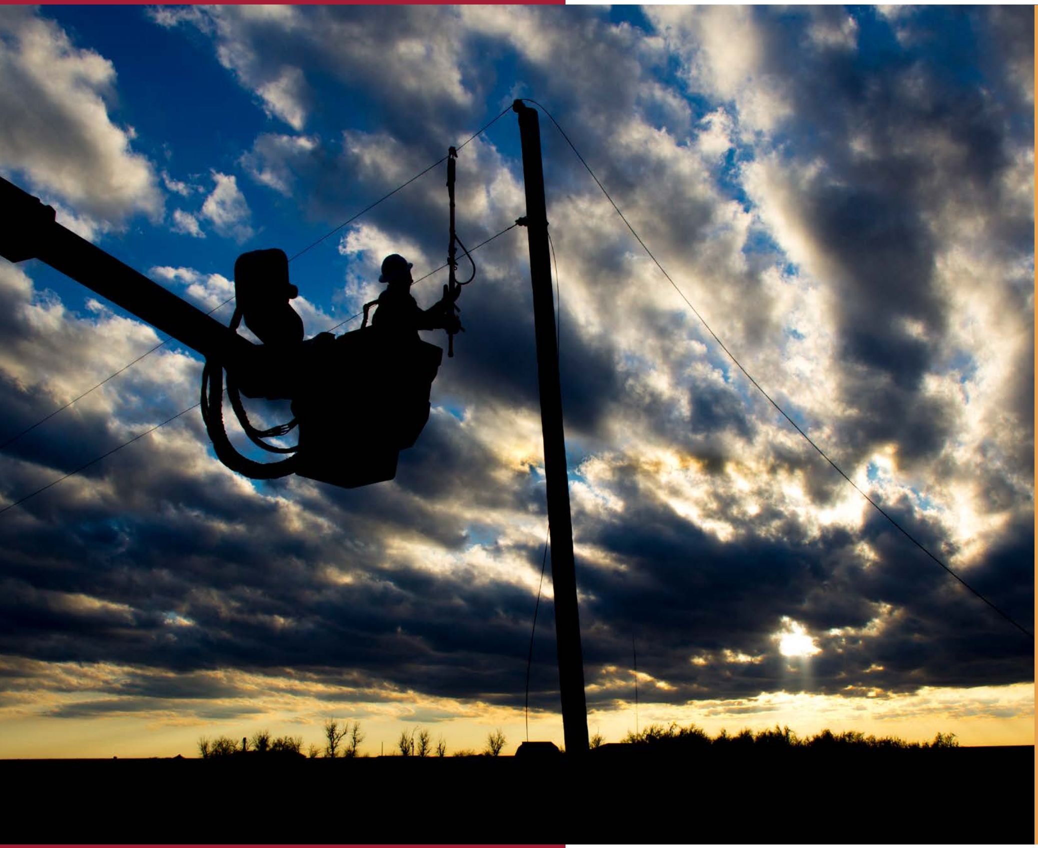
2019



ANNUAL REPORT

KANSAS ELECTRIC POWER

COOPERATIVE

KEPCo

OUR MISSION

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

OUR VISION

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

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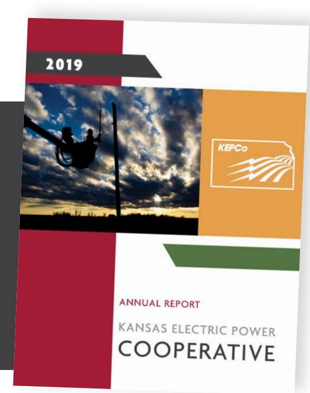
ON THE COVER

A lineman from Victory Electric Cooperative, Dodge City, works at sunset.



OUR **STAFF**

Suzanne Lane
Exec. Vice President & CEO
3 years of service

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

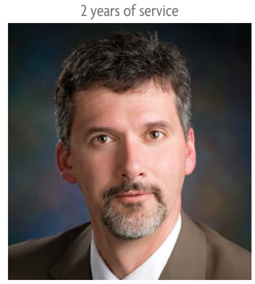
Susan Cunningham
Sr. Vice President, Regulatory & Government Affairs & General Counsel
2 years of service

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

Stephanie Anderson
Finance & Benefits Analyst 2
6 years of service

Chris Davidson
Engineer 3
7 years of service

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



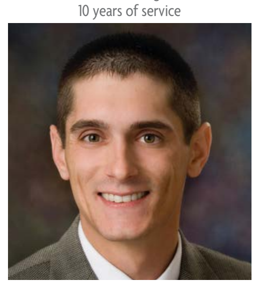
Mark Doljac
Exec. Director, Regulatory Affairs & Planning
10 years of service

