




KPP Energy

Independent Auditor's Reports, Financial Statements, and Required Supplementary Information

December 31, 2024 and 2023



KPP Energy
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December 31, 2024 and 2023

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Independent Auditor's Report

Board of Directors
KPP Energy
Wichita, Kansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KPP Energy (KPP) as of and for the years ended December 31, 2024 and 2023 and the related notes to the financial statements, which collectively comprise KPP's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of KPP as of December 31, 2024 and 2023 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KPP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KPP's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KPP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KPP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2025 on our consideration of KPP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KPP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KPP's internal control over financial reporting and compliance.

Forvis Mazars, LLP

Oklahoma City, Oklahoma
April 10, 2025

KPP Energy Management's Discussion and Analysis Years Ended December 31, 2024 and 2023

This section of KPP Energy's (KPP) annual financial report presents management's discussion and analysis of KPP's financial performance for the years ended December 31, 2024 and 2023. Please read it in conjunction with the accompanying financial statements, which follow this section.

Overview of the Financial Statements

Financial Statements

KPP's report includes three financial statements. These statements provide both long-term and short-term information about the overall status of KPP and are presented to demonstrate the extent KPP has met its operating objectives efficiently and effectively using all the resources available and whether KPP can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of the financial statements is the balance sheets. These statements present information that includes all of KPP's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference reported as net position. Increases and decreases in net position may serve as a useful indicator of whether the financial position of KPP as a whole is improving or deteriorating and to identify financial strengths and weaknesses and assess liquidity.

The second statement is the statements of revenues, expenses, and changes in net position, which report how KPP's net position changed during the fiscal year and can be used to assess KPP's operating results in its entirety and analyze how KPP's operations are financed.

The third statement is the statements of cash flows, which report the inflows and outflows of KPP's cash.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to gain a full understanding of KPP's financial statements. The notes to financial statements begin immediately following the financial statements.

Nature of Operations

KPP is a Municipal Energy Agency organized under K.S.A. 12-885, through and including K.S.A. 12-8,111, of the state of Kansas to provide a means of municipal electric systems in Kansas to jointly plan, finance, acquire and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. KPP is not a discretely presented component unit of the state of Kansas, nor is it included in the financial statements of the state of Kansas.

KPP provides electric power services under its operating agreement and a power purchase contract for wholesale electric energy, both of which are adopted by each member city. The term of the operating agreement is governed by termination language in the Power Purchase Contract; but the member shall remain responsible for its respective shares of any obligations made on its behalf prior to its notice of cancellation and shall be entitled to its respective shares of any entitlements obtained for which it has paid when due, subject to the terms under which the entitlements were obtained.

KPP's 2024 membership includes 24 cities that are considered long-term members in that each has signed an exclusive 20-year power purchase contract with KPP, the term of which is the later of 20 years from the First Supplemental Power Purchase Contract date or the date upon which the principal, premium, and interest on all bonds are paid in full and the bonds are retired. The net result is that each member pools any existing power purchase contracts with KPP resources, except for agreements with the Western Area Power Administration, which are retained by the cities that have them. Each generating member also assigns its internal generating units to KPP's resource pool if the units meet KPP requirements as designated network resources under Southwest Power Pool reliability standards.

During 2022, the Board of Directors voted to formally change the name of "Kansas Power Pool" to "KPP Energy." The name change required all member cities of the agency to sign a second amendment to the agreement creating the agency as well as passage of a resolution by the city council or commission. This was completed during 2023.

The KPP Board of Directors approved the purchase of a new facility to house KPP offices. The cost of purchasing the building was \$2.1 million. The purchase is in line with KPP's philosophy of owning assets instead of leasing them and avoids what was likely to be a large rent increase in 2025. The purchase was completed utilizing reserve funds and, as such, will not have an impact on KPP electric rates.

A Power Purchase agreement providing 59 megawatts (MW) of capacity expired in December 2022. KPP is currently evaluating a comprehensive long-term power supply plan aimed at replacing the capacity from the expired contract and achieving a lower cost structure. This initiative includes an extensive exploration of high-capacity generation options available to KPP for integration within the Southwest Power Pool. The selected project or projects will be financed through tax-exempt bonds, enabling KPP to acquire more fixed assets while simultaneously reducing costs.

In July 2015, KPP issued additional debt to acquire another 20 MWs of the Dogwood Energy Facility, bringing its ownership total from this natural gas, combined cycle generating source to 62 MWs. Since 2015, improvements at the Dogwood Energy Center have increased the capacity value bringing KPP's current share to 66.2 MW, the existing interconnection limit. Currently, KPP is in the process of obtaining additional transmission service and Dogwood is in the process of upgrading its interconnection limits. After both of these are complete, KPP's share of Dogwood summer capacity will be increased to 69.2 MWs. In June 2016, KPP began taking 25 MWs of energy from a newly constructed wind farm in north central Kansas, bringing its renewable capacity contracts to about 28% of its total energy portfolio. By doing this, KPP was able to terminate an existing 15.5 MW contract for energy from an inefficient coal-fired generating plant at the end of 2015. KPP's energy resources include power generated from wind, hydro, natural gas, and fuel oil. This mix of fuels provides KPP with a hedge against price spikes for any one fuel type.

KPP applied the practice of locational arbitrage within the Southwest Power Pool Integrated Market beginning in May 2015. Locational arbitrage is the practice of bringing in more revenue to certain locations where transmission congestion occurs by offering excess energy on a real-time basis rather than selling it in the day ahead market at a lower rate. KPP takes energy at the source of two wind farms where transmission congestion occurs at certain times of the day.

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

KPP submitted a Letter of Interest under the Powering Affordable Clean Energy (PACE) program with Rural Utilities Services and USDA to install approximately 20 MW of solar generation in nine KPP cities. KPP was invited to submit a full application by December 4, 2023 and successfully submitted it on January 19, 2024 after receiving an extension to January 26, 2024. KPP's staff analyzed each of the 24 KPP communities and determined the maximum amount of additional resources allowable behind the meter to qualify for this project. The cities identified were Clay Center, Ellinwood, Greensburg, Hillsboro, Kingman, Marion, Mulvane, Wellington, and Winfield. After further review, seven sites were selected: Clay Center, Ellinwood, Greensburg, Hillsboro, Marion, Wellington, and Winfield. On September 25, 2024, USDA announced they were moving forward with eight PACE projects, including one in Kansas, the KPP Energy Project. On November 12, 2024, KPP received a letter of conditions from USDA, with the only remaining step to receive full USDA approval to proceed is completion of environmental assessments in several locations, which is underway. On December 30, 2024, KPP secured temporary financing for the project with a two-year bond issuance. On December 30, 2024, KPP executed an engineering procurement and construction contract with developer Priority Power. As such, the project is deemed

to have begun construction in the calendar year 2024. By completing these considerable tasks by the end of the year, KPP achieves an enhanced level of security in accessing tax credits for the project. KPP will install a total of 18MW solar capacity.

KPP has been working with eight members to install automated metering infrastructure (AMI) technology since a bond issuance for the project in June 2021. Material shortages created large delays and backlogs in meter manufacturing. As of year-end 2024, all eight cities now have their meters and equipment installed. These members installed all of the equipment and worked with their customer information system software vendors to integrate the meter readings for customer billing. This allowed these cities the ability for automated meter reading, monitoring system performance, and opening up ways to work with customers on billing and payment options.

The City of Waterville and KPP replaced the substation that connects them to the Evergy transmission system. This project involved replacing old equipment with pad mounted equipment, which is safer and more reliable. The city and KPP did this project at a lower cost than could investor-owned utility Evergy to whom Waterville is interconnected. Waterville is operating the substation, taking over from Evergy. This project was completed in July 2024.

KPP also issued additional debt in June 2021 to acquire, construct, and equip a new electrical substation to service the City of Mulvane. This project includes new transmission lines, electrical connections, transformers, and switchgear, along with any necessary changes or additions. The transformer was completed and delivered to Mulvane in September 2024, and the substation is expected to be completed in 2026.

