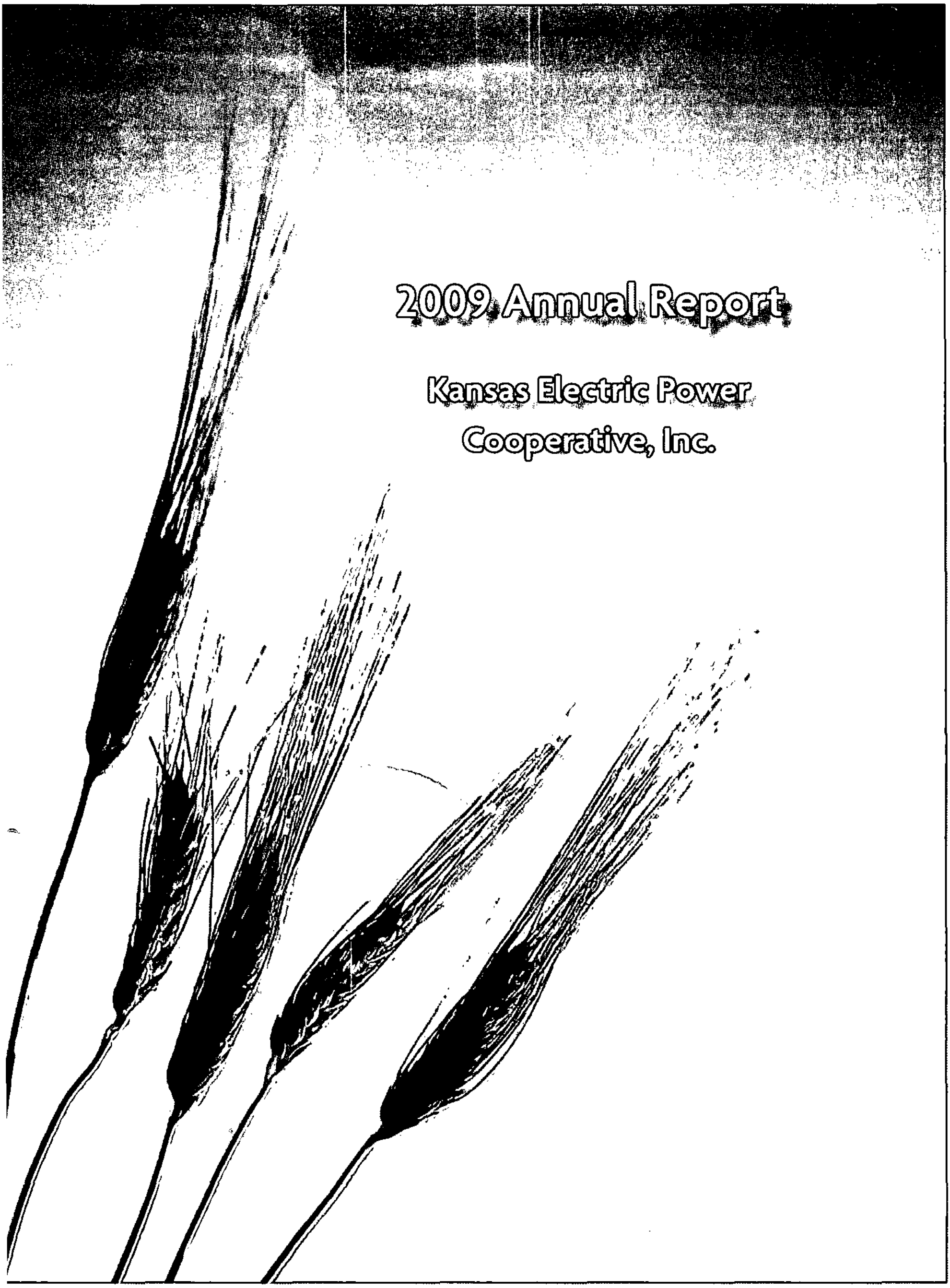
2009 Annual Report

Kansas Electric Power Cooperative, Inc.



Contents

KEPCo Staff

Stephen Parr .... Executive Vice President & Chief Executive Officer

Les Evans .... Senior Vice President & Chief Operating Officer

Mark Barbee .... Vice President of Engineering, KSI Vice President of Engineering

Bob Bowser .... Vice President of Technical Services

J. Michael Peters .... Vice President of Administration & General Counsel

Coleen Wells .... Vice President & Chief Financial Officer

Laura Armstrong .... Administrative Assistant

Marc Doljac .... Director of Rates & Regulation

Terry Deutscher .... EMS/SCADA System Specialist

Carol Gardner .... Operations Analyst

Robert Hammersmith ... SCADA/Metering Technician 2

Shari Koch ... Accounting, Payroll & Benefits Specialist

Elizabeth Lesline .... Administrative Assistant/ Receptionist

Mitch Long .... Sr. SCADA/Metering Technician

Michael Morris .... Sr. SCADA/Metering Technician

Erika Old .... Finance & Benefits Analyst 2

Matt Ottman .... Engineer 3

John Payne .... Senior Engineer

Robert Peterson .... Sr. Engineering Technician

Rita Petty .... Executive Assistant & Manager of Office Services

Paul Stone .... System Operator

Phil Wages .... Director of Member Services, Government Affairs & Business Development

Organization & Resources

Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered at Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). It is KEPCo's responsibility to procure an adequate and reliable power supply for its nineteen distribution Rural Electric Cooperative Members at a reasonable cost.

Through their combined resources, KEPCo Members support a wide range of other services such as rural economic development, marketing and diversification opportunities, power requirement and engineering studies, rate design, etc.

KEPCo is governed by a Board of Trustees representing each of its nineteen Members which collectively serve more than 120,000 electric meters in two-thirds of rural Kansas. The KEPCo Board of Trustees meets regularly to establish policies and act on issues that often include recommendations from working committees of the Board and KEPCo Staff. The Board also elects a seven-person Executive Committee which includes the President, Vice President, Secretary, Treasurer, and three additional Executive Committee members.

KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission in 1980 to act as a G&T public utility. KEPCo's power supply resources consist of: 70 MW of owned generation from the Wolf Creek Generating Station; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration, and 14 MW from the Western Area Power Administration; plus partial requirement power purchases from regional utilities.

KEPCo is a Touchstone Energy® Cooperative. Touchstone Energy® is a nationwide alliance of more than 650 cooperatives committed to promoting the core strengths of electric cooperatives – integrity, accountability, innovation, personal service and a legacy of community commitment. The national program is anchored by the motto "The Power of Human Connections."

Kansas Electric
Power Cooperative, Inc.
P.O. Box 4877   Topeka, KS 66604
600 SW Corporate View   Topeka, KS 66615
(785) 273-7010   www.kepco.org

A Touchstone Energy® Cooperative

2009 Message

from

Kirk Thompson
KEPCo President

Stephen E. Parr
Executive Vice President
& Chief Executive Officer


Mr. Thompson and Mr. Parr

Energy policy and climate change continue to encapsulate the utility industry in regulatory uncertainty. Important questions remain unanswered. Will there be a constraint placed on carbon? What will be the economic impact? What resources will be legislated obsolete? For the utility industry to plan and operate with foresight, a defined and stable regulatory framework needs to be established. In 2009, this framework was achieved in Kansas at the state level.

In May, an agreement was reached between Governor Mark Parkinson and Sunflower Electric Corporation regarding Sunflower's Holcomb coal-fired generating plant expansion. The governor agreed to the issuance of an air permit for the facility, in exchange for expanded renewable energy initiatives by the utility industry, which included the implementation of net metering by investor-owned utilities and the implementation of a Renewable Portfolio Standard (RPS) for all utilities.

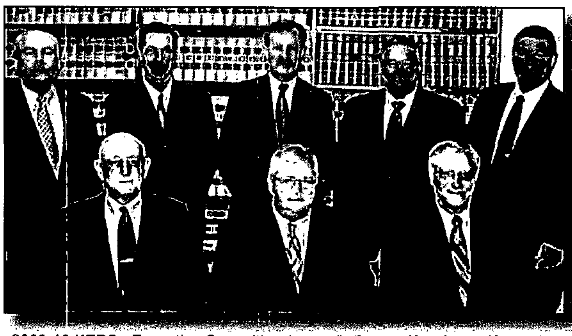
The electric cooperatives of Kansas have had a long history of supporting the development of renewable energy in Kansas. Based upon this support, the electric cooperatives began to voluntarily discuss implementing net metering tariffs in 2009. A few cooperatives implemented such a tariff in 2009 and many more are expected to do the same in 2010. This voluntary act is evidence of the commitment of the electric cooperatives in renewable energy development.

