KANSAS ELECTRIC POWER COOPERATIVE, INC.

FINANCIAL STATEMENTS

for the years ended December 31, 1990 and 1989

Coopers & Lybrand

Certified Public Accountants

Coopers & Lybrand | certified public accountants

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees
Kansas Electric Power Cooperative, Inc.:

We have audited the accompanying balance sheets of Kansas Electric Power Cooperative, Inc. as of December 31, 1990 and 1989, and the related statements of operations, patronage capital (deficit) and other equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The financial statements for 1989 have been restated as more fully discussed in Note 3.

As more fully described in Note 1 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the financial statements which do not, in our opinion, conform to generally accepted accounting principles.

In our opinion, except for the effects of the matters referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Electric Power Cooperative, Inc. as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand

Kansas City, Missouri
February 22, 1991, except as to the
information presented in Note 13,
for which the date is April 9, 1991

KANSAS ELECTRIC POWER COOPERATIVE, INC.

BALANCE SHEETS

ASSETS	December 31, 1990	1989
Utility plant:		
Electric plant in service	$199,949,714	$199,252,566
Less allowances for depreciation	18,275,032	15,864,124
Net utility plant	181,674,682	183,388,442
Construction work in process	661,726	607,747
Nuclear fuel, less accumulated amortization of $9,319,052 and $8,121,062 at December 31, 1990 and 1989, respectively	2,551,765	3,104,211
Total utility plant	184,888,173	187,100,400
Restricted assets:		
Cash and short-term investments	198,397	186,877
Investments in associated organizations	3,349,487	3,016,998
Bond fund reserve	3,873,138	3,946,363
Decommissioning fund assets	734,278	508,855
Total restricted assets	8,155,300	7,659,093
Current assets:		
Cash and cash equivalents	8,091,258	12,953,722
Short-term investments	-	1,001,911
National Rural Utilities Cooperative Finance Corp. patronage capital certificate	14,436	13,620
Accounts receivable from members	5,865,253	5,503,652
Materials and supplies inventory	1,870,145	2,179,512
Other assets and prepaid expenses	618,892	580,214
Total current assets	16,459,984	22,232,631
Deferred charges:		
Deferred charges, less accumulated amortization of $2,987,735 and $1,341,123 at December 31, 1990 and 1989, respectively	28,664,482	28,428,656
Unamortized bond issue costs	1,348,159	1,410,324
Total deferred charges	30,012,641	29,838,980
Total assets	$239,516,098	$246,831,104

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

CAPITALIZATION AND LIABILITIES	December 31, 1990	December 31, 1989
Capitalization:		
Patronage capital (deficit) and other equities:		
Memberships	$ 2,900	$ 2,900
Patronage capital (deficit) unallocated and other equities (see statement)	(6,788,559)	(7,227,251)
Total patronage capital (deficit) and other equities	(6,785,659)	(7,224,351)
Long-term debt, less current portion	235,809,072	237,818,425
Total capitalization	229,023,413	230,594,074
Liabilities:		
Current liabilities:		
Accounts payable	4,401,499	4,843,405
Note payable to bank	531,228	161,749
Payroll and payroll related liabilities	45,016	54,620
Accrued property taxes	704,152	1,726,784
Accrued interest payable	897,244	3,346,821
Current portion of long-term debt	2,665,000	2,855,580
Other liabilities	-	2,160,645
Total current liabilities	9,244,139	15,149,604
Other liabilities:		
Decommissioning liability	734,278	508,855
Other liabilities	514,268	578,571
Total other liabilities	1,248,546	1,087,426
Commitments and contingencies		
Total capitalization and liabilities	$239,516,098	$246,831,104

