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***KANSAS MUNICIPAL  
ENERGY AGENCY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2017***

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## Independent Auditors' Report

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.

*RubinBrown LLP*

March 9, 2018

# **KANSAS MUNICIPAL ENERGY AGENCY**

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## **MANAGEMENT'S 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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Management's Discussion And Analysis (*Continued*)

#### **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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Management's Discussion And Analysis (*Continued*)

#### **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.

## KANSAS MUNICIPAL ENERGY AGENCY

### Management's Discussion And Analysis (Continued)

Table 1: Condensed Statement Of Net Position (in thousands)

	December 31,		
	2017	2016	2015
<b>Assets And Deferred Outflows</b>			
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 And Deferred Outflows</b>	<b>58,667</b>	<b>58,437</b>	<b>60,864</b>
<b>Liabilities And Deferred Inflows</b>			
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 And 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 and Changes in Net Position (in thousands)

	For The Year Ended December 31,		
	2017	2016	2015
<b>Revenues</b>			
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>
<b>Expenses</b>			
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>
<b>Return Of Member Retained Interest And Earnings</b>	<b>—</b>	<b>(1,015)</b>	<b>—</b>
<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>

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Management's Discussion And Analysis (*Continued*)

#### **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).

## KANSAS MUNICIPAL ENERGY AGENCY

### Management's Discussion And Analysis (Continued)

Table 3: Condensed Statements Of Cash Flow (in thousands)

	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<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)
Net increase (decrease) in cash	2,707	(1,321)	1,520
<b>Cash And Cash Equivalents - Beginning Of Year</b>	9,681	11,002	9,482
<b>Cash And Cash Equivalents - End Of Year</b>	\$ 12,388	\$ 9,681	\$ 11,002

### 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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Management's Discussion And Analysis (*Continued*)

#### **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 95<sup>th</sup> Street, Overland Park, Kansas 66212-1431.

# KANSAS MUNICIPAL ENERGY AGENCY

## STATEMENT OF NET POSITION (Dollars In Thousands)

	December 31,	
	2017	2016
<b>Assets And Deferred Outflows Of Resources</b>		
<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)
<b>Total Plant</b>	<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
<b>Total Current Assets</b>	<b>11,414</b>	<b>10,294</b>
<b>Noncurrent Assets</b>		
Notes receivable	—	56
Direct financing lease	38,914	39,895
<b>Total Noncurrent Assets</b>	<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>
<b>Liabilities, Deferred Inflows Of Resources And Net Position</b>		
<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
<b>Total Current Liabilities</b>	<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>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>

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# KANSAS MUNICIPAL ENERGY AGENCY

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## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Dollars In Thousands)

	For The Years	
	Ended December 31,	
	2017	2016
<b>Operating Revenues</b>		
Project power	\$ 81,046	\$ 80,067
Other revenues	5,660	4,703
<b>Total Operating Revenues</b>	<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
<b>Total Operating Expenses</b>	<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>

# KANSAS MUNICIPAL ENERGY AGENCY

## STATEMENT OF CASH FLOWS (Dollars In Thousands)

	For The Years Ended December 31,	
	2017	2016
<b>Cash Flows From Operating Activities</b>		
Cash received from members	\$ 86,942	\$ 84,844
Cash paid to suppliers	(83,423)	(83,326)
Cash paid to employees	(1,924)	(1,733)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>1,595</b>	<b>(215)</b>
<b>Cash Flows From Investing Activities</b>		
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
<b>Net Cash Provided By Investing Activities</b>	<b>3,233</b>	<b>3,397</b>
<b>Cash Flows From Capital And Related Financing Activities</b>		
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)
<b>Net Cash Used In Capital And Related Financing Activities</b>	<b>(2,121)</b>	<b>(4,503)</b>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<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>
<b>Reconciliation Of Cash And Cash Equivalents To The Balance Sheet</b>		
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>
<b>Reconciliation Of Net Operating Revenues To Net Cash Provided By (Used In) Operating Activities</b>		
Net operating revenues (expenses)	\$ (134)	\$ 140
Adjustments to reconcile net operating revenues to net cash provided by (used in) operating activities:		
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>

# KANSAS MUNICIPAL ENERGY AGENCY

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## 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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Notes To Basic Financial Statements (*Continued*)

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.

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements *(Continued)*

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:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<u>Deposits held to secure payment of monthly bills</u>	<u>\$ 720,000</u>	<u>\$ 716,000</u>

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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Notes To Basic Financial Statements (*Continued*)

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.

