

DEDICATED
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KANSAS



2014

Annual Report

Kansas Electric Power Cooperative, Inc.

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KEPCo Staff

Marcus Harris.....	Executive Vice President & Chief Executive Officer	Maurice Hall.....	Sr. SCADA/Metering Technician
Les Evans.....	Senior Vice President & Chief Operating Officer	Robert Hammersmith.....	Sr. SCADA/ Metering Technician
William Riggins.....	Senior Vice President, Chief Strategic Officer & General Counsel	Shari Koch.....	Finance & Accounts Payable/Payroll Specialist
Coleen Wells.....	Vice President & Chief Financial Officer	Elizabeth Lesline.....	Administrative Assistant/ Receptionist
Stephanie Anderson.....	Finance & Benefits Analyst	Mitch Long.....	Sr. SCADA/ Metering Technician
Mark Barbee.....	Vice President of Engineering, KSI Vice President of Engineering	Matt Ottman.....	Information System Specialist 2
Chris Davidson.....	Engineer 3	John Payne.....	Senior Engineer
Terry Deutscher.....	Manager, SCADA & Meter Maintenance	Rita Petty.....	Executive Assistant & Manager of Office Services
Mark Doljac.....	Director of Rates & Regulation	Kelsey Schrempp.....	Administrative Assistant & Benefits Specialist
Carol Gardner.....	Operations Analyst	Paul Stone.....	System Operator
Shawn Geil.....	Director of Information Systems	Jill Taggart.....	Director of Forecasting & Planning
		Phil Wages.....	Director of Member Services, Government Affairs & Business Development

Organization and Resources

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 nineteen distribution rural electric cooperative members at a reasonable cost.

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

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

KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission in 1980 to act as a G&T public utility. KEPCo's power supply resources consist of: 70 MW of owned generation from the Wolf Creek Generating Station; 30 MW of owned generation from the Iatan 2 Generating Unit; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration; and 14 MW from the Western Area Power Administration; plus partial requirement power purchases from regional utilities.

KEPCo is a Touchstone Energy® Cooperative. Touchstone Energy® is a nationwide alliance of more than 700 cooperatives committed to promoting the core strengths of electric cooperatives - integrity, accountability, innovation, personal service and a legacy of community commitment. The national program is anchored by the motto "The Power of Human Connections."

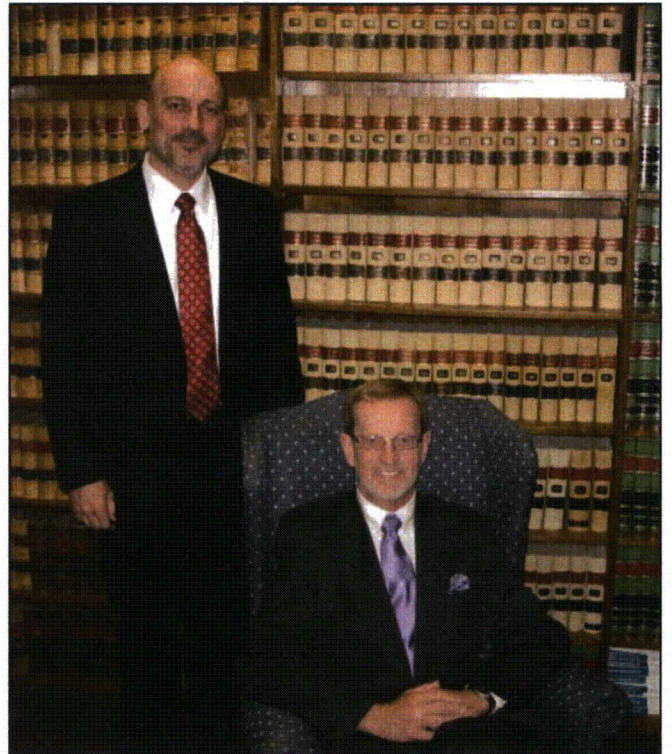
**Kansas Electric
Power Cooperative, Inc.**
P.O. Box 4877 Topeka, KS 66604
600 SW Corporate View Topeka, KS 66615
(785) 273-7010

A Touchstone Energy® Cooperative



2014 Message

from
Scott Whittington
KEPCo President
&
Marcus Harris
Executive Vice President
& Chief Executive Officer



2014 was highlighted by the selection of Marcus Harris as the new Executive Vice President and Chief Executive Officer of KEPCo. Harris replaces Charles "Chuck" Terrill who retired in December. Harris comes to KEPCo from South Carolina Electric and Gas Company (SCE&G), where he amassed over twenty-three years of leadership experience in various roles within the utility, including wholesale power marketing, operations planning, transmission and distribution operations, power origination and most recently, directing the renewable and demand side management activities of SCE&G.

The costs associated with the production and transmission of electricity are of utmost concern for every electric utility. In today's regulatory-laden environment, these concerns have been augmented even more. Efforts to control costs are of paramount importance to KEPCo, as our core responsibility is to provide economic and reliable wholesale power to our nineteen Member electric cooperatives. Reflective of this responsibility was the decision made to refinance KEPCo's debt associated with the Wolf Creek Nuclear Generating Station (Wolf Creek), which included the refinancing of KEPCo's Grantor Trust Series and pollution control revenue bonds, and the method in

which KEPCo's wholesale rate adjusters are calculated.

Nationwide, the cost to produce electricity continues to rise. Cost drivers such as labor, materials, maintenance, and ever-increasing regulatory compliance costs have caused rates to increase. In an effort to slow this trend, a strategic decision was made in 2013 to refinance the debt instruments associated with Wolf Creek. By doing so, KEPCo is able to more closely match the debt payment with the useful life of Wolf Creek, which, a few years ago, received an operating license extension to 2045. Completed in 2014, the refinancing of the debt instruments resulted in a four mill, or nearly five percent, reduction in wholesale rates.

In July, KEPCo staff presented to the KEPCo Board of Trustees a plan to change the method in which several wholesale rate adjustments are calculated and applied to the Member's rates. Later in the year, the Board unanimously approved the new rate adjustment method, which was implemented on January 1, 2015. By implementing the change, the basic wholesale rate structure remains unchanged, a better timing of revenue and expenses are realized, and KEPCo will have a more accurate picture of its financial position, since KEPCo will use budgeted cost figures rather than historical costs. KEPCo's Margin Stabilization Adjustment will flow back any over-recovery or collect any under-recovery, in aggregate, while maintaining KEPCo's margin to meet its minimum financial requirements.

Access to low-cost capital through the Rural Utilities Service (RUS) is critical in keeping KEPCo's cost of borrowing as low as possible, which in turn keeps KEPCo's wholesale rate more economical. KEPCo completed a ten-year financial forecast as part of the requirement for a RUS Wolf Creek capital addition loan application, which was completed and filed late in the year. The forecast shows a modest increase in rates over the ten-year period, when compared to the previous ten-year period. The financial forecast illustrates the positive rate impact of the Wolf Creek debt restructuring and the change in rate adjuster calculations.

KEPCo had a strong financial performance in 2014. KEPCo's total assets, including those of its subsidiary, KEPCo Services Incorporated (KSI), were nearly \$281 million, an increase of over \$6 million from 2013. KEPCo achieved a net margin sufficient to meet all of its financial requirements, which provided the needed flexibility for the successful operation of the company. KEPCo's positive financial

performance was further illustrated with its equity-to-asset ratio improving to 21.2%.

In 2013, KEPCo implemented a Member Investment Program, which ended this year with a balance of over \$3 million. The program offers Members an alternative investment resource at a competitive rate of return, while providing KEPCo with an additional source of capital. KEPCo also allocated over \$3 million in patronage capital to its Members, and since 1995, KEPCo has allocated more than \$80 million in capital credits.

