	—	638	176	—	—	—	4,550	1,529	7,092
<b>CURRENT ASSETS</b>												
Cash and cash equivalents		679	66	—	2,353	841	1,119	283	—	—	1,098	6,439
Accounts receivable		350	79	—	—	763	2,613	919	—	—	227	4,951
Prepaid assets		—	—	—	—	—	—	—	—	—	24	24
Interproject receivables (payables)		(91)	(6)	—	1,304	283	(1,138)	(596)	—	—	244	—
<i>Total Current Assets</i>		<b>938</b>	<b>139</b>	<b>—</b>	<b>3,657</b>	<b>1,887</b>	<b>2,594</b>	<b>606</b>	<b>—</b>	<b>—</b>	<b>1,593</b>	<b>11,414</b>
<b>LONG-TERM ASSETS</b>												
Notes receivable		—	—	—	—	—	—	—	—	—	—	—
Direct financing lease		—	—	—	—	—	—	—	—	38,914	—	38,914
<i>Total Long-Term Assets</i>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>38,914</b>	<b>—</b>	<b>38,914</b>
<b>DEFERRED OUTFLOWS OF RESOURCES – PENSION</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>369</b>	<b>369</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		<b>\$1,137</b>	<b>\$139</b>	<b>\$ —</b>	<b>\$4,295</b>	<b>\$2,063</b>	<b>\$2,594</b>	<b>\$606</b>	<b>\$ —</b>	<b>\$43,464</b>	<b>\$4,369</b>	<b>\$58,667</b>
<b>Liabilities, Deferred Inflows of Resources &amp; Net Position</b>												
<b>LIABILITIES PAYABLE FROM RESTRICTED FUNDS</b>												
Accounts payable		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>OTHER NONCURRENT LIABILITIES</b>												
Long-term obligations, less current portion		—	—	—	—	—	—	—	—	40,610	493	41,103
<b>CURRENT LIABILITIES</b>												
Accounts payable and other accrued liabilities		315	55	—	3,886	2,031	2,595	606	—	144	781	10,413
Customer deposits		636	84	—	—	—	—	—	—	—	—	720
Accrued vacation and sick leave		—	—	—	—	—	—	—	—	—	211	211
Interest payable		—	—	—	—	—	—	—	—	1,148	1	1,149
Current portion of long-term debt		—	—	—	—	—	—	—	—	900	—	900
Net pension liability		—	—	—	—	—	—	—	—	—	1,474	1,474
<i>Total Current Liabilities</i>		<b>951</b>	<b>139</b>	<b>—</b>	<b>3,886</b>	<b>2,031</b>	<b>2,595</b>	<b>606</b>	<b>—</b>	<b>2,192</b>	<b>2,467</b>	<b>14,867</b>
<b>TOTAL LIABILITIES</b>		<b>951</b>	<b>139</b>	<b>—</b>	<b>3,886</b>	<b>2,031</b>	<b>2,595</b>	<b>606</b>	<b>—</b>	<b>2,192</b>	<b>2,960</b>	<b>55,970</b>
<b>DEFERRED INFLOWS OF RESOURCES – PENSION</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>84</b>	<b>84</b>
<b>Net Position</b>												
Net investment in capital assets		—	—	—	—	—	—	—	—	—	391	391
Restricted		199	—	—	638	176	—	—	—	—	1,529	2,542
Unrestricted		(13)	—	—	(229)	(144)	(1)	—	—	662	(595)	(320)
<i>TOTAL NET POSITION</i>		<b>186</b>	<b>—</b>	<b>—</b>	<b>409</b>	<b>32</b>	<b>(1)</b>	<b>—</b>	<b>—</b>	<b>662</b>	<b>1,325</b>	<b>2,613</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		<b>\$1,137</b>	<b>\$139</b>	<b>\$ —</b>	<b>\$4,295</b>	<b>\$2,063</b>	<b>\$2,594</b>	<b>\$606</b>	<b>\$ —</b>	<b>\$43,464</b>	<b>\$4,369</b>	<b>\$58,667</b>



## Combining Statement of Revenues, Expenses and Changes in Net Position

(Dollars in Thousands)