The RPS provision requires utilities to have ten percent renewable energy by 2011, fifteen percent by 2016, and twenty percent by 2020. KEPCo receives approximately twenty percent of its energy from hydroelectricity, a resource that is considered renewable under Kansas law. KEPCo's hydro allocations are its least cost resource and now will provide an extra dividend by enabling KEPCo to already meet the state's upper tier RPS requirement.

At KEPCo's November Board of Trustees meeting, Mr. Kirk Thompson, manager of CMS Electric Cooperative, Inc, was elected President of KEPCo. Mr. Thompson succeeds Mr. Kenneth Maginley, manager of Bluestem Electric Cooperative, Inc, who served five years as KEPCo's president. Mr. Thompson has served on the KEPCo Board of Trustees since 1991 and has held various offices during his tenure. Mr. Thompson's knowledge of the electric cooperative industry, and of KEPCo, will be an asset to KEPCo's continued success.

On August 21st, a culmination of over four years of work and negotiations came to realization as the Federal Energy Regulatory Commission (FERC) approved the 36-year cost-based formula rate agreement for full-requirements electric service between KEPCo and Westar Energy. The agreement will enable KEPCo and its Members access to Westar's existing generating resources and mitigate the risk of being vulnerable to price fluctuations in the open market.

Under the agreement, KEPCo will purchase electricity based on Westar's cost to produce the power and combine it with KEPCo's own resources to meet much of its Members' energy needs. KEPCo and its Members will also benefit by having Westar help manage KEPCo's resources and by participating in joint power supply planning. The agreement allows for KEPCo and Westar to "pool" their respective loads and generating capabilities to make the most efficient use of both companies' resources. KEPCo will also receive additional nuclear energy and credit for wind energy purchased from Westar under the agreement, thus increasing KEPCo's percentage of non-greenhouse gas emitting resources.


2009-10 KEPCo Executive Committee (seated): Dwane Kessinger; Kenneth Maginley; Larry Stevens; (standing) Stephen Parr, Executive Vice President & CEO; Kirk Thompson, President; Scott Whittington, Vice President; Dale Short, Secretary; and Kevin Compton, Treasurer.

Throughout 2009, KEPCo staff actively participated with NRECA staff working to shape proposed cap and trade legislation. KEPCo staff also worked with several staff members of the Kansas delegation, offering input on energy legislation, such as a small utility exemption from the proposed Federal Renewable Energy Standard. KEPCo will continue to work with NRECA and our Kansas delegation on ways to soften the impact of any proposed climate change legislation to KEPCo's Members.

At its September Board Meeting, the KEPCo Board of Trustees voted unanimously to deregulate from rate regulation under the Kansas Corporation Commission (KCC). By voting to be rate deregulated, KEPCo will save its Member Cooperatives the costs associated with filing and conducting a rate case proceeding with the KCC, in addition to being able to make rate changes in a more expeditious manner. If a rate change is proposed in the future, KEPCo will conduct a rate review with the Members and the Board of Trustees and any rate change will continue to be approved by the Board of Trustees.

KEPCo's latest investment in a generation resource, Iatan 2, is scheduled to be commercially available in December of 2010. Iatan 2 is an 850 MW, state-of-the-art pulverized coal plant located north of Kansas City.

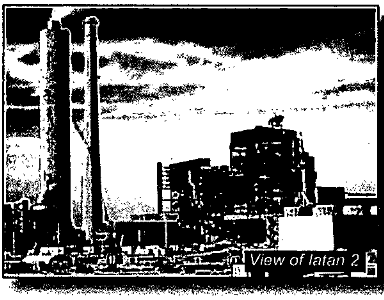
Continued on page 12

2009 KEPCo Highlights

Stephen E. Parr, KEPCo EVP & CEO, and William B. Moore, Westar President & CEO

On August 21st, the Westar cost-based generation formula rate long-term Power Supply Agreement was approved by the FERC. The Agreement, which was implemented September 1st, has a term of thirty-six years, and will provide KEPCo Members access to the Westar fleet of generation on a cost-based basis until 2045.

KEPCo's Board of Trustees annual strategic planning retreat focused on energy efficiency, conservation and smart-grid technology. The retreat was very timely given the escalating interest in the efficient use of energy.



View of Iatan 2

Wolf Creek had a 350-day continuous run since refuel 16. The unit was forced off-line due to lightning strikes to the transmission system serving the plant.

Construction on the Iatan 2 pulverized coal unit continues to progress and is scheduled for commercial operation in December of 2010. KEPCo owns 30 MW of the 850 MW unit, which will supply approximately 11% of KEPCo's Members' energy needs.

KEPCo was privileged to honor at its 2009 Annual Meeting seven soldiers of the Second Brigade Combat Team, First Infantry Division stationed at Fort Riley that had recently returned from deployment in Iraq.

KEPCo honors seven soldiers of the Second Brigade Combat Team, First Infantry Division

Long-term firm transmission service was secured for serving load in the Empire District balancing authority with the Westar generation fleet.

KEPCo also secured firm transmission for the delivery points in the Mid-Kansas Electric Company (MKEC) area presently served by Westar.

KEPCo actively participated in NRECA's analysis and lobbying efforts to help minimize the impact of proposed climate change legislation to KEPCo's operations. Fifty percent of KEPCo's diverse power supply is *derived from hydroelectric and nuclear resources, which do not emit greenhouse gases.*

KEPCo invested $2.5 million in National Rural Utilities Cooperative Finance Corporation (CFC) through the purchase of Member Capital Securities. This investment will aid in strengthening CFC's equity position, as CFC's viability is critical to KEPCo since CFC is one of KEPCo's primary financing sources for new capital.

KEPCo continues to fund and assist Members in the promotion of an energy efficiency electric water heater and heating/cooling system rebate program. Since inception, KEPCo has issued over 6,200 heating/cooling rebates and over 15,000 water heater rebates.

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and in Washington, D.C. Staff testified on several bills in 2009 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.

KEPCo's Board of Trustees unanimously voted to be deregulated from rate making jurisdiction of the Kansas Corporation Commission. This strategic vote will enable KEPCo to implement rate changes in a more expeditious manner and save KEPCo's Members the costs associated with rate regulation.

KEPCo supports the development of renewable resources. As such, KEPCo donated $1,000 to the Southeast Kansas Education Service Center at Greenbush for the installation of a wind turbine to be used for educational purposes.


Check presentation to Southeast Kansas Education Service Center

KEPCo Staff successfully completed its first NERC/SPP compliance audit which determined that KEPCo was fully meeting all the requirements of the applicable NERC reliability standards.

KSI Engineering effectively supported Kansas cooperatives by working on critical issues with the Federal Emergency Management Agency (FEMA) relating to reimbursements for storm damage, including completing damage assessments and engineering reports.

KSI Engineering

KEPCo Staff continues to actively participate on many committees of the Southwest Power Pool (SPP) to assist the region in transmission development.

KEPCo Member Cooperatives Trustees, Alternates and Managers


Joseph Seiwert

Ark Valley Electric Cooperative Assn., Inc.
PO Box 1246, Hutchinson, KS 67504
620-662-6661
Trustee Rep. -- Joseph Seiwert
Alternate Trustee Rep. -- Bob Hall
Manager -- Bob Hall


Bob Hall

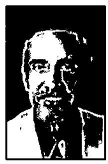

Kenneth Maginley

Bluestem Electric Cooperative, Inc.
PO Box 5, Wamego, KS 66547 785-456-2212
PO Box 513, Clay Center, KS 67432 785-632-3111
Trustee Rep. -- Kenneth J. Maginley
Alternate Trustee Rep. -- Robert M. Ohlde
Manager -- Kenneth J. Maginley


Bob Ohlde


Kevin Compton

Brown-Atchison Electric Cooperative Assn., Inc.
PO Box 230, Horton, KS 66439 785-486-2117
Trustee Rep. -- Kevin D. Compton
Alternate Trustee Rep. -- Rodney V. Gerdes
Manager -- Rodney V. Gerdes


Rod Gerdes


Dale Short

Butler Rural Electric Cooperative Assn., Inc.
PO Box 1242, El Dorado, KS 67042 316-321-9600
Trustee Rep. -- Dale Short
Alternate Trustee Rep. -- Richard Pearson
Manager -- Dale Short


Richard Pearson


Dwane Kessinger

Caney Valley Electric Cooperative Assn., Inc.
PO Box 308, Cedar Vale, KS 67024 620-758-2262
Trustee Rep. -- Dwane Kessinger
Alternate Trustee Rep. -- Allen A. Zadorozny
Manager -- Allen A. Zadorozny


Allen Zadorozny


Kirk Thompson


Cliff Friesen

CMS Electric Cooperative, Inc.
PO Box 790, Meade, KS 67864 620-873-2184
Trustee Rep. -- Kirk A. Thompson
Alternate Trustee Rep. -- Clifford Friesen
Manager -- Kirk A. Thompson