Rebecca Fowler
Manager, Regulatory Affairs
1 year of service

Carol Gardner
Operations Analyst 2
22 years of service

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

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



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

Rick Johnson
Exec. Director, Engineering
1 year of service

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

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

Matt Ottman
Information Systems Specialist 2
18 years of service

John Payne
Sr. Engineer
13 years of service

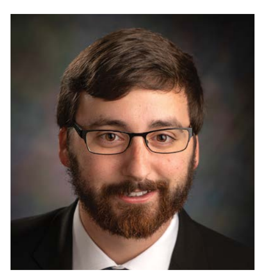
Rita Petty
Exec. Assistant & Manager, Office Services
14 years of service

Kelsey Schrempp
Administrative Assistant/Benefits Specialist
6 years of service

Paul Stone
Operations Specialist
22 years of service

Missy Tew
Administrative Assistant/Receptionist
3 years of service

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



Luke Zahner
Engineer 1
1 year of service

FROM THE BOARD PRESIDENT AND EXECUTIVE VICE PRESIDENT & CEO

POWERING **PROGRESS**

Suzanne Lane
Executive Vice President & CEO

Dale Short
Board President

As we reflect on 2019, the successes KEPCo accomplished on behalf of and in close partnership with our members can be categorized in one of three areas: powering rural Kansas, people serving people, and always making progress. Thanks to the dedication, perseverance, and diligence of the entire KEPCo family, we were pleased to provide reliable power at the lowest rates to our members since 2010, and we want to highlight the key reasons this was possible.

KEPCo's Resources Provided Significant Value and Reliable Service in 2019

KEPCo's main purpose is to partner with our member-owners to economically power rural Kansas, and we couldn't have done so in 2019 without our diverse resource portfolio. 2019 was a strange year for weather, as extreme precipitation kept temperatures relatively low in the early summer. But once the heat arrived, it stayed longer, causing higher demands and energy consumption between July and September compared to the same period in 2018. Thankfully, our owned and purchased resources were very reliable over the summer period.

For the first time in its 34-year history, Wolf Creek Generating Station completed back-to-back, 18-month operations in 2019. In addition, the plant successfully completed its 23rd refueling outage and received the highest accolades from the industry.

As for our other resources, the Iatan 2 coal plant performed well overall, especially considering the Missouri River flooding challenges.

Our Southwest Power Administration and Western Area Power Administration hydro resources continued to be low-cost, reliable power supply sources. A benefit of the extreme precipitation in 2019 is that low-cost, supplemental energy was available, which provided our members additional, cost-effective energy.

KEPCo's solar farm, Prairie Sky, continued to produce as expected, and our Sharpe Generating Station was called to operate a record number of hours to help the Southwest Power Pool (SPP).

KEPCo's 2019 Success Was Possible Because of People

KEPCo would not be able to serve our members if it weren't for the people serving KEPCo — namely the board of trustees and staff. Once again, the board provided constant support, asked thoughtful questions, offered meaningful challenges, and demonstrated genuine encouragement. They demonstrate the true definition of the cooperative spirit, constantly offering guidance, knowledge, and decisions that assure KEPCo is providing members the best experience and lowest rates possible while maintaining the reliability expected.

2019

JANUARY

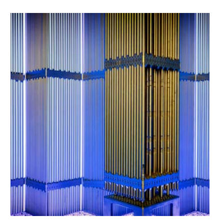
$2.7 MILLION

KEPCo announces it will be allocating **$2.7 MILLION** in capital credits to members.

FEBRUARY

ConvergeOne performs a **CYBER WELLNESS AND VULNERABILITY ASSESSMENT** of KEPCo.

JUNE



Lane attends the **REACTOR TECHNOLOGY COURSE** for Utility Executives at the Massachusetts Institute of Technology.

FEBRUARY

RICK JOHNSON is hired as Executive Director, Engineering.

APRIL

KEPCo's Executive Team participates in a **STRATEGIC PLANNING RETREAT.**

JUNE

KEPCo staff participates in the American Hiking Society **NATIONAL TRAILS DAY.**

As we reflect on 2019, the successes KEPCo accomplished on behalf of and in close partnership with our members can be categorized in one of three areas: powering rural Kansas, people serving people, and always making progress.

As for the KEPCo staff, we would be nothing without the dedication, hard work, knowledge, experience, and passion of our team! A few highlights from the past year include activities associated with key areas of our business such as cybersecurity, safety, regulatory, legislative, engineering, and team-bonding.