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

KPP is governed by a nine-member Board of Directors, elected by the Membership Committee, serving staggered four-year terms. The Board meets monthly to review and direct the general activity of KPP's staff. KPP's staff is headed by a chief executive officer (CEO)/general manager selected by the Board. The staff is comprised of seven members in addition to the CEO/general manager who handle the daily operations of KPP. KPP also retains or contracts with consultants in specialized areas of the electric utility industry.

KPP's annual budget process is closely interrelated with its wholesale rate-setting process, both of which involve the direct participation of the Board and the Membership Committee. KPP staff first prepare peak demand and energy numbers using forecasts for each member city, which are calculated with anticipated unit costs to project KPP expenditures for the new fiscal year. Wholesale rates are then calculated to provide the revenue levels necessary to cover expenses and to meet the financial objectives set by the Board with regard to debt service coverage and net position. KPP staff make a presentation of these financial components to the membership at an annual rate forum. At a subsequent meeting, the Board approves the budget and recommends to the Membership Committee approval of the wholesale rates to be applied the following year. The wholesale rates are finalized by a vote of the Membership Committee.

At the end of FY 2024, KPP's unrestricted cash balance covered 353.1 days of operating expenses. KPP has exceeded its financial objective of reaching 90 days' expense coverage by 2020. At the end of FY 2024, KPP reached a debt service coverage ratio of 1.94 before moving funds in excess of the 1.3 bond rating agency target into its emergency stabilization fund.

KPP offers its members a range of complimentary value-added services including annual electric utility analysis reports, rate review and design assistance, long-term capital improvement planning, project management services, electric distribution assessments, pole testing analysis, energy efficiency rebate program, education and ordinance preparation for distributed generation projects, and assistance in securing local, state, and federal grant opportunities. KPP also hosts training and networking events for members and supports community promotion

KPP Energy
Management's Discussion and Analysis
Years Ended December 31, 2024 and 2023

(Continued)

efforts by participating in and financially contributing to local Chambers of Commerce and Community Foundations.

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

| | 2024 | 2023 | 2022 |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| Cash | \$ 42,556,204 | \$ 34,476,496 | \$ 31,290,733 |
| Cash and cash equivalents, restricted | 500,000 | 250,000 | 250,537 |
| Investments, restricted | 41,781,479 | 8,863,961 | 10,271,023 |
| Accounts receivable | 4,709,019 | 3,547,436 | 7,211,578 |
| Capital assets, net | 56,360,992 | 39,196,827 | 43,288,989 |
| Other assets | 14,965,838 | 13,391,525 | 8,615,734 |
| Total Assets | 160,873,532 | 99,726,245 | 100,928,594 |
| Deferred outflows of resources | 886,334 | 1,135,842 | 6,086,890 |
| Total Assets and Deferred Outflows of Resources | \$ 161,759,866 | \$ 100,862,087 | \$ 107,015,484 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | | |
| Accounts payable and accrued expenses | \$ 3,385,139 | \$ 3,005,165 | \$ 4,829,483 |
| Long-term debt, net | 93,798,355 | 46,025,914 | 55,410,840 |
| Net pension liability | 1,008,983 | 949,228 | 896,829 |
| Total Liabilities | 98,192,477 | 49,980,307 | 61,137,152 |
| Deferred inflows of resources | 23,303,504 | 12,817,784 | 12,837,076 |
| Total Liabilities and Deferred Inflows of Resources | 121,495,981 | 62,798,091 | 73,974,228 |
| Net position – investment in capital assets | 3,903,297 | 1,061,987 | 3,215,918 |
| Net position – restricted | 4,388,109 | 4,457,341 | 4,301,948 |
| Net position – unrestricted | 31,972,479 | 32,544,668 | 25,523,390 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 161,759,866 | \$ 100,862,087 | \$ 107,015,484 |
| Revenues, Expenses, and Changes in Net Position | | | |
| Operating revenues | \$ 57,167,808 | \$ 51,746,236 | \$ 80,141,308 |
| Operating expenses | (40,596,773) | (43,006,229) | (68,652,363) |
| Administrative and general expenses | (3,758,128) | (3,152,973) | (3,058,230) |
| Nonoperating expense, net | (113,010) | (564,294) | (1,506,020) |
| Deferred inflows of resources – emergency stabilization and generation resource | (10,500,008) | - | (450,000) |
| Change in Net Position | \$ 2,199,889 | \$ 5,022,740 | \$ 6,474,695 |

KPP Energy
Management's Discussion and Analysis
Years Ended December 31, 2024 and 2023

(Continued)

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

| | 2024 | 2023 | 2022 |
|--|----------------------|----------------------|----------------------|
| Depreciable Assets | | | |
| Vehicles | \$ 19,648 | \$ 61,396 | \$ 48,971 |
| Furniture, fixtures, and equipment | 618,695 | 609,505 | 585,390 |
| Office building and related improvements | 2,487,422 | - | - |
| Kingman Direct Connect | 4,643,982 | 4,643,982 | 4,640,927 |
| Solomon Energy Storage Center | 2,148,116 | 2,119,291 | 1,917,273 |
| Dogwood | 48,464,062 | 47,791,223 | 47,046,499 |
| Total Depreciable Assets | 58,381,925 | 55,225,397 | 54,239,060 |
| Construction Work in Progress | 17,313,230 | 1,015,029 | 3,718,971 |
| Less Accumulated Depreciation | 19,334,163 | 17,043,599 | 14,669,042 |
| Total Capital Assets, Net | \$ 56,360,992 | \$ 39,196,827 | \$ 43,288,989 |

See Note 3 for additional information.

Revenue Bonds

In conjunction with the purchase of the Dogwood Energy Facility, KPP issued the 2012A revenue bonds for approximately \$29,135,000. In addition, KPP issued the 2012B and 2012C revenue bonds to fund certain construction projects for member cities for approximately \$3,180,000 and \$1,455,000, respectively. The 2012A revenue bonds were retired during 2022. The 2012B and 2012C bonds were retired during 2021.

During 2013, KPP issued the 2013A revenue bonds to fund certain construction projects for member cities for approximately \$6,550,000. These bonds were retired during 2021.

During 2015, KPP issued the 2015A revenue bonds to acquire an additional 20 MW of the Dogwood Energy Facility for \$14,860,000.

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

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

During 2021, KPP issued the 2021A revenue bonds to finance certain construction projects for approximately \$14,570,000. During 2021, KPP also issued the 2021B and 2021C revenue bonds for approximately \$8,375,000 for advance refunding of approximately \$4,615,000 of the 2012A revenue bonds, approximately \$975,000 of the 2012B revenue bonds, approximately \$645,000 of the 2012C revenue bonds, and approximately \$2,465,000 of the 2013A revenue bonds. During 2024, KPP issued bonds for the purpose of financing solar generating facilities.

All bond issues are rated A3 by Moody's, except for the 2017A, 2020A, 2020B, 2020C, and 2024A revenue bonds, which are not rated. See Note 6 for additional information.

Operations

Revenues from operations were approximately \$57,168,000 for the year ended December 31, 2024. The increase in operating revenue of approximately \$5,422,000 (10%) from 2023 is primarily a result of board-approved rate increases in 2024. Operating expenses, which consist mainly of transmission costs, purchased power, depreciation, and payments to the facilitator for scheduling and other administrative functions, totaled approximately \$40,597,000 in the same period.

Revenues from operations were approximately \$51,746,000 for the year ended December 31, 2023. The decrease in operating revenue of approximately \$28,395,000 (35.00%) from 2022 is primarily a result of the Winter Storm Elliot and higher than normal commodity prices during summer 2022, offset by the reduction of Winter Storm Uri surcharge. Operating expenses, which consist mainly of transmission costs, purchased power, depreciation, and payments to the facilitator for scheduling and other administrative functions, totaled approximately \$43,006,000 in the same period.