KANSAS ELECTRIC POWER COOPERATIVE, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31, 1990	Year Ended December 31, 1989
Operating revenue:		
Member	$66,612,727	$65,348,349
Nonmember	737,279	324,154
Total operating revenue	67,350,006	65,672,503
Operating expenses:		
Power purchased	33,720,357	32,291,467
Nuclear fuel	1,544,367	2,105,099
Nuclear plant operations	2,547,876	2,386,602
Nuclear plant maintenance	1,550,192	1,138,184
Nuclear plant administrative and general	3,728,266	3,532,857
Administrative and general	2,323,786	2,087,464
Amortization of deferred charges	539,811	500,125
Depreciation	2,695,079	2,490,760
Total operating expenses	48,649,734	46,532,558
Operating margin	18,700,272	19,139,945
Interest income	1,220,836	1,023,299
Income before interest charges	19,921,108	20,163,244
Interest expense on long-term debt	19,482,416	19,841,244
Net margin	$ 438,692	$ 322,000

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

KANSAS ELECTRIC POWER COOPERATIVE, INC.

STATEMENTS OF PATRONAGE CAPITAL (DEFICIT) AND OTHER EQUITIES

For the Years Ended December 31, 1989 and 1990

	Memberships	Patronage Capital (Deficit) Unallocated	Other Equities	Total
Balance, December 31, 1988	$2,800	$(10,835,040)*	$3,285,789	$(7,546,451)*
Capital allocation	-	251,531	(251,531)	-
1989 net margin (loss)	-	(701,299)	1,023,299	322,000
Memberships	100	-	-	100
Balance, December 31, 1989	2,900	(11,284,808)*	4,057,557	(7,224,351)*
Capital allocation	-	322,000	(322,000)	-
1990 net margin (loss)	-	(782,144)	1,220,836	438,692
Balance, December 31, 1990	$2,900	$(11,744,952)	$4,956,393	$(6,785,659)

* Restated for the correction of an error (see Note 3)

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

KANSAS ELECTRIC POWER COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1990	Year Ended December 31, 1989
Cash flows from operations:		
Net margin	$ 438,692	$ 322,000
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	2,695,079	2,490,760
Amortization of nuclear fuel	1,197,992	1,513,719
Amortization of deferred charges	1,746,725	500,125
Amortization of bond issue costs	62,165	62,000
Loss on sales of assets	171,898	-
Increase in restricted cash and short-term investments	(11,519)	(11,240)
Increase in investments in associated organizations	(332,489)	(154,443)
(Increase) decrease in bond fund reserve	(30,533)	11,193
Increase in decommissioning fund assets	(225,423)	(129,885)
Increase in decommissioning liability	225,423	129,885
(Increase) decrease in deferred charges	(1,982,553)	72,030
Net change in current assets and liabilities:		
Short-term investments	1,001,911	(1,001,911)
National Rural Utilities Cooperative Finance Corp. patronage capital certificate	(816)	(8,917)
Accounts receivable from members	(361,601)	(190,587)
Materials and supplies inventory	309,367	55,118
Other assets and prepaid expenses	(38,678)	155,475
Accounts payable	(441,906)	(528,186)
Payroll and payroll related liabilities	(9,604)	11,261
Accrued property taxes	(1,022,632)	1,053,577
Accrued interest payable	(2,449,577)	125,470
Other liabilities	(2,160,643)	220,645
Total adjustments	(1,657,414)	4,376,089
Total provided from (used in) operations	(1,218,722)	4,698,089
Cash flows from investing activities:		
Additions to utility plant	(1,035,301)	(3,191,951)
Additions to nuclear fuel	(645,544)	(2,150,074)
Cash received for sale of municipal bonds	3,769,800	-
Cash paid for purchase of municipal bonds	(3,837,940)	-
Total used in investing activities	(1,748,985)	(5,342,025)

Continued

KANSAS ELECTRIC POWER COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS, Continued

	Year Ended December 31, 1990	Year Ended December 31, 1989
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ -	$ 3,019,000
Increase in short-term borrowings	369,479	156,057
Repayment of long-term debt	(2,199,932)	(1,209,720)
Increase in memberships	-	100
Increase in other liabilities	(64,304)	-
Payment of other liabilities	-	(58,401)
Total provided by (used in) financing activities	(1,894,757)	1,907,036
Increase (decrease) in cash and cash equivalents	(4,862,464)	1,263,100
Cash and cash equivalents, beginning of year	12,953,722	11,690,622
Cash and cash equivalents, end of year	$ 8,091,258	$12,953,722

Supplemental disclosure of noncash investing activities:
During 1989, the Cooperative reached agreements with Kansas City Power & Light Company and Kansas Gas & Electric Company whereby $896,538 in reimbursable construction costs previously invoiced to the companies, and recorded in deferred charges, were reclassified to net utility plant.