KEPCo's peak demand of 433 MW was virtually the same as last year, and is nearly five percent less than the all-time peak KEPCo set in 2011 of 455 MW. Energy sales to Members increased by four percent, which follows a two percent increase in 2013. Since 2010, KEPCo's energy sales have increased nearly eight percent. The increase in energy sales and the decline and flattening of demand reflects Member load management response to KEPCo's pricing signals, thereby shifting load from peak demand hours to other times of day, and also reflects somewhat milder temperatures in more recent years during the peaking summer season. In addition, a few Member cooperatives have installed peaking generators that are called upon during peak times, which have contributed to decreasing KEPCo's peak demand, and several more Member cooperatives are in the process of installing peaking generators that will be available for the 2015 summer season. KEPCo's Members benefit from the flattening of demand growth when energy consumption grows more rapidly, as capacities of generating, transmission and delivery systems are better utilized and costs per unit of energy are reduced because the associated fixed costs are spread over a greater quantity of energy consumption.

KEPCo's generation resources continue to be the cornerstone of KEPCo's ability to provide an economic and reliable power supply. In 2014, Matt Sunseri, CEO of the Wolf Creek Nuclear Operating Company, retired and Adam Heflin was selected as his successor. Prior to coming to Wolf Creek, Heflin was the Chief Nuclear Officer for Ameren Missouri, where he led the operations of the Callaway Energy Center, a plant nearly identical in design to Wolf Creek. Heflin's previous experience and responsibilities enabled a smooth transition into the responsibility of leading improvements in the efficiency and reliability at Wolf Creek while maintaining the plant's strong safety record.



Wolf Creek Nuclear Generating Station

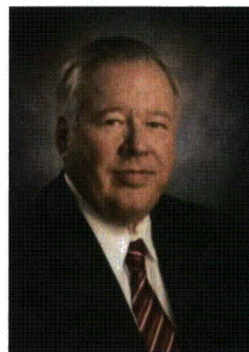
For the past few years, the electric utility industry has had to react to several new EPA regulations by expending money and resources to retrofit existing coal-fired generating facilities with environmental controls to comply with the regulations. These mandated actions have contributed greatly to the rise in costs associated with the production of electricity. Completing its fourth year of operation in 2014, Iatan 2 has met or exceeded all EPA regulations without expending resources for any additional environmental control equipment, thus shielding KEPCo members from regulatory compliance costs on a resource

that, in 2014, provided KEPCo with nearly seven percent of its energy. This is less than the production level achieved in 2013 due to a scheduled 52-day maintenance outage.



Iatan 2

To provide further surety of KEPCo's diverse power supply, in December, KEPCo executed a contract extension for hydropower with the Western Area Power Administration (WAPA) to year 2054. Since 1989, KEPCo has received 14 MW of energy annually from WAPA and is one of KEPCo's least-cost resources. The contract extension will provide KEPCo and its members the security of firm, low-cost energy for the next 40 years.



Chuck Terrill

On behalf of the Board of Trustees and KEPCo staff, a well-deserved thank you is extended to Chuck Terrill for his service to KEPCo. Chuck served as EVP & CEO on two separate occasions; the first from 1988 to 1995 and the second from 2013 until his retirement in December of 2014. During both tenures, Chuck provided KEPCo with leadership and guidance, while orchestrating many accomplishments that will be long-lasting and appreciated by KEPCo Member cooperatives for many years to come. From your friends at KEPCo, thank you for your service and we wish you a long and healthy retirement.

A special thank you is also extended to the KEPCo Board of Trustees and KEPCo staff for their hard work and dedication during the past year. It is gratifying to have so many highly

skilled individuals working through the complexities of today's energy industry and showing the resolve to work on compound energy issues for the future of rural Kansas.



Marcus Harris
KEPCo EVP & CEO

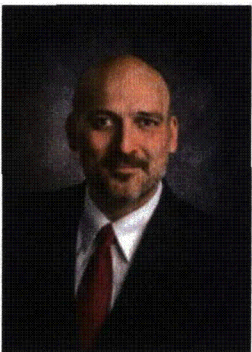


Scott Whittington
KEPCo President



Back row, left to right: Scott Whittington - President; Kevin Compton - Vice President; Dean Allison - Secretary. Front row, left to right; Bryan Coover - Executive Committee; Kirk Thompson - Executive Committee. Not pictured: Dale Short - Treasurer; Larry Stevens - Executive Committee.

2014 KEPCo Highlights



Marcus Harris

Mr. Marcus Harris was selected by the KEPCo Board of Trustees as the Executive Vice-President & CEO of KEPCo. Mr. Harris succeeds Mr. Charles "Chuck" Terrill who retired in December.

The KEPCo Board of Trustees unanimously approved a change in the method in which wholesale rate adjustments are calculated. The change will facilitate a better timing of revenue and expenses, which will allow KEPCo to have a more accurate picture of its financial position.

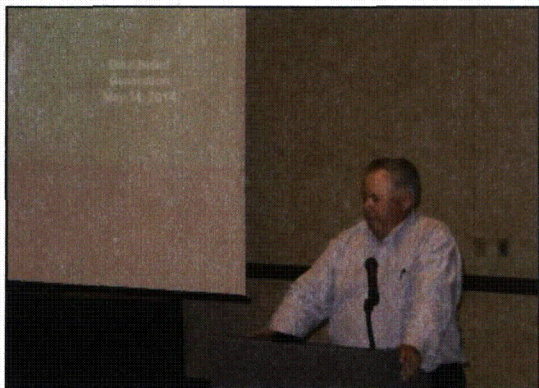
Beginning in 2013 and finalized in 2014, KEPCo refinanced the debt instruments associated with the Wolf Creek Nuclear Generating Station. This action resulted in a cumulative wholesale rate reduction of approximately five percent.



Wolf Creek Nuclear Generating Station

KEPCo completed a ten-year financial forecast that was unanimously approved by the KEPCo Board of Trustees.

KEPCo successfully appealed its Kansas property valuation tax assessment, resulting in a significant savings for KEPCo and its Member cooperatives.

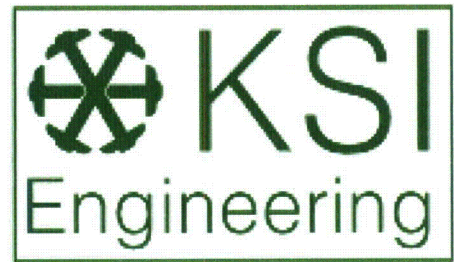


Chuck Terrill addresses the Board during the retreat

At the May Board meeting, KEPCo conducted a business retreat at which various aspects of distributed generation were discussed. Representatives from several renewable and distributed generation companies gave presentations to the Board, discussing topics which included solar panel design and performance, optimal solar array configuration, cost and financing structures, marketing strategies, and utility rate design.

KEPCo negotiated with Sunflower to restructure terms of its Wholesale Power Agreement, resulting in a savings for KEPCo and its Member cooperatives over the remainder of the contract, which expires in 2020.

KSI conducted Arc Flash Hazard Assessments for 13 member electric cooperatives and two non-member electric cooperatives. The assessments were prepared as a guide to assist cooperatives in selecting appropriate clothing for workers that could be exposed to hazards from flames or electric arcs. In addition, KSI completed Construction Work Plans for four Member electric cooperatives.



Kansas State Capitol, Topeka, Kansas

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and Washington, D.C. Staff testified on several bills in 2014 and tracked numerous pieces of legislation. In Washington, D.C., KEPCo staff participated in the NRECA Legislative Conference.

KEPCo executed the documents to extend its Western Area Power Administration (WAPA) contract to 2054. KEPCo receives 14MW of energy from WAPA and is one of KEPCo's least-cost energy resources.



Parker Dam - Lake Havasu

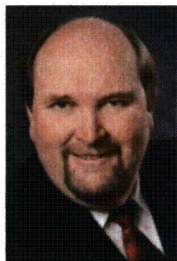


KEPCo continues to work with its Member cooperatives in an aggressive rural development program that has successfully created rural jobs and wealth retention in Kansas. The USDA Rural Economic Development Loan & Grant (REDLG) program provides zero interest loans to worthy projects.

Safety of our employees is essential to the continued operational success of KEPCo. Several safety meetings are conducted throughout the year for KEPCo's SCADA Technicians and administrative personnel. KEPCo is proud to report there were no lost time accidents recorded in 2014.