Contacting KPP's Financial Management

Questions about this report or requests for additional financial information should be directed to:

KPP Energy
General Manager
2229 S. West
Wichita, KS 67213

KPP Energy
Balance Sheets
December 31, 2024 and 2023

| | 2024 | 2023 |
|--|-----------------------|-----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current Assets | | |
| Cash | \$ 34,508,934 | \$ 26,735,999 |
| Cash, board-designated for emergency stabilization | 8,047,270 | 7,740,497 |
| Cash and cash equivalents, restricted | 500,000 | 250,000 |
| | <u>43,056,204</u> | <u>34,726,496</u> |
| Investments, restricted | 38,869,427 | 8,863,961 |
| Accounts receivable | 4,709,019 | 3,547,436 |
| Prepaid expenses and other | 3,591,524 | 3,547,927 |
| Materials and supplies | 481,983 | 489,547 |
| | <u>90,708,157</u> | <u>51,175,367</u> |
| Total Current Assets | | |
| | <u>90,708,157</u> | <u>51,175,367</u> |
| Investments, Restricted | 2,912,052 | - |
| | <u>2,912,052</u> | <u>-</u> |
| Capital Assets, Net of Accumulated Depreciation | 56,360,992 | 39,196,827 |
| | <u>56,360,992</u> | <u>39,196,827</u> |
| Other Assets | 157,211 | 317,158 |
| | <u>157,211</u> | <u>317,158</u> |
| Regulatory Assets | | |
| Costs recoverable from future billings | 1,377,965 | 727,679 |
| Unrecovered development costs | 9,357,155 | 8,309,214 |
| | <u>10,735,120</u> | <u>9,036,893</u> |
| Total Regulatory Assets | | |
| | <u>10,735,120</u> | <u>9,036,893</u> |
| Total Assets | 160,873,532 | 99,726,245 |
| | <u>160,873,532</u> | <u>99,726,245</u> |
| Deferred Outflows of Resources | | |
| Deferred loss on refunding | 597,871 | 835,808 |
| Pensions | 288,463 | 300,034 |
| | <u>886,334</u> | <u>1,135,842</u> |
| Total Deferred Outflows of Resources | | |
| | <u>886,334</u> | <u>1,135,842</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 161,759,866</u> | <u>\$ 100,862,087</u> |

KPP Energy
Balance Sheets
December 31, 2024 and 2023

(Continued)

| | 2024 | 2023 |
|---|-----------------------|-----------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| Current Liabilities | | |
| Current portion of bonds payable | \$ 3,705,000 | \$ 3,585,000 |
| Accounts payable | 293,229 | 92,505 |
| Accounts payable – power bills | 1,808,300 | 1,801,462 |
| Accrued expenses | 1,161,637 | 980,956 |
| Accrued interest | 121,973 | 130,242 |
| Total Current Liabilities | 7,090,139 | 6,590,165 |
| Long-Term Debt | | |
| Revenue bonds payable | 88,010,000 | 40,045,000 |
| Unamortized bond premiums and discounts, net | 2,083,355 | 2,395,914 |
| Total Long-Term Debt | 90,093,355 | 42,440,914 |
| Net Pension Liability | 1,008,983 | 949,228 |
| Total Liabilities | 98,192,477 | 49,980,307 |
| Deferred Inflows of Resources | | |
| Emergency stabilization fund | 16,287,000 | 12,787,000 |
| Generation resource fund | 7,000,008 | - |
| Pensions | 16,496 | 30,784 |
| Total Deferred Inflows of Resources | 23,303,504 | 12,817,784 |
| Net Position | | |
| Net investment in capital assets | 3,903,297 | 1,061,987 |
| Restricted – expendable for debt services | 4,388,109 | 4,457,341 |
| Unrestricted | 31,972,479 | 32,544,668 |
| Total Net Position | 40,263,885 | 38,063,996 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 161,759,866 | \$ 100,862,087 |

KPP Energy
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|-----------------------------|-----------------------------|
| Operating Revenues | <u>\$ 57,167,808</u> | <u>\$ 51,746,236</u> |
| Operating Expenses | | |
| Purchased power | 18,544,265 | 26,013,962 |
| Transmission expense | 16,207,901 | 11,938,804 |
| Dogwood operating costs | 2,725,602 | 2,096,238 |
| Amortization of unrecovered development costs | 757,342 | 540,604 |
| Depreciation | <u>2,361,663</u> | <u>2,416,621</u> |
| Total Operating Expenses | <u>40,596,773</u> | <u>43,006,229</u> |
| Administrative and General Expenses | | |
| Salaries and benefits | 1,698,825 | 1,478,880 |
| Legal expenses | 226,755 | 148,234 |
| Consulting fees | 93,258 | 24,906 |
| Outside services | 349,004 | 336,518 |
| Insurance | 334,313 | 304,978 |
| Dues and memberships | 233,088 | 224,223 |
| Miscellaneous | 656,390 | 462,595 |
| Rent | 57,870 | 64,014 |
| Payment in lieu of taxes | <u>108,625</u> | <u>108,625</u> |
| Total Administrative and General Expenses | <u>3,758,128</u> | <u>3,152,973</u> |
| Operating Income | <u>12,812,907</u> | <u>5,587,034</u> |
| Nonoperating Revenues (Expenses) | | |
| Investment and interest income | 1,455,668 | 1,120,555 |
| Interest expense on debt | (1,797,054) | (1,956,163) |
| Amortization of bond premiums and discounts, net | 312,558 | 355,496 |
| Net costs recoverable | <u>(84,182)</u> | <u>(84,182)</u> |
| Total Nonoperating Revenues (Expenses) | <u>(113,010)</u> | <u>(564,294)</u> |
| Deferred Inflows of Resources – Emergency Stabilization | <u>(3,500,000)</u> | <u>-</u> |
| Deferred Inflows of Resources – Generation Resource Fund | <u>(7,000,008)</u> | <u>-</u> |
| Change in Net Position | 2,199,889 | 5,022,740 |
| Net Position, Beginning of Year | <u>38,063,996</u> | <u>33,041,256</u> |
| Net Position, End of Year | <u><u>\$ 40,263,885</u></u> | <u><u>\$ 38,063,996</u></u> |

KPP Energy
Statement of Cash Flows
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Operating Activities | | |
| Receipts from members | \$ 56,006,224 | \$ 55,410,378 |
| Payments to suppliers | (40,634,506) | (38,785,143) |
| Payments to employees | (1,627,726) | (4,387,046) |
| Net Cash Provided by Operating Activities | 13,743,992 | 12,238,189 |
| Noncapital Financing Activities | | |
| Principal payments on noncapital bonds | (320,000) | (690,000) |
| Principal payments on noncapital debt | - | (4,944,431) |
| Interest payments on line of credit and noncapital debt | - | (53,006) |
| Interest payments on noncapital bonds | (82,840) | (117,219) |
| Net Cash Used in Noncapital Financing Activities | (402,840) | (5,804,656) |
| Capital and Related Financing Activities | | |
| Proceeds from capital debt | 51,670,000 | - |
| Payments of issuance costs on capital debt | (734,469) | - |
| Capital expenditures | (19,867,299) | (823,333) |
| Principal payments on revenue bonds | (3,265,000) | (3,395,000) |
| Interest payments on revenue bonds | (1,352,827) | (1,557,592) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | 26,450,405 | (5,775,925) |
| Investing Activities | | |
| Interest and investment income | 1,455,669 | 1,115,336 |
| Proceeds from sales and maturities of investments | 23,307,773 | 9,149,925 |
| Purchases of investments | (56,225,291) | (7,737,643) |
| Net Cash Provided by (Used in) Investing Activities | (31,461,849) | 2,527,618 |
| Increase in Cash and Cash Equivalents | 8,329,708 | 3,185,226 |
| Cash and Cash Equivalents, Beginning of Year | 34,726,496 | 31,541,270 |
| Cash and Cash Equivalents, End of Year | \$ 43,056,204 | \$ 34,726,496 |

KPP Energy
Statement of Cash Flows
Years Ended December 31, 2024 and 2023

(Continued)

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 12,812,907 | \$ 5,587,034 |
| Depreciation and amortization | 3,119,005 | 2,957,225 |
| Amortization of payment in lieu of taxes | 108,625 | 108,625 |
| Net pension liability | 59,755 | 52,399 |
| Changes in | | |
| Accounts receivable | (1,161,584) | 3,664,142 |
| Accounts payable and accrued expenses | 388,243 | (1,814,725) |
| Deferred inflows of resources | (14,288) | (19,292) |
| Deferred outflows of resources | 11,569 | 4,713,109 |
| Prepaid expenses and other current assets | 15,289 | (392,313) |
| Unrecovered development costs | (1,595,529) | (2,618,015) |
| Net Cash Provided by Operating Activities | \$ 13,743,992 | \$ 12,238,189 |

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

KPP Energy (KPP), formerly known as Kansas Power Pool, is a Municipal Energy Agency organized under K.S.A. 12-885, through and including K.S.A. 12-8,111, of the state of Kansas to provide a means for municipal electric systems in Kansas to jointly plan, finance, acquire, and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. Although an instrumentality of the state of Kansas, KPP is not a discretely presented component unit of the state of Kansas, nor is it included in the financial statements of the state of Kansas. The Board of Directors is made up of a representative of the member cities.

