KEPCo

A Touchstone Energy® Cooperative

2018 ANNUAL REPORT

KANSAS ELECTRIC POWER COOPERATIVE, INC.

OUR MISSION

KEPCo exists on behalf of its Members to produce, procure, transmit, deliver, and maintain a reliable supply of wholesale electricity within financial guidelines and risk tolerances established by the Board.

OUR VISION

KEPCo will work to provide Consumer-Members the best possible value in reliable electricity and to play an active role in helping to improve the economy and quality of life.

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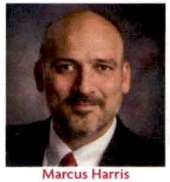
ON THE COVER

A Butler Electric lineman working at sunset. Photo taken by **BRYCE MORGAN**, lineman at Butler Electric Cooperative in El Dorado.

OUR STAFF



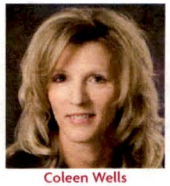
Marcus Harris
Exec. Vice President & CEO
through March 25, 2018

Ken Maginley
Interim Exec. Vice President & CEO
March 26-October 2018

Suzanne Lane
Exec. Vice President & CEO
October 2018-present

Mark Barbee
Sr. Vice President, Engineering & Operations
21 years of service

Susan Cunningham
Sr. Vice President, Regulatory & Government Affairs & General Counsel
1 year of service

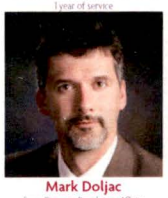


Coleen Wells
Sr. Vice President & CFO
17 years of service

Stephanie Anderson
Finance & Benefits Analyst 2
5 years of service

Chris Davidson
Engineer 3
6 years of service

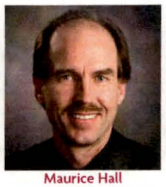
Terry Deutscher
Manager, SCADA & Meter Maintenance
19 years of service



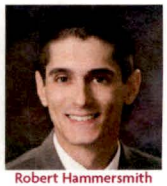
Mark Doljac
Exec. Director, Regulatory Affairs & Planning
9 years of service

Carol Gardner
Operations Analyst 2
21 years of service

Shawn Geil
Exec. Director, Technical & Energy Services
8 years of service



Maurice Hall
Sr. SCADA/Metering Technician - Wichita
5 years of service

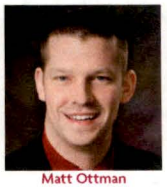


Robert Hammersmith
Sr. SCADA/Metering Technician - Salina
11 years of service

Missy Kerstiens
Administrative Assistant/Receptionist
2 years of service

Shari Koch
Finance & Accounts Payable/Payroll Specialist 2
12 years of service

Mitch Long
Sr. SCADA/Metering Technician - Topeka
19 years of service



Matt Ottman
Information Systems Specialist 2
17 years of service

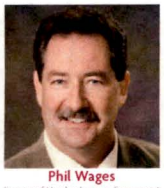
John Payne
Jr. Engineer
12 years of service

Rita Petty
Exec. Assistant & Manager, Office Services
13 years of service

Kelsey Schrempp
Administrative Assistant/Benefits Specialist
5 years of service

Paul Stone
System Operator
21 years of service

Jill Taggart
Director of Forecasting & Planning
4 years of service



Phil Wages
Director of Member Services, Government Affairs & Business Development
30 years of service

FROM THE BOARD PRESIDENT AND EXECUTIVE VICE PRESIDENT & CEO

2018: A NEW CHAPTER

Suzanne Lane
Executive Vice President & CEO

Dale Short
Board President

As we closed the book on KEPCo's 44th year in December, many chapters in KEPCo's history ended and others began. While 2018 turned out to be a real "page turner," KEPCo continued to provide its 19 member cooperatives with cost-effective, dependable power, regulatory and legislative advocacy, engineering support, and member services. All of this was possible thanks to the leadership and hard work of our top-notch, experienced staff and strong partnerships and support from our members. It is our pleasure to offer this summary of 2018, a year that will be memorialized in KEPCo's history as one with the most chapters of change.

Chapter 1: Leadership

While 2018 was a unique year for many reasons, a key reason was that KEPCo had three executive vice president/chief executive officers within those 12 short months. KEPCo was blessed to have the leadership of Marcus Harris for the first quarter of 2018; we continue to wish him the very best in his new role as CEO of Old Dominion Electric Cooperative in Virginia. Ken Maginley, retired General Manager of Bluestem Electric Cooperative, was gracious to come out of retirement to lead KEPCo as interim EVP/CEO for the second and third quarters of 2018. His support and assistance, calm demeanor, extensive knowledge, experience, and methodical ways were ideal for KEPCo during that time of transition.

The KEPCo Board of Trustees ultimately hired Suzanne Lane, who had been serving as KEPCo's Vice President of Government and Regulatory Affairs, as its next EVP/CEO. Suzanne's tenure as EVP/CEO began on Oct. 1. In addition, Bill Riggins' dedicated tenure as KEPCo's General Counsel ended, and so also on Oct. 1, KEPCo was honored to have its new Senior Vice President of Regulatory and Government Affairs and General Counsel, Susan Cunningham, join the executive team. In November, KEPCo's Board of Trustees elected Dale Short, CEO of Butler Electric Cooperative, to serve as the KEPCo Board President. We are deeply appreciative of the two years' service that Kevin Compton, Brown-Atchison Electric Cooperative Trustee, dedicated to this role prior to President Short.

Chapter 2: Safety

With regard to safety here at KEPCo, 2018 marked yet another year without any safety incidents. We are very pleased with our team on this accomplishment, as we were also recognized by Kansas Electric Cooperatives (KEC)—along with many of our members—for having 10-plus years without a lost-time accident. We look forward to many more years with this important designation.

Chapter 3: Rate Stability

Our key mission is to assure we provide power to our members at a stable, economical price. Thanks to the great efforts of the KEPCo team, close partnerships with and diligence of our members, attractive energy market prices, and our established Margin Stabilization Adjustment (MSA), we have been able to lower our average wholesale rate by over 8 percent since 2012. For the reasons noted, we were thrilled to be able to maintain average member rates in 2018 at essentially the same level as 2017.

We were also very pleased to receive approval from the Rural Utilities Service (RUS) to increase the allowed, member-owned resources to 15 percent of members' aggregate loads. This was not only a ground-breaking policy change, but it added to our members' options for cost-savings opportunities. We are extremely proud of all we accomplished regarding costs to our members, especially considering the operational challenges with the Iatan 2 Station and the continued reality of rising transmission costs.

Chapter 4: Member Programs and Services

KEPCo takes pride in being a member services organization, as we would not exist without our member partners. While we are continuously looking at ways to enhance existing services and expand into new arenas for our members, 2018 marked another year of providing our members with an optimal experience. This year we assisted with attracting and/or retaining loads, partnered on Rural Economic Development Loan and Grant (REDLG) applications, advocated in the legislative and regulatory realms, and provided engineering and reliability support. Doing everything we can to serve our members is an honor and privilege.

Chapter 5: Cybersecurity

In an unexpected plot twist, KEPCo experienced the "good and bad sides" of cybersecurity in 2018. We were unfortunately the victim of a "phishing" event, whereby "bad actors" accessed an employee's computer and attempted to cause us to pay a faux invoice; thankfully, due to our team's vigilance, no funds were lost in this event. The "good" side of this event is that we hired an outside cybersecurity expert to perform a top to bottom review of our processes and systems, and we were highly pleased to find that KEPCo received an excellent rating with few minor suggestions to improve the protection of our systems and proprietary information. We have enhanced our employee training and vigilance efforts, reviewed and revised our IT-related policies to better reflect measures needed to address the growing reality of cyber security

Continued on page 6

2018

JANUARY

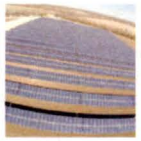
Effective January 1, **MARK BARBEE** is promoted to SVP, Engineering and Operations; **SUZANNE LANE** is promoted to VP, Member Services and Government Affairs; **MARK DOLJAC** is promoted to Exec. Director, Regulatory Affairs and Planning; and **SHAWN GEIL** is promoted to Exec. Director, Technical and Energy Services.