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Agency's assets at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>U.S. Government Securities</b>				
Federal National Mortgage Association	\$ —	\$ —	\$ —	\$ —
Federal Home Loan Mortgage Corporation	—	—	—	—
<b>Corporate Bonds</b>	—	1,143,000	—	1,143,000
<b>Subtotal</b>	—	1,143,000	—	1,143,000
Money market mutual funds				5,331,000
Deposits				<u>7,057,000</u>
<b>Total</b>				<u>\$ 13,531,000</u>

The following tables set forth by level within the fair value hierarchy, the Agency's assets at fair values as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>U.S. Government Securities</b>				
Federal National Mortgage Association	\$ —	\$ 145,000	\$ —	\$ 145,000
Federal Home Loan Mortgage Corporation	—	1,011,000	—	1,011,000
<b>Corporate Bonds</b>	—	1,146,000	—	1,146,000
<b>Subtotal</b>	—	2,302,000	—	2,302,000
Money market mutual funds				3,997,000
Deposits				<u>5,684,000</u>
<b>Total</b>				<u>\$ 11,983,000</u>

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.

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements (Continued)

At December 31, 2017, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:

	Fair Value	Maturities			Credit Rating S & P/Moody's
		12 Months Or Less	12 - 24 Months	More Than 24 Months	
Deposits	\$ 7,057,000	\$ 7,057,000	\$ —	\$ —	N/A
Money market mutual fund	1,924,000	1,924,000	—	—	AAAm
Amounts Held with trustee:					
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>	

At December 31, 2016, the carrying value, maturities and credit ratings of deposits and investments are summarized as follows:

	Fair Value	Maturities			Credit Rating S & P
		12 Months Or Less	12 - 24 Months	More Than 24 Months	
Deposits	\$ 5,684,000	\$ 5,684,000	\$ —	\$ —	N/A
Money market mutual fund	1,922,000	1,922,000	—	—	AAAm
Amounts Held with trustee:					
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>	

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Notes To Basic Financial Statements (*Continued*)

#### ***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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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### Notes To Basic Financial Statements (*Continued*)

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.

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements (Continued)

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>Deferred Outflows Of Resources</b>	<b>Deferred Inflows Of Resources</b>
<b>Year Ended December 31, 2017</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>

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements (Continued)

	<b>Deferred Outflows Of Resources</b>	<b>Deferred Inflows Of Resources</b>
<b>Year Ended December 31, 2016</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>\$ 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 Percent
Wage inflation	3.5 Percent
Salary increases, including wage increases and inflation	3.5 - 12.0 Percent
Long-term rate of return, net of investment expense, and including price inflation	7.75 Percent

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements *(Continued)*

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>100.0</b>	

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements (*Continued*)

#### ***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:

<b>1.00% Decrease</b>	<b>Current</b>	<b>1.00% Increase</b>
<b>6.75%</b>	<b>Discount</b>	<b>8.75%</b>
	<b>Rate: 7.75%</b>	
\$ 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.

## **KANSAS MUNICIPAL ENERGY AGENCY**

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Notes To Basic Financial Statements (*Continued*)

### **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.

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements (Continued)

#### 5. Capital Assets

Capital assets consisted of the following amounts as of December 31, 2017:

	2016 Balance	Additions	Deletions	2017 Balance
Capital assets not being depreciated				
Land	\$ 97,000	\$ —	\$ —	\$ 97,000
Work-in-process	—	—	—	—
Total capital assets not being depreciated	97,000	—	—	97,000
Capital assets being depreciated				
Plant in service	443,000	—	—	443,000
Structures and equipment	1,220,000	—	—	1,221,000
Total capital assets being depreciated	1,663,000	—	—	1,664,000
Less: Accumulated depreciation	805,000	77,000	—	883,000
Total capital assets being depreciated, net	859,000	(77,000)	—	781,000
Capital assets, net	\$ 956,000	\$ (77,000)	\$ —	\$ 878,000

Capital assets consisted of the following amounts as of December 31, 2016:

	2015 Balance	Additions	Deletions	2016 Balance
Capital assets not being depreciated				
Land	\$ 97,000	\$ —	\$ —	\$ 97,000
Work-in-process	—	—	—	—
Total capital assets not being depreciated	97,000	—	—	97,000
Capital assets being depreciated				
Plant in service	1,884,000	27,000	(1,468,000)	444,000
Structures and equipment	1,220,000	—	—	1,220,000
Total capital assets being depreciated	3,104,000	27,000	(1,468,000)	1,664,000
Less: Accumulated depreciation	2,192,000	81,000	1,468,000	805,000
Total capital assets being depreciated, net	912,000	(54,000)	—	859,000
Capital assets, net	\$ 1,009,000	\$ (54,000)	\$ —	\$ 956,000

#### 6. Direct Financing Lease And Note Receivable

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

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements *(Continued)*

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

At December 31, 2017, the future minimum lease payments to be received under the lease are as follows:

<u>Year Ending December 31,</u>	<u>Payment</u>
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
Total minimum lease payments receivable	73,015,000
Less: unearned income	34,100,770
<u>Present value of minimum lease payments</u>	<u>\$ 38,914,230</u>

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.

