ARTHUR ANDERSEN

Kansas Electric Power Cooperative, Inc.

Financial Statements
As of December 31, 2000 and 1999
Together With Auditors' Report

ARTHUR ANDERSEN

Report of independent public accountants

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the accompanying balance sheets of Kansas Electric Power Cooperative, Inc., as of December 31, 2000 and 1999, and the related statements of revenues and expenses, cash flows, changes in patronage capital, and comprehensive income for the years then ended. These financial statements are the responsibility of KEPCo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Note 4 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the financial statements which do not, in our opinion, conform to accounting principles generally accepted in the United States.

In our opinion, except for the effects on the financial statements of the matters referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of KEPCo as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with **Government Auditing Standards**, we have also issued a report dated February 23, 2001, on our consideration of KEPCo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Arthur Andersen LLP

Kansas City, Missouri,
February 23, 2001

ARTHUR ANDERSEN

Report of independent public accountants on compliance with applicable laws and regulations

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated February 23, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether KEPCo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported herein under **Government Auditing Standards**.

This report is intended for the information of the board of trustees, management, the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Kansas City, Missouri,
February 23, 2001

ARTHUR ANDERSEN

Report of independent public accountants on internal control over financial reporting

To the Board of Trustees of
Kansas Electric Power Cooperative, Inc.:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated February 23, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered KEPCo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the board of trustees, management, the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

Kansas City, Missouri,
February 23, 2001

Kansas Electric Power Cooperative, Inc.

Balance sheets
December 31, 2000 and 1999

ASSETS

	2000	1999
UTILITY PLANT:		
In-service	$ 206,297,818	$ 203,289,044
Less- Allowances for depreciation	(51,414,777)	(46,455,267)
	154,883,041	156,833,777
Construction work in progress	5,637,156	2,539,145
Nuclear fuel, net of amortization	3,869,202	3,456,267
	164,389,399	162,829,189
RESTRICTED ASSETS:		
Investments in the National Rural Utilities Cooperative Finance Corporation	2,603,907	2,604,133
Bond fund reserve	4,126,194	4,113,090
Decommissioning fund	4,489,977	4,047,262
Investments in associated organizations	391,352	483,824
	11,611,430	11,248,309
CURRENT ASSETS:		
Cash and cash equivalents	3,203,938	4,893,273
Member accounts receivable	6,455,178	5,720,143
Materials and supplies, at average cost	2,198,483	2,195,483
Other assets and prepaid expenses	586,370	618,028
	12,443,969	13,426,927
OTHER LONG-TERM ASSETS:		
Deferred charges-		
Wolf Creek disallowed costs (less accumulated amortization of $6,618,217 and $5,954,226 for 2000 and 1999, respectively)	19,364,704	20,028,694
Deferred Department of Energy decommissioning costs	569,847	632,686
Deferred incremental outage costs	2,284,905	994,700
Other deferred charges (less accumulated amortization of $561,810 and $378,085 for 2000 and 1999, respectively)	1,935,881	2,119,606
Unamortized debt issue costs	4,333,057	4,744,081
Wolf Creek nuclear operating investments	946,216	3,315,757
Other investments	7,282,976	8,065,664
	36,717,586	39,901,188
	$ 225,162,384	$ 227,405,613

(continued)

Kansas Electric Power Cooperative, Inc.

Balance sheets
December 31, 2000 and 1999
(continued)

PATRONAGE CAPITAL AND LIABILITIES

	2000	1999
PATRONAGE CAPITAL:		
Memberships	$ 3,100	$ 3,100
Patronage capital (payment restricted as indicated)	11,149,994	11,801,741
	11,153,094	11,804,841
UNREALIZED LOSS IN MARKET VALUE OF INVESTMENTS	(236,052)	(823,850)
LONG-TERM DEBT:		
Federal Financing Bank	107,421,981	110,055,271
Cooperative Finance Corporation	54,090,000	55,290,000
Pollution control revenue bonds	35,500,000	36,500,000
	197,011,981	201,845,271
Less- Current maturities of long-term debt	7,232,441	5,761,378
	189,779,540	196,083,893
OTHER LONG-TERM LIABILITIES:		
Deferred Department of Energy decommissioning costs	506,531	571,458
Wolf Creek decommissioning liability	4,489,977	4,047,262
Wolf Creek nuclear operating liabilities	1,865,085	1,679,888
	6,861,593	6,298,608
CURRENT LIABILITIES:		
Current maturities of long-term debt	7,232,441	5,761,378
Arbitrage rebate short-term liability	872,065	707,280
Accounts payable	5,767,078	5,446,055
Payroll and payroll related liabilities	217,312	202,637
Accrued property taxes	1,082,786	1,155,946
Accrued interest payable	2,432,527	768,825
Patronage capital distributions payable	-	-
	17,604,209	14,042,121
	$ 225,162,384	$ 227,405,613

The accompanying notes are an integral part of these balance sheets.