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

1. Departures From Generally Accepted Accounting Principles:

Effective February 1, 1987, the Kansas Corporation Commission (KCC) issued an order to Kansas Electric Power Cooperative, Inc. (KEPCo) requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Notes 4 and 5a, such depreciation and amortization practices constitute phase-in plans which do not meet the requirements of FASB No. 92, "Accounting for Phase-in Plans." The effect of these departures on the financial statements as of and for the years ended December 31, 1990 and 1989 is to overstate net utility plant by $17,578,058 and $13,228,132, overstate deferred charges by $2,415,087 and $1,828,576, understate the deficit in patronage capital (deficit) by $19,993,145 and $15,056,708, and overstate net margin by $4,936,437 and $5,146,374, respectively.

2. Summary of Significant Accounting Policies:

a. System of Accounts:

KEPCo maintains its accounting records substantially in accordance with the Federal Energy Regulatory Commission's chart of accounts as adopted by the Rural Electrification Administration (REA) and in accordance with accounting practices prescribed by the KCC, except as described in Note 5a.

b. Utility Plant and Depreciation:

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

Through January 31, 1987, the provision for depreciation for electric plant in service was computed on the straight-line method at a 3.44% annual composite rate. Effective February 1, 1987, in accordance with an order issued by the KCC, the provision for depreciation is computed on a present worth (sinking fund) method which provides for increasing annual provisions over the next 25 years. The composite rates for the years ended December 31, 1990 and 1989 were 1.4015% and 1.2951%, respectively. The provision for depreciation, computed on a straight-line basis, of other components of utility plant are as follows:

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

Continued

Depreciation expense other than as set forth in the statements of operations is not significant.

c. Nuclear Fuel:

Nuclear fuel cost is amortized to fuel expense based upon the quantity of heat produced for the generation of electric power. The permanent disposal of spent fuel is the responsibility of the Department of Energy (DOE). KEPCo pays one mill per net kilowatt-hour of nuclear generation to the DOE for the future disposal service. These disposal costs are charged to fuel expense.

d. Investments in Associated Organizations:

Investments in associated organizations consist principally of patronage capital certificates, capital term certificates and subordinated term certificates of the National Rural Utilities Cooperative Finance Corp. (CFC). CFC patronage capital certificates maturing within a year of the balance sheet date are reflected as a current asset.

e. Cash Equivalents:

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents and are stated at cost which approximates market.

f. Short-term Investments:

Short-term investments consist of U.S. Government-backed discount notes and are stated at cost which approximates market.

g. Materials and Supplies Inventory:

Materials and supplies inventory for the Wolf Creek Generating Station is stated at cost determined by the average cost method.

h. Unamortized Bond Issue Costs:

Unamortized bond issue costs related to the issuance of the floating/fixed rate pollution control revenue bonds and mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation are being amortized using the interest method over the remaining life of the bonds.

i. Decommissioning Fund Assets/Decommissioning Liability:

At December 31, 1990 and 1989, $734,278 and $508,855, respectively, has been collected and is being retained in an interest-bearing trust fund.