FEBRUARY

MARCUS HARRIS announces his resignation as EVP/CEO of KEPCo to accept the position of President/CEO at Old Dominion Electric Cooperative located in Glen Allen, Virginia.

MARCH

KEN MAGINLEY, retired Manager of Bluestem Electric Cooperative, is named interim EVP/CEO by the Board of Trustees.



KEPCo's **PRAIRIE SKY SOLAR FARM** completes its first year of commercial operation.

APRIL

MORE PEAK CAPACITY

RUS approves Addendum No. 5 to KEPCo's Wholesale Power Contract with its Members. Addendum No. 5 allows KEPCo's Members to **INCREASE THE AMOUNT OF PEAK CAPACITY** and energy requirements they can self-supply from distributed generation resources from 5 to 10 percent, plus an additional 5 percent for solar generation.

NO.6

RUS approves **ADDENDUM NO. 6** to KEPCo's Wholesale Power Contract with its Members. Addendum No. 6 rescinds existing Addendum No. 2, which details KEPCo's transmission obligations and limitations. The language contained in Addendum No. 2 is transferred to KEPCo's Board Policy Bulletin No. 41.

MAY

On May 18, **WOLF CREEK** successfully completes its 22nd refueling outage.

JUNE

On June 10, **IATAN 2** completes an extended maintenance outage.

Continued from page 5

threats, and developed internal procedures in the unlikely event a future incident were to occur. We are confident that we are well-situated to handle future cyber challenges.

Chapter 6: The Rest of the Story

POWER SUPPLY

We continue to be extremely proud of our diverse power supply, which consists of power from nuclear, coal, wind, solar, natural gas, and hydro resources. Another key highlight is that more than 50 percent of our power supply comes from non-greenhouse gas emitting resources. When it comes to operations in 2018, our owned and contracted resources continued to be very reliable and cost-effective overall. The Wolf Creek Generating Station successfully completed its 22nd refueling outage in April, after completing a record period of being on-line. Our 1 MW Prairie Sky solar facility provided the energy output we had forecasted considering the weather conditions. The Southwestern and Western Power Administration hydro projects operated well, continuing to provide KEPCo with 113 MW of cost-effective capacity and energy. The Iatan 2 Station had its share of operational challenges in 2018, and ultimately wasn't as productive and available as preferred. We are optimistic that 2019 will be a better year for this resource. In addition, we successfully entered a new supply agreement with Sunflower Electric Power Corporation (Sunflower) for a portion of our load, whereby we anticipate providing our members with significant savings in 2019 and 2020.

TRANSMISSION

Advocating for transmission projects that provide our members with reliable service in the most cost-effective, prudent manner is a top priority for the KEPCo team. We continue to work closely with the six transmission owners and the Southwest Power Pool (SPP) who provide the transmission service needs for our members. Since 2006, we have seen transmission costs increase by over 160 percent. While transmission expense is a relatively small portion of our overall power supply cost, this type of an increase is something we are working hard to mitigate going forward, while assuring the highest level of reliability possible.

Chapter 7: Gratitude

KEPCo's success hinges on the hard work and dedication of both the KEPCo staff and the Board of Trustees. We are especially grateful for everyone's continued leadership, efforts, and "all hands-on deck" approach to assure we are doing everything we can for our members. This has been true for all 44 years of KEPCo's history, but this is not the end. We look forward to providing an economical and dependable power supply, meaningful services, and a quality experience for our members for many chapters to come, so please stay tuned for the sequel.

SUZANNE LANE
KEPCO EXECUTIVE VICE PRESIDENT & CEO
DALE SHORT
KEPCO BOARD PRESIDENT

KEPCo WELCOMES LANE & CUNNINGHAM

This year was highlighted by the selection of **SUZANNE LANE** as the seventh Executive Vice President and Chief Executive Officer of KEPCo. Lane assumed the role on October 1, replacing Marcus Harris, who accepted the position as President and Chief Executive Officer of Old Dominion Electric Cooperative.

Lane joined KEPCo in August 2017 as Director of Strategy and was promoted later in the year to Vice President of Member Services and Government Affairs.

The selection of Lane culminates a comprehensive search effort that began in early 2018, when the KEPCo Board of Trustees assembled a search committee and worked closely with NRECA during the nationwide search process to identify the ideal candidate for this role. Kevin Compton, former president of KEPCo, said, "KEPCo was at a critical moment and needed renewed leadership to successfully implement sound business strategy and take advantage of opportunities ahead. Suzanne has a proven track record of execution. She is a strong communicator who is member focused with strong leadership capabilities."

Before coming to KEPCo, Lane was with Westar Energy for 19 years, serving in several roles, with her last position as Manager of Customer Relations, where she led a team that managed key accounts and wholesale customers.

Another key executive position was filled in October as KEPCo selected **SUSAN CUNNINGHAM** as Senior Vice President, Regulatory and Government Affairs, and General Counsel. Cunningham replaces Bill Riggins, who dutifully served in the position for three years.

Cunningham has over 28 years of experience in the electric utility industry, including General Counsel with the Kansas Corporation Commission. Cunningham also worked as a staff attorney with Kansas City Power & Light Company and, immediately prior to joining KEPCo, was with the Kansas City law firm Dentons US LLP representing utility clients in regulatory matters in Kansas and Missouri. In her role, Cunningham serves as general counsel and is responsible for all legal functions and the oversight of regulatory and government affairs functions for KEPCo.

Cunningham, along with Mark Barbee, SVP of Engineering and Operations, and Coleen Wells, SVP and Chief Financial Officer, completes KEPCo's executive team under the direction of Lane.

Suzanne Lane
Exec. Vice President & CEO

Susan Cunningham
Sr. Vice President, Regulatory & Government Affairs & General Counsel

JUNE

+14 MW

KEPCo and Sunflower Electric Power Corporation execute the **ARKALON** power purchase and sale agreement for about 14 MW of KEPCo's load.

SEPTEMBER

KEPCo receives **RUS APPROVAL** of the Arkalon power purchase and sale agreement.

SUSAN CUNNINGHAM is hired as SVP of Regulatory and Government Affairs and General Counsel.

NOVEMBER

DALE SHORT is elected President of KEPCo's Board of Trustees.

KEPCo completes another year of safe operations with **NO LOST TIME ACCIDENTS** recorded in 2018.

$17 MILLION

Over the course of 2018, KEPCo returns approximately **$17 MILLION** to its Members through its Margin Stabilization Adjustment.

AUGUST

In Wolf Creek Nuclear Operating Corporation's triennial decommissioning docket, the KCC orders Wolf Creek's owners to use the **SAFSTOR COST ESTIMATION** methodology to calculate the Wolf Creek decommissioning costs.

OCTOBER

SUZANNE LANE starts her tenure as KEPCo's seventh EVP/CEO.

CWP

KEPCo submits to RUS a **CONSTRUCTION WORK PLAN** for the years 2017 to 2022 for capital additions at Wolf Creek Nuclear Plant.

DECEMBER

KEPCo receives **KCC APPROVAL** of Arkalon power purchase and sale agreement.

Suzanne Lane nears completion of first EVP/CEO **MEMBER LISTENING TOUR.**

KSI ENGINEERING

KEPCo Services, Inc. (KSI), a wholly-owned subsidiary of KEPCo, completed its 21st year of operations. Over the course of 2018, the staff of KSI completed 39 projects in support of 14 member cooperatives and two projects for non-member cooperatives. KSI also provided technical support and project management for the Butler Electric Cooperative Pony Meadows Solar Project, which included developing a request for proposals from prospective engineering, procurement, and construction (EPC) contractors; analyzing the proposals and assisting the Butler board and staff in selecting an EPC contractor; working with the Butler staff to design and implement the interconnection at the Pony Meadows substation; and working with Butler staff and the EPC contractor to oversee the construction and commissioning of the project. In addition, KSI developed a standard practice for the closeout of construction work plans that saves all affected parties time and money.