Harlow Haney


Don Hellwig

DS&O Electric Cooperative, Inc.
PO Box 286, Solomon, KS 67480 785-655-2011
Trustee Rep. -- Harlow L. Haney
Alternate Trustee Rep. -- Donald E. Hellwig
Manager -- Donald E. Hellwig


Bob Reece


Gus Hamm

Flint Hills Rural Electric Cooperative Assn., Inc.
PO Box B, Council Grove, KS 66846 620-767-5144
Trustee Rep. -- Robert E. Reece
Alternate Trustee Rep. -- Gus H. Hamm
Manager -- Robert E. Reece


Dennis Peckman


Dale Coomes

Heartland Rural Electric Cooperative, Inc.
PO Box 40, Girard, KS 66743 620-724-8251
Trustee Rep. -- Dennis Peckman
Alternate Trustee Rep. -- Dale Coomes
Manager -- Dale Coomes


Larry Stevens


Steven Foss

LJEC
PO Box 70, McLouth, KS 66054 913-796-6111
Trustee Rep. -- Larry H. Stevens
Alternate Trustee Rep. -- Steven Foss
Manager -- Steven Foss


Scott Whittington


Donna Williams

Lyon-Coffey Electric Cooperative, Inc.
PO Box 229, Burlington, KS 66839 620-364-2116
Trustee Rep. -- Scott Whittington
Alternate Trustee Rep. -- Donna Williams
Manager -- Scott Whittington

KEPCo Member Cooperatives Trustees, Alternates and Managers


Gordon Coulter

Ninnescah Electric Cooperative Assn., Inc.
PO Box 967, Pratt, KS 67124   620-672-5538
Trustee Rep. -- Gordon Coulter
Alternate Trustee Rep. -- Carla A. Bickel
Manager -- Carla A. Bickel
Manager -- Ed Wiltse (01/01/2010)


Carla Bickel


Ed Wiltse


Gilbert Berland

Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
District Office, Concordia 785-243-1750
Trustee Rep. -- Gilbert Berland
Alternate Trustee Rep. -- Allan J. Miller
Manager -- Allan J. Miller


Allan Miller


Dennis Duft

Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736 620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee Rep. -- Don Songer
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft


Don Songer


Leah Tindle


Melroy Kopsa

Rolling Hills Electric Cooperative, Inc.
PO Box 307, Mankato, KS 66956 785-378-3151
District Offices, Belleville 785-527-2251
Ellsworth 785-472-4021
Trustee Rep. -- Melroy Kopsa
Alternate Trustee Rep. -- Leon Eck
Manager -- Douglas J. Jackson

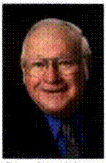

Leon Eck


Doug Jackson


Donald Metzen

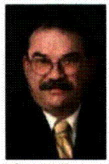
Sedgwick County Electric Cooperative Assn., Inc.
PO Box 220, Cheney, KS 67025 316-542-3131
Trustee Rep. -- Donald Metzen
Alternate Trustee Rep. -- Alan L. Henning
Manager -- Alan L. Henning


Alan Henning

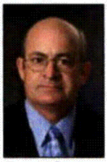


Charles Riggs

Sumner-Cowley Electric Cooperative, Inc.
PO Box 220, Wellington, KS 67152 620-326-3356
Trustee Rep. -- Charles Riggs
Alternate Trustee Rep. -- Cletas Rains
Manager -- Cletas Rains

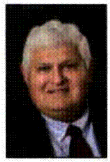


Cletas Rains

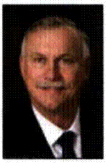


Bryan Coover

Twin Valley Electric Cooperative, Inc.
PO Box 368, Altamont, KS 67330 620-784-5500
Trustee Rep. -- Bryan W. Coover
Alternate Trustee Rep. -- Ron Holsteen
Manager -- Ron Holsteen

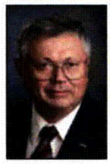


Ron Holsteen



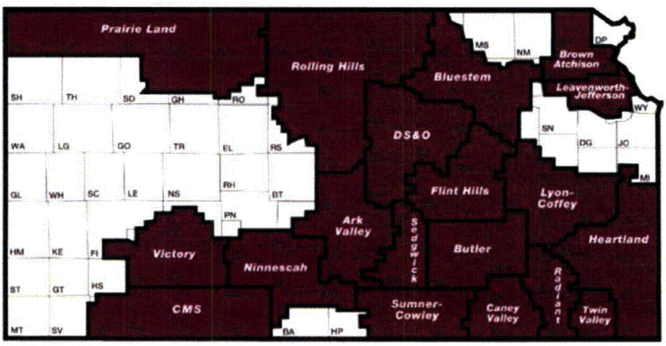
Terry Janson

Victory Electric Cooperative Assn., Inc.
PO Box 1335, Dodge City, KS 67801 620-227-2139
Trustee Rep. -- Terry Janson
Alternate Trustee Rep. -- Milam Jones
Manager -- Terry Janson



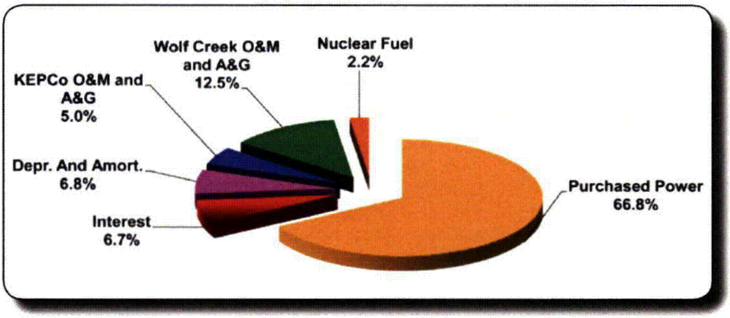
Milam Jones

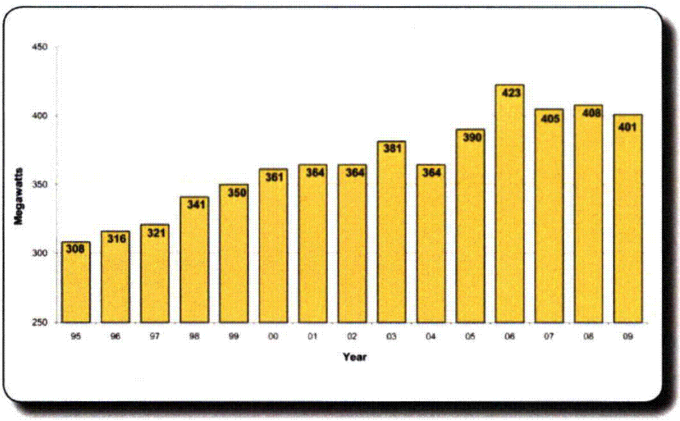
KEPCo Member Area Map



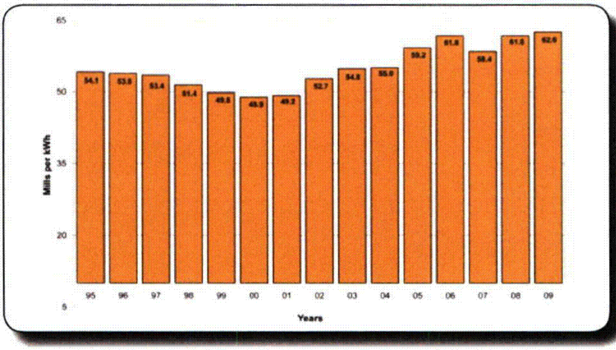
Operating Statistics

Operating Expenses



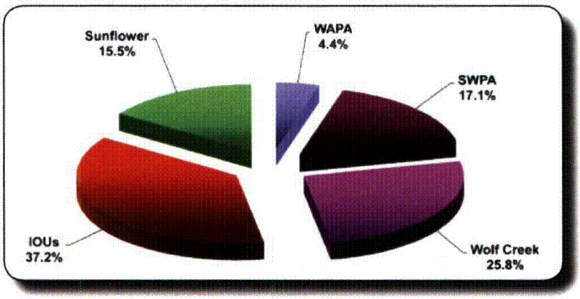


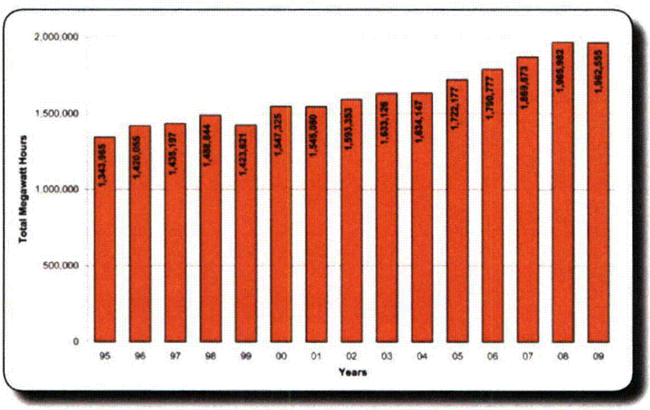
Peak Demand



Rates

Sources of Energy





Energy Sales

2009 Message

Continued from page 3

KEPCo will receive 30 MW of capacity and energy from latan 2. latan 2 will be a key component in KEPCo's resource mix by providing its Members with economical and reliable energy and mitigating exposure to volatile and high-priced electric markets and natural gas prices.