Kansas Electric Power Cooperative, Inc.

Statements of revenues and expenses
For the years ended December 31, 2000 and 1999

	2000	1999
OPERATING REVENUES:		
Sales of electric energy	$ 75,651,145	$ 70,857,545
Other	321,423	565,544
	75,972,568	71,423,089
OPERATING EXPENSES:		
Power purchased	41,720,138	35,830,779
Nuclear fuel	2,430,196	2,480,452
Plant operations	6,757,328	6,910,688
Plant maintenance	2,427,964	2,325,080
Administrative and general	3,963,281	4,653,636
Amortization of deferred charges	663,991	802,551
Depreciation and decommissioning	6,137,977	5,543,593
	64,100,875	58,546,779
Net operating revenues	11,871,693	12,876,310
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	13,236,970	13,563,764
Amortization of debt issue costs	594,750	421,614
Other interest expense	62,668	68,533
	13,894,388	14,053,911
Net operating loss	(2,022,695)	(1,177,601)
OTHER INCOME AND EXPENSE:		
Interest income	1,372,777	1,308,203
Gain on sale of Homestead funds	-	833,877
Other income (expense)	(1,829)	77,923
	1,370,948	2,220,003
Net margin (deficit)	$ (651,747)	$ 1,042,402

The accompanying notes are an integral part of these financial statements.

Kansas Electric Power Cooperative, Inc.

Statements of cash flows
For the years ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin (deficit)	$ (651,747)	$ 1,042,402
Adjustments to reconcile net margin (deficit) to net cash provided by operations-		
Depreciation and amortization	5,803,654	5,330,137
Amortization of nuclear fuel	1,838,316	1,882,179
Amortization of deferred charges	910,554	868,373
Amortization of deferred incremental outage costs	1,451,681	1,527,515
Gain on sale of Homestead funds	-	(833,877)
Payment to Department of Energy for decommissioning	(64,927)	(67,178)
Increase in deferred incremental outage costs	(2,741,886)	(1,989,401)
Increase in decommissioning liability	442,715	119,434
Increase in arbitrage rebate payable	164,785	143,797
Change in other long-term liabilities	185,197	(57,879)
Changes in current assets and liabilities-		
Member accounts receivable	(735,035)	(383,533)
Materials and supplies inventory	(3,000)	1,413
Other assets and prepaid expenses	31,658	(76,701)
Accounts payable	321,023	(337,454)
Payroll and payroll-related liabilities	14,675	46,653
Accrued property taxes	(73,160)	(9,563)
Accrued interest payable	1,663,702	269,561
Net cash provided by operating activities	8,558,205	7,475,878
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric plant, net	(6,950,929)	(2,894,455)
Additions to nuclear fuel	(2,251,251)	(481,419)
Wolf Creek nuclear operating investment	(115,426)	(286,464)
Increase in decommissioning fund assets	(442,715)	(119,434)
Net change in unrealized loss in market value of investments	587,798	(952,550)
Cash received on sale of Homestead funds	-	2,011,772
Contribution to Cooperative Wireless investment	-	(362,076)
Increase in other restricted investments	79,594	(14,873)
Sales of short-term investments	-	1,414,440
Sales of other investments	782,688	1,244,184
Net cash used in investing activities	(8,310,241)	(440,875)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from cash surrender value of life insurance contracts	2,484,967	-
Repayment of long-term debt	(4,833,290)	(6,711,941)
Amortization of debt issue costs	411,024	426,614
Deferred patronage dividends paid	-	(1,404,643)
Membership fees received	-	100
Net cash used in financing activities	(1,937,299)	(7,689,870)
Net decrease in cash and cash equivalents	(1,689,335)	(654,867)
CASH AND CASH EQUIVALENTS AT:		
Beginning of year	4,893,273	5,548,140
End of year	$ 3,203,938	$ 4,893,273

The accompanying notes are an integral part of these financial statements.

Kansas Electric Power Cooperative, Inc.

Statements of changes in patronage capital
For the years ended December 31, 2000 and 1999

	Memberships	Patronage Capital	Total
BALANCE, December 31, 1998	$ 3,000	$10,759,339	$10,762,339
Net margin	-	1,042,402	1,042,402
Membership fees received	100	-	100
Patronage capital distributions	-	-	-
BALANCE, December 31, 1999	3,100	11,801,741	11,804,841
Net deficit	-	(651,747)	(651,747)
Patronage capital distributions	-	-	-
BALANCE, December 31, 2000	$ 3,100	$11,149,994	$11,153,094

Kansas Electric Power Cooperative, Inc.