YEAR ENDED DECEMBER 31, 2017	Hydropower		Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	Garden City	Misc. Projects	Agency Total
	WAPA	SPA									
REVENUES											
Project power	\$4,450	\$607	\$ —	\$27,697	\$7,753	\$30,857	\$8,826	\$856	\$ —	\$ —	\$81,046
Other revenues	258	80	—	1,040	630	1,870	659	—	533	590	5,660
Total Revenues	4,708	687	—	28,736	8,383	32,727	9,485	856	533	590	86,706
OPERATING EXPENSE											
Purchased power and fuel	4,448	605	—	27,788	7,757	30,862	8,836	733	—	—	81,029
Administrative and general expense	239	83	—	948	625	1,865	649	124	533	668	5,734
Depreciation and amortization	—	—	—	—	—	—	—	—	—	77	77
Total Operating Expenses	4,687	687	—	28,736	8,382	32,727	9,485	856	533	745	86,840
NET OPERATING REVENUES (EXPENSES)	21	—	—	—	1	—	—	—	—	(155)	(134)
Return of member retained interest and earnings	—	—	—	—	—	—	—	—	—	—	—
Interest on investments	—	—	—	—	—	—	—	—	2,182	14	2,196
Interest expense	—	—	—	—	—	—	—	—	(2,127)	(15)	(2,142)
TOTAL NONOPERATING REVENUES (EXPENSES)	—	—	—	—	—	—	—	—	55	(1)	54
Change in Net Position	21	—	—	—	1	—	—	—	55	(157)	(80)
NET POSITION: Beginning of Year	165	—	—	409	31	(1)	—	—	607	1,482	2,693
NET POSITION: End of Year	\$186	\$ —	\$ —	\$409	\$32	\$(1)	\$ —	\$ —	\$662	\$1,325	\$2,613

### Notes

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 eight major projects: the Western Area Power Administration Hydro Power Pool Project (WAPA), the Southwestern Power Administration Hydro Power Pool Project (SPA), 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.

## KMEA EXECUTIVE COMMITTEE



**Back row, left to right:**

Dennis Tharp, Utilities Director – *City of Ottawa*  
Duane Banks, President, Electric Utility Director – *City of Russell*  
Matt Rehder, City Administrator – *City of Seneca*  
Greg DuMars, City Administrator – *City of Lindsborg*  
Bob Mills, Director of Utilities – *City of Garnett*

**Front row, left to right:**

Tyson McGreer, City Manager – *City of Colby*  
Mike Muirhead, Vice President, Public Utilities Director –  
*City of Garden City*  
Ira Harrison, Electric Production Superintendent – *City of Holton*  
Jonathan Mitchell, City Manager – *City of Hoisington*

## KMGA EXECUTIVE COMMITTEE



**Left to right:**

Wes Colson, City Superintendent – *City of Burlingame*  
Randy Frazer, President, City Administrator – *City of Moundridge*  
Laura Hill, Secretary/Treasurer, City Clerk – *City of Kechi*  
Gus Collins, Vice President, Director of Utilities – *City of Winfield*  
Rod Willis, City Manager – *City of Osage City*

**Not pictured:**

Gary Emry, City Administrator – *City of Hesston*  
John Sweet, City Administrator – *City of Lyons*

## BOARD OF DIRECTORS

### Kansas Municipal Gas Agency *Overland Park, Kansas*

#### Report on the Financial Statements

We have audited the accompanying basic financial statements of Kansas Municipal Gas Agency, which comprise the statement of net position as of December 31, 2017 and 2016, and the related statement of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kansas Municipal Gas Agency as of December 31, 2017 and 2016, 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.



# Managements Discussion and Analysis

## For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016. 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, 2017, KMGA had 40 members and 5 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, 2017 and 2016, KMGA's net position was \$488,440 and \$438,205, respectively, and current assets exceeded current liabilities by \$488,440 and \$438,205, respectively. KMGA has no long-term debt.

Changes in net position for the year 2017 were \$50,235, compared to \$51,753 for 2016.

### 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 Statement of Net Position**

DECEMBER 31			
Assets	2017	2016	2015
Cash and cash equivalents	\$1,988,184	\$2,141,738	\$1,628,252
Accounts receivable	2,507,356	3,045,330	1,960,509
<b>Total Assets</b>	<b>4,495,540</b>	<b>5,187,068</b>	<b>3,588,761</b>
Liabilities			
Accounts payable and accrued expenses	4,007,100	4,748,863	3,202,309
<b>NET POSITION</b>	<b>\$488,440</b>	<b>\$438,205</b>	<b>\$386,452</b>

A comparison of the year-end statement of net position shows that the net position has increased in 2017 as a result of revenues exceeding expenses for the year. (See below Table 2, Condensed Statements of Changes in Net Position).

**Table 2 | Condensed Statements of Changes in Net Position**

	DECEMBER 31		
	2017	2016	2015
<b>GAS SUPPLY PROJECT MARGIN</b>			
Project revenues	\$9,605,966	\$8,505,625	\$8,299,021
Gas and gas transportation	(9,317,811)	(8,222,792)	(8,127,201)
<i>Total Gas Supply Project Margin</i>	<b>288,155</b>	<b>282,833</b>	<b>171,820</b>
Other operating revenues	26,609	25,999	25,440
Administrative expenses	(264,529)	(257,079)	(251,391)
<i>Change in Net Position</i>	<b>50,235</b>	<b>51,753</b>	<b>(54,131)</b>
<b>TOTAL REVENUES</b>	<b>\$9,632,575</b>	<b>\$8,531,624</b>	<b>\$8,324,461</b>
<b>TOTAL EXPENSES</b>	<b>\$(9,582,340)</b>	<b>\$(8,479,871)</b>	<b>\$(8,378,592)</b>

Revenues exceeded expenses in 2017 due to an increase in project margin. As for gas volumes, KMGGA transported (in MMBtus) 2,484,140 in 2015, 2,741,609 in 2016, and 2,818,934 in 2017.