Continued

During 1989, the KCC extended the estimated useful life of the Wolf Creek Generating Station to 40 years from the original estimate of 30 years only for the determination of decommissioning costs. Additionally, the estimated cost of decommissioning Wolf Creek was increased to $206 million in 1988 dollars. KEPCo is responsible for a six percent share of the decommissioning costs for the Wolf Creek Generating Station. These costs are being recovered and charged to operating expense over the life of the plant and placed in an external trust to be used only for the physical decommissioning of Wolf Creek.

j. Income Taxes:

In December, 1987, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 96, "Accounting for Income Taxes," which was later amended by FASB Statements No. 100 and No. 103, both entitled "Accounting for Income Taxes--Deferral of the Effective Date of FASB Statement No. 96." Companies are required to adopt the new method of accounting for income taxes no later than fiscal year 1992. KEPCo has not adopted early application of the provisions of FASB Statement No. 96 and has not determined the effects that such adoption will have on its financial statements.

k. Patronage Capital and Other Equities:

Operating margin, net of interest expense, is credited or charged to patronage capital. Nonoperating margin (interest income) is credited to other equities; however, upon an affirmative vote of the membership, margins may be allocated to patronage capital unallocated.

l. Rates:

The KCC has authority to establish KEPCo's electric rates subject to times interest earned ratio and debt service coverage requirements set forth by the Rural Electrification Administration (REA).

KEPCo believes it is probable that future rates, as established by the KCC, will allow the recovery of depreciation and amortization which has been deferred (excess of straight-line over sinking fund). If subsequent recovery is not permitted, the unrecovered deferred balances would be charged to expense at that time.

m. Revenues:

Revenues from the sale of electricity are recorded based on billings to customers and on contracts and scheduled power usages, as appropriate.

Continued

n. Reclassification:

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

3. Restatement:

In 1990, the Cooperative restated the 1986 financial statements for the correction of an error. The error occurred in 1986 when the Cooperative understated its nuclear fuel expense by $409,035 as a result of errors in the calculation of nuclear fuel amortization.

The effect of this restatement on the financial statements presented herein was to increase the deficit in patronage capital (deficit) unallocated and decrease the nuclear fuel component of utility plant at January 1, 1989 by $409,035.

4. Wolf Creek Generating Station:

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

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

Effective February 1, 1987, the KCC issued an order to KEPCo to utilize a present worth (sinking fund) depreciation method which does not conform with generally accepted accounting principles and which constitutes a phase-in plan which does not meet the criteria of FASB No. 92. If depreciation on electric plant in service was calculated using a method in accordance with generally accepted accounting principles, depreciation expense would be increased and KEPCo's operating margin would be decreased by $4,349,926 and $4,534,105 for the years ended December 31, 1990 and 1989, respectively. In addition, net utility plant would be decreased and the deficit in patronage capital (deficit) unallocated would be increased by $17,578,058 and $13,228,132 at December 31, 1990 and 1989, respectively.

Continued

5. Deferred Charges:

a. Disallowed Costs:

Effective October 1, 1985 the KCC issued a rate order relating to KEPCo's investment in Wolf Creek which disallowed approximately $22.9 million of KEPCo's investment in Wolf Creek. A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs, as well as interest costs and property taxes related to the disallowed portion for the period from September 3, 1985 through January 31, 1987, over a 27.736 year period starting February 1, 1987. KEPCo is using present worth (sinking fund) amortization to recover the disallowed costs which enables it to meet the times interest earned ratio and debt service requirements as interpreted by KEPCo in the KCC rate order dated January 30, 1987. However, the KCC order can be interpreted to require straight-line amortization of these costs. The method used by KEPCo constitutes a phase-in plan which does not meet the criteria of FASB No. 92 and, accordingly, an additional $586,511 and $612,269 should be charged to expense for 1990 and 1989, respectively. In addition, deferred charges would be decreased and the deficit in patronage capital (deficit) unallocated would be increased by $2,415,087 and $1,828,576 at December 31, 1990 and 1989, respectively.

b. Utility Plant Costs:

Certain utility plant costs were not included in KEPCo's 1985 rate request because the KCC required KEPCo to file the rate request based on projected total utility plant costs. The February 1, 1987 rate order included these costs in KEPCo's rate prospectively. However, no provision was made in the rate order for recovery of the related depreciation, property taxes and interest costs for the period from September 3, 1985 through January 31, 1987. Accordingly, KEPCo included the related depreciation, property taxes and interest costs for the period from September 3, 1985 through January 31, 1987 in deferred charges in the accompanying balance sheets.