Statements of comprehensive income
For the years ended December 31, 2000 and 1999

	2000	1999
NET MARGIN	$ (651,747)	$ 1,042,402
CHANGE IN MARKET VALUE OF INVESTMENTS	587,798	(952,550)
COMPREHENSIVE INCOME	$ (63,949)	$ 89,852

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

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 21 distribution rural electric cooperative members pursuant to all requirements of its power supply contracts. KEPCo is governed by a board of trustees representing each of its 21 members, which collectively serves more than 100,000 electric customers in two-thirds of rural Kansas. KEPCo is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority in 1980 to act as a G&T public utility.

2. Summary of significant accounting policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

System of accounts

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

Utility plant and depreciation

Utility plant is stated at cost. The cost of repairs and minor replacements are charged to operating expenses as appropriate. Costs of renewals and betterments are capitalized. The original cost of utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation.

Through January 31, 1987, the provision for depreciation for an electric plant-in-service was computed on the straight-line method at a 3.44 percent annual composite rate. Effective February 1, 1987, in accordance with an order issued by the KCC, the provision for depreciation is computed on a present-worth (sinking fund) method which provides for increasing annual provisions over 27.736 years. Pursuant to a KCC rate order dated December 30, 1998, the depreciable life was extended to reflect a full 30-year plant life. The composite rates for the years ended December 31, 2000 and 1999, were 2.81 percent and 2.62 percent, respectively. Pursuant to a KCC rate order dated March 27, 1992, all additions, betterments and improvements after January 1, 1992, are depreciated over the remaining life of the utility plant on a straight-line basis.

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

Transportation and equipment	25 to 33 percent
Office furniture and fixtures	10 to 20 percent
Leasehold improvements	20 percent
Transmission equipment	10 percent

Nuclear fuel

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

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 market value.

Short-term and other investments

Investments in debt securities are classified as available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," based on KEPCo's intended use of such securities. Investments in debt securities are carried at fair value based on quoted market prices for those or similar securities, with the unrealized gain/loss included as a separate component of capitalization. In the balance sheet, investments in debt securities with an original maturity greater than three months and a remaining maturity less than one year are presented as current assets, and investments with a remaining maturity greater than one year are presented as long-term investments.

Materials and supplies inventory

Materials and supplies inventory for Wolf Creek Nuclear Generating Station (Wolf Creek) are stated at cost determined by the average cost method.

Unamortized debt issue costs

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

Decommissioning fund assets/decommissioning liability

As of December 31, 2000 and 1999, $4,489,977 and $4,047,262, respectively, have been collected and are being retained in an interest-bearing trust fund to be used for the physical decommissioning of Wolf Creek. The trustee invests the decommissioning funds primarily in mutual funds, which are carried at estimated fair market value. During 1989, the KCC extended the estimated useful life of Wolf Creek to 40 years from the original estimates of 30 years only for the determination of decommissioning costs to be recognized for ratemaking purposes. In 2000, the KCC approved a 1999 Wolf Creek decommissioning cost study which increased the estimate of total decommissioning costs to $467 million in 1999 dollars ($28 million – KEPCo's share). KEPCo is providing for overall nuclear decommissioning costs using a funding method, which assumes a 3.6 percent rate of inflation and 5.4 percent real rate of return. KEPCo's current provision for decommissioning, based on the 1999 decommissioning study, is being charged to operations over the life of the plant. Such provision totaled $334,325 and $213,456 for 2000 and 1999, respectively.

In addition, the Financial Accounting Standards Board (FASB) is currently deliberating the accounting for obligations associated with the retirement of long-lived assets, including decommissioning, which is currently expected to become effective on January 1, 2002. KEPCo is not able to predict what effect such changes would have on its results of operations, financial position or related regulatory practices until the final issuance of the revised accounting guidance, but such effect could be material. The annual provision for decommissioning could increase as a result of this accounting rule change.

Cash surrender value of life insurance contracts

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

	2000	1999
Cash surrender value of contracts	$3,027,411	$2,724,952
Borrowings against contracts	3,027,411	358,587
Net	$ -	$2,366,365

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a discounted rate of 7.4 percent.

Income taxes

As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying financial statements.

Rates

The KCC has authority to establish KEPCo's electric rates to meet the times-interest-earned ratio and debt-service coverage set forth by the RUS. KEPCo anticipates filing a rate case on or before July 1, 2001.

Revenues

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.