KPP provides electric power services under its operating agreement and a power purchase contract for wholesale electric energy, both of which are adopted by each member city. The term of the operating agreement is governed by termination language in the power purchase contract, but the member shall remain responsible for its respective shares of any obligations made on its behalf prior to its notice of cancellation and shall be entitled to its respective shares of any entitlements obtained for which it has paid when due, subject to the terms under which the entitlements were obtained.

KPP bills participants and other power purchasers monthly for power used and services provided. The terms generally require payment within 10 days of the billing date. KPP does not require participants or other power purchasers to collateralize the obligation related to power and services billed.

KPP's accounts are substantially maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission and in conformity with accounting principles generally accepted in the United States of America (GAAP).

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

Basis of Accounting and Presentation

The accompanying financial statements of KPP have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. KPP considers electric revenues and costs that are directly related to purchase, transmission, and distribution of electricity to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating revenues and expenses. KPP first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

KPP's accounting policies also follow the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate-making purposes.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

KPP considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2024 and 2023, cash equivalents consisted of a money market account with a local financial institution.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments at December 31, 2024 and 2023 consisted of money market mutual funds with a broker and U.S. Treasuries.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable are stated at the amount billed to members. Accounts receivable are ordinarily due 10 days from the billing date. At December 31, 2024 and 2023, there was no allowance for doubtful accounts.

Materials and Supplies

Materials and supplies are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of a deposit with Southwest Power Pool (SPP) as collateral for purchases through SPP and payments in lieu of taxes (PILOT) in relation to Dogwood Energy Facility (Dogwood) and are being amortized over the life of the PILOT, which is 15 years. At December 31, 2024 and 2023, the deposit with SPP was approximately \$3,335,000. At December 31, 2024 and 2023, the amortized balance of the PILOT was approximately \$214,000 and \$322,000, respectively. Amortization of the PILOT in 2024 and 2023 was approximately \$109,000.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. KPP generally capitalizes assets with costs of \$2,500 or more and an expected useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Estimated useful lives for capital asset additions range from 3 to 35 years.

On December 22, 2011, KPP entered into an asset purchase agreement with Dogwood Energy, LLC to acquire a 7% undivided ownership interest in Dogwood, a natural gas combined-cycle facility located in Pleasant Hill, Cass County, Missouri. The Dogwood combined-cycle unit is a modern and efficient clean generating source and is one of the lowest cost energy resources available to buy and operate. The capacity of the facility is 650 MW. The purchase was financed through the issuance of revenue bonds in April 2012. See Note 6 for additional reference.

On July 29, 2015, KPP entered into an asset purchase agreement with Dogwood Energy, LLC to acquire an additional 3.3% undivided ownership interest in Dogwood. The purchase was financed through the issuance of revenue bonds in July 2015. See Note 6 for additional reference.

Costs Recoverable From Future Billings

Certain income and expense items that would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates charged to customers, in accordance with the regulated operations provisions of GASB 62. At December 31, 2024 and 2023, costs recoverable from future billings are comprised of costs incurred in relation to KPP's debt issuance.

Unrecovered Development Costs

Costs that are recoverable through future rates or directly from the member cities are deferred in accordance with GASB 62. The unrecovered development costs are amortized on a straight-line basis over the period in which they are recovered in rates or reduced when payment is received.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. KPP has a deferred outflow for bond refunding, which is the difference in the carrying value of a refunded debt and its reacquisition price. This amount is deferred or amortized to interest expense over the shorter of the life of the refunded or new debt. In addition, KPP has deferred outflows related to pensions.

In February 2021, virtually all of the 14-state SPP region, including KPP's members' service territory, experienced Winter Storm Uri, which resulted in record low temperatures causing a substantial increase in energy usage throughout the region resulting in extraordinarily high natural gas prices. As a result of Winter Storm Uri, the Board approved deferring approximately \$19,000,000 in extraordinary power costs related to the storm under GASB 62. The Board also approved collecting a storm surcharge of 0.01 cent per KWH starting in February 2021 and continued through 2023. KPP recognized approximately \$0 and \$4,684,000 of revenue and related expense related to the amortization of the Winter Storm Uri deferred power costs for the years ended December 31, 2024 and 2023, respectively.

Compensated Absences

KPP's policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability for vacation benefits are recognized when earned, whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash, determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Deferred Inflows of Resources

KPP reports an acquisition of net assets that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheet. KPP designs its electric service rates to recover costs of providing power supply services to its member cities. In order to minimize possible future rate increases, each year, KPP determines an emergency stabilization amount to be charged or credited to revenues, which typically will consist of revenue in excess of 130% of KPP's minimum debt service requirements on its revenue bonds for the most recent fiscal year. During 2024 and 2023, there was an increase in the emergency stabilization of \$3,500,000 and \$0, respectively. Emergency stabilization deferrals or withdrawals are approved by the Board annually. The deferred inflows of resources related to the emergency stabilization as of December 31, 2024 and 2023 were \$16,287,000 and \$12,787,000, respectively. Effective January 1, 2024, the Board approved an additional deferral

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Notes to Financial Statements
December 31, 2024 and 2023

for a resource generation fund. The deferred inflows of resources related to the generation resource fund were \$7,000,008 as of December 31, 2024. In addition, KPP has deferred inflows of resources related to pensions.

Net Position

Net position of KPP is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to KPP. Unrestricted net position is the remainder that does not meet the definition of net investment in capital assets or restricted expendable net position.

Revenues

Revenues are recognized in the month power is delivered. Costs of power are recognized in the month incurred.

Defined Benefit Pension Plan

KPP's full-time employees are eligible to participate in the Kansas Public Employee Retirement System Plan (KPERS), a cost-sharing multi-employer defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In 2020, KPP entered into an agreement with KPERS to add in a 401(a) plan. During 2024, KPP changed the matching percentage from 2% to 4% of all full-time employees' salaries. The amount expensed to the 401(a) plan in 2024 and 2023 was approximately \$34,000 and \$26,000, respectively.

Income Taxes

As a quasi-municipal organization, the income of KPP is generally exempt from federal and state income taxes under applicable sections of the Internal Revenue Code (IRC) and a similar provision of state law.

Note 2. Deposits, Investments, and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits (including CDs) may not be returned to it. KPP's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies, or instrumentalities of the state of Kansas; or bonds of any city, county, school district, or special road district of the state of Kansas.

At December 31, 2024 and 2023, approximately \$661,000 and \$475,000, respectively, of KPP's bank balances were exposed to custodial credit risk as the deposits held with Dogwood are not collateralized with securities in KPP's name.

Investments

KPP may legally invest in the following:

- Direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities
- Direct and general obligations of the state of Kansas provided that the obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency
- CDs issued by any bank or trust company organized under the laws of the U.S. and insured by the Federal Deposit Insurance Corporation (FDIC)
- Bank repurchase agreements

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

At December 31, 2024 and 2023, KPP held \$38,869,427 and \$8,863,963, respectively, in a Federated Government Obligations Fund money market mutual fund. This money market mutual fund has a weighted-average duration of 88 days. In addition, at December 31, 2024, KPP held \$2,912,052 of U.S. Treasury notes, with a cost of \$2,804,530 and maturity of January 2026. The U.S. Treasury notes have a yield of 0.375%.