**Table 3 | Condensed Statements of Cash Flows**

	DECEMBER 31		
	2017	2016	2015
Net operating revenues (expenses)	\$50,235	\$51,753	(\$54,131)
Changes in assets and liabilities	(203,789)	461,733	126,026
<i>Net Increase (Decrease) in Cash</i>	<b>(153,554)</b>	<b>513,486</b>	<b>71,895</b>
<b>CASH &amp; CASH EQUIVALENTS: Beginning of Year</b>	<b>2,141,738</b>	<b>1,628,252</b>	<b>1,556,357</b>
<b>CASH &amp; CASH EQUIVALENTS: End of Year</b>	<b>\$1,988,184</b>	<b>\$2,141,738</b>	<b>\$1,628,252</b>

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 KMGGA has no debt and has not engaged in other financing activities.

## Plant

There were no changes in KMGGA's plant balance.

## Economic Outlook

The cost of gas is expected to be stable through 2018. Because the Agency is structured where it bills Project participants for the actual cost of gas purchased, 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 KMGGA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kansas Municipal Gas Agency, 6300 W. 95th Street, Overland Park, KS 66212.



## Statement of Net Position

DECEMBER 31

Assets	2017	2016
<b>PLANT</b>		
Gas plant in service	\$34,461	\$34,461
Accumulated depreciation	(34,461)	(34,461)
<i>Total Plant</i>	<b>—</b>	<b>—</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,988,184	2,141,738
Accounts receivable	2,507,356	3,045,330
<i>Total Current Assets</i>	<b>4,495,540</b>	<b>5,187,068</b>
<b>TOTAL ASSETS</b>	<b>\$4,495,540</b>	<b>\$5,187,068</b>
<b>Liabilities and Net Position</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$4,007,100	\$4,748,863
<b>NET POSITION</b>		
Unrestricted	488,440	438,205
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$4,495,540</b>	<b>\$5,187,068</b>

## Statement of Revenues, Expenses and Changes in Net Position

DECEMBER 31

Operating Revenues	2017	2016
Gas supply project	\$9,605,966	\$8,505,625
Other service revenues	—	776
Membership dues	26,609	25,223
<i>Total Operating Revenues</i>	<b>9,632,575</b>	<b>8,531,624</b>
<b>Operating Expenses</b>		
Purchased gas	7,990,218	6,929,417
Gas transportation	1,327,593	1,293,375
Administrative and general	264,529	257,079
<i>Total Operating Expenses</i>	<b>9,582,340</b>	<b>8,479,871</b>
<b>NET OPERATING GAIN</b>	<b>50,235</b>	<b>51,753</b>
<b>Changes in Net Position</b>	<b>50,235</b>	<b>51,753</b>
<b>NET POSITION: Beginning of Year</b>	<b>438,205</b>	<b>386,452</b>
<b>NET POSITION: End of Year</b>	<b>\$488,440</b>	<b>\$438,205</b>



# Statement of Cash Flows

DECEMBER 31

<i>Cash Flows from Operating Activities</i>	2017	2016
Cash received from customers	\$10,170,549	\$7,446,803
Cash payments to suppliers for goods and services	(10,324,103)	(6,933,317)
<i>Net Cash Provided By (Used In) Operating Activities</i>	<b>(153,554)</b>	<b>513,486</b>
<i>Net Increase (Decrease) in Cash</i>	<b>(153,554)</b>	<b>513,486</b>
<i>CASH: Beginning of Year</i>	<b>2,141,738</b>	<b>1,628,252</b>
<i>CASH: End of Year</i>	<b>\$1,988,184</b>	<b>\$2,141,738</b>

<i>Reconciliation of Net Operating Income to Net Cash Provided by (Used in) Operating Activities</i>		
Net operating Income	\$50,235	\$51,753
<b>ADJUSTMENTS TO RECONCILE NET OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Changes in assets and liabilities:		
Accounts receivable	537,974	(1,084,821)
Accounts payable and accrued expenses	(741,763)	1,546,554
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$(153,554)</b>	<b>\$513,486</b>



## Notes to Basic Financial Statements

*December 31, 2017 and 2016*

### 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, 2017, KMGA had 40 full-member cities and 5 affiliate-member cities participating on a project basis. A Board of Directors, consisting of one representative from each full member, oversees the property and business of KMGA. KMGA is considered a jointly governed organization and a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

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

### 2 Significant Accounting Policies

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

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

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

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

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

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

### 3 Cash and Temporary Investments

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

As of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the Agency's deposits were fully collateralized and not exposed to custodial credit risk.