The KCC issued a rate order dated February 11, 1988 which provided KEPCo with the option to recover these costs from savings achieved from the refinancing of a certain portion of KEPCo's long-term debt in 1988 or to include them in a future rate request. The Board of Trustees of KEPCo elected to recover the costs from future savings and, accordingly, began amortizing these costs on January 1, 1988 over 26.82 years. Annual amortization will increase over the recovery period.

Continued

c. Revenue and Expenses for the Period from September 3, 1985 Through September 30, 1985:

Although the Wolf Creek Generating Station began commercial operations on September 3, 1985, the KCC ordered KEPCo to accumulate all revenues and expenses related to the operation of Wolf Creek for the period from September 3, 1985 through September 30, 1985 in deferred charges. The KCC issued an order on February 1, 1987 which allowed KEPCo to recover these costs over a ten-year period. Annual amortization of such costs increases over the recovery period.

6. Deferred Refund:

During 1988, KEPCo received a refund of purchased power costs attributable to retroactive rate and fuel adjustments. The KCC ordered KEPCo to retain $3,880,000 of the refund and to include it in operations equally in 1988 and 1989.

7. Long-term Debt:

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Bank (FFB), the National Rural Utilities Cooperative Finance Corporation (CFC) and others. Substantially all of KEPCo's assets are pledged as collateral. The terms of the notes are as follows:

	December 31, 1990	December 31, 1989
Mortgage notes payable to the Federal Financing Bank (FFB) at rates varying from 7.316% to 9.366%, payable in quarterly installments through 2018.	$133,934,072	$135,509,005
Mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation at a rate of 10.0281% through December, 1997 and 9.83% thereafter, payable semi-annually, principal payments commencing in 2003 and continuing annually through 2017.	51,340,000	51,340,000
Mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation at a rate of 9.5274% through December, 1997 and 9.33% thereafter, payable semi-annually, principal payments commencing in 1989 and continuing annually through 2002.	10,700,000	10,925,000

Continued

	December 31,	
	1990	1989
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate, payable annually through 2015.	$ 42,500,000	$ 42,900,000
	238,474,072	240,674,005
Less current portion	2,665,000	2,855,580
	$235,809,072	$237,818,425

Aggregate maturities of mortgage notes payable to the Federal Financing Bank and National Rural Utilities Cooperative Finance Corporation and floating/fixed rate pollution control bonds as of December 31, 1990 are as follows:

Year	Amount
1991	$ 2,665,000
1992	2,873,000
1993	3,269,000
1994	3,434,000
1995	3,770,000
Thereafter to 2018	222,463,072
	$238,474,072

At December 31, 1990, KEPCo has approved FFB loans guaranteed by REA with balances of $133,934,072. Of this amount, $8,425 249 currently has maturity dates ranging from December 31, 1991 to March 31, 1992. Upon maturity of each short-term advance, KEPCo may refinance the amount with another two-year advance or elect to refinance with a long-term maturity date of December 31, 2015.

During 1990 and 1989, interest incurred totalled approximately $19,482,416 and $19,897,000, respectively, of which $19,482,416 and $19,841,244, respectively, was charged to interest expense and the remaining amount was charged to various deferred charges.

Restricted cash and short-term investments consist of unexpended loan proceeds remaining in the Construction Fund. These funds will be utilized for scheduled principal reduction of the originating debt.

Continued

KEPCo has entered into a bond covenant whereby the Cooperative is required to maintain, with a trustee, a Bond Fund Reserve of a stipulated amount of approximately $3.9 million, sufficient to satisfy certain future interest and principal obligations.

8. Short-term Borrowings:

KEPCo has available a $12 million line of credit with the CFC. Approximately $11.5 million remained unused at December 31, 1990.