Bluestem Electric Journeyman Lineman **BEN EASTERBERG** inspects a new 1 MW diesel peaking generator, which was installed as part of a construction work plan developed by KSI Engineering.

REDLG LOAN PROGRAM

Committed to the future of rural communities.

KEPCo has a long and successful history of using the USDA Rural Economic Development Loan and Grant (REDLG) program for economic development opportunities in rural Kansas communities. Throughout the year, KEPCo worked with several applicants across the state and submitted REDLG applications to the USDA on their behalf. As a result, over $3.5 million in capital was infused into rural Kansas and nearly 115 jobs were either created or saved.

OUR DIVERSE POWER SUPPLY

In an effort to create a long-term, reliable, economic power supply for its members, KEPCo has built a diverse power supply that includes nuclear, hydro, coal, wind, natural gas, diesel, and solar resources. As part of its power supply strategy, KEPCo seeks to maintain a diversified and balanced power supply, which includes a mix of owning generation when prudent, purchasing power using a combination of long- and short-term contracts, adding renewables when cost effective, and incorporating demand-side technology in power supply planning processes through member load management programs. Proudly, KEPCo's current portfolio minimizes greenhouse gas emissions with over 50 percent of its supply from non-greenhouse gas emitting sources.

Wolf Creek Generating Station

KEPCo owns an undivided 6 percent interest in the Wolf Creek Generating Station. Located near Burlington, Kansas, it has been in commercial operation since 1985 and its initial 40-year operating license has been extended to 60 years, to 2045. Of its 1,168 MW net output for total plant, KEPCo's share is 70 MW. On average, Wolf Creek provides over 25 percent of KEPCo's annual energy requirements. In May, Wolf Creek successfully completed its 22nd refueling outage.

Sharpe Generating Station

Also located near Burlington, KEPCo owns the Sharpe Generating Station. Sharpe is comprised of 10 2-MW Caterpillar diesel-fired generators with 20 MW total capacity. Sharpe is used as capacity reserves and is registered in the SPP Integrated Market (IM). It is also used as an alternate source of power to Wolf Creek during certain plant conditions.

Iatan 2

Iatan 2 is a high efficiency, supercritical, pulverized coal-fired plant located near Weston, Missouri. The plant began commercial operation in 2010. Of its 881 MW net output for total plant, KEPCo's share is 31 MW, or 3.53 percent. With its state-of-the-art emission control systems, Iatan 2 is considered one of the most efficient, low-emission coal units in the U.S. The plant provides approximately 8 percent of KEPCo's annual energy needs.

Prairie Sky Solar Farm

Prairie Sky Solar Farm, located near Andover, Kansas, began commercial operation in February 2017. Proudly designed by KEPCo Services, Inc. (KSI), KEPCo's engineering subsidiary, Prairie Sky produced 1,858 MWh (net) in 2018 and provided an average demand offset of 938 kW at the time of the Westar generaton peak in each of the four summer months. Prairie Sky is comprised of 4,560 photovoltaic panels and covers approximately 8 acres. It has a 1 MW total capacity.

Hydro Power Allocations

KEPCo has contracts with the U.S. Department of Energy Western Area Power Administration (WAPA) and the Southwestern Power Administration (SWPA). WAPA is involved in 21 hydroelectric projects located in Colorado, Wyoming, and Montana totaling over 600 MW of generating capacity. KEPCo has a 13 MW allocation of firm hydro power from WAPA. SWPA is involved in 24 hydroelectric projects located in Missouri, Oklahoma, Arkansas, and Texas totaling over 2,000 MW of generating capacity. KEPCo has a 100 MW allocation of peaking and supplemental hydro power from SWPA.

Purchased Power

KEPCo purchases its remaining requirements from Westar Energy, Inc. and Sunflower Electric Power Corporation for base, intermediate, and peaking power supply. These contracts provide KEPCo with power from coal, natural gas, and wind resources.

In an effort to create a long-term, reliable, economic power supply for its members, KEPCo has built a diverse power supply...

2018 KEPCo BOARD MEMBERS

EXECUTIVE COMMITTEE MEMBERS

- **DALE SHORT** — President
- **DOUGLAS JACKSON** — Vice President
- **STEVEN FOSS** — Secretary
- **DEAN ALLISON** — Treasurer
- **KEVIN COMPTON** — Executive Committee Member
- **CHARLES GOECKEL** — Executive Committee Member
- **KIRK THOMPSON** — Executive Committee Member


Joseph Seiwert, Trustee
Ark Valley Electric Cooperative Assn., Inc.


Jackie Holmberg, Alternate, Manager
Ark Valley Electric Cooperative Assn., Inc.

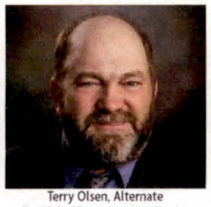

PRESIDENT
Dale Short, Trustee, Manager
Butler Rural Electric Cooperative Assn., Inc.


Riley Walters, Alternate
Butler Rural Electric Cooperative Assn., Inc.


Dan Hubert, Trustee
Caney Valley Electric Cooperative Assn., Inc.


Allen Zadorozny, Alternate, Manager
Caney Valley Electric Cooperative Assn., Inc.


EXECUTIVE COMMITTEE
Charles Goeckel, Trustee, Manager
Flint Hills Rural Electric Cooperative Assn., Inc.


Terry Olsen, Alternate
Flint Hills Rural Electric Cooperative Assn., Inc.


SECRETARY
Steven Foss, Trustee, Manager
FreeState Electric Cooperative, Inc.


Harlan Hunt, Alternate
FreeState Electric Cooperative, Inc.


Paul Unruh, Trustee
Ninnescah Rural Electric Cooperative Assn., Inc.


Teresa Miller, Alternate, Manager
Ninnescah Rural Electric Cooperative Assn., Inc.


William Peterson, Trustee
Prairie Land Electric Cooperative, Inc.


Allan Miller, Alternate, Manager
Prairie Land Electric Cooperative, Inc.


Donald Metzen, Trustee
Sedgwick County Electric Cooperative Assn., Inc.


Scott Ayres, Alternate, Manager
Sedgwick County Electric Cooperative Assn., Inc.


John Schon, Trustee
Sumner-Cowley Electric Cooperative, Inc.


Cletas Rains, Alternate, Manager
Sumner-Cowley Electric Cooperative, Inc.


Michael Morton, Trustee, Manager
Bluestem Electric Cooperative, Inc.


Bob Ohlde, Alternate
Bluestem Electric Cooperative, Inc.


EXECUTIVE COMMITTEE
Kevin Compton, Trustee
Brown-Atchison Electric Cooperative Assn., Inc.


Jim Currie, Alternate, Manager
Brown-Atchison Electric Cooperative Assn., Inc.


EXECUTIVE COMMITTEE
Kirk Thompson, Trustee, Manager
CMS Electric Cooperative, Inc.


Linda Tomlinson, Alternate
CMS Electric Cooperative, Inc.


TREASURER
Dean Allison, Trustee
D3&O Electric Cooperative, Inc.


Tim Power, Alternate, Manager
D3&O Electric Cooperative, Inc.


H.H. Stockebrand, Trustee
Heartland Rural Electric Cooperative, Inc.


Mark Scheibe, Alternate, Manager
Heartland Rural Electric Cooperative, Inc.


Robert Converse, Trustee
Lyon-Coffey Electric Cooperative, Inc.


Mark Doebele, Alternate, Manager
Lyon-Coffey Electric Cooperative, Inc.


Dennis Duft, Trustee, Manager
Radiant Electric Cooperative, Inc.


Tom Ayers, Alternate
Radiant Electric Cooperative, Inc.

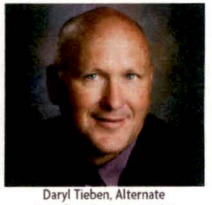

VICE PRESIDENT
Douglas Jackson, Trustee, Manager
Rolling Hills Electric Cooperative, Inc.


Paul Wilson, Alternate
Rolling Hills Electric Cooperative, Inc.