Interest Rate Risk – The money market mutual fund is classified as an investment with a maturity of less than one year. The U.S. Treasury notes are classified as investments with maturities of 1 to 5 years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2024 and 2023, KPP was invested in a money market mutual fund, which invests in short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized in full by U.S. Treasury and government agency securities that are currently rated AA+ by S&P and Aaa-mf by Moody's NRSRO. The U.S. Treasury notes carry an AA+ rating by S&P and Aaa by Moody's NRSRO.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty KPP will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for KPP's investments at December 31, 2024 and 2023, are exposed to custodial credit risk because they are held by the counterparty in other than KPP's name.

Concentration of Credit Risk – At December 31, 2024, 93% of KPP's investments were in the Federated Government Obligations Fund money market mutual fund and 7% of KPP's investments were in U.S. Treasury notes. At December 31, 2023, 100% of KPP's investments were in the Federated Government Obligations Fund money market mutual fund.

Fair Value Hierarchy

KPP categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KPP's recurring fair value measurements as of December 31, 2024 and 2023 are its money market mutual funds and U.S. Treasury notes, which are valued using quoted market prices (Level 1 inputs).

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Notes to Financial Statements
December 31, 2024 and 2023

Summary of Carrying Values

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

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Carrying value | | |
| Deposits | \$ 43,056,204 | \$ 34,726,496 |
| Investments | 41,781,479 | 8,863,961 |
| | <u>\$ 84,837,683</u> | <u>\$ 43,590,457</u> |
| Included in the following balance sheet captions | | |
| Cash | \$ 34,508,934 | \$ 26,735,999 |
| Cash and cash equivalents, restricted | 500,000 | 250,000 |
| Cash, board-designated for emergency stabilization | 8,047,270 | 7,740,497 |
| Investments, restricted – current | 38,869,427 | 8,863,961 |
| Investments, restricted – noncurrent | 2,912,052 | - |
| | <u>\$ 84,837,683</u> | <u>\$ 43,590,457</u> |

Note 3. Capital Assets

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

| | Beginning Balance | Additions | Transfers/ Disposals | Ending Balance |
|--|------------------------------|----------------------|---------------------------------|---------------------------|
| 2024 | | | | |
| Vehicles | \$ 61,396 | \$ - | (41,748) | \$ 19,648 |
| Construction work in progress | 1,015,029 | 16,298,201 | - | 17,313,230 |
| Furniture, fixtures, and equipment | 609,505 | 47,751 | (38,561) | 618,695 |
| Office building and related improvements | - | 2,487,422 | - | 2,487,422 |
| Kingman Direct Connect | 4,643,982 | - | - | 4,643,982 |
| Solomon Energy Storage Center | 2,119,291 | 28,825 | - | 2,148,116 |
| Dogwood | 47,791,223 | 674,605 | (1,766) | 48,464,062 |
| | <u>56,240,426</u> | <u>19,536,804</u> | <u>(82,075)</u> | <u>75,695,155</u> |
| Less accumulated depreciation | | | | |
| Vehicles | (26,590) | (17,843) | 41,748 | (2,685) |
| Furniture, fixtures, and equipment | (587,146) | (56,054) | 29,351 | (613,849) |
| Office building and related improvements | - | (87,257) | - | (87,257) |
| Kingman Direct Connect | (316,403) | (241,511) | - | (557,914) |
| Solomon Energy Storage Center | (148,282) | (110,091) | - | (258,373) |
| Dogwood | (15,965,178) | (1,848,907) | - | (17,814,085) |
| | <u>(17,043,599)</u> | <u>(2,361,663)</u> | <u>71,099</u> | <u>(19,334,163)</u> |
| Capital assets, net | <u>\$ 39,196,827</u> | <u>\$ 17,175,141</u> | <u>\$ (10,976)</u> | <u>\$ 56,360,992</u> |

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

| | Beginning Balance | Additions | Transfers/ Disposals | Ending Balance |
|------------------------------------|------------------------------|---------------------|---------------------------------|---------------------------|
| 2023 | | | | |
| Vehicles | \$ 48,971 | \$ 54,489 | \$ (42,064) | \$ 61,396 |
| Construction work in progress | 3,718,971 | 335,062 | (3,039,004) | 1,015,029 |
| Furniture, fixtures, and equipment | 585,390 | 24,115 | - | 609,505 |
| Kingman Direct Connect | 4,640,927 | 3,055 | - | 4,643,982 |
| Soloman Energy Storage Center | 1,917,273 | 202,018 | - | 2,119,291 |
| Dogwood | 47,046,499 | 856,491 | (111,767) | 47,791,223 |
| | <u>57,958,031</u> | <u>1,475,230</u> | <u>(3,192,835)</u> | <u>56,240,426</u> |
| Less accumulated depreciation | | | | |
| Vehicles | (48,971) | (19,683) | 42,064 | (26,590) |
| Furniture, fixtures, and equipment | (524,180) | (62,966) | - | (587,146) |
| Kingman Direct Connect | (75,959) | (240,444) | - | (316,403) |
| Soloman Energy Storage Center | (49,538) | (98,744) | - | (148,282) |
| Dogwood | (13,970,394) | (1,994,784) | - | (15,965,178) |
| | <u>(14,669,042)</u> | <u>(2,416,621)</u> | <u>42,064</u> | <u>(17,043,599)</u> |
| Capital assets, net | <u>\$ 43,288,989</u> | <u>\$ (941,391)</u> | <u>\$ (3,150,771)</u> | <u>\$ 39,196,827</u> |

Note 4. Unrecovered Development Costs

Unrecovered development costs represent costs incurred on behalf of member cities to be recovered in future periods. At December 31, unrecovered development costs consisted of the following:

| | 2024 | 2023 |
|---------------------|---------------------|---------------------|
| City of Clay Center | \$ 1,684,884 | \$ 1,964,764 |
| Mt. Hope Project | 632,914 | - |
| Waterville | 693,516 | - |
| City of Luray | 158,351 | 181,520 |
| AMI projects | 3,253,173 | 3,055,812 |
| City of Marion | 2,934,317 | 3,107,118 |
| | <u>\$ 9,357,155</u> | <u>\$ 8,309,214</u> |

Amortization of unrecovered development costs of \$757,342 and \$540,640 was expensed during the years ended December 31, 2024 and 2023, respectively.

Note 5. Line of Credit

KPP has a \$18,000,000 revolving line of credit expiring in July 2027 to finance accounts receivable of municipality utility billings. There were no funds drawn on the line of credit at December 31, 2024 and 2023. The line is secured by all deposit accounts of KPP. Interest is paid at the Secured Overnight Financing Rate plus 1.36448%

for 2024 and 2023. Interest is payable quarterly. The interest rate at December 31, 2024 and 2023 was 5.85% and 5.38%, respectively.

Note 6. Revenue Bonds

Electric Utility Revenue Bond Indentures and Covenants

During 2021, KPP issued bonds for the purpose of financing certain capital projects and for the purpose of advance refunding a portion of the 2012A, 2012B, 2012C, and 2013A revenue bonds. During 2020, KPP issued bonds for the purpose of advance refunding a portion of the 2012A and 2013A revenue bonds. During 2017, KPP issued bonds for the purpose of advance refunding a portion of the 2012A revenue bonds. During 2015, KPP issued bonds for the purpose of acquiring an additional 3.3% undivided ownership interest in Dogwood. During 2013, KPP issued bonds for the purpose of financing the acquisition, construction, installation, and improvements to its members' electric generation facilities. During 2012, KPP issued bonds for the purpose of acquiring interest in Dogwood and financing the acquisition, construction, installation, and improvements to its members' electric generation facilities. During 2024, KPP issued bonds for the purpose of financing solar generating facilities.

The bond indentures and their supplements require the use of revenue, cost of issuance, operations and maintenance, principal and interest, reserve, junior lien indebtedness, rebate, and surplus accounts, which have been combined for financial reporting purposes. These accounts are held in trust by a bank and managed pursuant to the terms of the indenture agreement. The indentures provide that gross revenues from operations will be deposited into the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis. For the years ended December 31, 2024 and 2023, required accounts were maintained in accordance with the bond indentures.