Long-lived assets

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicating the carrying amount of an asset may not be recoverable. In the event a long-lived asset was determined to be impaired, such asset would be required to be written down to its fair value, with the loss recognized in the statement of revenues and expenses.

Interest rate swap agreements

Financial derivatives transactions include interest rate swap agreements, which are contractual agreements to exchange, or "swap," a series of interest rate payments over a specified period, based on a common underlying notional amount but differing interest rate indices. KEPCo has entered into a forward interest rate swap agreement with an investment banker (the counterparty), whereby KEPCo swapped the variable interest rate on their CFC notes for a fixed interest rate with the counterparty over the life of the debt (Note 9).

Derivative instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – An Amendment of FASB Statement No. 133," which amended the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset the related results on the hedged item in the income statement, and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. We have adopted SFAS 133, as amended, effective January 1, 2001. The adoption of these standards could increase volatility in other comprehensive income.

We hedge the future cash flows on floating rate debt through the use of a swap derivative instrument with the objective of reducing the uncertainty resulting from interest rate movements. The cumulative effect on other comprehensive income from the unrealized gain on the cash flow hedge in effect on January 1, 2001, was approximately $3 million.

Reclassifications

KEPCo has reclassified the presentation of certain prior year information to conform with the current year presentation.

3. Factors that could affect future operating results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation pursuant to SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation," and accordingly, has recorded regulatory assets and liabilities related to its generation, transmission and distribution operations. In the event KEPCo determines that it no longer meets the criteria of SFAS No. 71, 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 SFAS No. 71 include: (1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs, and (2) a significant change in the manner rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of SFAS No. 71 is appropriate. Any changes that would require KEPCo to discontinue the application of SFAS No. 71 due to increased competition, regulatory changes or other events may significantly impact the valuation of KEPCo's only utility plant, its investment in Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets, which 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. Many states are currently moving toward opening the retail segment to competition.

Recent sessions of the Kansas Legislature (1999-2001) did not and have not taken action on industry restructuring. Various bills were introduced in the Kansas House to address retail wheeling. None of these bills received formal consideration in the House Utilities Committee. No restructuring bills were introduced in the Senate. Key deadlines have passed in the 2001 Session and it appears that no restructuring measures will be passed. Management will continue to monitor deregulation initiatives, but does not presently expect any actions, which would be unfavorable to KEPCo to be adopted within the next 12 months.

4. Departures from generally accepted accounting principles

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Notes 5 and 9, such depreciation and amortization practices constitute phase-in plans which do not meet the requirements of SFAS No. 92, "Accounting for Phase-In Plans." The effect of these departures is to overstate the following items in the financial statements by the following amounts:

	2000	1999
Net utility plant	$47,502,610	$45,902,782
Deferred charges	6,288,710	6,080,973
Patronage capital	53,791,320	51,983,755
Net margin	1,807,565	2,222,264

5. Wolf Creek Nuclear Generating Station

KEPCo owns 6 percent of Wolf Creek, which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL - 47 percent) and Kansas Gas & Electric Company (KGE – 47 percent). KGE is a wholly owned subsidiary of Western Resources, Inc. Substantially all of KEPCo's utility plant consists of its share of Wolf Creek. KEPCo is entitled to a proportionate share of the capacity and energy from Wolf Creek, which is used to supply a portion of KEPCo's members' requirements. KEPCo is billed for 6 percent of the operations, maintenance, administrative and general costs, and cost of plant additions related to Wolf Creek. All operations are accounted for in the same manner as would be a wholly owned facility.

The KCC declared Wolf Creek commercially operable on September 3, 1985. KEPCo's total investment includes interest and administrative costs during construction.

Effective February 1, 1987, the KCC issued an order to KEPCo to utilize a present worth (sinking fund) depreciation method that does not conform with accounting principles generally accepted in the United States and which constitutes a phase-in plan that does not meet the requirements of SFAS No. 92. If depreciation on electric plant-in-service was calculated using a method in accordance with accounting principles generally accepted in the United States, depreciation expense would be increased and KEPCo's operating margin would be decreased by $1,599,828 and $1,965,701 for the years ended December 31, 2000 and 1999, respectively. In addition, net utility plant would be decreased and patronage capital would be decreased by $47,502,610 and $45,902,782 as of December 31, 2000 and 1999, respectively.

6. Other investments

Other investments consist of the following as of December 31:

	2000		1999	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale-				
Split-dollar life insurance policy	$ 59,028	$ 59,028	$ 29,514	$ 29,514
U.S. government agency securities	7,460,000	7,223,948	8,860,000	8,036,149
	$7,519,028	$7,282,976	$8,889,514	$8,065,663

Included in the capitalization were $236,052 and $823,850 of unrealized losses on available-for-sale equity securities as of December 31, 2000 and 1999, respectively.