KEPCo realized a peak demand of 401 MW in 2009, which is nearly two percent less than 2008 and five percent less than 2006. This decrease can be attributed to a mild summer, the economic downturn, and KEPCo's continued success with its Demand Side Management (DSM) program. This year, KEPCo was able to shed an estimated 20 MW of peak demand. Energy sales for 2009 were nearly equal to that of 2008, thus again illustrating the mild summer, poor economy, and the continued interest and implementation of energy efficiency measures.

Before closing, KEPCo would like to offer its appreciation and gratitude to Mr. Kenneth Maginley for his dedicated service as President of the KEPCo Board of Trustees for the past five years. During his tenure, Mr. Maginley guided the Board of Trustees through many important issues: including extending most of the Member contracts to 2045; negotiating KEPCo's new Westar contract; ownership in latan 2; unanimously voting to deregulate; extending the SWPA contract to 2016; Wolf Creek's operating license extension; and making strategic financial decisions that increased GAAP equity by 13.5%. This increase in GAAP equity enabled KEPCo to end 2009 with positive equity for the first time in many years.

Appreciation also needs to be extended to the Board of Trustees and KEPCo Staff for their hard work and dedication. Many of their collective accomplishments are detailed in this annual report.

In the coming months and years, the most important factor facing the utility industry will be an effective regulatory framework that provides the long-term certainty necessary for utilities to operate. Past cycles of one-off, short-term solutions must be broken and give way to a long-term planning horizon. An energy policy that fosters the investment needed over the long-term cannot be fully effective unless there is a clearly defined approach to carbon reduction requirements. There will need to be a collaboration between policy makers and utilities alike that embraces a multi-resource mindset in order to promote increased supply and reduced demand. Of equal importance will be the need on behalf of policy makers to balance the environmental need and the economic impact of proposed programs. KEPCo vows to continue to work diligently with policy makers, both at the state and federal level, to achieve such a balance.

Kirk A. Thompson

Stephen E. Parr

Kansas Electric Power Cooperative, Inc.
Financial Statements
December 31, 2009 and 2008

BKD LLP
CPAs & Advisors

Two Leadership Square
211 N. Robinson, Suite 600
Oklahoma City, OK 73102-9421
405.842.7977 Fax 405.600.9799 www.bkd.com

Independent Accountants' Report on Financial Statements

Board of Trustees
Kansas Electric Power Cooperative, Inc.
Topeka, Kansas

We have audited the accompanying consolidated balance sheets of Kansas Electric Power Cooperative, Inc. (KEPCo) as of December 31, 2009 and 2008, and the related consolidated statements of margin, patronage capital and cash flows for the years then ended. These financial statements are the responsibility of KEPCo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 3, certain depreciation and amortization methods have been used in the preparation of the 2009 and 2008 financial statements which, in our opinion, are not in accordance with accounting principles generally accepted in the United States of America. The effects on the financial statements of the aforementioned departure are explained in Note 3.

In our opinion, except for the effects of using the aforementioned depreciation and amortization methods as discussed in Note 3, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas Electric Power Cooperative, Inc., as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we also have issued our report dated April 12, 2010, on our consideration of KEPCo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

BKD LLP

April 12, 2010

experience BKD

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Kansas Electric Power Cooperative, Inc.
Consolidated Balance Sheets
December 31, 2009 and 2008

Assets		2009	2008
Utility Plant			
In-service		$ 227,090,041	$ 227,579,661
Less allowance for depreciation		(127,860,384)	(125,525,931)
Net in-service		99,229,657	102,053,730
Construction work in progress		65,624,879	42,752,891
Nuclear fuel (less accumulated amortization of $13,298,208 and $13,923,600 for 2009 and 2008, respectively)		8,293,682	7,832,587
Total utility plant		173,148,218	152,639,208
Restricted Assets			
Investments in the National Rural Utilities Cooperative Finance Corporation		13,674,112	6,897,319
Bond fund reserve		4,411,168	4,321,172
Decommissioning fund		10,571,021	8,212,742
Investments in other associated organizations		181,191	176,430
Total restricted assets		28,837,492	19,607,663
Current Assets			
Cash and cash equivalents		118,631	634,108
Member accounts receivable		11,539,149	10,587,979
Materials and supplies inventory		3,330,502	3,245,861
Other assets and prepaid expenses		638,516	605,181
Total current assets		15,626,798	15,073,129
Other Long-term Assets			
Deferred charges			
	Wolf Creek disallowed costs (less accumulated amortization of $13,392,227 and $12,635,061 for 2009 and 2008, respectively)	12,590,694	13,347,860
	Wolf Creek deferred plants costs (less accumulated amortization of $25,039,356 and $21,909,437 for 2009 and 2008, respectively)	21,909,438	25,039,356
	Wolf Creek decommissioning regulatory asset	2,897,014	7,354,075
	Deferred incremental outage costs	4,585,364	3,352,986
	Other deferred charges (less accumulated amortization of $7,817,223 and $7,305,536 for 2009 and 2008, respectively)	2,117,526	2,578,448
	Unamortized debt issuance costs	510,359	619,634
Other		582,800	311,587
Total long-term assets		45,193,195	52,603,946
Total assets		$ 262,805,703	$ 239,923,946

Kansas Electric Power Cooperative, Inc.

Consolidated Balance Sheets

December 31, 2009 and 2008

Liabilities and Patronage Capital	2009	2008
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	37,005,611	27,667,321
Accumulated other comprehensive loss	(4,968,938)	(5,684,416)
Total patronage capital	32,039,873	21,986,105
Long-term Debt	178,467,513	152,657,243
Other Long-term Liabilities		
Wolf Creek decommissioning liability	15,761,591	18,384,841
Wolf Creek pension and post retirement benefit plans	7,433,971	8,066,633
Wolf Creek deferred compensation	826,871	749,074
Arbitrage rebate long-term liability	1,049,464	811,354
Other deferred credits	58,155	16,277
Total other long-term liabilities	25,130,052	28,028,179
Current Liabilities		
Line of credit	–	13,178,203
Current maturities of long-term debt	14,191,957	13,159,154
Accounts payable	10,963,824	8,914,587
Payroll and payroll-related liabilities	291,619	313,735
Accrued property taxes	1,387,991	1,364,953
Accrued interest payable	332,874	321,787
Total current liabilities	27,168,265	37,252,419
Total patronage capital and liabilities	$ 262,805,703	$ 239,923,946

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Margin

December 31, 2009 and 2008

		2009		2008
Operating Revenues				
Sales of electric energy	$	122,744,598	$	121,527,329
Other		–		89,422
Total operating revenues		122,744,598		121,616,751
Operating Expenses				
Power purchased		76,454,594		80,023,770
Nuclear fuel		2,510,652		2,296,326
Plant operations		10,205,308		9,338,897
Plant maintenance		3,688,572		3,477,473
Administrative and general		5,347,850		5,413,479
Amortization of deferred charges		4,398,770		4,443,886
Depreciation and decommissioning		4,353,046		4,208,729
Total operating expenses		106,958,792		109,202,560
Net operating revenues		15,785,806		12,414,191
Interest and Other Deductions				
Interest on long-term debt		7,026,677		7,506,538
Amortization of debt issuance costs		109,275		115,227
Other deductions		66,090		71,044
Total interest and other deductions		7,202,042		7,692,809
Operating income		8,583,764		4,721,382
Other Income				
Interest income		599,470		634,867
Other income		155,056		116,928
Total other income		754,526		751,795
Net margin	$	9,338,290	$	5,473,177