The bond indentures provide that KPP will fix, establish, maintain, and collect such rates, fees, and charges for the use of, and services furnished by or through, KPP facilities that will provide in each year net revenues of at least 110% of the maximum required for debt service to be paid by KPP in such year on all revenue bonds at the time outstanding. For the years ended December 31, 2024 and 2023, the schedule of rates in effect provided revenues in excess of the minimum requirements.

Bond premiums and discounts are capitalized and amortized over the terms of the respective bonds using the effective interest method. During 2024 and 2023, amortization of approximately \$313,000 and \$355,000, respectively, for premiums and discounts, net was recorded.

During 2021, KPP issued \$2,720,000 of Series 2021B bonds through a public offering with an average interest rate of 4.98% to advance refund \$975,000 of outstanding Series 2012B bonds and \$2,465,000 of Series 2013A bonds with an average interest rate of 3.32%. The net proceeds of \$3,801,102 (after payment of \$66,488 in underwriting fees and other issuance costs) were placed in an escrow with a trustee agent to provide future debt service payments on the Series 2012B and Series 2013A bonds. As a result, a portion of the Series 2012B and Series 2013A bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP. No bonds remain outstanding from this advance refunding as of December 31, 2021.

The advance refunding of the 2012B and 2013A bonds resulted in the recognition of an accounting loss of approximately \$116,000 for the year ended December 31, 2021. This loss refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight-line method over the respective remaining lives of the old debt issuance. Amortization expense for the years ended December 31, 2024 and 2023 was approximately \$19,000. KPP reduced its aggregate debt service payments over the next eight years by approximately \$177,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of approximately \$175,000).

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During 2021, KPP issued \$5,655,000 of Series 2021C bonds through a public offering with an average interest rate of 1.03% to advance refund \$4,615,000 of outstanding Series 2012A bonds and \$645,000 of outstanding Series 2012C bonds with an average interest rate of 4.92%. The net proceeds of \$5,736,071 (after payment of \$122,817 in underwriting fees and other issuance costs) were placed in an escrow with a trustee agent to provide future debt service payments on the Series 2012A and Series 2012C bonds. As a result, a portion of the Series 2012A and Series 2012C bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP. Accordingly, a portion of the Series 2012A bonds, aggregating \$4,615,000 at December 31, 2024, remains outstanding but is excluded from KPP's balance sheets.

The advance refunding of the 2012A and 2012C bonds resulted in the recognition of an accounting loss of approximately \$343,000 for the year ended December 31, 2021. This loss refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight-line method over the respective remaining lives of the old debt issuance. Amortization expense for the years ended December 31, 2024 and 2023 was approximately \$37,000. KPP reduced its aggregate debt service payments over the next eight years by approximately \$281,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of approximately \$278,000).

During 2020, KPP issued \$1,965,000 of Series 2020A bonds and \$3,910,000 of Series 2020B bonds through a private placement with an average interest rate of 2.66% to advance refund \$5,345,000 of outstanding Series 2012A bonds with an average interest rate of 5.00%. The net proceeds of \$5,782,257 (after payment of \$92,743 in underwriting fees and other issuance costs) were placed in an escrow with a trustee agent to provide future debt service payments on the Series 2012A bonds. As a result, a portion of the Series 2012A bonds are considered defeased and the liability for those bonds has been removed from the financial statements of KPP. Accordingly, a portion of the Series 2012A bonds, aggregating \$3,475,000 at December 31, 2024, remains outstanding but is excluded from KPP's balance sheets.

The advance refunding of the 2012A bonds resulted in the recognition of an accounting loss of approximately \$366,000 for the year ended December 31, 2020. This loss refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight-line method over the respective remaining lives of the old debt issuance. Amortization expense for the years ended December 31, 2024 and 2023 was approximately \$47,000. KPP reduced its aggregate debt service payments over the next eight years by approximately \$354,000 and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt of approximately \$319,000).

KPP's outstanding notes from private and public placements contain a provision that in the event of default, outstanding amounts become immediately due if KPP is unable to make payment.

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The debt service requirements as of December 31, 2024 are as follows:

Bonded Debt Service to Maturity

| Fiscal Year Ending December 31, | Public Placement Bonds Principal | Public Placement Bonds Interest | Notes From Direct Placements Principal | Notes From Direct Placements Interest | Total to be Paid |
|--|---|--|---|--|-----------------------------|
| 2025 | \$ 3,505,000 | \$ 987,886 | \$ 200,000 | \$ 482,008 | \$ 5,174,894 |
| 2026 | 1,940,000 | 885,296 | 53,575,000 | 476,028 | 56,876,324 |
| 2027 | 1,925,000 | 789,352 | 1,955,000 | 470,048 | 5,139,400 |
| 2028 | 1,915,000 | 694,080 | 2,420,000 | 419,706 | 5,448,786 |
| 2029 | 2,000,000 | 599,420 | 2,510,000 | 368,030 | 5,477,450 |
| 2030–2034 | 7,710,000 | 1,730,448 | 6,980,000 | 375,082 | 16,795,530 |
| 2035–2039 | 3,625,000 | 709,600 | - | - | 4,334,600 |
| 2040–2041 | 1,455,000 | 88,000 | - | - | 1,543,000 |
| | <u>\$ 24,075,000</u> | <u>\$ 6,484,082</u> | <u>\$ 67,640,000</u> | <u>\$ 2,590,902</u> | <u>\$ 100,789,984</u> |

Revenue Bonds Outstanding

| Electric Utility Revenue Bonds | Original Amount Issued | Interest Rate | Issue Date | Final Maturity | Principal Balance 2024 | Principal Balance 2023 |
|---|---------------------------------------|----------------------|-------------------|---------------------------|---------------------------------------|---------------------------------------|
| Public Placement Bonds | | | | | | |
| Series 2015A | \$ 14,860,000 | 3.00%–5.00% | 7/20/2015 | 2031 | \$ 8,315,000 | \$ 9,160,000 |
| Series 2021A | \$ 14,750,000 | 4.00%–5.00% | 6/24/2021 | 2041 | 13,135,000 | 13,705,000 |
| Series 2021B | \$ 2,720,000 | 3.00%–5.00% | 9/1/2021 | 2027 | 780,000 | 1,090,000 |
| Series 2021C | \$ 5,655,000 | 0.46%–2.16% | 9/1/2021 | 2030 | 1,845,000 | 3,505,000 |
| Notes From Direct Placements | | | | | | |
| Series 2017A | \$ 9,800,000 | 3.00% | 9/7/2017 | 2031 | 9,355,000 | 9,475,000 |
| Series 2020A | \$ 1,965,000 | 2.60%–2.92% | 2/27/2020 | 2028 | 1,910,000 | 1,920,000 |
| Series 2020B | \$ 3,910,000 | 2.60%–2.92% | 2/27/2020 | 2027 | 3,625,000 | 3,685,000 |
| Series 2020C | \$ 1,115,000 | 2.60%–2.92% | 2/27/2020 | 2030 | 1,080,000 | 1,090,000 |
| Series 2024A | \$ 51,670,000 | 5.61% | 12/30/2024 | 2026 | 51,670,000 | - |
| | | | | | <u>\$ 91,715,000</u> | <u>\$ 43,630,000</u> |