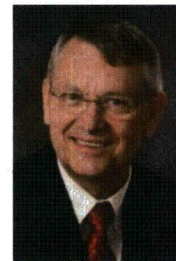
KEPCo Member Cooperatives

Trustees, Alternates and Managers

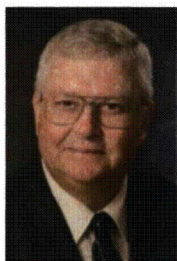


Joseph Seiwert

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



Bob Hall



Ken Maginley

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

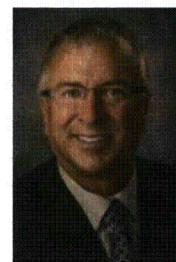


Bob Ohlde



Kevin Compton

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

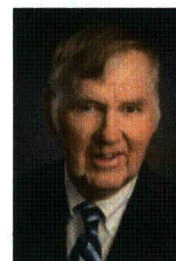


Jim Currie

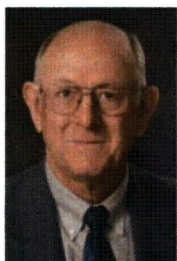


Dale Short

Butler Rural Electric Cooperative Assn., Inc.
 PO Box 1242, El Dorado, KS 67402 316-321-9600
 Trustee Rep. -- Dale Short
 Alternate Trustee -- Riley Walters
 Manager -- Dale Short

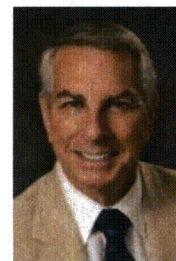


Riley Walters

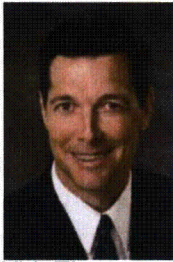


Dwane Kessinger

Caney Valley Electric Cooperative Assn., Inc.
 PO Box 308, Cedar Vale, KS 67204 620-758-2262
 Trustee Rep. -- Dwane Kessinger
 Alternate Trustee -- Allen A. Zadorozny
 Manager -- Allen A. Zadorozny

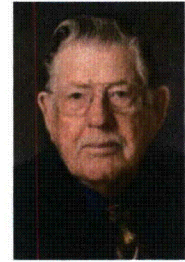


Allen Zadorozny

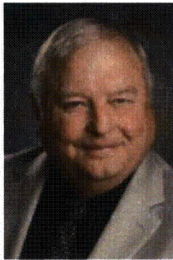


Kirk Thompson

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

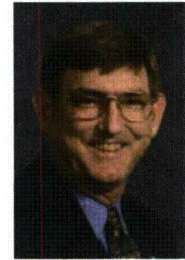


Cliff Friesen



Dean Allison

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

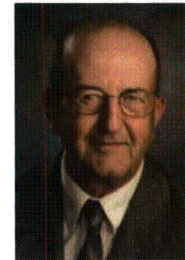


Don Hellwig

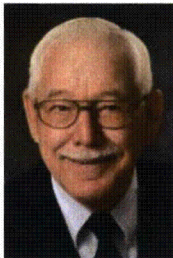


Bob Reece

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



William Hein

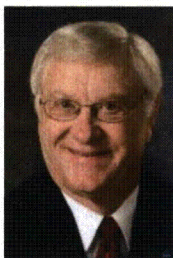


Dennis Peckman

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

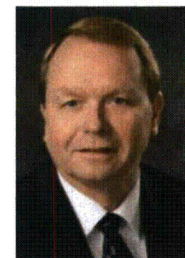


Dale Coomes



Larry Stevens

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

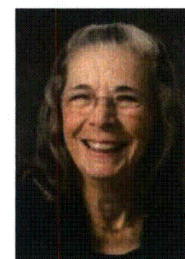


Steven Foss



Scott Whittington

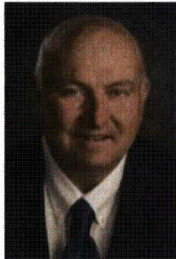
Lyon-Coffey Electric Cooperative, Inc.
 PO Box 229, Burlington, KS 66839 620-364-2116
 Trustee Rep. -- Scott Whittington
 Alternate Trustee -- Donna Williams
 Manager -- Scott Whittington



Donna Williams

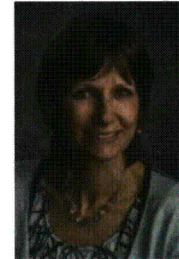
KEPCo Member Cooperatives

Trustees, Alternates and Managers

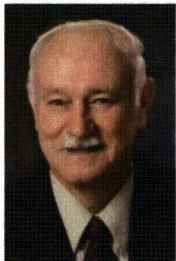


Curtis Durall

Ninnescah Electric Cooperative Assn., Inc.
 PO Box 967, Pratt, KS 67124 620-672-5538
 Trustee Rep. -- Curtis Durall
 Alternate Trustee -- Teresa Miller
 Manager -- Teresa Miller

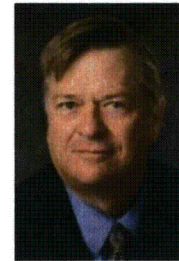


Teresa Miller

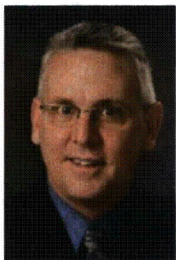


Gilbert Berland

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



Allan Miller



Dennis Duft

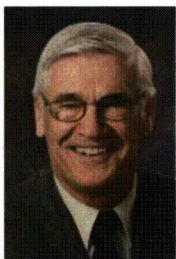
Radiant Electric Cooperative, Inc.
 PO Box 390, Fredonia, KS 66736 620-378-2161
 Trustee Rep. -- Dennis Duft
 Alternate Trustee -- Tom Ayers
 Administrative Manager -- Leah Tindle
 Operations Manager -- Dennis Duft



Tom Ayers



Leah Tindle

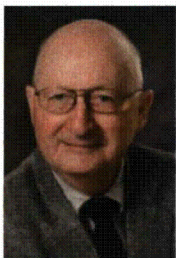


Leon Eck

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

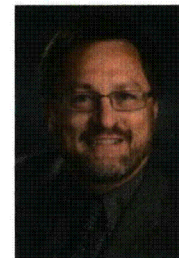


Doug Jackson

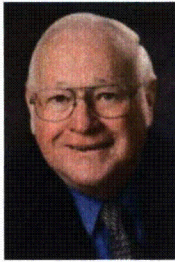


Donald Metzen

Sedgwick County Electric Cooperative Assn., Inc.
 PO Box 220, Cheney, Ks 67025 316-542-3131
 Trustee Rep. -- Donald Metzen
 Alternate Trustee -- David Childers
 Manager -- David Childers



Dave Childers

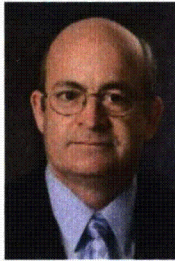


Charles Riggs

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

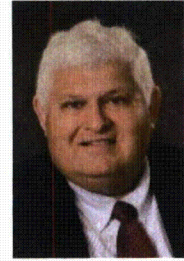


Cletas Rains



Bryan Coover

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

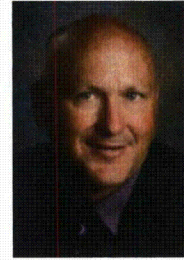


Ron Holsteen



Shane Laws

Victory Electric Cooperative Assn., Inc.
 PO Box 1335, Dodge City, KS 67801 620-227-2139
 Trustee Rep. -- Shane Laws
 Alternate Trustee -- Daryl Tieben
 Manager -- Shane Laws