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Patronage Capital

December 31, 2009 and 2008

	Comprehensive Income (Loss)	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007		$ 3,200	$ 22,194,144	$ (3,120,448)	$ 19,076,896
Net margin	$ 5,473,177	–	5,473,177	–	5,473,177
Defined benefit pension plans					
Net loss arising during year	(2,793,126)	–	–	(2,793,126)	(2,793,126)
Other	(38,764)	–	–	(38,764)	(38,764)
Less: amortization of prior service costs included in net periodic pension costs	267,922	–	–	267,922	267,922
Comprehensive income	$ 2,909,209				
Balance, December 31, 2008		3,200	27,667,321	(5,684,416)	21,986,105
Net margin	$ 9,338,290	–	9,338,290	–	9,338,290
Defined benefit pension plans					
Net gain arising during year	344,884	–	–	344,884	344,884
Other	15,514	–	–	15,514	15,514
Less: amortization of prior service costs included in net periodic pension costs	355,080	–	–	355,080	355,080
Comprehensive income	$ 10,053,768				
Balance, December 31, 2009		$ 3,200	$ 37,005,611	$ (4,968,938)	$ 32,039,873

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Cash Flows

December 31, 2009 and 2008

		2009		2008
Operating Activities				
Net margin	$	9,338,290	$	5,473,177
Adjustments to reconcile net margin to net cash provided by operating activities				
Depreciation and amortization		3,889,826		3,794,729
Decommissioning		1,833,811		1,056,613
Amortization of nuclear fuel		2,013,679		1,811,603
Amortization of deferred charges		4,348,006		4,407,592
Amortization of deferred incremental outage costs		4,099,003		3,893,171
Amortization of debt issuance costs		109,275		115,227
Changes in				
Member accounts receivable		(951,170)		(1,800,955)
Materials and supplies		(84,641)		(122,810)
Other assets and prepaid expenses		(304,548)		(40,657)
Accounts payable		2,049,237		622,581
Payroll and payroll-related liabilities		(22,116)		9,625
Accrued property tax		23,038		47,519
Accrued interest payable		11,087		(85,192)
Other long-term liabilities		440,601		273,139
Net cash provided by operating activities		26,793,378		19,455,362
Cash Flows From Investing Activities				
Additions to electric plant		(23,937,741)		(26,837,946)
Additions to nuclear fuel		(2,474,774)		(2,070,599)
Additions to deferred incremental outage costs		(5,331,381)		(6,153,310)
Investments in decommissioning fund assets		(2,358,279)		(1,133,809)
Investments in National Rural Utilities Cooperative Finance Corporation		(6,781,554)		(1,442,965)
Investments in bond reserve assets		(89,996)		27,537
Net cash used in investing activities		(40,973,725)		(37,611,092)
Cash Flows From Financing Activities				
Net borrowing (payment) under line of credit agreement		(13,178,203)		13,178,203
Principle payments on long-term debt		(13,209,153)		(11,950,139)
Proceeds from issuance of long-term debt		40,052,226		11,429,000
Net cash provided by financing activities		13,664,870		12,657,064
Net decrease in cash and cash equivalents		(515,477)		(5,498,666)
Cash and Cash Equivalents, Beginning of Year		634,108		6,132,774
Cash and Cash Equivalents, End of Year	$	118,631	$	634,108
Supplemental Cash Flows Information				
Cash paid during the year for interest	$	9,113,960	$	9,052,958

Kansas Electric Power Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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

Nature of Operations

Kansas Electric Power Cooperative, Inc., and its subsidiary (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). KEPCo is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority in 1980 to act as a G&T public utility. In 2009, pursuant to statutory amendments, KEPCo elected to be free of the jurisdiction of the KCC for certain purposes, including rate setting, subject to statutory review under certain circumstances. It is KEPCo's responsibility to procure an adequate and reliable power supply for its 19 distribution rural electric cooperative members pursuant to all requirements of its power supply contracts. KEPCo is governed by a board of trustees representing each of its 19 members, which collectively serve approximately 120,000 electric meters in rural Kansas.

System of Accounts

KEPCo maintains its accounting records substantially in accordance with the Rural Utilities Service (RUS) Uniform Systems of Accounts and in accordance with accounting practices prescribed by the KCC.

Rates

Under a 2009 change in state law, KEPCo has elected to be exempt from KCC regulation for most purposes, including the setting of rates. Rates are set by action of the Board, subject only to statutory review by the KCC if demanded by four or more members. KEPCo's rates were last set by the KCC by an order effective September 1, 2008. KEPCo's rates now include an energy cost adjustment (ECA) mechanism and an annual Demand Cost Adjustment (DCA) mechanism, allowing KEPCo to pass along increases in certain energy and demand costs to its member cooperatives.

Principles of Consolidation

The consolidated financial statements include the amounts of KEPCo and its wholly owned subsidiary, KEPCo Services, Inc. Undivided interests in jointly owned generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

Estimates

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

Utility Plant and Depreciation

Utility plant is stated at cost. Cost and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. In 2009 and 2008, the amount of capitalized interest was approximately $2.1 million and $1.5 million, respectively. The cost of repairs and minor replacements are charged to operating expenses as appropriate. The original cost of utility plant retired and the cost of removal less salvage are charged to accumulated depreciation.

The composite depreciation rate for electric generation plant for the years ended December 31, 2009 and 2008, was 3.27% and 3.17%, respectively.

The provision for depreciation computed on a straight-line basis for electric and other components of utility plant is as follows:

Transportation and equipment	25–33 years
Office furniture and fixtures	10–20 years
Leasehold improvements	20 years
Transmission equipment (metering, communication and SCADA)	10 years

Nuclear Fuel

The cost of nuclear fuel in the process of refinement, conversion, enrichment and fabrication is recorded as utility plant asset at original cost and is amortized to nuclear fuel expenses based upon the quantity of heat produced for the generation of electric power. The permanent disposal of spent fuel is the responsibility of the Department of Energy (DOE). KEPCo pays one cent per net megawatt (MWh) of nuclear generation to the DOE for the future disposal service. These disposal costs are charged to nuclear fuel expense.

Decommissioning Fund Assets/Decommissioning Liability

As of December 31, 2009 and 2008, approximately $10.6 million and $8.2 million, respectively, have been collected and are being retained in an interest-bearing trust fund to be used for the physical decommissioning of Wolf Creek Nuclear Generating Station (Wolf Creek). The trustee invests the decommissioning funds primarily in mutual funds, which are carried at fair value. During 2003, the KCC extended the estimated useful life of Wolf Creek to 60 years from the original estimates of 40 years only for the determination of decommissioning costs to be recognized for rate making purposes. In 2009, the KCC approved a 2008 decommissioning cost study, which increased the estimate of total decommissioning costs to $593.5 million in 2008 ($35.6 million is KEPCo's share). The study assumes a 3.73% rate of inflation and 6.8% rate of return.

KEPCo recognizes and estimates the liability for its 6% share of the estimated cost to decommission Wolf Creek based on the present value of the asset retirement obligation KEPCo incurred at the time it was placed into service in 1985. On January 1, 2003, KEPCo initially recognized an asset retirement obligation of $11.7 million; utility plant in-service, net of accumulated depreciation, was increased by $2.9 million; and KEPCo also established a regulatory asset for $3.9 million, which represents the amount of the Wolf Creek asset retirement obligation and accumulated depreciation not yet refunded.

The decommissioning study in 2008 decreased the asset retirement obligation by approximately $3.5 million, utility plant in-service, net of accumulated depreciation by $0.5 million and the regulatory asset by $3.0 million in 2009.

A reconciliation of the asset retirement obligation for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Balance at January 1	$18,384,841	$17.328,228
Accretion	882,784	1,056,613
Decrease from 2008 study	(3,506,034)	-
Balance at December 31	$15,761,591	$18,384,841

Any net margin effects are deferred in the Wolf Creek decommissioning regulatory asset created and will be collected from members in future electric rates.

Cash and Cash Equivalents

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents and are stated at cost, which approximates fair value. Cash equivalents consisted primarily of repurchase agreements, money market account and certificates of deposit.

The financial institution holding the Cooperative's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to $250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At December 31, 2009, the Cooperative's interest-bearing cash accounts were covered by FDIC insurance.

The Cooperative's repurchase agreements have collateral pledged by a financial institution, which are securities that are backed by the full faith of the government.

Kansas Electric Power Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Accounts Receivable

Accounts receivable are stated at the amount billed to members and customers. KEPCo provides allowances for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Materials and Supplies Inventory

Materials and supplies inventory are valued at average cost.

Unamortized Debt Issuance Costs

Unamortized debt issue costs relate to the issuance of the floating/fixed rate pollution control revenue bonds, mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC) trusts and fees for repricing the Federal Financing Bank (FFB) debt. These costs are being amortized using the effective interest method over the remaining life of the bonds and notes.

Cash Surrender Value of Life Insurance Contracts

The following amounts related to Wolf Creek Nuclear Operating Corporation (WCNOC) corporate-owned life insurance contracts, primarily with one highly rated major insurance company, are included in other long-term assets on the consolidated balance sheets.