Bryan Coover, Trustee
Twin Valley Electric Cooperative, Inc.

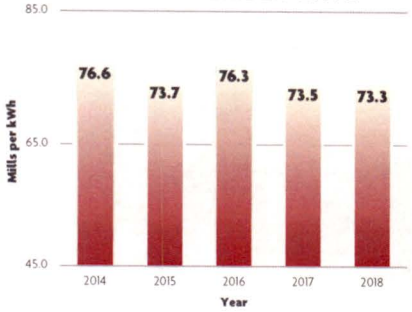

Reed Metzger, Alternate, Manager
Twin Valley Electric Cooperative, Inc.


Shane Laws, Trustee, Manager
Victory Electric Cooperative Assn., Inc.

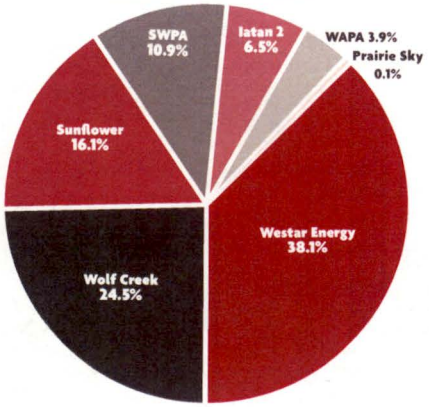

Daryl Tieben, Alternate
Victory Electric Cooperative Assn., Inc.

OPERATING STATISTICS

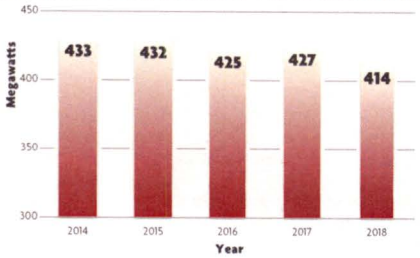
AVERAGE MEMBER RATE



SOURCES OF ENERGY

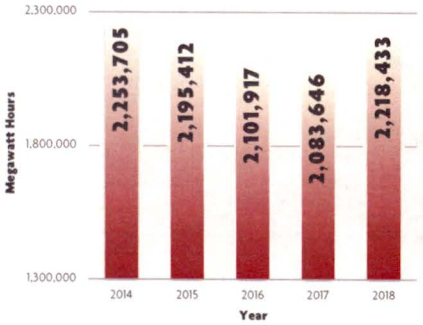


ANNUAL COINCIDENT PEAK DEMAND

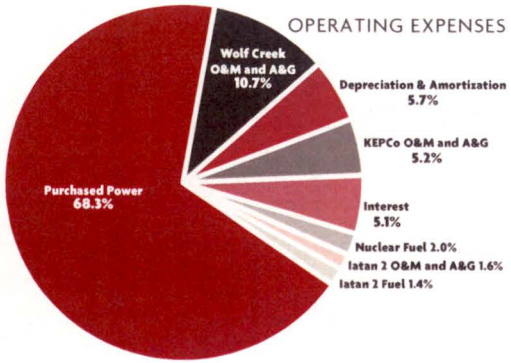


Proudly, KEPCo's current portfolio minimizes greenhouse gas emissions with approximately 60 percent of its supply from non-greenhouse gas emitting sources.

ANNUAL ENERGY SALES TO MEMBERS



OPERATING EXPENSES



BT&Co. BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Kansas Electric Power Cooperative, Inc. and subsidiary ("KEPCo"), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of margin, patronage capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

Continued on page 14

BT&Co. BERBERICH TRAHAN & CO., P.A. Certified Public Accountants

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KEPCo as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Company, as of and for the year ended December 31, 2017, were audited by other auditors whose reports, dated April 13, 2018, expressed an unmodified opinion on those consolidated statements.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2019, on our consideration of KEPCo'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 to solely 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 KEPCo'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 KEPCo's internal control over financial reporting and compliance.

Berberich Trahan & Co., P.A.

Berberich Trahan & Co., P.A.
Topeka, Kansas
April 15, 2019

KEPCo & SUBSIDIARY CONSOLIDATED **BALANCE SHEETS**

Assets	December 31, 2018	December 31, 2017
Utility Plant		
In-service	$ 358,127,271	$ 358,541,821
Less allowances for depreciation	(173,575,946)	(168,549,191)
Net in-service	184,551,325	189,992,630
Construction work in progress	11,019,241	11,885,675
Nuclear fuel (less accumulated amortization of $22,842,248 and $25,160,432 for 2018 and 2017, respectively)	8,353,561	8,977,729
Total utility plant	203,924,127	210,856,034
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	11,574,532	11,771,055
Decommissioning fund	25,005,537	25,502,604
Investments in other associated organizations	280,970	317,280
Total restricted assets	36,861,039	37,590,939
Current Assets		
Cash and cash equivalents	11,957,905	11,392,780
Member account receivables	11,293,402	12,517,966
Materials and supplies inventory	7,107,008	7,305,303
Other assets and prepaid expenses	707,939	700,276
Total current assets	31,066,254	31,916,325
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $19,339,269 and $19,015,820 for 2018 and 2017, respectively)	6,643,652	6,967,100
Wolf Creek decommissioning regulatory asset	(2,945,106)	(4,210,861)
Deferred incremental outage costs	1,254,606	717,688
Other deferred charges (less accumulated amortization of $170,633 and $9,846,819 for 2018 and 2017, respectively)	282,149	324,007
Other assets	1,190,783	1,209,084
Southwest Power Pool charges	1,343,368	1,831,866
Prepaid pension cost	547,613	679,041
Total long-term assets	8,317,065	7,517,925
Total assets	$ 280,168,485	$ 287,881,223

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEPCo & SUBSIDIARY CONSOLIDATED **BALANCE SHEETS**

Patronage Capital and Liabilities	December 31, 2018	December 31, 2017
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	83,794,567	81,084,265
Accumulated other comprehensive loss	(8,693,156)	(8,926,887)
Total patronage capital	75,104,611	72,160,578
Long-term Debt	145,663,985	152,297,209
Other Long-term Liabilities		
Wolf Creek decommissioning liability	15,945,308	20,589,586
Wolf Creek pension and postretirement benefit plans	13,072,972	12,926,862
Wolf Creek deferred compensation	1,393,745	1,360,660
Other deferred credits	114,018	176,979
Total other long-term liabilities	30,526,043	35,054,087
Current Liabilities		
Current maturities of long-term debt	8,969,186	8,460,122
Accounts payable	13,212,533	14,012,131
Payroll and payroll-related liabilities	267,889	257,810
Deferred revenue	4,935,461	4,063,942
Accrued property taxes	1,034,659	1,098,552
Accrued income taxes	(457)	759
Accrued interest payable	454,575	476,033
Total current liabilities	28,873,846	28,369,349
Total patronage capital and liabilities	$ 280,168,485	$ 287,881,223

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEPCo & SUBSIDIARY CONSOLIDATED **STATEMENTS OF MARGIN**

	For the years ending December 31, 2018	For the years ending December 31, 2017
Operating Revenues		
Sale of electric energy	$ 162,619,958	$ 153,163,951
Operating Expenses		
Power purchased	110,164,569	101,329,950
Nuclear fuel	3,278,936	3,990,729
Plant operations	15,964,388	16,576,656
Plant maintenance	5,361,688	5,152,290
Administrative and general	8,618,187	7,473,429
Amortization of deferred charges	331,605	387,441
Depreciation and decommissioning	9,459,981	9,005,184
Total operating expenses	153,179,354	143,915,679
Net operating revenues	9,440,604	9,248,272
Interest and Other Deductions		
Interest on long-term debt	8,148,586	8,465,229
Amortization of debt issuance costs	19,581	8,313
Other deductions	107,576	169,056
Total interest and other deductions	8,275,743	8,642,598
Operating income	1,164,861	605,674
Other Income/(Expense)		
Interest income	1,317,339	1,258,850
Other income	230,199	495,520
Income tax	(2,097)	(7,563)
Total other income	1,545,441	1,746,807
Net margin	$ 2,710,302	$ 2,352,481
Net Margin	$ 2,710,302	$ 2,352,481
Other comprehensive loss		
Net loss arising during year on pension obligation	(611,562)	(1,122,878)
Amortization of prior year service costs included in net periodic pension costs	845,293	636,293
Comprehensive income	$ 2,944,033	$ 1,865,896