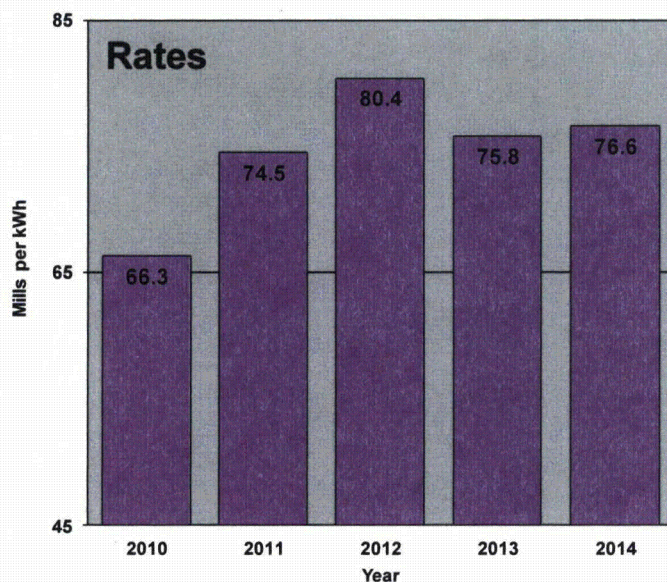
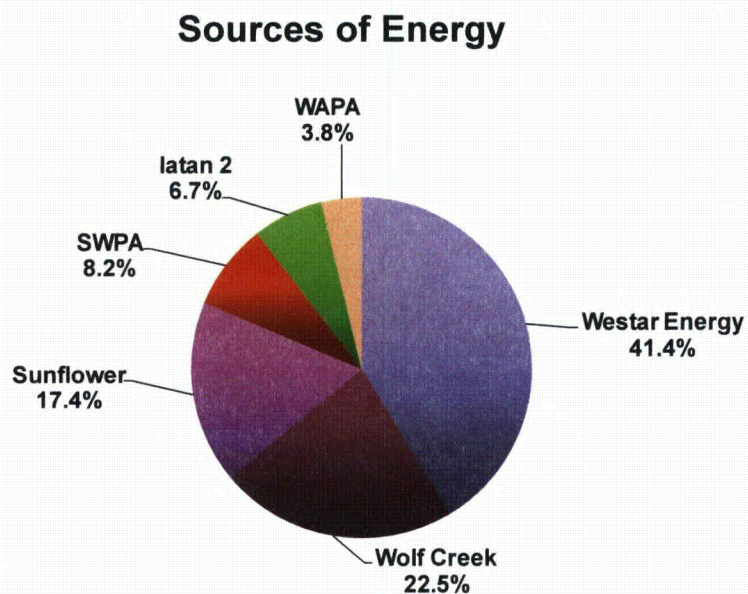
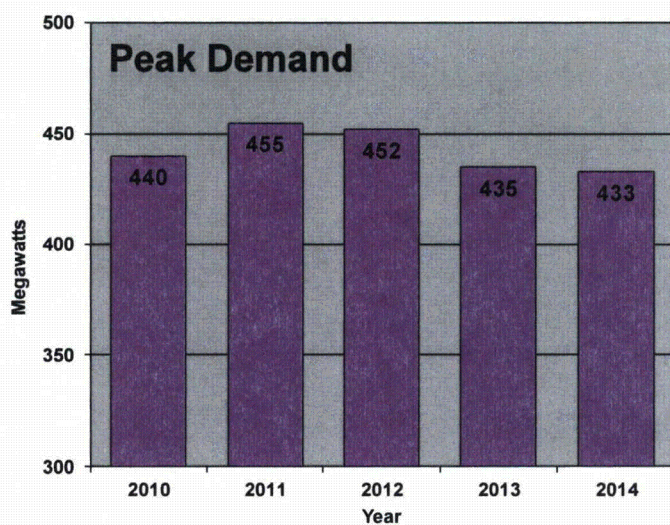
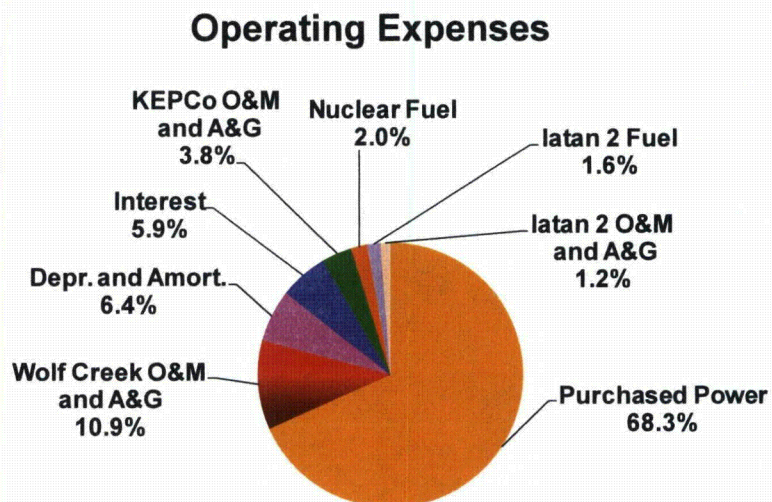
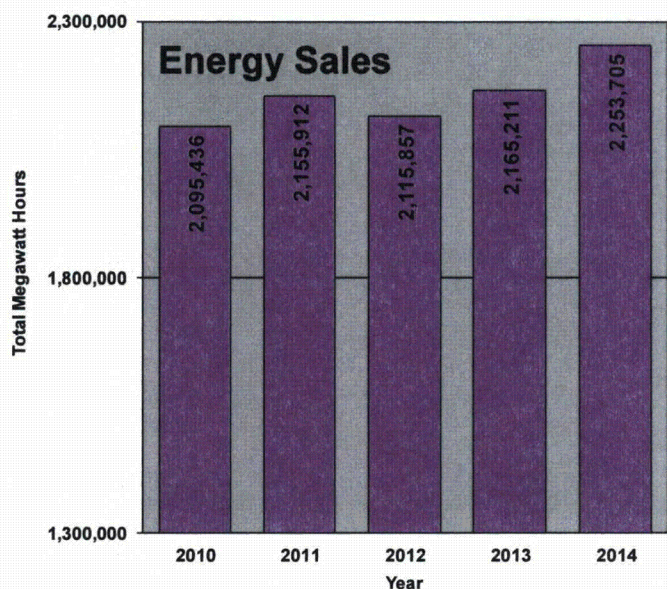


Daryl Tieben

2014 - 2015 KEPCo Executive Committee

Scott Whittington - President
 Kevin Compton - Vice President
 Dale Short - Treasurer
 Dean Allison - Secretary
 Bryan Coover - Committee Member
 Larry Stevens - Committee Member
 Kirk Thompson - Committee Member

Operating Statistics



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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 sheets as of December 31, 2014 and 2013, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

As more fully described in Note 3 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the 2014 and 2013 consolidated financial statements which, in our opinion, are not in accordance with accounting principles generally accepted in the United States of America. The effects on the consolidated financial statements of the aforementioned departure are explained in Note 3.

Qualified Opinion

In our opinion, except for the effects of using the aforementioned depreciation and amortization methods as discussed in Note 3, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of KEPCo as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 2, 2015, on our consideration of KEPCo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEPCo's internal control over financial reporting and compliance.