	2009	2008
Cash surrender value of contracts	$ 5,473,452	$ 5,276,957
Borrowings against contracts	(5,236,550)	(5,276,957)
	$ 236,902	$ –

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a rate of 6.84% and 5.45% for the years ended December 31, 2009 and 2008, respectively.

Revenues

Revenues are recognized during the month the electricity is sold. Revenues from the sale of electricity are recorded based on usage by member cooperatives and customers and on contracts and scheduled power usages as appropriate.

Income Taxes

As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying consolidated financial statements. The Cooperative is no longer subject to federal or state income tax examinations by taxing authorities for years prior to 2006.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net earnings.

Subsequent Events

Subsequent events have been evaluated through April 12, 2010, which is the date the financial statements were available to be issued.

Note 2: Factors That Could Affect Future Operating Results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation and, accordingly, has recorded regulatory assets and liabilities related to its generation and transmission operations in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations. In the event KEPCo determines that it no longer meets the criteria of ASC 980, the accounting impact could be a noncash charge to operations of an amount that would be material. Criteria that could give rise to the discontinuance of ASC 980 include: 1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs and 2) a significant change in the manner rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of ASC 980 is appropriate. Any changes that would require KEPCo to discontinue the application of ASC 980 due to increased competition, regulatory changes or other events may significantly impact the valuation of KEPCo's investment in utility plant, its investment in Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets that could be recovered in such an environment cannot be predicted.

The 1992 Energy Policy Act began the process of restructuring the United States electric utility industry by permitting the Federal Energy Regulatory Commission to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. KEPCo has elected to deregulate its rate making for sales to its members under recent statutory amendments. Subject to the possibility of KCC review, KEPCo's member rates are now set by action of the Board. KEPCo's ability to timely recover its costs is enhanced by this change.

Note 3: Departures From Generally Accepted Accounting Principles

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Note 7, such depreciation and amortization methods constituted phase-in plans that did not meet the requirements of

ASC 980-340 Regulated Operation, Other Assets and Deferred Costs.

Effective February 1, 2002, the KCC issued an order that extended the depreciable life of Wolf Creek from 40 years to 60 years. This order also permitted recovery in rates of the $53.5 million cumulative difference between historical present worth (sinking fund) depreciation and amortization and straight-line depreciation and amortization of the Wolf Creek generation plant and disallowed costs over a 15-year period. Recovery of these costs in rates is included in operating revenues, and the related amortization expense is included in deferred charges in the consolidated statements of margin.

The effect of these departures from generally accepted accounting principles is to overstate (understate) the following items in the consolidated financial statements by the following amounts:

	2009	2008
Deferred charges	$ 24,945,439	$ 28,509,073
Patronage capital	$ 24,945,439	$ 28,509,073
Net margin	$ (3,563,634)	$ (3,563,634)

Note 4: Wolf Creek Nuclear Operating Corporation

KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL) 47% and Kansas Gas & Electric Company (KGE) 47%. KGE is a wholly owned subsidiary of Westar Energy, Inc. KCPL is a wholly owned subsidiary of Great Plains Energy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. Substantially all of KEPCo's utility plant consists of its pro rata share of WCNOC. KEPCo is entitled to a proportionate share of the capacity and energy from WCNOC, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 6% of the operations, maintenance, administrative and general costs and cost of plant additions related to WCNOC.

WCNOC disposes of all classes of its low-level radioactive waste at existing third-party repositories. Should disposal capability become unavailable, WCNOC is able to store its low-level radioactive waste in an on-site facility for up to five years under current regulations.

WCNOC is currently working on a capacity upgrade and received a 20-year operating license extension from the Nuclear Regulatory Commission in 2008.

Kansas Electric Power Cooperative, Inc.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Note 5: Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2009 and 2008, investments in associated organizations consisted of the following:

	2009	2008
CFC		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Subordinated term certificates	2,205,000	2,205,000
Patronage capital certificates	175,343	81,690
Equity term certificates	8,396,799	4,213,659
Member capital certificates	2,500,000	–
	13,674,112	6,897,319
Other	181,191	176,430
	$ 13,855,303	$ 7,073,749

Note 6: Bond Fund Reserve

KEPCo has entered into a bond covenant whereby KEPCo is required to maintain, with a trustee, a bond fund reserve of approximately $4.4 million. This stipulated amount is sufficient to satisfy certain future interest and principal obligations. The amount held in the bond fund reserve is invested by the trustee in tax-exempt municipal securities, pursuant to the restrictions of the indenture agreement, which are carried at amortized cost.

Note 7:Deferred Charges

Wolf Creek Disallowed Costs

Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed $26.0 million of KEPCo's investment in Wolf Creek ($12.6 million net of accumulated amortization as of December 31, 2009). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a

30-year period. Through December 31, 2001, KEPCo used the present worth (sinking fund) method to recover the disallowed costs, which enabled it to meet the times-interest-earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo through 2001 constituted a phase-in plan that did not meet the requirements of ASC 980-340, Regulated Operations, Other Assets and Deferred Costs.

Effective February 1, 2002, the KCC issued an order permitting recovery in rates of the $6.5 million cumulative difference between historical present worth (sinking fund) and straight-line amortization of Wolf Creek disallowed costs over a 15-year period. Such depreciation practice does not constitute a phase-in plan that meets the requirements of ASC 980-340.

If the disallowed costs were recovered using a method in accordance with accounting principles generally accepted in the United States, the costs would have been expensed in their entirety upon implementation of the KCC order, with a corresponding decrease in patronage capital.

Wolf Creek Deferred Plant Costs

Effective February 1, 2002, the KCC issued an order permitting recovery in rates of the $46.9 million cumulative difference between historical present worth (sinking fund) depreciation and straight-line depreciation of Wolf Creek generation plant over a 15-year period. Such depreciation practice does not constitute a phase-in plan that meets the requirements of ASC 980-340. In 2002, this cumulative difference was reclassified from utility plant allowance for depreciation to deferred charges on the consolidated balance sheets to reflect the amount as a regulatory asset. Amortization of the Wolf Creek deferred plant costs is included in amortization of deferred charges and amounts to $3.1 million for each of the years ended December 31, 2009 and 2008.

If the deferred plant costs were recovered using a method in accordance with accounting principles generally accepted in the United States of America, the costs would have been expensed in their entirety upon implementation of the KCC order, with a corresponding decrease in patronage capital.

Deferred Incremental Outage Costs

In 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coinciding with the recognition of the related revenues. Additions to the deferred incremental outage costs were $5.3 million and $6.2 million in 2009 and 2008, respectively. The current year amortization of the deferred incremental outage costs was $4.1 million and $3.9 million in 2009 and 2008, respectively.

Other Deferred Charges

KEPCo includes in other deferred charges the early call premium resulting from refinancings. These early call premiums are amortized using the effective interest method over the remaining life of the new agreements.

Note 8: Line of Credit

As of December 31, 2009, KEPCo has a $15.0 million line of credit outstanding with the CFC. This line of credit expires in March 2011. There were no funds borrowed against the line of credit at December 31, 2009. There were outstanding borrowings of approximately $13.2 million at December 31, 2008. The line of credit requires the Cooperative to pay down the balance to zero biannually. Interest varies and was 4.25% at December 31, 2009, and 5.00% at December 31, 2008.

Note 9: Long-Term Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through the FFB, the CFC and others. Substantially all of KEPCo's assets are pledged as collateral. The terms of the notes as of December 31 are as follows:

	2009	2008
Mortgage notes payable to the FFB at fixed rates varying from 3.616% to 9.206%, payable in quarterly installments through 2020	$ 64,822,513	$ 72,149,927
Mortgage notes payable to the Grantor Trust Series 1997 at a rate of 7:522%, payable semiannually, principal payments commencing in 1999 and continuing annually through 2017	34,940,000	38,040,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (ranging from 1.05% to 1.75% at December 31, 2009) payable annually through 2017	20,100,000	22,500,000
Mortgage notes payable and equity certificate loans to the National Rural Utilities Cooperative Finance Corporation at fixed rates of 3.20% to 7.70%, payable quarterly through 2034. Currently, KEPCo has approximately $18.3 million of funds available to borrow, which mature in 2012	72,796,957	33,126,470
	192,659,470	165,816,397
Less current maturities	14,191,957	13,159,154
	$ 178,467,513	$ 152,657,243

Aggregate maturities of long-term debt for the next five years and thereafter are as follows:

2010	$ 14,191,957
2011	15,288,130
2012	83,516,577
2013	17,488,881
2014	18,822,823
Thereafter	43,351,102
	$ 192,659,470

Restrictive covenants require KEPCo to design rates that would enable it to maintain a times-interest-earned ratio of at least one-to-one and debt-service coverage ratio of at least one-to-one, on average, in at least two out of every three years. The covenants also prohibit distribution of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets, unless such distribution is approved by RUS. KEPCo was in compliance with such restrictive covenants as of December 31, 2009 and 2008.