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

Changes in Revenue Bonds Outstanding

| Electric Utility Revenue Bonds | Balance, December 31, 2023 | Issued | Retired | Balance, December 31, 2024 | Due Within One Year | Due After One Year |
|---|---|----------------------|-----------------------|---|--------------------------------|-------------------------------|
| Public Placement Bonds | | | | | | |
| Series 2015A | \$ 9,160,000 | \$ - | \$ (845,000) | \$ 8,315,000 | \$ 880,000 | \$ 7,435,000 |
| Series 2021A | 13,705,000 | - | (570,000) | 13,135,000 | 610,000 | 12,525,000 |
| Series 2021B | 1,090,000 | - | (310,000) | 780,000 | 330,000 | 450,000 |
| Series 2021C | 3,505,000 | - | (1,660,000) | 1,845,000 | 1,685,000 | 160,000 |
| Notes From Direct Placements | | | | | | |
| Series 2017A | 9,475,000 | - | (120,000) | 9,355,000 | 120,000 | 9,235,000 |
| Series 2020A | 1,920,000 | - | (10,000) | 1,910,000 | 10,000 | 1,900,000 |
| Series 2020B | 3,685,000 | - | (60,000) | 3,625,000 | 60,000 | 3,565,000 |
| Series 2020C | 1,090,000 | - | (10,000) | 1,080,000 | 10,000 | 1,070,000 |
| Series 2024A | - | 51,670,000 | - | 51,670,000 | - | 51,670,000 |
| | 43,630,000 | 51,670,000 | (3,585,000) | 91,715,000 | <u>\$ 3,705,000</u> | <u>\$ 88,010,000</u> |
| Premiums and discounts | 2,395,914 | - | (312,559) | 2,083,355 | | |
| | <u>\$ 46,025,914</u> | <u>\$ 51,670,000</u> | <u>\$ (3,897,559)</u> | <u>\$ 93,798,355</u> | | |

| Electric Utility Revenue Bonds | Balance, December 31, 2022 | Issued | Retired | Balance, December 31, 2023 | Due Within One Year | Due After One Year |
|---|---|---------------|-----------------------|---|--------------------------------|-------------------------------|
| Public Placement Bonds | | | | | | |
| Series 2015A | \$ 9,975,000 | \$ - | \$ (815,000) | \$ 9,160,000 | \$ 845,000 | \$ 8,315,000 |
| Series 2021A | 14,250,000 | - | (545,000) | 13,705,000 | 570,000 | 13,135,000 |
| Series 2021B | 1,775,000 | - | (685,000) | 1,090,000 | 310,000 | 780,000 |
| Series 2021C | 5,360,000 | - | (1,855,000) | 3,505,000 | 1,660,000 | 1,845,000 |
| Notes From Direct Placements | | | | | | |
| Series 2017A | 9,585,000 | - | (110,000) | 9,475,000 | 120,000 | 9,355,000 |
| Series 2020A | 1,930,000 | - | (10,000) | 1,920,000 | 10,000 | 1,910,000 |
| Series 2020B | 3,745,000 | - | (60,000) | 3,685,000 | 60,000 | 3,625,000 |
| Series 2020C | 1,095,000 | - | (5,000) | 1,090,000 | 10,000 | 1,080,000 |
| | 47,715,000 | - | (4,085,000) | 43,630,000 | <u>\$ 3,585,000</u> | <u>\$ 40,045,000</u> |
| Premiums and discounts | 2,751,409 | - | (355,495) | 2,395,914 | | |
| | <u>\$ 50,466,409</u> | <u>\$ -</u> | <u>\$ (4,440,495)</u> | <u>\$ 46,025,914</u> | | |

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

Debt Service Coverage

The bond indenture requires KPP to maintain minimum cash flow to service debt at a ratio of 1.1 to 1.0, as defined in the bond indenture. Below is a summary of KPP's cash flow available to service debt for the years ended December 31:

| | 2024 | 2023 |
|--|-----------------------------|----------------------------|
| Change in net position | \$ 2,199,889 | \$ 5,022,740 |
| Depreciation | 2,361,663 | 2,416,621 |
| Interest expense on debt | 1,797,054 | 1,956,163 |
| Amortization of bond premiums and discounts, unrecovered development costs, and issuance costs | 528,966 | 269,290 |
| Amortization of PILOT | 108,625 | 108,625 |
| Pension expense | 57,038 | 62,212 |
| Unrealized losses on investments | - | 37,120 |
| Generation resource fund | 7,000,008 | - |
| Emergency stabilization | 3,500,000 | - |
| | <u><u>\$ 17,553,243</u></u> | <u><u>\$ 9,872,771</u></u> |
| Current year debt service requirement | \$ 5,148,132 | \$ 7,275,935 |
| Debt service coverage ratio | 3.41% | 1.36% |

Note 7. State of Kansas Loan

During 2021, KPP received an unsecured \$18,000,000 loan from the state of Kansas with interest at 0.25% at December 31, 2022 and maturity date of May 2026. Required loan payments, including principal and interest, are \$126,336 and are due monthly at December 31, 2022. The loan was issued by the state of Kansas to provide municipalities assistance with funding excess power costs due to Winter Storm Uri. The loan was paid in full during 2023.

Total principal payments made during the year ended December 31, 2023 were approximately \$4,944,000.

Note 8. Defined Benefit Plan

Plan Description

KPP contributes to KPERS, a cost-sharing multi-employer defined benefit pension plan administered by the Kansas Public Employees Retirement System. KPERS provides retirement, disability, and death benefits to plan members and beneficiaries. Membership is mandatory for all employees in covered positions, which is defined as one that is covered by Social Security, not seasonal or temporary, and requires at least 1,000 hours of work per year. Eligible employees become members effective with their employment date. KPP participates in the local group, one of four groups for which separate actuarial valuations are performed and collective pension amounts are determined, with separate employer allocation percentages determined for each group.

KPP's covered payroll approximated \$1,158,000 and \$978,000 for the years ended December 31, 2024 and 2023, respectively.

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

Actuarial valuations are performed annually. The latest actuarial valuation, December 31, 2023, was rolled forward to the June 30, 2024 measurement date for the December 31, 2024 financial statements. Actuarial valuations were also performed at December 31, 2022, which were rolled forward to the measurement date of June 30, 2023 for the December 31, 2023 financial statements.

Benefits Provided

KPERS provides retirement, disability, and death benefits to plan members or their beneficiaries. Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefits are then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc postretirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Kansas legislature and the governor of the state of Kansas. Retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Plan member contribution rates are established by Kansas state law and are paid by the employee according to the provisions of Section 414(h) of the IRC. Kansas state law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation. The contributions and assets are deposited in KPERS established by K.S.A. 74-4921 and are funded on an actuarial reserve basis.

For the fiscal year beginning 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for KPERS' fiscal year ended June 30, 2024.

The actuarially determined employer contribution and statutory contribution rates were 9.26% and 8.43% for KPERS' fiscal years ended June 30, 2024 and 2023, respectively.

Employee contribution rates as a percentage of eligible compensation were 6.0% for KPERS' fiscal years ended June 30, 2024 and 2023.

KPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for KPERS. That annual report may be obtained by writing: Kansas Public Employees Retirement System, 611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

KPP's contributions to KPERS for the years ended December 31, 2024 and 2023 were \$111,071 and \$97,753, respectively.

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

At December 31, 2024 and 2023, KPP reported liabilities of \$1,008,983 and \$949,228, respectively, for its proportionate share of the net pension liability. The net pension liability at December 31, 2024 and 2023 was measured at June 30, 2024 and 2023, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations at December 31, 2023 and 2022 rolled forward to June 30, 2024 and 2023, respectively. KPP's proportion of the net pension liability was based on the ratio of KPP's contributions to KPERS to total employer and nonemployer contributions of the local group for the fiscal

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

years ended June 30, 2024 and 2023. At June 30, 2024 and 2023, KPP's proportion was 0.048036% and 0.045804%, respectively.

For the years ended December 31, 2024 and 2023, KPP recognized pension expense of approximately \$111,000 and \$97,000, respectively. At December 31, 2024 and 2023, KPP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| 2024 | | |
| Differences between expected and actual experience | \$ 124,124 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 6,251 | - |
| Changes in actuarial assumptions | 61,678 | - |
| Changes in proportion | 38,730 | 16,496 |
| KPP's contributions made subsequent to the measurement date of the net pension liability | 57,680 | - |
| | <u>57,680</u> | <u>-</u> |
| Total | <u>\$ 288,463</u> | <u>\$ 16,496</u> |
| 2023 | | |
| Differences between expected and actual experience | \$ 79,880 | \$ 135 |
| Net difference between projected and actual earnings on pension plan investments | 56,124 | - |
| Changes in actuarial assumptions | 101,845 | - |
| Changes in proportion | 17,394 | 30,649 |
| KPP's contributions made subsequent to the measurement date of the net pension liability | 44,791 | - |
| | <u>44,791</u> | <u>-</u> |
| Total | <u>\$ 300,034</u> | <u>\$ 30,784</u> |

At December 31, 2024, KPP reported \$57,680 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and prior to year-end that was recognized as a reduction of the net pension liability at December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2024 related to pensions will be recognized in pension expense as follows:

| | |
|------|-------------------|
| 2025 | \$ 53,769 |
| 2026 | 116,430 |
| 2027 | 31,564 |
| 2028 | 12,524 |
| | <u>12,524</u> |
| | <u>\$ 214,287</u> |

Actuarial Assumptions

Contributions for the years ended December 31, 2024, 2023, and 2022 equaled the required contribution for each of the three years.