## 4 Plant

Plant consists of:

Balance Year Ended	Gas Plant in Service	Accumulated Depreciation	Total
December 31, 2016	\$34,461	\$34,461	\$ —
December 31, 2017	\$34,461	\$34,461	\$ —

## 5 Related Parties

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

The Management Services Agreement was superseded when the two agencies, on May 20, 1998, entered into the

Interlocal Cooperation Agreement for Joint Administration, under authority of the Interlocal Cooperation Act (K.S.A. 12-2901, et seq., as amended). Under the Joint Administration Agreement, KMGA will continue to rely on KMEA employees to manage and administer KMGA's operations. For the services provided and related expenses incurred, KMEA bills KMGA at cost. The management services fee was \$254,400 in 2017 and \$245,400 in 2016. As of December 31, 2017 and 2016, accounts payable to KMEA were \$21,500 and \$19,000, respectively.

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

## 6 Commitments and Contingencies

### Gas Purchase Agreements

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

### Risk Management

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



# BUSINESS ASSOCIATES

Arthur Gallagher Risk  
Management Services

Columbia Capital  
Management, LLC

Dogwood Energy

Fairbanks Morse

Foley Power Solutions

Gilmore & Bell, P.C

Gridliance

Healy Law Firm

Jennings Strouss, PLC

Kansas City Bpu

Mc Power Co.

MCG Energy Solutions

Mid States Energy Works, Inc

Midland GIS

Midwest Energy

Nextera Energy

Piper Jaffrey

Polsinelli

Power Engineers

Sawvel & Associates, Inc

Sempra Renewables

Siemens Energy

Sol Systems

Spiegel & McDiarmid

Stresscrete Group

Techline

Tradewind Energy

Westar Energy

## KMEA/KMGA STAFF

**Paul Mahlberg** | *General Manager*

**Sam Mills** | *Managing Director, Electric Operations*

**Kent Balkenbusch** | *System Operator*

**Gerry Bieker** | *Manager, Member Services*

**Paula Campbell** | *Senior System Operator*

**Neal Daney** | *Director Project and Asset Management*

**Katia Mitchell** | *Office Manager*

**Jennifer Moore** | *Director, Finance and Accounting*

**Dixie Riedel** | *Director of Natural Gas*

**David Rosenthal** | *Senior System Operator*

**DJ Smith** | *System Operator*

**Garrett Higgins** | *System Operator*

**Neil Rowland** | *Director, Transmission and Security*

**Tom Saitta** | *Director, Electric Operations*

**John Seck** | *Director, Resource Planning and Development*

**Joni Shadonix** | *Energy Controller, Gas*

**Gerry Stephenson** | *Manager, Finance & Accounting*

# BOARD AND OFFICERS

## KMEA Officers & Executive Committee

**Duane Banks** | *President, Electric Utility Director, City of Russell*

**Mike Muirhead** | *Vice President, Public Utilities Director, City of Garden City*

**Bob Mills** | *Secretary/Treasurer, Director of Utilities, City of Garnett*

**Matt Rehder** | *City Administrator, City of Seneca*

**Greg DuMars** | *City Administrator, City of Lindsborg*

**Ira Harrison** | *Electric Production Superintendent, City of Holton*

**Tyson McGreer** | *City Manager, City of Colby*

**Jonathan Mitchell** | *City Manager, City of Hoisington*

**Dennis Tharp** | *Director of Utilities, City of Ottawa*

## KMGA Officers & Executive Committee

**Randy Frazer** | *President, City Administrator, City of Moundridge*

**Gus Collins** | *Vice President, Director Gas/ Wastewater Utilities, City of Winfield*

**Laura Hill** | *Secretary/ Treasurer, City Clerk, City of Kechi*

**Wes Colson** | *City Superintendent, City of Burlingame*

**Gary Emry** | *City Administrator, City of Hesston*

**John Sweet** | *City Administrator, City of Lyons*

**Rod Willis** | *Director of Utilities, City of Osage City*

## Joint Board

**Randy Frazer** | *Alt. Secretary, KMGA President, City Administrator, City of Moundridge*

**Duane Banks** | *Chairman, KMEA President, Electric Utility Director, City of Russell*

**Mike Muirhead** | *Public Utilities Director, City of Garden City*

**Rod Willis** | *Director of Utilities, City of Osage City*

**Bob Mills** | *Director of Utilities, City of Garnett*

**Mike Shook** | *Director of Electric Utilities, City of Coffeyville*

**Gary Emry** | *City Administrator, City of Hesston*



# ANNUAL REPORT 2017

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