Mayer Hoffman McCann P.C.
Topeka, Kansas
April 2, 2015

Consolidated Balance Sheets

Assets	December 31,	
	2014	2013
Utility Plant		
In-service	\$ 340,615,798	\$ 318,326,772
Less allowances for depreciation	(148,469,211)	(143,755,156)
Net in-service	192,146,587	174,571,616
Construction work in progress	9,776,657	18,837,972
Nuclear fuel (less accumulated amortization of \$23,151,678 and \$19,911,283 for 2014 and 2013, respectively)	9,809,670	7,806,307
Total utility plant	211,732,914	201,215,895
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	11,741,745	12,094,536
Bond fund reserve	4,490,786	4,465,868
Decommissioning fund	19,378,279	17,844,344
Investments in other associated organizations	264,976	252,077
Total restricted assets	35,875,786	34,656,825
Current Assets		
Cash and cash equivalents	1,202,643	5,181,544
Member account receivables	14,041,772	5,664,940
Materials and supplies inventory	6,391,899	5,756,835
Other assets and prepaid expenses	699,236	734,937
Total current assets	22,335,550	17,338,256
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of \$17,178,044 and \$16,420,880 for 2014 and 2013, respectively)	8,804,877	9,562,041
Wolf Creek deferred plants costs (less accumulated amortization of \$40,688,954 and \$37,559,034 for 2014 and 2013, respectively)	6,259,839	9,389,759
Wolf Creek decommissioning regulatory asset	(7,217,629)	(6,499,881)
Deferred incremental outage costs	1,185,502	6,259,359
Other deferred charges (less accumulated amortization of \$9,515,076 and \$9,279,497 for 2014 and 2013, respectively)	391,103	801,338
Unamortized debt issuance costs	80,055	147,664
Other	247,538	235,182
Prepaid pension cost	1,073,323	1,545,694
Total long-term assets	10,824,608	21,441,156
Total assets	\$ 280,768,858	\$ 274,652,132

Consolidated Balance Sheets

Liabilities and Patronage Capital

December 31,

2014

2013

Patronage Capital

Memberships	\$ 3,200	\$ 3,200
Patronage capital	73,517,749	70,025,317
Accumulated other comprehensive loss	(8,379,226)	(4,071,781)
Total patronage capital	<u>65,141,723</u>	<u>65,956,736</u>

Long-term Debt

<u>152,126,943</u>	<u>140,460,064</u>
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Other Long-term Liabilities

Wolf Creek decommissioning liability	13,320,625	12,542,673
Wolf Creek pension and postretirement benefit plans	12,004,519	7,432,482
Wolf Creek deferred compensation	1,314,323	1,120,601
Total other long-term liabilities	<u>26,639,467</u>	<u>21,095,756</u>

Current Liabilities

Current maturities of long-term debt	15,683,929	22,493,911
Accounts payable	14,199,898	14,523,217
Payroll and payroll-related liabilities	257,523	243,044
Short term note payable	1,429,000	6,500,000
Deferred revenue	3,325,322	1,224,424
Accrued property taxes	1,371,811	1,519,915
Accrued income taxes	3,518	-
Accrued interest payable	589,724	635,065
Total current liabilities	<u>36,860,725</u>	<u>47,139,576</u>

Total patronage capital and liabilities	<u>\$ 280,768,858</u>	<u>\$ 274,652,132</u>
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Consolidated Statements of Margin

	For the years ending December 31,	
	2014	2013
Operating Revenues		
Sale of electric energy	\$ 172,576,128	\$ 164,048,145
Operating Expenses		
Power purchased	116,339,132	107,958,510
Nuclear fuel	3,402,688	3,303,643
Plant operations	16,231,337	18,223,619
Plant maintenance	6,647,651	6,115,338
Administrative and general	6,284,806	6,105,859
Amortization of deferred charges	4,122,663	4,185,313
Depreciation and decommissioning	7,444,553	6,944,842
Total operating expenses	160,472,830	152,837,124
Net operating revenues	12,103,298	11,211,021
Interest and Other Deductions		
Interest on long-term debt	9,415,650	9,599,108
Amortization of debt issuance costs	67,609	77,813
Other deductions	407,649	190,317
Total interest and other deductions	9,890,908	9,867,238
Operating income	2,212,390	1,343,783
Other Income/(Expense)		
Interest income	915,409	859,711
Other income	370,401	390,286
Income tax	(5,768)	-
Total other income	1,280,042	1,249,997
Net margin	\$ 3,492,432	\$ 2,593,780
 Net Margin	 \$ 3,492,432	 \$ 2,593,780
 Other comprehensive (loss)/income		
Net (loss)/earnings arising during year on pension obligation	(4,717,230)	3,984,833
Amortization of prior year service costs included in net periodic pension costs	409,785	733,259
Comprehensive (loss)/income	\$ (815,013)	\$ 7,311,872

Consolidated Statements of Patronage Capital

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2012	\$ 3,200	\$67,431,537	\$ (8,789,873)	\$ 58,644,864
Net margin	-	2,593,780	-	2,593,780
Defined benefit pension plans:				
Net earnings arising during year	-	-	3,984,833	3,984,833
Amortization of prior year service costs included in net periodic pension costs	-	-	733,259	733,259
Balance at December 31, 2013	3,200	70,025,317	(4,071,781)	65,956,736
Net margin	-	3,492,432	-	3,492,432
Defined benefit pension plans:				
Net loss arising during year	-	-	(4,717,230)	(4,717,230)
Amortization of prior year service costs included in net periodic pension costs	-	-	409,785	409,785
Balance at December 31, 2014	<u>\$ 3,200</u>	<u>\$ 73,517,749</u>	<u>\$ (8,379,226)</u>	<u>\$ 65,141,723</u>

Consolidated Statements of Cash Flows

	For the years ending December 31,	
	2014	2013
Cash Flows From Operating Activities		
Net margin	\$ 3,492,432	\$ 2,593,780
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	7,028,254	6,540,599
Decommissioning	1,495,700	2,904,092
Amortization of nuclear fuel	3,240,394	2,819,442
Amortization of deferred charges	4,122,662	4,175,257
Amortization or deferred incremental outage costs	5,668,059	5,386,940
Amortization of debt issuance costs	67,609	77,813
Changes in		
Member accounts receivable	(8,376,832)	7,609,332
Materials and supplies	(635,064)	(485,950)
Other assets and prepaid expense	35,701	106,504
Accounts payable	(323,319)	599,854
Payroll and payroll-related liabilities	14,479	(102,839)
Accrued property tax	(148,104)	(67,149)
Accrued interest payable	(45,341)	12,556
Accrued income taxes	3,518	1,092
Other long-term liabilities	445,958	1,147,579
Prepaid pension cost	472,371	(1,545,694)
Deferred revenue	2,100,898	1,224,424
Net cash flows from operating activities	18,659,375	32,997,632
Cash Flows From Investing Activities		
Additions to electrical plant	(15,556,312)	(17,278,012)
Additions to nuclear fuel	(5,243,757)	(503,127)
Reductions in deferred charges	174,656	95,335
Additions to deferred incremental outage costs	(594,202)	(10,359,443)
Investments in decommissioning fund assets	(1,533,935)	(2,942,327)
Proceeds from associated organizations	339,892	17,442
Investments in bond reserve assets	(24,918)	(26,164)
Proceeds from the sale of property	14,402	41,837
Net cash flows from investing activities	(22,424,174)	(30,954,459)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(19,429,155)	(20,168,539)
Proceeds from issuance of long-term debt	25,993,166	11,594,273
Short term notes payable	(5,071,000)	6,500,000
Payments unapplied	(1,707,113)	2,388,503
Net cash flows from financing activities	(214,102)	314,237
Net (decrease) increase in cash and cash equivalents	(3,978,901)	2,357,410
Cash and Cash Equivalents, Beginning of Year	5,181,544	2,824,134
Cash and Cash Equivalents, End of Year	\$ 1,202,643	\$ 5,181,544
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 9,868,600	\$ 9,776,900

Notes to Consolidated Financial Statements

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations - Kansas Electric Power Cooperative, Inc., and its subsidiary (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). KEPCo 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 its power supply contracts. KEPCo is governed by a board of trustees representing each of its 19 members, which collectively serve approximately 120,000 electric meters in rural Kansas.

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

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

Principles of Consolidation - The consolidated financial statements include the accounts of KEPCo and its wholly owned subsidiary, KEPCo Services, Inc. Undivided interests in Wolf Creek Nuclear Operating Corporation and latan 2 generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

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

Utility Plant and Depreciation - Utility plant is stated at cost. Cost and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. No interest has been capitalized in 2014 and 2013. 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, 2014 and 2013 are 3.59% and 3.44%, 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

Notes to Consolidated Financial Statements

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, MO, is operated and majority owned by KCP&L.

Wolf Creek Nuclear Operating Corporation - KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL) 47% and Kansas Gas & Electric Company (KGE) 47%. KGE is a wholly owned subsidiary of Westar Energy, Inc. KCPL is a wholly owned subsidiary of Great Plains Energy, Inc. KEPCo's undivided interest in WCNOC is consolidated in the financial statements 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.