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEPCo & SUBSIDIARY CONSOLIDATED STATEMENTS OF **PATRONAGE CAPITAL**

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	$ 3,200	$ 78,731,784	$ (8,440,302)	$ 70,294,682
Net margin	-	2,352,481	-	2,352,481
Defined benefit pension plans:				
Net loss arising during year	-	-	(1,122,878)	(1,122,878)
Amortization of prior year service costs included in net periodic pension costs	-	-	636,293	636,293
Balance at December 31, 2017	3,200	81,084,265	(8,926,887)	72,160,578
Net margin	-	2,710,302	-	2,710,302
Defined benefit pension plans:				
Net loss arising during year	-	-	(611,562)	(611,562)
Amortization of prior year service costs included in net periodic pension costs	-	-	845,293	845,293
Balance at December 31, 2018	$ 3,200	$ 83,794,567	$ (8,693,156)	$ 75,104,611

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEPCo & SUBSIDIARY CONSOLIDATED STATEMENTS OF **CASH FLOWS**

	For the years ending December 31, 2018	2017
Cash Flows From Operating Activities		
Net margin	$ 2,710,302	$ 2,352,481
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	8,728,048	8,498,847
Decommissioning	(274,828)	3,669,710
Amortization of nuclear fuel	3,254,982	3,976,149
Amortization of deferred charges	331,604	335,200
Amortization of deferred incremental outage costs	1,714,963	2,055,696
Amortization of debt issuance costs	9	8,313
Changes in		
Member accounts receivable	1,224,564	1,066,105
Materials and supplies	198,295	(717,853)
Other assets and prepaid expense	732,858	(896,884)
Accounts payable	(799,598)	(381,601)
Payroll and payroll-related liabilities	10,079	24,598
Accrued property tax	(63,893)	(59,394)
Accrued interest payable	(21,458)	(28,722)
Accrued income taxes	(1,216)	280
Other long-term liabilities	116,234	666,846
Prepaid pension cost	131,428	131,427
Deferred revenue	871,519	(4,641,000)
Net cash flows from operating activities	18,863,892	16,060,198
Cash Flows From Investing Activities		
Additions to electrical plant	(8,058,924)	(5,831,470)
Additions to nuclear fuel	(2,630,814)	(5,282,361)
(Additions)/reductions to deferred charges	33,702	(329,094)
Additions to deferred incremental outage costs	(2,251,881)	(351,440)
Investments in decommissioning fund assets	497,067	(3,839,697)
Investments in associated organizations	232,833	(229,364)
Proceeds from the sale of property	3,410	3,410
Net cash flows from investing activities	(12,174,607)	(15,860,016)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(8,489,349)	(6,558,200)
Proceeds from issuance of long-term debt	2,057,401	5,401,047
Payments applied /(unapplied)	307,788	(748,201)
Net cash flows from financing activities	(6,124,160)	(1,905,354)
Net increase/(decrease) in cash and cash equivalents	565,125	(1,705,172)
Cash and Cash Equivalents, Beginning of Year	11,392,780	13,097,952
Cash and Cash Equivalents, End of Year	$ 11,957,905	$ 11,392,780
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 8,277,000	$ 8,663,000

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEPCo & SUBSIDIARY NOTES TO THE CO NSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS – Kansas Electric Power Cooperative, Inc., and its subsidiary (jointly "KEPCo"), headquartered in Topeka, Kansas, was incorporated in 1975 as a tax-exempt generation and transmission cooperative (G&T). KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission (KCC) in 1980 to act as a G&T public utility. 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 contracts with its members. 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 Kansas 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 requested 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 and decreases in certain energy and demand costs to its member cooperatives. Additionally, KEPCo implemented a Margin Stabilization Adjustment (MSA) in 2011, which is a mechanism to refund (or collect) a portion of KEPCo's margin when the total margin exceeds (or falls short of) the amount necessary to cover KEPCo's financial obligations.

PRINCIPLES OF CONSOLIDATION – The consolidated financial statements include the accounts of Kansas Electric Power Cooperative, Inc. 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.

IATAN 2 – Iatan 2 is an 850 MW high efficiency coal-fired power plant utilizing state-of-the-art environmental controls that became commercially operational December 31, 2010. KEPCo owns a 3.53% share of Iatan 2, or 30 MW. Iatan 2, located in Weston, Missouri, is operated and majority owned by Kansas City Power & Light Company (KCPL), a wholly owned subsidiary of Evergy, Inc. KEPCo's undivided interest in Iatan 2 is consolidated on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from Iatan 2, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 3.53% of the operations, maintenance, administrative and general costs, and cost of plant additions related to Iatan 2. Each owner is responsible for providing its own financing for all costs incurred at the plant.

KEPCo's utility plant in service for their 3.53% share of Iatan 2 was $82.1 million and $80.6 million with allowance for depreciation of $17.0 million and $15.6 million and construction work in progress of $0.8 million and $1.3 million at December 31, 2018 and 2017, respectively.

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 KCPL, 47%, and Kansas Gas & Electric Company (KGE), 47%. Both of these companies are wholly owned subsidiaries of Evergy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. 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. Each owner is responsible for providing its own financing for all costs incurred at the plant.

KEPCo's utility plant in service for their 6.0% share of WCNOC was $263.1 million and $259.4 million with allowance for depreciation of $143.5 million and $140.3 million and construction work in progress of $10.1 million and $10.6 million at December 31, 2018 and 2017, respectively.

WCNOC's operating license expires in 2045. WCNOC is regulated by the nuclear Regulatory Commission (NRC), with respect to licensing, operations, and safety related requirements.

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 three years under current regulations. (Still true) non necessary – up to us in or out doesn't matter.

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. Management's estimates and assumptions are derived from and are continually evaluated based upon available information, judgment, and experience.

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. No interest has been capitalized in 2018 or 2017. 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 rates for electric generation plant for the years ended December 31, 2018 and 2017 are 4.26% and 4.09%, 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 a 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.

NUCLEAR DECOMMISSIONING – Nuclear decommissioning is a nuclear industry term for the permanent shutdown of a nuclear power plant and the removal of radioactive components in accordance with NRC requirements. The NRC will terminate a plant's license and release the property for unrestricted use when a company has reduced the residual radioactivity of a nuclear plant to a level mandated by the NRC. The NRC requires companies with nuclear plants to prepare formal financial plans to fund nuclear decommissioning. These plans are designed so that sufficient funds required for nuclear decommissioning will be accumulated prior to the expiration of the license of the related nuclear power plant. WCNOC files a nuclear decommissioning site study with the KCC every three years.

The KCC reviews nuclear decommissioning plans in two phases. Phase one is the approval of the revised nuclear decommissioning study including the estimated costs to decommission the plant. Phase two involves the review and approval of a funding schedule prepared by the owner of the plant detailing how it plans to fund the future-year dollar amount of its pro rata share of the decommissioning costs.

In 2017, the triennial nuclear decommissioning study was revised. Based on the study, KEPCo's share of decommissioning costs, including decontamination, dismantling, and site restoration, is estimated to be $65.6 million. This amount does not compare to the prior site study estimate of $45.9 million due to a KCC order requiring a new method of calculating the decommissioning costs. The new method, called SAFSTOR, requires long-term storage of spent fuel on site for 60 years after the plant is decommissioned. The site study cost estimate represents the estimate to decommission WCNOC as of the site study year. The actual nuclear decommissioning costs may vary from the estimates because of changes in regulations and technologies as well as changes in costs for labor, materials, and equipment.

KEPCo is allowed to recover nuclear decommissioning costs in its prices over a period equal to the operating license of WCNOC, which is through 2045. The NRC requires that funds sufficient to meet nuclear decommissioning obligations be held in a trust. KEPCo believes that the KCC approved funding level will also be sufficient to meet the NRC requirement. The consolidated financial results would be materially affected if KEPCo was not allowed to recover in its prices the full amount of the funding requirement.