In 1997, KEPCo refinanced its mortgage notes payable to the 1988 CFC Grantor Trust through the establishment of a new CFC Grantor Trust Series 1997 (the Series 1997 Trust) by CFC. This refinancing reduced the guaranteed interest rate payable on the mortgage notes to a fixed rate of 7.522% through the use of an interest rate swap that was assigned by KEPCo to the Series 1997 Trust. The mortgage notes payable are prepayable at any time with no prepayment penalties. However, any termination costs relating to the termination of the assigned interest rate swaps is KEPCo's responsibility. At December 31, 2009, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $7.0 million. This fair value estimate is based on information available at December 31, 2009, and is expected to fluctuate in the future based on changes in interest rates and outstanding principal balance.

KEPCo also is exposed to possible credit loss in the event of noncompliance by the counterparty to the swap agreement. However, KEPCo does not anticipate nonperformance by the counterparty.

Note 10: Benefit Plans

National Rural Electric Cooperative Association (NRECA) Retirement and Security Program

KEPCo participates in the NRECA Retirement and Security Program for its employees. All employees are eligible to participate in this program after one year of service. In the master multiemployer plan, which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employer members. KEPCo's expense under this program was approximately $0.3 million for the years ended December 31, 2009 and 2008.

NRECA Savings 401(k) Plan

All employees of KEPCo are eligible to participate in the NRECA Savings 401(k) Plan. Under the plan, KEPCo contributes an amount not to exceed 5%, dependent upon each employee's level of participation and completion of one year of service, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed approximately $0.1 million to the plan for each of the years ended December 31, 2009 and 2008.

WCNOC Pension and Postretirement Plans

KEPCo has an obligation to the WCNOC retirement, supplemental retirement and postretirement medical plans for its 6% ownership interest in Wolf Creek. The plans provide for benefits upon retirement, normally at age 65. In accordance with the Employee Retirement Income Security Act of 1974, KEPCo has satisfied its minimum funding requirements. Benefits under the plans reflect the employee's compensation, years of service and age at retirement.

WCNOC uses a measurement date of December 31 for its retirement plan, its supplemental retirement plan and postretirement plan (collectively, the Plans). Information about KEPCo's 6% of the Plans' funded status follows:

	Pension Benefits 2009	Pension Benefits 2008	Postretirement Benefits 2009	Postretirement Benefits 2008
Benefit obligation	$ (14,174,710)	$ (12,706,873)	$ (1,222,057)	$ (1,129,978)
Fair value of plan assets	7,980,796	5,770,218	–	–
	$ (6,193,914)	$ (6,936,655)	$ (1,222,057)	$ (1,129,978)

Amounts recognized in the consolidated balance sheets:

	2009	2008
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	$ 7,433,971	$ 8,066,633

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits 2009	Pension Benefits 2008	Postretirement Benefits 2009	Postretirement Benefits 2008
Net loss	$ (4,449,829)	$ (5,208,752)	$ (473,458)	$ (409,877)
Prior service cost	(9,659)	(15,188)	–	–
Transition obligation	(13,910)	(21,168)	(22,082)	(29,731)
	$ (4,473,398)	$ (5,245,108)	$ (495,540)	$ (439,608)

Information for the pension plan with an accumulated benefit obligation in excess of plan assets:

	Pension Benefits 2009	Pension Benefits 2008
Projected benefit obligation	$ 14,174,710	$ 12,706,873
Accumulated benefit obligation	$ 11,590,454	$ 9,854,875
Fair value of plan assets	$ 7,980,796	$ 5,770,218

Other significant balances and costs are:

	Pension Benefits 2009	Pension Benefits 2008	Postretirement Benefits 2009	Postretirement Benefits 2008
Employer contributions	$ 933,171	$ 843,543	$ 91,029	$ 105,411
Benefits paid	$ 268,433	$ 251,427	$ 147,024	$ 150,853
Benefits cost	$ 983,742	$ 791,759	$ 132,912	$ 128,775

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are approximately $310,000, $4,000 and $7,000, respectively. The estimated net loss and transition obligation for the defined benefit postretirement plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are approximately $35,000 and $7,000, respectively.

Significant assumptions used to determine benefit obligations include:

	Pension Benefits 2009	Pension Benefits 2008	Postretirement Benefits 2009	Postretirement Benefits 2008
Discount rate	6.05%	6.15%	5.05%	6.05%
Annual salary increase rate	4.00%	4.00%	N/A	N/A
Expected return on plan assets	8.00%	8.25%	N/A	N/A
Assumed health care cost trend rate	N/A	N/A	8.0% decreasing 0.5% per year to 5.0%	8.0% decreasing 0.5% per year to 5.0%

WCNOC uses an interest yield curve to make judgments. The yield curve is constructed based on yields on over 500 high-quality, noncallable corporate bonds with maturities between 0 and 30 years. A theoretical spot rate curve constructed from this yield curve is then used to discount the annual benefit cash flows of WCNOC's pension plan and develop a single-point discount rate matching the plan's payout structure.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the pension plan's investment portfolio. Assumed and projected rates of return for each asset class were selected after analyzing long-term historical experience and future expectations of the volatility of the various asset classes. Based on target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses from plan assets.

In selecting the discount rate, fixed income security yield rates for corporate high-grade bond yields were considered.

The defined benefit pension plan assets are invested in insurance contracts, corporate bonds, equity securities, United States government securities and short-term investments.

The asset allocation for the defined benefit pension plan at the end of 2009 and 2008 and the target allocation for 2010 by asset category are as follows:

	Target Allocation for 2010	Pension Plan Assets 2009	2008
Asset category			
Equity securities	65%	65%	58%
Debt securities	25%	24%	39%
Real estate	5%	4%	1%
Other	5%	7%	2%
	100%	100%	100%

WCNOC's pension plan investment strategy supports the objective fund, which is to earn the highest possible return on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors and manager style to minimize the risk of large losses. WCNOC delegates investment management to specialists in each asset class and, where appropriate, provides the investment manager with specific guidelines, which include allowable and/or prohibited investment types. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews.

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents, equity and debt investments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 investments include cash equivalents, equity, debt and commodity investments. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy and include certain real estate investments. Significant inputs and valuation techniques used in measuring Level 3 fair values include market discount rates, projected cash flows and the estimated value into perpetuity.

The fair values of WCNOC's pension plan assets at December 31, 2010, by asset category are as follows:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 95,392	$ 112	$ 95,280	$ –
Equity securities				
U.S. companies	3,625,276	3,184,723	440,553	–
International companies	1,593,063	1,023,957	569,106	–
Debt securities				
Core bonds	1,514,553	–	1,514,553	–
High-yield bonds	385,277	385,277		–
Commodities	458,809	–	458,809	–
Real estate	308,426	–	–	308,426
Total	$ 7,980,796	$ 4,594,069	$ 3,078,301	$ 308,426

The following table provides a reconciliation of KEPCo's 6% share of Wolf Creek's pension plan assets measured at fair value using significant Level 3 inputs for the year ended December 31, 2009.

Fair value measurements using significant unobservable inputs (Level 3):

	Real Estate Securities
Balance at January 1, 2009	$ –
Actual return on plan assets	
Relating to assets still held at the reporting date	(47,234)
Relating to assets sold during the year	766
Purchases, sales and settlements	354,894
Balance at December 31, 2009	$ 308,426

WCNOC does not utilize a separate investment trust for the purpose of funding other postretirement benefits as it does for its pension plan. The Wolf Creek pension plan investment strategy supports the objective of the fund, which is to earn the highest possible return on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors and manager style to maximize returns and minimize the risk of large losses. Wolf Creek delegates investment management to specialists in each asset class and, where appropriate, provides the investment manager with specific guidelines, which include allowable and/or prohibited investment types. Prohibited investments include investments in the equity or debt securities of the companies that collectively own Wolf Creek or companies that control such companies, which includes KEPCo and KGE securities. Wolf Creek has also established restrictions for certain classes of plan assets, including that international equity securities should not exceed 25% of total plan assets, no more than 5% of the market value of the plan assets should be invested in the common stock of one corporation and the equity investment in any one corporation should not exceed 1% of its outstanding common stock.

The target allocations for Wolf Creek's pension plan assets are 20% to international equity securities, 45% to domestic equity securities, 25% to debt securities, 5% to real estate securities and 5% to commodity investments. The investments in both international and domestic equity securities include investments in large-, mid- and small-cap companies, private equity funds and investment funds with underlying investments similar to those previously mentioned. The investments in debt securities include core and high yield bonds. Core bonds include funds invested in investment grade debt securities of corporate entities, obligations of U.S. and foreign governments and their agencies and private debt securities. High yield bonds include a fund with underlying investments in non-investment grade debt securities of corporate entities, private placements and bank debt. Real estate securities include funds invested in commercial and residential real estate properties while commodity investments include funds invested in commodity-related instruments.