WCNOC's operating license expires in 2045. Wolf Creek 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.

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. Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel. Wolf Creek paid into a federal Nuclear Waste Fund administered by the DOE a quarterly fee for the future disposal of spent nuclear fuel. In November 2013, a federal court of appeals ruled that the DOE must stop collecting this fee effective May 2014. KEPCo's share of the fee, calculated as one tenth of a cent for each kilowatt-hour of net nuclear generation delivered to customers, was \$104,499 and \$388,024 in 2014 and 2013, respectively. KEPCo included these costs in fuel and purchased power expense on the consolidated statements of margin.

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 Nuclear Regulatory Commission (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. Wolf Creek 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 2011, the 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 \$37.8 million. This amount compares to the prior site study estimate of \$35.6 million. The site study cost

Notes to Consolidated Financial Statements

estimate represents the estimate to decommission Wolf Creek 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 Wolf Creek, 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 2014 and \$0.5 million in 2013. KEPCo records its investment in the Nuclear Decommissioning Trust fund at fair value, which approximated \$19.4 million and \$17.8 million as of December 31, 2014 and 2013, respectively.

Asset retirement obligation - KEPCo recognizes and estimates the legal obligation associated with the cost to decommission Wolf Creek. KEPCo initially recognized an 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, 2014 and 2013 is as follows:

	2014	2013
Balance at January 1	\$ 12,542,673	\$ 11,810,322
Accretion	777,952	732,351
Balance at December 31	<u>\$ 13,320,625</u>	<u>\$ 12,542,673</u>

Any net margin effects are deferred in the Wolf Creek 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, the organization'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.

Notes to Consolidated Financial Statements

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

Materials and Supplies Inventory - Materials and supplies inventory are valued at average cost.

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

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

	2014	2013
Cash surrender value of contracts	\$ 7,169,655	\$ 6,814,094
Borrowings against contracts	(6,922,117)	(6,578,912)
	<u>\$ 247,538</u>	<u>\$ 235,182</u>

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, 2014 and 2013.

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

Income Taxes - As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying consolidated financial statements. KEPCo is no longer subject to federal or state income tax examinations by taxing authorities for years prior to 2011.

KEPCo Services, Inc., a subsidiary of Kansas Electric Power Cooperative, Inc., is not exempt from income taxes. The organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the organization.

There has been no interest or penalties recognized neither in the statements of margin nor in the balance sheets related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. Tax years with open statutes of limitations are 2011 and forward.

Notes to Consolidated Financial Statements

(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 Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets that could be recovered in such an environment cannot be predicted.

The 1992 Energy Policy Act began the process of restructuring the United States electric utility industry by permitting the Federal Energy Regulatory Commission to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. KEPCo has elected to deregulate its rate making for sales to its members under recent statutory amendments.

Subject to the possibility of KCC review, KEPCo's member rates are now set by action of the Board. KEPCo's ability to timely recover its costs is enhanced by this change.

(3) Departures From Generally Accepted Accounting Principles

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. Such depreciation and amortization methods constituted phase-in plans that did not meet the requirements of ASC 980-340 *Regulated Operation, Other Assets and Deferred Costs*.

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

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

	2014	2013
Deferred charges	\$ 7,127,268	\$ 10,690,902
Patronage capital	\$ 7,127,268	\$ 10,690,902
Net margin	\$ (3,563,634)	\$ (3,563,634)

Notes to Consolidated Financial Statements

Wolf Creek Disallowed Costs - Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed \$26.0 million of KEPCo's investment in Wolf Creek (\$8.8 million net of accumulated amortization as of December 31, 2014). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a 30-year period. Through December 31, 2001, KEPCo used the present worth (sinking fund) method to recover the disallowed costs, which enabled it to meet the times-interest-earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo through 2001 constituted a phase-in plan that did not meet the requirements of ASC 980-340, *Regulated Operations, Other Assets and Deferred Costs*.

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

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

Amortization of the Wolf Creek disallowed costs is included in amortization of disallowed charges and amounts to \$0.8 million for each of the years ended December 31, 2014, and 2013.

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

Amortization of the Wolf Creek deferred plant costs is included in amortization of deferred charges and amounts to \$3.1 million for each of the years ended December 31, 2014 and 2013.

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

(4) Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2014 and 2013, investments in associated organizations consisted of the following:

Notes to Consolidated Financial Statements

	2014	2013
Cooperative Financial Corporation		
Memberships	\$ 1,000	\$ 1,000
Capital term certificates	395,970	395,970
Patronage capital certificates	1,317,279	1,054,664
Equity term certificates	10,027,496	8,142,902
Member capital certificates	-	2,500,000
	11,741,745	12,094,536
Other	264,976	252,077
	<u>\$ 12,006,721</u>	<u>\$ 12,346,613</u>

(5) Bond Fund Reserve

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

(6) 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 Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coinciding with the recognition of the related revenues. Additions to the deferred incremental outage costs were \$.6 million and \$10.4 million in 2014 and 2013, respectively. The current year amortization of the deferred incremental outage costs was \$5.7 million and \$5.4 million in 2014 and 2013, 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.

(7) Line of Credit

As of December 31, 2014, KEPCo has a \$20 million line of credit available with the Cooperative Finance Corporation. There were no funds borrowed against the line of credit at December 31, 2014 and 2013. The line of credit requires the Cooperative to pay down the balance to zero annually. Interest rates vary and were 2.90% at December 31, 2014 and 2013. This line of credit expires in March 3, 2017.

At December 31, 2014, 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, 2014 and 2013. Interest rate options, as selected by the Company, are a weekly quoted variable rate in which CoBank establishes a rate on 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 May 31, 2015.

Notes to Consolidated Financial Statements

(8) Short-Term Note Payable

As of December 31, 2014 and 2013, KEPCo had a \$1.4 million and \$6.5 million short-term note payable to the Cooperative Finance Corporation at an interest rate of 3.08% and 2.5%, respectively.

(9) Long-Term Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Board, 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:

	2014	2013
Mortgage notes payable to the FFB at fixed rates varying from .818% to 9.21%, payable in quarterly installments through 2043	\$ 62,732,450	\$ 49,124,279
Mortgage notes payable to the Grantor Trust Series 1997 at a rate of 7.522%, payable semi-annually, principal payments commencing in 1999 and continuing annually through 2017	13,140,000	18,440,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate of .34%, payable annually through 2015	1,995,000	5,795,000
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	1,111,684	1,228,745
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 2.45% to 7.50%, payable quarterly through 2045	88,831,738	88,365,951
	167,810,872	162,953,975
Less current maturities	(15,683,929)	(22,493,911)
	<u>\$ 152,126,943</u>	<u>\$ 140,460,064</u>

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

2015	\$ 15,683,929
2016	10,678,447
2017	9,806,759
2018	6,421,411
2019	6,531,740
Thereafter	118,688,586
	<u>\$ 167,810,872</u>

Notes to Consolidated Financial Statements

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 Rural Utility Service. KEPCo was in compliance with such restrictive covenants as of December 31, 2014 and 2013.

Restriction 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, 2014 and 2013.

In 1997, KEPCo refinanced its mortgage notes payable to the 1988 CFC Grantor Trust through the establishment of a new CFC Grantor Trust Series 1997 (the Series 1997 Trust) by CFC. This refinancing reduced the guaranteed interest rate payable on the mortgage notes to a fixed rate of 7.522%. The mortgage notes payable are pre-payable at any time with no prepayment penalties. The Trust holds certain rights KEPCo assigned to the Trust under an interest rate swap agreement. The swap agreement was put into place in order to mitigate the interest rate risk inherent in the Trust, which holds a fixed rate asset with a variable rate obligation.

The swap agreement terminates in 2017, but is subject to early termination upon the early redemption of the debt. However, any termination costs relating to the termination of the assigned interest rate swaps is KEPCo's responsibility. At December 31, 2014, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately \$1.5 million.

This fair value estimate is based on information available at December 31, 2014, and is expected to fluctuate in the future based on changes in interest rates and outstanding principal balance.