KEPCo liquidated the available-for-sale investments in the Homestead mutual funds in December 1999 and reinvested funds in commercial paper, which as of December 31, 1999, are included in cash equivalents. The resulting gain from this liquidation was $833,877, as shown separately on the statements of revenues and expenses.

The contractual maturities of United States government agency debt securities classified as available-for-sale as of December 31, 2000, are as follows:

	Cost
Due within five years	$ -
Due after five years through ten years	350,000
Due after ten years	7,110,000
	$7,460,000

7. Bond fund reserve

KEPCo has entered into a bond covenant whereby KEPCo is required to maintain, with a trustee, a Bond Fund Reserve of approximately $4 million. This stipulated amount is sufficient to satisfy certain future interest and principal obligations. The amount held in the Bond Fund Reserve is invested by the trustee in tax-exempt municipal securities, pursuant to the restrictions of the indenture agreement, which are carried at amortized cost.

8. Investments in associated organizations

Investments in associated organizations are carried at cost and consist principally of patronage capital certificates, capital term certificates and subordinated term certificates of the CFC.

At December 31, 2000 and 1999, investments in associated organizations including CFC consisted of the following:

	2000	1999
CFC-		
Membership	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Subordinated term certificates	2,205,000	2,205,000
Patronage capital certificates	1,937	2,163
Cooperative Wireless	343,972	362,076
Other	47,380	121,748
	$2,995,259	$3,087,957

9. Long-term debt

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

	2000	1999
Mortgage notes payable to the FFB at fixed rates varying from 5.501% to 9.206%, payable in quarterly installments through 2018.	$107,421,981	$110,055,271
Mortgage notes payable to the CFC at a rate of 7.522%, payable semiannually, principal payments commenced in 1999 and continuing annually through 2017.	54,090,000	55,290,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (ranging from 4.20% to 4.40% at December 31, 2000) payable annually through 2015.	35,500,000	36,500,000
	197,011,981	201,845,271
Less- Current portion	7,232,441	5,761,378
	$189,779,540	$196,083,893

Aggregate maturities of mortgage notes payable to FFB, CFC and floating/fixed rate pollution control revenue bonds as of December 31, 2000, are as follows:

Year	Amount
2001	$ 7,232,441
2002	6,561,279
2003	7,395,837
2004	8,101,071
2005	8,628,083
Thereafter	159,093,270
	$197,011,981

Restrictive covenants require KEPCo to design rates that would enable it to maintain a times-interest-earned ratio and debt-service coverage of at least one-to-one in at least two out of every three years and prohibits distributions of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20 percent of total assets unless such distribution is approved by RUS (Note 16).

On December 18, 1997, KEPCo's mortgage notes payable to the CFC were refinanced by establishing a new Grantor Trust Series 1997 (the Series 1997 Trust), and issuing certificates of beneficial interest (the Series 1997 Certificates) in the Series 1997 Trust through a public offering. The refinancing allowed CFC to purchase the outstanding notes of the 1988 Grantor Trust (such notes had fixed interest rates ranging from 9.3 to 10.0 percent), and amend them to reduce the guaranteed interest rate payable by KEPCo, and have the trustee transfer the notes with the guarantees of RUS attached to a new grantor trust. KEPCo was required to pay an early call premium as a result of retiring the 1988 Grantor Trust certificates prior to their maturity. KEPCo simultaneously entered into a forward interest rate swap agreement (the Swap Agreement) with Morgan Guaranty Trust Company of New York (Morgan). The Swap Agreement allowed KEPCo to swap the variable interest rate on the modified notes for a fixed interest rate of 7.522 percent payable to Morgan over the life of the debt. Morgan will then pay the variable rate of interest to the Series 1997 Certificate Holders.

The Swap Agreement has a total notional principal amount of approximately $57.3 million and will be in effect until the maturity of the Series 1997 Certificates. KEPCo and RUS have the right to prepay or purchase the outstanding notes and the Series 1997 Certificates at any time. There are no prepayment penalties attached to this right. However, any termination payment owing under the Swap Agreement, if any, must be paid by KEPCo or RUS prior to terminating the Swap Agreement. Consequently, depending on the market conditions in the future, KEPCo or RUS could be obligated to make a payment to Morgan or could be entitled to receive a payment from Morgan.

KEPCo is also exposed to possible credit loss in the event of noncompliance by Morgan to the Swap Agreement. However, KEPCo does not anticipate nonperformance by Morgan.