KEPCo recovered in its prices and deposited in an external trust fund for nuclear decommissioning approximately $0.5 million in 2018 and $0.5 million in 2017. KEPCo records its investment in the nuclear decommissioning trust (NDT) fund at fair value, which approximated $25.0 million and $25.5 million as of December 31, 2018 and 2017, respectively.

ASSET RETIREMENT OBLIGATION – KEPCo recognizes and estimates the legal obligation associated with the cost to decommission WCNOC. KEPCo initially recognized an

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

asset retirement obligation at fair value for the estimated cost with a corresponding amount capitalized as part of the cost of the related long-lived asset and depreciated over the useful life.

A reconciliation of the asset retirement obligation for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Balance at January 1	$ 20,589,586	$ 19,418,417
Accretion	990,927	1,171,169
2017 decommissioning study	(5,635,205)	-
Balance at December 31	$ 15,945,308	$ 20,589,586

Any net margin effects are deferred in the WCNOC decommissioning regulatory asset 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 accounts, and certificates of deposit.

The Federal Deposit Insurance Corporation insures amounts held by each institution in the organization's name up to $250,000. At various times during the fiscal year, KEPCo's cash in bank balances exceeded the federally insured limits.

KEPCo's repurchase agreements have collateral pledged by a financial institution, which are securities that are backed by the federal government.

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. No allowance was recorded at December 31, 2018 or 2017.

MATERIALS AND SUPPLIES INVENTORY – Materials and supplies inventory are valued at average cost.

CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACTS – The following amounts related to 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.

	2018	2017
Cash surrender value of contracts	$8,315,949	$8,183,622
Borrowings against contracts	(8,028,528)	(7,900,835)
	$287,421	$282,787

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a rate of 5.00% for the years ended December 31, 2018 and 2017.

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, Kansas Electric Power Cooperative, Inc. 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.

KEPCo Services, Inc., a subsidiary of Kansas Electric Power Cooperative, Inc., is not exempt from income taxes.

INVESTMENTS – Investments in associated organizations are carried at cost and are classified as held to maturity securities.

WOLF CREEK DISALLOWED COSTS – Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in WCNOC, which disallowed $26.0 million of KEPCo's investment in Wolf Creek. 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. The disallowed costs are being recovered through the use of straight-line amortization over the period required by KCC.

(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 in which 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 WCNOC, 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.

(3) INVESTMENTS IN ASSOCIATED ORGANIZATIONS

At December 31, 2018 and 2017, investments in associated organizations consisted of the following:

	2018	2017
National Rural Utilities Cooperative Financial Corporation Memberships	$1,000	$1,000
Capital term certificates	395,970	395,970
Patronage capital certificates	2,361,678	2,095,294
Equity term certificates	8,815,884	9,278,791
Total NRUCFC	11,574,532	11,771,055
Other	280,970	317,280
Total investments in associated organizations	$11,855,502	$12,088,335

Contractual maturities for the debt securities classified as held to maturity at December 31, 2018 are as follows:

Less than one year (2019)	$527,666
Years 2-5 (2020-2023)	982,785
Years 6-10 (2024-2028)	3,410,565
More than 10 years (2029 and later)	6,934,486
	$ 11,855,502

(4) DEFERRED CHARGES

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 WCNOC. 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 $2.3 million and $0.4 million in 2018 and 2017, respectively. The current year amortization of the deferred incremental outage costs was $1.7 million and $2.1 million in 2018 and 2017, respectively.

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

(5) SOUTHWEST POWER POOL CHARGES

During 2016, KEPCo was assessed historical charges in the amount of $2,442,488 from Southwest Power Pool related to a Z2 billing issue for generation system upgrades from 2008-2016. The total amount of historical charges was paid in October 2016, and will be amortized over a five-year period, ending October 2021. The balance as of December 31, 2018 and 2017 was $1.3 million and $1.8 million, respectively. Accumulated amortization as of December 2018 and 2017 was $1.1 million and $0.6 million, respectively.

(6) LINE OF CREDIT

At December 31, 2018, KEPCo has a $10 million line of credit available with CoBank, ACB. There were no funds borrowed against the line of credit at December 31, 2018 or 2017. Interest rate options, as selected by KEPCo, are a weekly quoted variable rate in which CoBank establishes a rate on

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the first business day of each week or a LIBOR option at a fixed rate equal to LIBOR plus 1.6%. This line of credit expires July 2019.

As of December 31, 2018, KEPCo has a $20 million line of credit available with the Cooperative Finance Corporation (CFC). There were no funds borrowed against the line of credit at December 31, 2018 or 2017. The line of credit requires KEPCo to pay down the balance to zero within 36 months of the effective date. The interest rate varies and was 3.75% and 2.75% at December 31, 2018 and 2017, respectively. This line of credit expires on March 2020.

(7) LONG-TERM DEBT

Long-term debt consists of mortgage notes payable to the United States of America acting through the USDA Federal Financing Bank (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:

	2018	2017
Mortgage notes payable to the FFB at fixed rates varying from 0.818% to 6.107%, payable in quarterly installments through 2043	$ 67,779,072	$ 68,402,358
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	606,834	738,760
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 3.25% to 7.50%, payable quarterly through 2045	86,247,265	91,616,213
	154,633,171	160,757,331
Less current maturities	(8,969,186)	(8,460,122)
	$145,663,985	$152,297,209

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

2019	$8,969,186
2020	9,118,019
2021	8,196,489
2022	8,346,617
2023	8,375,667
Thereafter	111,627,193
	$154,633,171

Restrictive covenants related to the CFC debt require KEPCo to design rates that would enable it to maintain a times-interest earned ratio of at least 1.05 and debt-service coverage ratio of at least 1.0, on average, in the two best years out of the three most recent calendar 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 the RUS. KEPCo was in compliance with such restrictive covenants as of December 31, 2018 and 2017.

Restrictive covenants related to the CoBank debt require KEPCo to design rates that would enable it to maintain a debt-service coverage ratio, as defined by CoBank of at least 1.10. KEPCo was in compliance with the restrictive covenant as of December 31, 2018 and 2017.

(8) BENEFIT PLANS

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION (NRECA) RETIREMENT AND SECURITY PROGRAM – KEPCo participates in the NRECA Retirement and Security Program (RS Plan) for its employees. The NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

KEPCo's contributions to the RS Plan in 2018 and 2017 represented less than 5 percent of the total contributions made to the plan by all participating employers. KEPCo made contributions to the RS Plan of $450,000, and $490,000, for the years ended December 31, 2018 and 2017, respectively. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

For the RS Plan, a "zone status" determination is not required, and thus not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 90 percent funded on January 1, 2018 and over 90 percent funded on January 1, 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the Insurance and Financial Services Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to the January 1st of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experiences different from expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

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 $110,000 and $120,000, respectively, to the plan for each of the years ended December 31, 2018 and 2017.