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

(10) **Benefit Plans**

National Rural Electric Cooperative Association (NRECA) Retirement and Security

Program - KEPCo participates in the NRECA Retirement and Security Program for its employees. 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 plans 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 2014 and 2013 represented less than 5 percent of the total contributions made to the plan by all participating employers. KEPCo's expense under this program was approximately \$0.4 million and \$0.4 million, for the year ended December 31, 2014 and 2013, respectively. There have been no significant changes that affect the comparability of 2014 and 2013 contributions.

Notes to Consolidated Financial Statements

For the RS Plan, a “zone status” determination is not required, and therefore 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 80 percent funded on January 1, 2014, and over 80 percent funded on January 1, 2013, 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.

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 \$90,000 to the plan for the years ended December 31, 2014 and 2013.

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

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

Notes to Consolidated Financial Statements

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation beginning of year	\$ 20,785,543	\$ 22,581,857	\$ 1,277,753	\$ 1,406,813
Service cost	726,956	872,519	22,122	26,348
Interest cost	1,081,152	965,450	59,182	52,648
Plan participants' contributions	-	-	97,847	88,823
Benefits paid	(643,257)	(555,243)	(164,795)	(130,531)
Actuarial (gains) losses	4,898,967	(3,079,040)	(240,184)	(166,348)
Benefit obligations, end of year	<u>\$ 26,849,361</u>	<u>\$ 20,785,543</u>	<u>\$ 1,051,925</u>	<u>\$ 1,277,753</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	\$ 14,646,824	\$ 12,517,154	\$ 1,990	\$ 1,698
Actual return on plan assets	973,542	1,680,711	-	-
Employer contributions	905,022	973,210	65,720	42,000
Plan participants' contributions	-	-	97,847	88,823
Benefits paid	<u>(611,384)</u>	<u>(524,251)</u>	<u>(164,795)</u>	<u>(130,531)</u>
Fair value of plan assets, end of year	<u>15,914,004</u>	<u>14,646,824</u>	<u>762</u>	<u>1,990</u>
Funded status, end of year	<u>\$ (10,935,357)</u>	<u>\$ (6,138,719)</u>	<u>\$ (1,051,163)</u>	<u>\$ (1,275,763)</u>

Amounts recognized in the consolidated balance sheets:

	2014	2013
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	<u>\$ 12,004,519</u>	<u>\$ 7,432,482</u>

Notes to Consolidated Financial Statements

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Net loss	\$ (8,304,185)	\$ (3,728,059)	\$ (3,718)	\$ (264,963)
Prior service cost	(71,323)	(78,759)	-	-
Accumulated other comprehensive loss	<u>\$ (8,375,508)</u>	<u>\$ (3,806,818)</u>	<u>\$ (3,718)</u>	<u>\$ (264,963)</u>

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Projected benefit obligation	\$ 26,849,361	\$ 20,785,543	\$ 1,051,925	\$ 1,277,752
Accumulated benefit obligation	22,880,170	17,547,994	-	-
Fair value of plan assets	\$ 15,914,004	\$ 14,646,824	\$ 762	\$ 1,990

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Discount rate	4.20%	4.16%	4.70%	4.70%
Annual salary increase rate	4.00%	4.00%	N/A	N/A

Wolf Creek 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.

Notes to Consolidated Financial Statements

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Components of net periodic cost (benefit):				
Service cost	\$ 726,956	\$ 872,519	\$ 22,122	\$ 26,348
Interest cost	1,081,152	965,450	59,182	52,648
Expected return on plan assets	(1,031,989)	(941,266)	-	-
Amortization				
Transition obligation, net	-	-	-	32
Prior service cost	7,436	7,436	-	-
Actuarial loss, net	<u>381,287</u>	<u>691,984</u>	<u>21,062</u>	<u>33,807</u>
Net periodic cost	<u>\$ 1,164,842</u>	<u>\$ 1,596,123</u>	<u>\$ 102,366</u>	<u>\$ 112,835</u>
Other changes in plan obligations recognized in other comprehensive income:				
Current year actuarial loss(gain)	\$ 4,957,414	\$ (3,818,485)	\$ (240,184)	\$ (166,348)
Amortization of actuarial loss	(381,287)	(691,984)	(21,062)	(33,807)
Amortization of prior service cost	(7,436)	(7,436)	-	-
Amortization of transition obligation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32)</u>
Total recognized in other comprehensive income	<u>4,568,691</u>	<u>(4,517,905)</u>	<u>(261,246)</u>	<u>(200,187)</u>
Total recognized in net periodic cost and other comprehensive income	<u>\$ 5,733,533</u>	<u>\$ (2,921,782)</u>	<u>\$ (158,880)</u>	<u>\$ (87,352)</u>
Weighted average actuarial assumptions used to determine net periodic cost:				
Discount rate	4.20%	4.16%	4.70%	4.70%
Expected long term return on plan assets	7.50%	7.50%	N/A	N/A
Compensation rate increase	4.00%	4.00%	N/A	N/A

Notes to Consolidated Financial Statements

KEPCo estimates they will amortize the following amounts from regulatory assets into net periodic cost in 2015:

	Pension Benefits	Postretirement Benefits
Actuarial loss	\$ 381,287	\$ 21,062
Prior service cost	7,436	-
Total	<u>\$ 388,723</u>	<u>\$ 21,062</u>

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:

	2014	2013
Health care cost trend rate assumed for next year	7.00%	7.50%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2019

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	\$ (1,050)	\$ 1,026
Effect on post-retirement benefit obligation	\$ (14,116)	\$ 14,448

In 2012, Wolf Creek changed its investment advisor resulting in the sale of its then existing levels 1, 2 and 3 investments and the purchase of other level 2 and 3 investments. Its 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

Notes to Consolidated Financial Statements

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. Wolf Creek 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 strive 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 Wolf Creek, 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 Wolf Creek'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, private equity funds 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 Wolf Creek's pension plan assets are recorded at fair value using daily net asset values as reported by the trustee. However, level 3 investments in real estate funds and alternative funds are invested in underlying investments that are illiquid and require significant judgment when measuring them at fair value using market and income-based models. Significant unobservable inputs for underlying real estate investments include estimated market discount rates, projected cash flows and estimated value into perpetuity. Alternative funds invest in a wide range of investments typically with low correlations to traditional investments.

Similar to other assets measured at fair value, GAAP establishes 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 Wolf Creek 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.

Notes to Consolidated Financial Statements

The following table provides the fair value of KEPCo's 6% share of Wolf Creek's pension plan assets and the corresponding level of hierarchy as of December 31, 2014 and 2013:

December 31, 2014	Fair Value	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	\$ 56,659	\$ -	\$ 56,659	\$ -
Equity securities				
U.S. companies	4,031,564	-	4,031,564	-
International	4,930,736	-	4,930,736	-
Debt securities				
Core bonds	4,066,416	-	4,066,416	-
Commodities	751,579	-	751,579	-
Alternative investments	550,033	-	-	550,033
Real estate	1,527,017	-	805,883	721,134
Total	<u>\$ 15,914,004</u>	<u>\$ -</u>	<u>\$ 14,642,837</u>	<u>\$ 1,271,167</u>

December 31, 2013	Fair Value	Fair Value Measurements Using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	\$ 52,886	\$ -	\$ 52,886	\$ -
Equity securities				
U.S. companies	3,906,209	-	3,906,209	-
International companies	4,706,569	-	4,706,569	-
Debt securities				
Core bonds	3,437,348	-	3,437,348	-
Commodities	669,611	-	669,611	-
Alternative investments	529,374	-	-	529,374
Real estate	1,344,827	-	694,486	650,341
Total	<u>\$ 14,646,824</u>	<u>\$ -</u>	<u>\$ 13,467,109</u>	<u>\$ 1,179,715</u>

Notes to Consolidated Financial Statements

The following tables provides reconciliation of KEPCo's 6% share of Wolf Creek's pension plan assets measured at fair value using significant level 3 inputs for the years ended December 31, 2014 and 2013:

	Real Estate Securities	Alternative Investments
Balance at January 1, 2014	\$ 650,341	\$ 529,374
Actual return on plan assets		
Relating to assets still held at the reporting date	<u>70,793</u>	<u>20,659</u>
Balance at December 31, 2014	<u>\$ 721,134</u>	<u>\$ 550,033</u>
Balance at January 1, 2013	\$ 579,665	\$ 497,891
Actual return on plan assets		
Relating to assets still held at the reporting date	<u>70,676</u>	<u>31,483</u>
Balance at December 31, 2013	<u>\$ 650,341</u>	<u>\$ 529,374</u>

Estimated future benefit payments as of December 31, 2014, 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:				
2015	\$ 600,000	\$ 32,229	\$ 74,801	\$ -
Expected benefit payments:				
2015	\$ 657,236	\$ 32,229	\$ 75,563	\$ -
2016	747,571	31,819	77,469	-
2017	838,007	31,383	79,351	-
2018	929,036	30,919	82,821	-
2019	1,019,979	30,425	84,518	-
2020-2024	6,378,979	144,248	411,801	-

Notes to Consolidated Financial Statements

(11) 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 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 the Cooperative's ability to meet debt covenants or maintain sufficient liquidity. Currently under state statutes, the Cooperative's rate making is deregulated and, therefore, expects to be able to recover any economic losses through future rates.

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

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

Letter of Credit - KEPCo has an open letter of credit with the Cooperative Finance Committee in the amount of \$1,500,000 which matures May 23, 2015. This letter of credit renews automatically each year unless notice is given. 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, which has been reauthorized through December 31, 2025, by the Energy Policy Act of 2005, the Cooperative is required to insure against public liability claims resulting from nuclear incidents to the current limit of public liability, approximately \$13.6 billion. This limit of liability consists of the maximum available commercial insurance of \$375.0 million and the remaining \$13.2 billion is provided through mandatory participation in an industry-wide retrospective assessment program. In addition, Congress could impose additional revenue-raising measures to pay claims. Under this retrospective assessment program, the owners of Wolf Creek are jointly and severally subject to an assessment of up to \$127.3 million (KEPCo share is \$7.64 million), payable at no more than \$19.0 million (KEPCo share is \$1.14 million) per incident per year per reactor. Both the total and yearly assessment is subject to an inflationary adjustment every five years with the next adjustment in 2018.

The owners of Wolf Creek carry decontamination liability, premature nuclear decommissioning liability and property damage insurance for Wolf Creek totaling approximately \$2.8 billion (KEPCo's share is \$168 million). 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. KEPCo's 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.

Notes to Consolidated Financial Statements

The owners also carry additional insurance with Nuclear Energy Industry Limited (NEIL) to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, KEPCo may be subject to retrospective assessments under the current policies of approximately \$2.36 million.

Although KEPCo maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, KEPCo's insurance 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 in rate 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 Wolf Creek incurs an accident exceeding \$500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC) and to pay for on-site property damages.

Once the NRC property rule requiring insurance proceeds to be used first for stabilization and decontamination has been complied with, the premature decommissioning coverage could pay for the decommissioning fund shortfall in the event an accident at Wolf Creek exceeds \$500 million in covered damages and causes Wolf Creek to be prematurely decommissioned.

Nuclear Fuel Commitments - At December 31, 2014, KEPCo's share of WCNOC's nuclear fuel commitments was approximately \$3.5 million for uranium concentrates expiring in 2017, \$0.5 million for conversion expiring in 2017, \$11.9 million for enrichment expiring at various times through 2045 and \$4.3 million for fabrication through 2045.

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.

(12) Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Notes to Consolidated Financial Statements

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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

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

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2014:

		Fair Value Measurements Using		
		Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair Value			
Decommissioning fund				
Domestic fund	\$ 10,754,081	\$ 10,754,081	\$ -	\$ -
International fund	1,462,801	1,462,801	-	-
Domestic bond fund	6,820,595	6,820,595	-	-
Money market	34,802	34,802	-	-
Total	<u>\$ 19,072,279</u>	<u>\$ 19,072,279</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Consolidated Financial Statements

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

Cash and Cash Equivalents - Due to the short term maturity of cash and cash equivalents, the carrying amount approximates fair value.

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

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

Line of Credit and Long-Term Debt

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

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

The following table presents estimated fair values of KEPCo's financial instruments at December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 1,202,643	\$ 1,202,643	\$ 5,181,544	\$ 5,181,544
Bond fund reserve	4,490,786	4,531,117	4,465,868	4,579,181
Financial liabilities:				
Long-term debt	\$ 167,810,872	\$ 187,686,399	\$ 162,953,975	\$ 170,011,842

Notes to Consolidated Financial Statements

(13) Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. As disclosed in note 3, if KEPCo's consolidated financial statements were adjusted to reflect accounting principles generally accepted in the United States of America, total patronage capital would be substantially less. As noted in the consolidated statements of changes in patronage capital, no patronage capital distributions were made to members in 2014 and 2013.

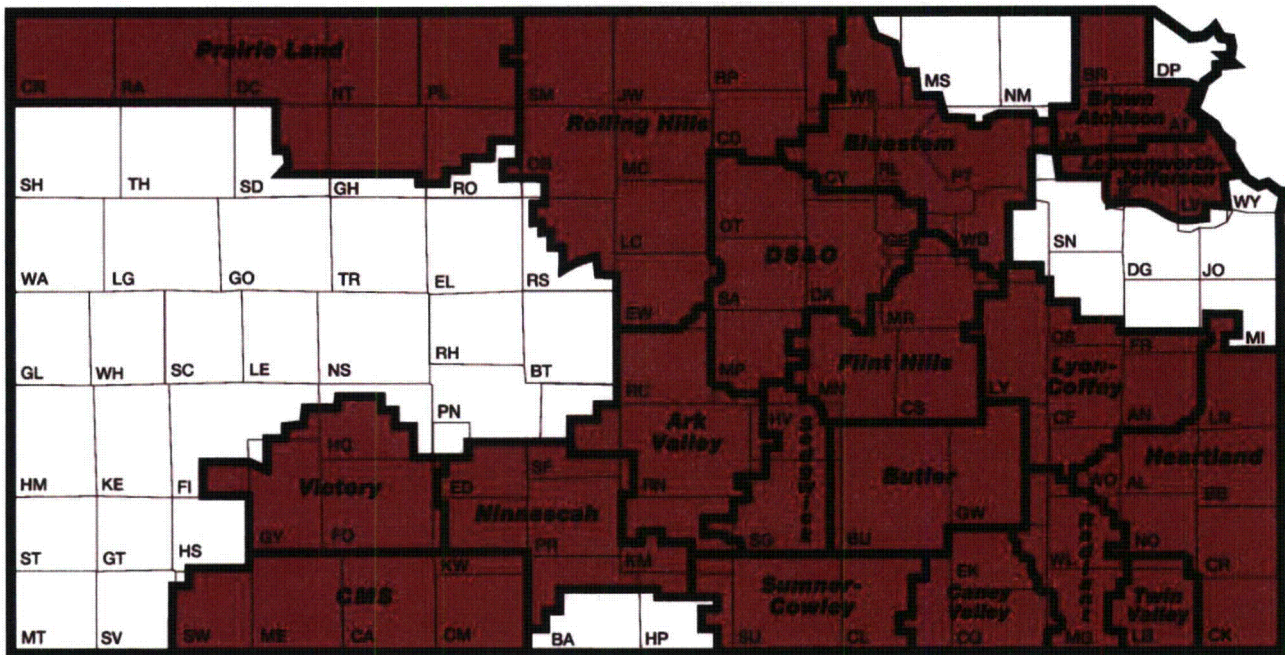
(14) Subsequent Events

The Company has evaluated subsequent events through April 2, 2015, 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.

KEPCo's Mission Statement

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.

KEPCo Member Area Map



KEPCo's Vision Statement

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

**Kansas Electric
Power Cooperative, Inc.**

A Touchstone Energy[®] Cooperative 

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