**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.

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements *(Continued)*

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.

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

	2016			2017	Due Within
	Balance	Additions	Deletions	Balance	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
	\$ 43,158,000	\$ —	\$ (1,155,000)	\$ 42,003,000	\$ 828,000

## KANSAS MUNICIPAL ENERGY AGENCY

### Notes To Basic Financial Statements *(Continued)*

	2015			2016		Due Within One Year
	Balance	Additions	Deletions	Balance		
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	
	<u>\$ 44,436,000</u>	<u>\$ —</u>	<u>\$ (1,278,000)</u>	<u>\$ 43,158,000</u>	<u>\$ 1,145,000</u>	

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	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
	<u>\$ 488,000</u>	<u>\$ 45,133</u>	<u>\$ 40,650,000</u>	<u>\$ 36,659,696</u>	<u>\$ 77,842,829</u>

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

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements (Continued)

#### Compensated Absences

See table below for liability as of December 31, 2017 and 2016.

	2016			2017	Due Within
	Balance	Additions	Deletions	Balance	One Year
Compensated absences	\$ 186,000	\$ 25,000	\$ —	\$ 211,000	\$ 211,000

	2015			2016	Due Within
	Balance	Additions	Deletions	Balance	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.

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements (*Continued*)

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.

## KANSAS MUNICIPAL ENERGY AGENCY

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### Notes To Basic Financial Statements (Continued)

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
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.

# KANSAS MUNICIPAL ENERGY AGENCY

## SCHEDULES OF SELECTED PENSION INFORMATION KANSAS EMPLOYEES' RETIREMENT SYSTEM December 31, 2017

### Schedule Of Proportionate Share Of The Net Pension Liability

	December 31,			
	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%

### Schedule Of Contributions

	December 31,			
	2017	2016	2015	2014
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%

# KANSAS MUNICIPAL ENERGY AGENCY

## COMBINING STATEMENT OF NET POSITION

December 31, 2017

(Dollars In Thousands)

Assets	Hydropower		Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	Garden City	Miscellaneous Projects	Agency Total
	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)
<b>Total Plant</b>	<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	—
<b>Total Current Assets</b>	<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
<b>Total Long-Term Assets</b>	<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 And 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
<b>Total Current 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>2,467</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</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)
<b>Total Net Position</b>	<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>

**KANSAS MUNICIPAL ENERGY AGENCY**

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**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

**December 31, 2017**

**(Dollars In Thousands)**

	<u>Hydropower</u>		Nearman	GRDA	EMP1	EMP2	EMP3	Eudora	Garden City	Miscellaneous Projects	Agency Total
	WAPA	SPA									
<b>Revenues</b>											
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
<b>Total Revenues</b>	<b>4,708</b>	<b>687</b>	<b>—</b>	<b>28,736</b>	<b>8,383</b>	<b>32,727</b>	<b>9,485</b>	<b>856</b>	<b>533</b>	<b>590</b>	<b>86,706</b>
<b>Operating Expense</b>											
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
<b>Total Operating Expenses</b>	<b>4,687</b>	<b>687</b>	<b>—</b>	<b>28,736</b>	<b>8,382</b>	<b>32,727</b>	<b>9,485</b>	<b>856</b>	<b>533</b>	<b>745</b>	<b>86,840</b>
<b>Net Operating Revenues (Expenses)</b>	<b>21</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(155)</b>	<b>(134)</b>
Return of member retained interest and earnings	—	—	—	—	—	—	—	—	—	—	—
Interest on investments	—	—	—	—	—	—	—	—	2,182	14	2,196
Interest expense	—	—	—	—	—	—	—	—	(2,127)	(15)	(2,142)
<b>Total Non Operating Revenues (Expenses)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>55</b>	<b>(1)</b>	<b>54</b>
<b>Change In Net Position</b>	<b>21</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>55</b>	<b>(157)</b>	<b>(80)</b>
<b>Net Position - Beginning Of Year</b>	<b>165</b>	<b>—</b>	<b>—</b>	<b>409</b>	<b>31</b>	<b>(1)</b>	<b>—</b>	<b>—</b>	<b>607</b>	<b>1,482</b>	<b>2,693</b>
<b>Net Position - End Of Year</b>	<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>

# KANSAS MUNICIPAL ENERGY AGENCY

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## NOTE TO SUPPLEMENTARY INFORMATION

December 31, 2017

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.