9. Operating Lease:

KEPCo leases office space under a noncancellable operating lease expiring on December 31, 1994. The related rental expense for 1990 and 1989 was $89,715 and $80,317, respectively.

Future minimum lease payments for office space and equipment leased at December 31, 1990 are as follows:

Year	Amount
1991	$100,258
1992	100,258
1993	94,538
1994	88,497
	$383,551

The minimum lease payments can be increased to the extent that taxes and insurance paid by the lessor exceed 1990 levels.

10. Pension Plan:

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

KEPCo participates in the National Rural Electric Cooperative Association (NRECA) retirement and security program for its employees. All employees of members of NRECA are eligible to participate in the program. KEPCo makes annual contributions to the plan equal to the amounts accrued for pension costs. A moratorium on contributions is in effect for the period July 1, 1987 through December 31, 1990 due to reaching the full funding

Continued

limitation. In the master multiemployer plan which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employee. KEPCo has no pension expense for the plan for the years ended December 31, 1990 and 1989.

b. Wolf Creek Nuclear Operating Corporation Retirement Plan:

KEPCo has an obligation to the Wolf Creek Nuclear Operating Corporation Retirement Plan for its six percent ownership interest in the Wolf Creek Generating Station. This plan provides for benefits upon retirement, normally at age 65. In accordance with the Employee Retirement Income Security Act of 1974 (ERISA), KEPCo has satisfied at least its minimum funding requirements. Benefits under this plan reflect the employee's compensation, years of service and age at retirement.

Provisions for pensions are determined under the rules prescribed by Financial Accounting Standards Board (FASB) Statement No. 87. The following is KEPCo's portion of the funded status of the plan:

	December 31,	
	1990	1989
Accumulated benefit obligation:		
Vested	$160,500	$110,574
Nonvested	77,880	93,607
Total	$238,380	$204,181
Determination of plan assets less obligations:		
Fair value of plan assets (a)	$ 428,820	$ 314,148
Projected benefit obligation (b)	(662,040)	(527,856)
Difference	$(233,220)	$(213,708)
Reconciliation of difference:		
Contributions to trusts:		
Accrued liability	$(105,120)	$ (67,512)
Unamortized transition amount	(152,400)	(159,666)
Unrecognized net gain	59,160	50,093
Unrecognized prior service cost	(34,860)	(36,623)
Difference	$(233,220)	$(213,708)

(a) Plan assets are invested in insurance contracts, corporate bonds, equity securities, U.S. Government securities and short-term investments.

Continued

(b) Based on discount rate and rate of increase in future salary levels of 8% and 6%, respectively.

Long-term rate of return on plan assets of 8% was used.

Components of provisions for pensions:

	1990	1989
Service cost	$127,680	$112,524
Interest cost on projected benefit obligation	42,240	29,389
Actual return on plan assets	(4,920)	(37,181)
Other	(17,100)	23,570
Total pension expense	$147,900	$128,302

11. Income Taxes:

At December 31, 1990, KEPCo had unused net operating loss carryforwards available to reduce future taxable income and investment tax credit carryforwards as follows:

Available Through	Net Operating Loss Carryforwards (Book Basis)	Net Operating Loss Carryforwards (Tax Basis)	Investment Tax Credit Carryforwards
1996	$ -	$ 7,067,000	$ -
1997	-	12,410,000	203
1998	-	17,124,000	896
1999	632,966	21,468,000	1,210
2000	1,977,542	4,443,000	7,732,780
2001	2,885,169	3,827,000	-
2002	1,292,882	4,155,000	-
2003	-	-	-
2004	-	1,790,000	-
2005	-	1,950,000	-
	$6,788,559	$74,234,000	$7,735,089

The difference between the net margin shown in the accompanying financial statements and the net operating losses for tax return purposes for 1990 and 1989 is due primarily to operating expenses deferred for financial statement purposes and expensed for tax return purposes and timing differences related to depreciation expense.