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 33,417,035	$ 29,237,240	$ 895,586	$ 921,124
Service cost	1,133,901	995,723	18,581	18,668
Interest cost	1,265,435	1,263,807	31,273	35,708
Plan participants' contributions	-	-	178,971	139,866
Benefits paid	(1,268,318)	(1,069,863)	(324,079)	(207,201)
Actuarial losses (gains)	(2,424,844)	2,990,128	82,838	(12,580)
Benefit obligations, end of year	32,123,209	33,417,035	883,170	895,585

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in plan assets:				
Fair value of plan assets, beginning of year	21,403,425	17,704,794	333	2,193
Actual return on plan assets	(1,527,073)	3,198,260	-	5,923
Employer contributions	1,273,914	1,537,920	180,000	59,552
Plan participants' contributions	-	-	178,971	139,866
Benefits paid	(1,234,084)	(1,037,549)	(324,079)	(207,201)
Fair value of plan assets, end of year	19,916,182	21,403,425	35,225	333
Funded status, end of year	$ (12,207,027)	$ (12,013,610)	$ 847,945	$ (895,252)

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts recognized in the consolidated balance sheets:

	2018	2017
Other long-term liabilities		
WCNOC pension and postretirement benefit plans	$ 13,054,972	$ 12,908,862
WCNOC provision for injuries	18,000	18,000
Total other long-term liabilities	$ 13,072,972	$ 12,926,862

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Net gain (loss)	$ (8,655,715)	$ (8,972,567)	$ 5,344	$ 95,536
Prior service cost	(42,785)	(49,856)	-	-
	$ (8,698,500)	$ (9,022,423)	$ 5,344	$ 95,536

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Projected benefit obligation	$32,123,209	$33,417,035	$ 883,170	$ 895,585
Accumulated benefit obligation	$28,756,203	$29,346,792	$ -	$ -
Fair value of plan assets	$19,916,183	$21,403,425	$ 35,225	$ 333

Weighted average actuarial assumptions used to determine net periodic benefit obligation:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rate	4.34%	3.73/3.63%	4.27%	3.56%
Annual salary increase rate	4.03%	4.00%	N/A	N/A

WCNOC uses a measurement date of December 31 for its pension and post-retirement benefit plans. The discount rate to determine the current year pension obligation and the following year's pension expense is based on a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality, non-callable corporate bonds that generate a sufficient cash flow to provide for the projected benefit payments of the plan. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected.

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Components of net periodic cost (benefit):				
Service cost	$ 1,133,901	$ 995,723	$ 18,581	$ 18,669
Interest cost	1,265,435	1,263,807	31,273	35,709
Expected return on plan assets	(1,476,256)	(1,349,514)	-	-
Prior service cost	7,071	7,071	-	-
Actuarial gain (loss), net	845,577	635,663	(7,354)	(6,441)
Net periodic cost	1,775,728	1,552,750	42,500	47,937
Other changes in plan obligations recognized in other comprehensive income:				
Current year actuarial loss (gain)	578,485	1,141,381	82,838	(18,503)
Amortization of actuarial loss (gain)	(845,578)	(635,663)	7,354	6,441
Amortization of prior service cost	(7,071)	(7,071)	-	-
Total recognized in other comprehensive income	(274,164)	498,647	90,192	(12,062)
Total recognized in net periodic cost and other comprehensive income	$ 1,501,564	$ 2,051,397	$ 132,692	$ 35,875
Weighted average actuarial assumptions used to determine net periodic cost:				
Discount rate	3.73%	4.26/4.06%	3.56%	3.95%
Expected long term return on plan assets	7.25%	7.25%	N/A	N/A
Compensation rate increase	4.00%	4.00%	N/A	N/A

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 WCNOC. 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.

KEPCo estimates they will amortize the following amounts into net periodic cost in 2019:

	Pension Benefits	Postretirement Benefits
Actuarial loss	$641,204	$(408)
Prior service cost	6,807	-
Total	$648,011	$(408)

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 plans' investment portfolios. Assumed 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 allocations for each asset class, the overall expected rate of return for the portfolios was developed, adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

For measurement purposes, the assumed annual health care cost growth rates were as follows:

	2018	2017
Health care cost trend rate assumed for next year	6.50%	6.00%
Rate to which the cost trend rate is assumed to decline	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2027	2020

The health care cost trend rate affects the projected benefit obligation. A 1% change in assumed health care cost growth rates would have effects shown in the following table:

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$(1,301)	$1,095
Effect on post-retirement benefit obligation	$(13,567)	$14,327

WCNOC pension and post-retirement plan investment strategy is to manage assets in a prudent manner with regard to preserving principal while providing reasonable returns. It has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Part of its strategy includes managing interest rate sensitivity of plan assets relative to the associated liabilities. The primary objective of the pension plan is to provide a source of retirement income for its participants and beneficiaries, and the primary financial objective of the plan is to improve its funded status. The primary objective of the post-retirement benefit plan is growth in assets and preservation of principal, while minimizing interim volatility, to meet anticipated claims of plan participants. WCNOC delegates the management of its pension and post-retirement benefit plan assets to independent investment advisors who hire and dismiss investment managers based upon various factors. The investment advisors are instructed to diversify investments across asset classes, sectors, and manager styles to minimize the risk of large losses, based upon objectives and risk tolerance specified by WCNOC, which include allowable and/or prohibited investment types. It measures and monitors investment risk on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

The target allocations for WCNOC's pension plan assets are 31% to international equity securities, 25% to domestic equity securities, 25% to debt securities, 10% to real estate securities, 5% to commodity investments and 4% to other investments. The investments in both international and domestic equity include investments in large-, mid- and small-cap companies and investment funds with underlying investments similar to those previously mentioned. The investments in debt 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.

All of WCNOC's pension plan assets are recorded at fair value using daily net asset values as reported by the trustee.

Similar to other assets measured at fair value, accounting principles generally accepted in the United Stated of America establish a hierarchal framework for disclosing the transparency of the inputs utilized in measuring pension and post-retirement benefit plan assets at fair value. From time to time, the WCNOC pension trust may buy and sell investments resulting in changes within the 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. Investments that do not have a readily determinable fair value are measured at net asset value (NAV). These investments do not consider the observability of inputs; therefore, they are not included within the fair value hierarchy. We include investments in private equity, real estate, and alternative investment funds that do not have a readily determinable fair value in this category. The underlying alternative investments include collateralized debt obligations, mezzanine debt, and a variety of other investments.

In 2018, KEPCo re-evaluated the classification, within the fair value hierarchy, of their various fund investments within the WCNOC pension plan. As a result, KEPCo determined that

The following table provides the fair value of KEPCo's 6% share of WCNOC'S pension plan assets and the corresponding level of hierarchy as of December 31, 2018 and 2017:

		Fair Value Measurements Using			
December 31, 2018	Fair Value	Level 1	Level 2	Level 3	Net asset value
Cash equivalents	$ 123,280	$ 123,280	$ -	$ -	$ -
Equity securities					
U.S.	5,037,650	-	-	-	5,037,650
International	5,990,324	-	-	-	5,990,324
Debt securities					
Core bonds	5,234,570	-	-	-	5,234,570
Alternative investments	3,530,358	-	-	-	3,530,358
Total	$ 19,916,182	$ 123,280	$ -	$ -	$ 19,792,902

		Fair Value Measurements Using			
December 31, 2017	Fair Value	Level 1	Level 2	Level 3	Net asset value
Cash equivalents	$ 89,726	$ 89,726	$ -	$ -	$ -
Equity securities					
U.S.	5,539,932	-	-	-	5,539,932
International	6,700,267	-	-	-	6,700,267
Debt securities					
Core bonds	5,400,490	-	-	-	5,400,490
Alternative investments	3,673,010	-	-	-	3,673,010
Total	$ 21,403,425	$ 89,726	$ -	$ -	$ 21,313,699

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Estimated future benefit payments as of December 31, 2018, for the Plans, which reflect expected future services, are as follows:	Pension Benefits		Postretirement Benefits	
	To/from trust	From company assets	To/from trust	From company assets
Expected contributions:				
2019	$ 690,409	$ -	$ 289,329	$ -
Expected benefit payments:				
2019	$ 1,209,435	$ 39,254	$ 324,554	$ -
2020	1,303,921	40,978	318,182	-
2021	1,398,876	41,647	355,468	-
2022	1,492,846	42,364	387,545	-
2023	1,588,251	47,050	414,356	-
2024-2028	9,210,104	332,311	2,484,441	-

certain fund investments within the WCNOC pension plan in the amount of $89,726 as of December 31, 2017, should have been classified as Level 1, instead of Level 2. This determination is based on the fact that the fair value of these funds is based on daily published prices at which the pension plan is able to redeem their investments without restriction on a daily basis. KEPCo also determined that certain fund investments within the WCNOC pension Plan in the amount of $19,809,310 as of December 31, 2017, should have been measured using the NAV per share (or its equivalent) practical expedient, instead of as a Level 2 investment. This determination is based on the fact that these funds do not meet the definition of readily determinable fair value due to the absence of a published NAV. KEPCo has determined that these errors are immaterial to their previous financial statements and have reflected the changes in fair value hierarchy classification as of December 31, 2018 and 2017.