KEPCo estimates cash contributions of approximately $0.9 million will be made to the Plans in 2010.

Estimated future benefit payments as of December 31, 2009, for the Plans, which reflect expected future services, are as follows:

	Pension Benefits	Other Benefits
2010	$ 302,880	$ 32,400
2011	340,380	32,040
2012	383,940	31,620
2013	436,740	31,140
2014	495,720	30,660
2015-2019	3,622,080	143,880
	$ 5,581,740	$ 301,740

Note 11: Commitments and Contingencies

Current Economic Environment

The Cooperative considers the current economic conditions when planning for future power supply and liquidity needs. The current instability in the financial markets may have an impact on the Cooperative's members, which may impact the Cooperative's volume of future sales, which could have an adverse impact on the Cooperative's future operating results. The current economic climate may also affect the Cooperative's ability to obtain financing.

Given the volatility of the current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the Cooperative's ability to meet debt covenants or maintain sufficient liquidity. Currently under state statutes, the Cooperative's rate making is deregulated and, therefore, expects to be able to recover any economic losses through future rates.

Litigation

The Cooperative is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have an adverse effect on the consolidated financial position, results of operations and cash flows of the Cooperative.

There is a provision in the Wolf Creek operating agreement whereby the owners treat certain claims and losses arising out of the operations of Wolf Creek as a cost to be borne by the owners separately (but not jointly) in proportion to their ownership shares. Each of the owners has agreed to indemnify the others in such cases.

Nuclear Liability and Insurance

Pursuant to the Price-Anderson Act, which was reauthorized through December 31, 2025, by the Energy Policy Act of 2005, KEPCo is required to insure against public liability claims resulting from nuclear incidents to the full limit of public liability, which is currently approximately $12.5 billion. This limit of liability consists of the maximum available commercial insurance of $300 million, and the remaining $12.2 billion is provided through mandatory participation in an industrywide retrospective assessment program. Under this retrospective assessment program, owners are jointly and severally subject to an assessment of up to $117.5 million ($7.1 million – KEPCo's share) at any commercial reactor in the country, payable at no more than $17.5 million ($1.1 million – KEPCo's share) per incident per year, per reactor. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. This assessment also applies in excess of the worker radiation claims insurance. The next scheduled inflation adjustment is scheduled for August 2013. In addition, Congress could impose additional revenue-raising measures to pay claims.

The owners of Wolf Creek carry decontamination liability, premature decommissioning liability and property damage insurance for Wolf Creek totaling approximately $2.8 billion ($168 million – KEPCo's share). This insurance is provided by Nuclear Electric Insurance Limited (NEIL). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the Nuclear Regulatory Commission. KEPCo's share of any remaining proceeds can be used to pay for property damage, decontamination expenses or, if certain requirements are met, including nuclear decommissioning the plant, toward a shortfall in the decommissioning trust fund.

The owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, KEPCo may be subject to retrospective assessments under the current policies of approximately $1.5 million.

Although KEPCo maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, KEPCo's insurance may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, would have a material adverse effect on KEPCo's financial condition and result of operations.

Decommissioning Insurances

KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if Wolf Creek incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC) and to pay for on-site property damages. Once the NRC property rule requiring insurance proceeds to be used first for stabilization and decontamination has been complied with, the premature decommissioning coverage could pay for the decommissioning fund shortfall in the event an accident at Wolf Creek exceeds $500 million in covered damages and causes Wolf Creek to be prematurely decommissioned.

Nuclear Fuel Commitments

At December 31, 2009, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $6.9 million for uranium concentrates expiring in 2016, $1.1 million for conversion expiring in 2016, $17.3 million for enrichment expiring at various times through 2024 and $6.1 million for fabrication through 2024.

Purchase Power Commitments

KEPCo has supply contracts with various utility companies to purchase power to supplement generation in the given service areas. KEPCo has a contract with Westar Energy, Inc., through December 2045.

KEPCo has provided the Southwest Power Pool a letter of credit to help insure power is available if needed.

Iatan 2 Purchase Commitment

Effective June 2006, KEPCo entered into an agreement, subject to RUS approval, to purchase a 3.53% ownership in a coal-fired generation facility. KEPCo's estimated costs for the project were $75 million at December 31, 2009. To date, the Cooperative has paid approximately $60 million under the agreement. Financing is currently being provided by CFC.

Note 12: Fair Value of Assets and Liabilities

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities;

quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Decommissioning Fund

The decommissioning fund consists of various mutual funds where fair value is determined by quoted market prices in an active market and, as such, are classified within Level 1 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2009:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Decommissioning fund	$ 10,571,021	$ 10,571,021	$ –	$ –

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Investments in CFC and Other Associated Organizations

KEPCo considers CFC and other associated organizations certificates to be a condition of borrowing and patronage capital certificates to be directly related to borrowing. As such, KEPCo management believes the fair value of these assets is not determinable and they are reflected at their carrying amount.

Bond Fund Reserve

The bond fund reserve consists of various held-to maturity securities where the fair value is primarily based on quoted market prices.

Line of Credit and Long-Term Debt

Variable-Rate Debt – The carrying amount approximates fair value because of the short-term variable rates of those debt instruments.

Fixed-Rate Debt – The fair value of all fixed-rate debt is based on the sum of the estimated value of each issue, taking into consideration the current rate offered to KEPCo for debt of similar remaining maturities.

The following table presents estimated fair values of KEPCo's financial instruments at December 31, 2009 and 2008:

Kansas Electric Power Cooperative, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

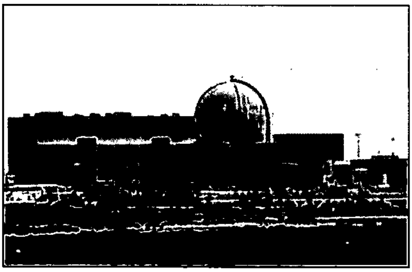
	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 118,631	$ 118,631	$ 634,108	$ 634,108
Bond fund reserve	$ 4,411,168	$ 4,688,924	$ 4,321,172	$ 4,578,569
Decommissioning fund	$ 10,571,021	$ 10,571,021	$ 8,212,742	$ 8,212,742
Financial liabilities				
Line of credit	$ –	$ –	$ 13,178,203	$ 13,178,203
Long-term debt	$ 192,659,470	$ 195,696,622	$ 165,816,397	$ 174,124,971

Note 13: Patronage Capital

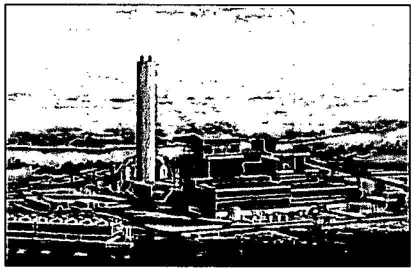
In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were adjusted to reflect accounting principles generally accepted in the United Stated of America, total patronage capital would be substantially less. As noted in the consolidated statements of changes in patronage capital, no patronage capital distributions were made to members in 2009 and 2008.

KEPCo Generation Resources

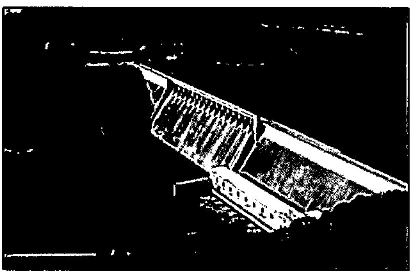
KEPCo power resources include the generation facilities pictured below, as well as long term power supply agreements with investor-owned utilities.



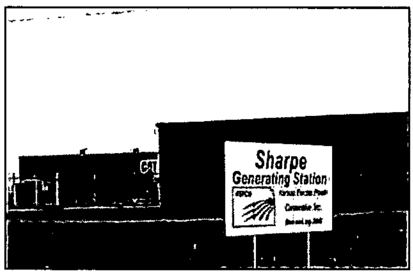
Wolf Creek Nuclear Generating Station
Nuclear Base Load
Came On-Line in October, 1985
70 MW (6% Ownership)



Iatan-2 (Artist's Rendering)
Coal-Fired Base Load
Expected Operational in December, 2010
30 MW (3% Ownership)



Participation in Federal Hydro Electric Power Projects
Southwest Power Administration, 100 MW Peaking
Western Area Power Administration, 14 MW



Sharp Generation Station
Diesel Peaking
In Service, June, 2002
20 MW

Kansas Electric Power Cooperative, Inc.

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