10. Deferred charges

Disallowed costs

Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed $25,982,921 of KEPCo's investment in Wolf Creek ($19,364,704 net of accumulated amortization as of December 31, 2000). 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 portions recovery period was extended to a 30-year period. KEPCo is using present worth (sinking fund) amortization to recover the disallowed costs which enables it to meet the times-interest-earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo constitutes a phase-in plan, which does not meet the requirements of SFAS No. 92. If amortization to recover the disallowed costs was calculated using a method in accordance with accounting principles generally accepted in the United States, amortization of deferred charges would be increased and KEPCo's operating margin would be decreased by $207,737 and $256,563 for the years ended December 31, 2000 and 1999, respectively. In addition, deferred charges would be decreased and patronage capital would be decreased by $6,288,710 and $6,080,973 as of December 31, 2000 and 1999, respectively.

Decommissioning and decontamination assessments

The Energy Policy Act of 1992 established a fund to pay for the decommissioning and decontamination of nuclear enrichment facilities operated by the DOE. A portion of this fund not to exceed $2.25 billion is to be collected from utilities that have purchased enrichment services from the DOE. This portion is limited to no more than $150 million each year and will be in the form of annual assessments that will not be imposed for more than 15 years. KEPCo has recorded its portion of this liability which is being paid over 15 years. KEPCo has recorded a related deferred asset of $569,847 and $632,686 as of December 31, 2000 and 1999, respectively, and is being amortized to nuclear fuel expense over the 15-year assessment period.

Deferred incremental outage costs

In 1991 the KCC issued an order that allowed KEPCo to defer its 6 percent share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coincident with the recognition of the related revenues.

Other deferred charges

KEPCo includes in other deferred charges the early call premium resulting from refinancing the 1988 CFC Grantor Trust Certificates prior to maturity. This early call premium is amortized using the interest method over the remaining life of the new Grantor Trust Series 1997 certificates.

11. Short-term borrowings

In February 2001, the CFC reapproved a $10 million line of credit for KEPCo for a term of 12 months. There were no outstanding borrowings at either December 31, 2000 or 1999.

12. Operating lease

KEPCo leases office space and equipment under noncancellable operating leases.

Future minimum lease payments at December 31, 2000, are as follows:

Year	Amount
2001	$20,501
2002	6,055
2003	1,514
	$28,070

The related rental expenses for 2000 and 1999 were $35,516 and $96,886, respectively.

13. Benefit plans

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

KEPCo participates in the NRECA retirement and security program for its employees. All employees are eligible to participate in this program. In the master multiemployer plan, which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employees. KEPCo's pension expense, under this program, was $148,153 and $108,249 for the years ended December 31, 2000 and 1999, respectively.

NRECA Savings Plan 401(k) Plan

Substantially all employees of KEPCo also participate in the NRECA Savings Plan 401(k) option. Under the plan, KEPCo contributes an amount not to exceed 5 percent, dependent upon the employee's level of participation, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed $70,509 and $57,739 to the plan in 2000 and 1999, respectively.

Wolf Creek Nuclear Operating Corporation (WCNOC) retirement plan

KEPCo has an obligation to the WCNOC retirement plan for its 6 percent ownership interest in Wolf Creek. This plan provides 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 this plan reflect the employee's compensation, years of service and age at retirement.

Disclosure for pensions is determined under the rules prescribed by SFAS No. 132. The following sets forth KEPCo's share of the plan's charges in benefit obligation, plan assets and funded status as of December 31:

	2000	1999
Changes in benefit obligation-		
Benefit obligation at beginning of year	$2,984,941	$3,259,809
Service cost	202,033	231,829
Interest cost	253,118	236,751
Actuarial (gain) loss	109,608	(657,142)
Benefits paid	(87,414)	(86,306)
Benefit obligation at end of year	$3,462,286	$2,984,941

Plan assets are invested in insurance contracts, corporate bonds, equity securities, United States government securities and short-term investments.

	2000	1999
Changes in plan assets-		
Fair value of plan assets at beginning of year	$2,950,410	$2,402,929
Actual return on plan assets	61,296	357,647
Contributions during the year	156,917	276,140
Benefits paid	(87,414)	(86,306)
Fair value of plan assets at end of year	$3,081,209	$2,950,410
Funded status	$ (379,997)	$ (34,531)
Unrecognized net transition obligation	(675,851)	87,091
Unrecognized prior service cost	32,682	35,800
Unrecognized net gain	79,833	(1,025,523)
Accrued benefit cost	$ (943,333)	$ (937,163)
Actuarial assumptions-		
Discount rate	7.75%	7.50%
Annual salary increase rate	5.00	5.00
Long-term rate of return	9.25	9.25

KEPCo's share of the net periodic pension costs were as follows for the years ended December 31:

	2000	1999
Service cost	$202,033	$231,829
Interest cost on projected benefit obligation	253,118	236,751
Actual return on plan assets	(257,234)	(209,010)
Other	(34,830)	11,564
Total pension expense	$163,087	$271,134

KEPCo has an obligation to the WCNOC supplemental retirement plan for executives for its 6 percent ownership interest in Wolf Creek. This plan provides for benefits to Wolf Creek executives upon retirement. KEPCo expensed its 6 percent ownership share of $199,246 and $23,761 in 2000 and 1999, respectively, related to this plan.