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

Actuarial methods and assumptions used to determine the total pension liability in the December 31, 2023 actuarial valuation were as follows:

| | |
|--------------------------------|---|
| Valuation date | December 31, 2023 |
| Actuarial assumptions | |
| Investment rate of return, net | 7.00% |
| Projected salary increases | 3.50% to 15.50% |
| Wage inflation | 2.75% |
| Other | PUB 2010 Mortality Tables with age setbacks and age set forwards based on different membership groups, with adjustments for mortality improvements based on Scale MP-2021 |

The actuarial assumptions used in the December 31, 2023 actuarial valuation were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2022.

Actuarial methods and assumptions used to determine the total pension liability in the December 31, 2022 actuarial valuation were as follows:

| | |
|--------------------------------|---|
| Valuation date | December 31, 2022 |
| Actuarial assumptions | |
| Investment rate of return, net | 7.00% |
| Projected salary increases | 3.50% to 12.00% |
| Wage inflation | 2.75% |
| Other | RP 2014 Combined Mortality Table for Males and/or Females, as appropriate, with adjustments for mortality improvements based on Scale MP-2016 |

The actuarial assumptions used in the December 31, 2022 actuarial valuation were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2019.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

KPP Energy
Notes to Financial Statements
December 31, 2024 and 2023

Best estimates of arithmetic real rates of return for each major asset class included in KPERS' target asset allocation as of the June 30, 2024 and 2023 measurement dates are as follows:

| Asset Class | Long-Term Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|--|---|
| June 30, 2024 | | |
| Non-U.S. equities | 43.00% | 8.20% |
| Core fixed income | 13.00% | 2.20% |
| Yield driven | 12.00% | 5.30% |
| Infrastructure | 3.00% | 6.80% |
| Real estate | 15.00% | 5.70% |
| Alternatives | 11.00% | 12.00% |
| Short-term investments | 3.00% | 0.30% |
| Total | 100.00% | |
| June 30, 2023 | | |
| U.S. equities | 23.50% | 5.20% |
| Non-U.S. equities | 23.50% | 6.40% |
| Private real estate | 11.00% | 4.45% |
| Real return | 11.00% | 3.25% |
| Fixed income | 11.00% | 1.55% |
| Private equity | 8.00% | 9.50% |
| Yield driven | 8.00% | 4.70% |
| Short-term investments | 4.00% | 0.25% |
| Total | 100.00% | |

Discount Rate

The discount rate of 7.00% was used to measure the total pension liability at June 30, 2024 and 2023, respectively. The projections of cash flows used to determine this discount rate assumed that plan member contributions will be made at the contractually required rate. KPP does not necessarily contribute the full actuarially determined rate. Based on legislation in 1993, the employer contribution rates certified by the KPERS Board of Trustees may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on these assumptions, KPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

KPP's proportionate share of the net pension liability has been calculated using a discount rate of 7.00%. The following presents KPP's proportionate share of the net pension liability using a discount rate 1% higher and 1% lower than the current rate at June 30, 2024:

| | <u>1% Decrease</u> | <u>Discount Rate</u> | <u>1% Increase</u> |
|-----------------------------|--------------------|----------------------|--------------------|
| KPP's net pension liability | \$ 1,477,253 | \$ 1,020,395 | \$ 638,587 |

Funding Status and Funding Progress

The required supplementary information presents certain 10-year trend information for as many years for which the information measured in conformity with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, is available. A copy of the actuarial report referred to in this note may be obtained by writing: Kansas Public Employees Retirement System, 611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603, or by calling 1.888.275.5737.

Note 9. Commitments and Contingencies

Power Supply

To meet the power and energy requirements of the members in 2024, KPP obtained power and energy from the long-term firm energy contracts, unit-contingent energy contracts, and interruptible contracts; Member Capacity; integrated market purchases; and power delivered pursuant to KPP's ownership interest in the Dogwood Energy Facility. Those resources, in addition to pooled resources, include an agreement to purchase 12.5 MW from Greensburg Wind Farm, a power purchase contract for 25 MW of wind generation from the Marshall County Wind Farm, as well as 67 MW of generation from its ownership in the Dogwood Energy Facility and contracts with Tenaska Power Services to supply short-term market energy.

Litigation

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

Government Assistance

During 2024, KPP's application was approved for a loan from the U.S. Department of Agriculture (USDA) for the Powering Affordable Clean Energy (PACE) program approximating \$35,000,000. As of December 31, 2024, no loan advances have been received from the PACE loan.

On January 27, 2025, Office of Management and Budget (OMB) issued M 25-13, pausing all activities related to obligation or disbursement of all federal financial assistance with certain exceptions. The memo has since been rescinded; however, it is unclear whether future assistance could be at risk. The potential impacts of the executive orders on KPP's future federal financial assistance have not yet been evaluated.

Note 10. Subsequent Events

Subsequent events have been evaluated through April 10, 2025, which is the date the financial statements were available to be issued.

Required Supplementary Information

KPP Energy
Schedules of Proportionate Share Information and Employer Contributions

Schedule of Proportionate Share Information

| | 2024 | 2023 | 2022 | 2021* | 2020* | 2019* | 2018* | 2017* | 2016* | 2015* |
|---|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| KPP's proportion of the net pension liability* | 0.048036% | 0.045804% | 0.045885% | 0.044040% | 0.048923% | 0.048208% | 0.050234% | 0.043142% | 0.039490% | 0.037406% |
| KPP's proportionate share of the net pension liability* | \$ 1,020,395 | \$ 960,924 | \$ 912,214 | \$ 896,829 | \$ 843,665 | \$ 679,418 | \$ 711,822 | \$ 636,215 | \$ 621,998 | \$ 491,157 |
| KPP's covered payroll | \$ 1,229,944 | \$ 1,022,048 | \$ 908,457 | \$ 847,396 | \$ 938,476 | \$ 897,640 | \$ 893,272 | \$ 897,654 | \$ 638,000 | \$ 615,000 |
| KPP's proportionate share of the net pension liability as a percentage of its covered payroll | 82.96% | 94.02% | 100.41% | 105.83% | 89.90% | 75.69% | 79.69% | 70.88% | 97.49% | 79.86% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.71% | 70.55% | 70.66% | 66.30% | 66.30% | 75.02% | 74.22% | 72.15% | 68.55% | 71.98% |

*The amounts presented for each fiscal year were determined as of June 30, KPP's measurement date.

Schedule of Employer Contributions

| | 2024 | 2023 | 2022 | 2021** | 2020** | 2019** | 2018** | 2017** | 2016** | 2015** |
|--|--------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required contributions | \$ 111,071 | \$ 97,753 | \$ 85,696 | \$ 85,063 | \$ 81,510 | \$ 97,704 | \$ 74,104 | \$ 72,005 | \$ 63,049 | \$ 51,919 |
| Contributions in relation to the contractually required contribution | 111,071 | 97,753 | 85,696 | 85,063 | 81,510 | 97,704 | 74,104 | 72,005 | 63,049 | 51,919 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| KPP's covered payroll** | \$ 1,157,504 | \$ 977,729 | \$ 953,429 | \$ 866,152 | \$ 871,132 | \$ 959,645 | \$ 879,844 | \$ 848,000 | \$ 679,000 | \$ 654,000 |
| Contributions as a percentage of covered payroll | 9.60% | 10.00% | 8.99% | 9.82% | 9.36% | 10.18% | 8.42% | 8.49% | 9.29% | 7.94% |

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

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

Independent Auditor's Report

Board of Directors
KPP Energy
Wichita, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of KPP Energy (KPP), which comprise the balance sheet as of December 31, 2024 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated April 10, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KPP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KPP's internal control. Accordingly, we do not express an opinion on the effectiveness of KPP's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KPP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Forvis Mazars, LLP

Oklahoma City, Oklahoma
April 10, 2025