(9) COMMITMENTS AND CONTINGENCIES

CURRENT ECONOMIC ENVIRONMENT – KEPCo considers the current economic conditions when planning for future power supply and liquidity needs. The current economic climate may also affect the KEPCo'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 KEPCo's ability to meet debt covenants or maintain sufficient liquidity. Currently under state statutes, the KEPCo's rate making is deregulated and, therefore, expects to be able to recover any economic losses through future rates.

LITIGATION – KEPCo 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 KEPCo.

There is a provision in the WCNOC operating agreement whereby the owners treat certain claims and losses arising out of the operations of WCNOC 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.

LETTER OF CREDIT – KEPCo has an open letter of credit with the CFC in the amount of $1,500,000 which matures May 23, 2019. The letter of credit is intended to provide financial security to Southwest Power Pool pursuant to its credit policy.

NUCLEAR LIABILITY INSURANCE – Pursuant to the Price-Anderson Act, liability insurance includes coverage against public nuclear liability claims resulting from nuclear incidents to the required limit of public liability, which is approximately $14.1 billion. This limit of liability consists of the maximum available commercial insurance of $0.5 million and the remaining $13.6 billion is provided through mandatory participation in an industry-wide retrospective assessment program. Under this retrospective assessment program, the owners of WCNOC are jointly and severally subject to an assessment of up to $137.6 million (KEPCo's share is $8.30 million), payable at no more than $20.5 million (KEPCo's share is $1.20 million) per incident per year per reactor for any commercial U.S. nuclear reactor qualifying incident. Both the total and yearly assessment is subject to an inflationary adjustment based on the Consumer Price Index and applicable premium taxes. In addition, the U.S. Congress could impose additional revenue-raising measures to pay claims.

The owners of WCNOC carry nuclear accident decontamination liability, premature nuclear decommissioning liability, and property damage insurance for WCNOC totaling approximately $2.8 billion (KEPCo's share is $168 million). In the event of a nuclear accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The owners' share of any remaining proceeds can be used to pay for property damage or, if certain requirements are met, including decommissioning the plant, toward a shortfall in the NDT fund.

The owners also carry additional insurance with Nuclear Electric Insurance Limited (NEIL) to help 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, the owners may be subject to retrospective assessments under the current policies of approximately $37.4 million (KEPCo's share is $2.20 million) in 2018 and $36.8 million (KEPCo's share is $2.21 million) in 2017.

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 coverage may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at WCNOC. Any substantial losses not covered by insurance, to the extent not recoverable in KEPCo's prices, would have a material effect on KEPCo's consolidated financial results.

DECOMMISSIONING INSURANCES – KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if WCNOC 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 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 WCNOC exceeds $500 million in covered damages and causes WCNOC to be prematurely decommissioned.

NUCLEAR FUEL COMMITMENTS – At December 31, 2018, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $1.4 million for uranium concentrates, $8.8 million for conversion, $9.0 million for enrichment, and $3.9 million for fabrication, all expiring at various times from 2024 through 2025.

PURCHASE POWER COMMITMENTS – KEPCo has supply contracts with various utility companies to purchase power to supplement generation in the given service areas. KEPCo has provided the Southwest Power Pool a letter of credit to help insure power is available if needed.

(11) 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.

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KEPCo & SUBSIDIARY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the fair value measurements of assets 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, 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Decommissioning fund				
Domestic fund	$ 13,156,688	$ 13,156,688	$ -	$ -
International fund	1,572,454	1,572,454	-	-
Domestic bond fund	9,834,610	9,834,610	-	-
Money market	441,785	441,785	-	-
Total	$ 25,005,537	$ 25,005,537	$ -	$ -

The following table presents the fair value measurements of assets 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, 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Decommissioning fund				
Domestic fund	$ 14,485,582	$ 14,485,582	$ -	$ -
International fund	1,851,758	1,851,758	-	-
Domestic bond fund	8,938,139	8,938,139	-	-
Money market	227,125	227,125	-	-
Total	$ 25,502,604	$ 25,502,604	$ -	$ -

(12) 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 no longer prepared under the regulatory basis of accounting as prescribed by ASC 980, Regulated Operations, 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 2018 and 2017.

(13) RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Total patronage capital and change in patronage capital are unchanged due to these reclassifications.

(14) SUBSEQUENT EVENTS

KEPCo has evaluated subsequent events through April 15, 2019, which is the date the financial statements were available to be issued. No events were significant enough to warrant disclosures in the accompanying financial statements or notes.

BT&Co.

BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

Independent Auditors' 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

To the Board of Trustees
Kansas Electric Power Cooperative, Inc.
Topeka, 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, the consolidated financial statements of Kansas Electric Power Cooperative, Inc. and subsidiary (KEPCo), which comprise the consolidated balance sheets as of December 31, 2018, and the related statements of margin, patronage capital, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered KEPCO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEPCo's internal control. Accordingly, we do not express an opinion on the effectiveness of KEPCo'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 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 may exist that have not been identified.

BT&Co. BERBERICH TRAHAN & CO, P.A.
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KEPCo's consolidated 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 determination of financial statement amounts. 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*.

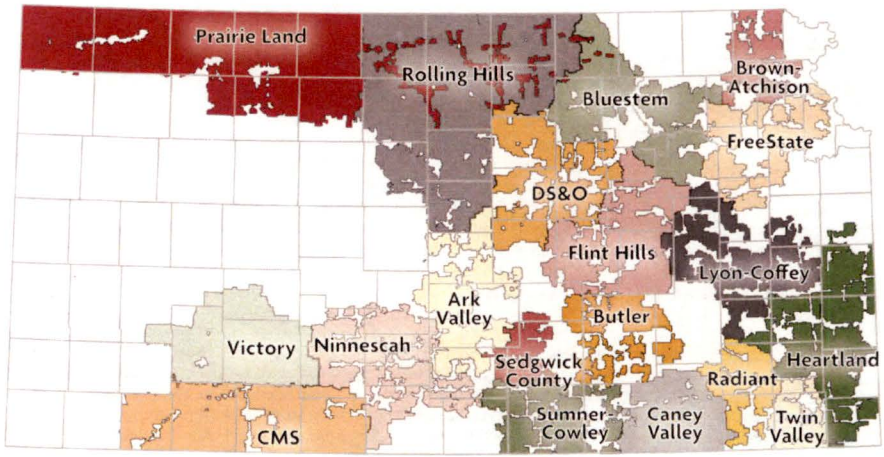
Purpose of this Report

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 Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering KEPCo's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berberich Trahan & Co, P.A.

Berberich Trahan & Co., P.A.
Topeka, Kansas
April 15, 2019

ABOUT KEPCO



Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered in 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 19 distribution electric cooperative members at a reasonable cost.

In addition to KEPCo's core mission, KEPCo also partners with its member cooperatives on such important activities as rural economic development, electric appliance rebates, load and power cost forecasting, and system enhancement projects.

Governed by a 19-member Board of Trustees, KEPCo's members collectively serve more than 125,000 electric meters in two-thirds of Kansas. The Board of Trustees establishes policies and acts 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 members.

KEPCo's power supply resources consist of: 70 MW of owned generation from Wolf Creek Generating Station; 30 MW of owned generation from Iatan 2 Generating Plant; 20 MW of owned generation from Sharpe Generating Station; hydro allocations consisting of 100 MW from the Southwestern Power Administration and 13 MW from the Western Area Power Administration; 1 MW of owned generation from Prairie Sky Solar Farm; and partial requirement power purchases from regional utilities.

KEPCo is a Touchstone Energy® Cooperative, a national network of electric cooperatives across 46 states that provide resources and leverage partnerships to engage and serve their members. By working together, Touchstone Energy cooperatives stand as a source of power and information to their 32 million consumer-members every day.

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KEPCo

A Touchstone Energy® Cooperative

600 SW Corporate View
PO Box 4877
Topeka, KS 66615

785-273-7010

www.kepco.org