14. Commitments and contingencies

Litigation

There is a provision in the Wolf Creek operating agreement whereby the owners treat certain claims and losses arising out of the operation of Wolf Creek as a cost to be born 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.

As is the case with other electric utilities, KEPCo, from time-to-time, is subject to various actions, which occasionally include punitive damage claims. KEPCo maintains insurance providing liability coverage; however, the insurance companies generally reserve the right to challenge insurance coverage for punitive damage recoveries. As of December 31, 2000, it is the opinion of the general counsel of KEPCo that there is not a significant probability that, as a result of pending or threatened personal injury actions, KEPCo will be liable for payment of actual or punitive damages in an amount material to the financial position of KEPCo.

Nuclear liability and insurance

The Price-Anderson Act limits the combined public liability of the owners of nuclear poser plants to $9.5 billion for a single nuclear incident. If this liability limitation is insufficient, Congress will consider taking whatever action is necessary to compensate the public for valid claims. The Wolf Creek owners (Owners) have purchased the maximum available private insurance of $200 million. The remaining balance is provided by an assessment plan mandated by the Nuclear Regulatory Commission (NRC). Under this plan, the Owners are jointly and severally subject to a retrospective assessment of up to $88.1 million ($5.3 million – KEPCo's share), in the event there is a major nuclear incident

involving any of the nation's licensed reactors. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. There is a limitation of $10 million ($600,000 – KEPCo's share) in retrospective assessments per incident per year.

The Owners carry decontamination liability, premature decommissioning liability and property damage insurance to the Wolf Creek facilities in the amount of $2.8 billion ($165 million – KEPCo's share). This insurance is provided by Nuclear Electric Insurance Limited (NEIL). In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The company's share of any remaining proceeds can be used to pay for property damage or decontamination expenses or, if certain requirements are met including decommissioning the plant, toward a shortfall in the decommissioning trust fund.

The Owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If losses incurred at any of the nuclear plants insured under the NEIL policies exceed premiums, reserves and other NEIL resources, KEPCo may be subject to retrospective assessments under the current policies of approximately $680,000 million per year.

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 Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable through rates, could have a materially adverse effect on KEPCo's financial position and results of operations.

<u>Decommissioning insurances</u>

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

<u>Nuclear fuel commitments</u>

At December 31, 2000, KEPCo's share of Wolf Creek's nuclear fuel commitments were approximately $1.1 million for uranium concentrates and conversion expiring at various times through 2003, $2.1 million for enrichment expiring at various times through 2003, and $7.8 million for fabrication through 2025.

Purchase power commitments

KEPCo has purchase power contracts with various utility companies to purchase power when member requirements exceed generation in given service areas. A significant purchase power contract expires in 2003. KEPCo is currently reviewing options to replace this expiring contract.

15. Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value as set forth in SFAS No. 107:

Cash and cash equivalents—The carrying amount approximates the fair value because of the short-term maturity of these investments.

Other investments, decommissioning trust, investments in associated organizations and bond fund reserve—The fair value of these assets is primarily based on quoted market prices as of December 31, 2000.

Variable-rate debt—The carrying amount approximates the fair value because of the short-term variable rates of those debt instruments.

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

The estimated fair values of KEPCo's financial instruments are as follows:

	December 31, 2000	
	Carrying Value	Fair Value
Cash and cash equivalents	$ 3,203,938	$ 3,203,938
Other investments	7,519,028	7,282,976
Investments in associated organizations (including investments in NRUCFC)	2,995,259	2,995,259
Bond fund reserve	4,126,194	4,255,759
Decommissioning trust	4,489,977	4,489,977
Fixed-rate debt	161,511,981	166,190,489
Variable-rate debt	35,500,000	35,500,000

16. Patronage capital

In accordance with KEPCo's by-laws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate margins to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's financial statements were adjusted to eliminate the exception to accounting principles generally accepted in the United States, total patronage capital would have been a deficit. This would result in no allocation to members. As noted in the statements of changes in patronage capital, no patronage capital distributions were made to members in 2000 or 1999.