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Income ta provisions based upon the margins shown in the accompanying financial statements of approximately $180,000 and $138,000 for 1990 and 1989, respectively, have been offset by the realization of the tax benefit of operating loss carryforwards. These tax provisions and the offsetting benefit have not been presented in the statement of operations.

12. Contingencies:

a. Litigation:

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

KGE is one of the defendants in a nine count civil RICO Act Suit seeking $23 million in damages related to the plaintiff's termination and the Q-1 program at Wolf Creek. KEPCo has reserved its rights under the Agreement until the outcome reveals no criminal wrongdoing on the part of KGE employees. The discovery stage has been suspended and the probable, potential liability, if any, cannot be determined at this time.

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

b. Nuclear Liability and Insurance:

The Price-Anderson Act currently limits the public liability, including attorney costs, of nuclear reactor owners for claims that could arise from a nuclear incident to $7.807 billion. Accordingly, KEPCo and other owners of Wolf Creek have liability insurance coverage of this amount which consists of the maximum available private insurance of $200 million and Secondary Financial Protection (SFP). The SFP coverage is funded by a mandatory program of deferred premiums assessed against all owners of licensed reactors for any nuclear incident anywhere in the country. The

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maximum assessment per reactor is $63 million ($3.8 million - KEPCo's share), plus 5% for attorney costs. The owners of Wolf Creek are jointly and severally liable for these charges, payable at a rate not to exceed $10 million ($600,000 - KEPCo's share) per incident per year.

The owners of Wolf Creek also have property damage, decontamination and decommissioning insurance for loss resulting from damage to the Wolf Creek facilities in the amount of $2.185 billion. Nuclear insurance pools provide $1.060 billion of coverage. Nuclear Electric Insurance Limited (NEIL) provides $1.125 billion. In the event of an accident, insurance proceeds must first be used for reactor stabilization and site decontamination. The remaining proceeds from the $2.185 billion insurance coverage ($131 million KEPCo's share), if any, can be used for property damage up to $122 million (KEPCo's share) and premature decommissioning costs up to $9 million (KEPCo'S share) in excess of funds previously collected for decommissioning.

The owners of Wolf Creek have also procured extra expense insurance from NEIL. Under both the NEIL property and extra expense policies the Company is subject to retroactive assessment if NEIL losses, with respect to each policy year, exceed the accumulated funds available to the insurer under that policy. The estimated maximum retroactive assessments for KEPCo's share under the policies total approximately $879,998 per year.

In the event of a catastrophic loss at Wolf Creek, the amount of insurance available may not be adequate for property damages and extra expenses incurred. Uninsured losses, to the extent not recovered through rates, would be assumed by the KEPCo and could have a material adverse effect on the KEPCo's financial condition.

c. Nuclear Fuel Commitments:

At December 31, 1990, Wolf Creek's nuclear fuel commitments (KEPCo's share) were approximately $3.4 million for uranium concentrates through 1997, $22.6 million for enrichment through 2014 and $7 million for fabrication through 2014.

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d. REA Development:

On February 12, 1991, KEPCo received notification from the REA that the REA was not approving KEPCo's audited financial statements for the years ended December 31, 1988 and 1989 and would not accept KEPCo's audited financial statements for the year ended December 31, 1990 because such financial statements are not in conformance with generally accepted accounting principles as discussed in Note 1. In the opinion of management, such non-approval of KEPCo's financial statements will have no significant impact on KEPCo's financial condition and will not impair its ability to refinance existing debt.

13. Subsequent Event:

On April 9, 1991, the KCC ordered KEPCo to defer its 6% share of the incremental maintenance and replacement power costs associated with refueling of the Wolf Creek Generating Station retroactive to the date of the 1990 refueling outage. The effects of this order are reflected in the financial statements. Such deferred costs are being amortized over the operating cycle at a rate of approximately $120,000 per month coincident with the recognition of the related revenues. The total costs deferred in connection with the 1990 refueling outage were $1,982,553, of which $1,200,653 were amortized during 1990, leaving an unamortized balance of deferred incremental maintenance and replacement power costs of $781,900 at December 31, 1990.