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February 23, 2001

Board of Trustees of
Kansas Electric Power Cooperative, Inc.
5990 Southwest 28th Street
Topeka, Kansas 66604-0877

Dear Sirs:

We have audited the financial statements of Kansas Electric Power Cooperative, Inc., for the year ended December 31, 2000, and have issued our report thereon dated February 23, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audit of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Kansas Electric Power Cooperative, Inc., for the year ended December 31, 2000, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting and the objectives of and inherent limitations in such control is set forth in our independent auditors' report on compliance and on internal control over financial reporting dated February 23, 2001, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Section 7 CFR Part 1773.343 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.343(e)(1), related-party transactions and depreciation rates and a schedule of deferred debits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an

opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or other additional matters, and accordingly, we express no opinion thereon.

No reports (other than our report of independent public accountants, our report of independent public accountants on compliance with applicable laws and regulations and our report of independent public accountants on internal control over financial reporting, all dated February 23, 2001) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.343 are presented below.

Comments on certain specific aspects
<u>of the internal control over financial reporting</u>

We noted no matters regarding Kansas Electric Power Cooperative, Inc.'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records.
- The process of accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance or other expense accounts.
- The materials control.

Comments on compliance with specific
<u>RUS loan and security instrument provisions</u>

Management's responsibility for compliance with laws, regulations, contracts and grants is set forth in our report of independent public accountants on compliance with applicable laws and regulations dated February 23, 2001, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedure performed with respect to the requirement to maintain all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government:
  - Obtained information from financial institutions with which Kansas Electric Power Cooperative, Inc., maintains cash proceeds from loans that indicated that the institutions are insured by an agency of the Federal government.
- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2000, of Kansas Electric Power Cooperative, Inc.:

- Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 7 CFR Part 1773.334(e)(1)(ii).
- Reviewed Board of Trustee's minutes to ascertain whether there were board-approved written contracts entered into during the year for the operation or maintenance of all or any part of the borrower's property, or for the use of its property by others.
- Noted the existence of written RUS approval of each contract listed by the borrower.

• Procedure performed with respect to the requirement to submit RUS Form 12 to the RUS:
  - Agreed amounts reported in Form 12 to Kansas Electric Power Cooperative, Inc.'s records.

The results of our tests indicate that, with respect to the items tested, Kansas Electric Power Cooperative, Inc., complied, in all material respects, except as noted below with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that Kansas Electric Power Cooperative, Inc., had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower maintains all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government.
- The borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of its mortgaged property by others as defined in 7 CFR Part 1773.334(e)(1)(ii).
- The borrower has submitted its Form 12 to the RUS and the Form 12, Financial and Statistical Report as of December 31, 2000, represented by the borrower as having been submitted to RUS is in agreement with Kansas Electric Power Cooperative, Inc.'s audited records in all material respects.

Comments on other additional matters

In connection with our audit of the financial statements of Kansas Electric Power Cooperative, Inc., nothing came to our attention that caused us to believe that Kansas Electric Power Cooperative, Inc., failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.334(c)(1).
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.334(c)(2).
- The retirement of plant addressed at 7 CFR Part 1773.343(c)(3) and (4).
- Sales of plant, material or scrap addressed at 7 CFR Part 1773.343(c)(5).
- The disclosure of material related-party transactions, in accordance with Statement of Financial Accounting Standards No. 57, "Related-Party Transactions," for the year ended December 31, 2000, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.343(f).

- Depreciation rates addressed at 7 CFR Part 1773.334(g), except that Kansas Electric Power Cooperative, Inc., utilizes depreciation rates based on a present worth (sinking fund) methodology ordered by the regulatory body having jurisdiction over Kansas Electric Power Cooperative, Inc.'s rates. The sinking fund method of depreciation constitutes a departure from accounting principles generally accepted in the United States, and as such, is not approved by the RUS.

Detailed schedule of deferred charges

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773.343(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of certain amortization methods Kansas Electric Power Cooperative, Inc., utilizes based on a present worth (sinking fund) methodology ordered by the regulatory body having jurisdiction over its rates which do not, in our opinion, conform to accounting principles generally accepted in the United States, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

	As of December 31, 2000
Deferred charges-	
Wolf Creek disallowed costs (less accumulated amortization of $6,618,217)	$19,364,704
Deferred Department of Energy decommissioning costs	569,847
Deferred incremental outage costs	2,284,905
Other deferred charges (less accumulated amortization of $561,810)	1,935,881
	$24,155,337

Written approval for the above deferrals has not been received from the RUS, however, such deferrals have been approved by the regulatory body having jurisdiction over Kansas Electric Power Cooperative, Inc.'s rates.

This report is intended solely for the information and use of the board of trustees, management and the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Arthur Andersen LLP