With regard to cybersecurity and safety, KEPCo greatly enhanced our cybersecurity and safety training, practices, and communications, which ultimately led to zero cybersecurity or safety incidents for the year. After performing a cyber wellness evaluation and implementing the recommendations, we have also enhanced our employees' cyber training, "phish" testing, and overall vigilance when it comes to keeping our systems safe.

We also established our first Safety Committee, which is tasked with not only enhancing training and communications, but also with updating our safety manual. With the committee's guidance, our participation in NRECA's "Commitment to Zero Contacts" initiative, and our employees' dedication to safe acts, we are proud to have achieved the designation as one of the Kansas cooperatives that has had zero lost-time accidents for over a decade!

In addition, 2019 marked another year of financial strength for KEPCo, with all of our financial targets being met. On the legislative front, we participated in all Co-ops Vote events, ultimately earning the "5-Star Co-op" designation from NRECA, and advocated at the state and federal levels on issues of importance to KEPCo and our members. We actively represented our members in the Westar (now Evergy) transmission line loss filing, the Sunflower-MKEC merger, and other relevant proceedings before the Kansas Corporation Commission and Federal Energy Regulatory Commission. We also participated in and/or carefully monitored the activities of SPP and its various committees and working groups.

We have now fully staffed KEPCo Services

Continued on page 6

JULY

KEPCo conducts a **STRATEGIC PLANNING** retreat with its board of trustees.

JULY

KEPCo staff volunteers at Topeka **RONALD MCDONALD HOUSE.**

AUGUST

REBECCA FOWLER is hired as Manager, Regulatory Affairs.

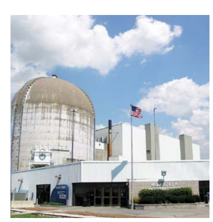
JULY

Wolf Creek earns the industry's **HIGHEST RATING** for performance during its two most recent, 18-month operating cycles.

AUGUST

KEPCo forms first **SAFETY COMMITTEE.**

SEPTEMBER



Wolf Creek completes back-to-back, 18-month operations **WITHOUT AN UNPLANNED OUTAGE**

Continued from page 5

Inc. (KSI), our wholly owned engineering subsidiary. We participated in team- and community-focused events like walking in support of National Trails Day, volunteering at Ronald McDonald House, and collecting for the Boys and Girls Club food pantry. In addition, KEPCo employees provided $18,000 to local charities through their charitable giving. We also had great team fellowship by coming together for birthdays, achievements, and family celebrations, and also by offering support during times of employee or family health issues, loss, or other concerns. It's proudly what we're all about at KEPCo!

KEPCo's Continued Efforts Toward Progress Were Evident in 2019

Powering rural Kansas at a reasonable price and with the best people is an honor, but we must always make progress and never rest — and the past year was a great example. To fully incorporate the ideas, opinions, and direction of our board members into KEPCo's priorities, we completed our first strategic planning session since 2016. Staff was honored to partner with our board to define four areas of focus: risk management, emerging technologies, load management, and rates and rate design. These areas will be coupled with our traditional core goals of financial strength, member and employee experience, reliability, cyber security and safety, and regulatory compliance to create KEPCo's corporate-wide goals for 2020.

Also in 2019, we completed a comprehensive Demand-Side Management (DSM) study. We contracted with GDS Associates, Inc., to determine the DSM programs and/or enhancements that offer the best opportunities for cost-savings for our members.

In addition, 2019 brought the completion of the first "CEO Listening Tour." These meaningful, face-to-face meetings with each KEPCo member and key employees provided useful feedback associated with areas of strength and opportunity.

Another key element of 2019's success involved the inaugural Employee Experience Team (EET). This cross-functional employee team met regularly to discuss and implement enhancements to KEPCo's work environment, which added to an already strong business culture. Based on recommendations from the EET, key items implemented in 2019 were a "dress for the day" policy, volunteering opportunities, clean-up day, removal of our long-standing, off-site storage facility, and general team bonding activities.

In 2019, the USDA's Rural Economic Development Loan and Grant (REDLG) program continued to be a great tool to partner with our members. REDLG resources were used to fund such important rural Kansas projects as construction of a dentist office and much-needed repairs for a school.

Last but not least, we continue to make significant progress in providing our members with stable rates. In fact, we are proud to say that our average member rate for 2019 was the lowest since 2010. This is even more monumental considering transmission rates for KEPCo have increased over 160% in the past 15 years.

With the energy market prices remaining low (and the lucrative capacity pricing we are seeing for power supply opportunities), additional DSM by our members, hard work by and innovative solutions from our members and our employee team, and strong operations from our resources, we are optimistic that we will continue to be able to maintain stable rates to our members.

Thank you again to the board of trustees and staff for making 2019 another successful year for KEPCo and its membership.

SUZANNE LANE, KEPCo EVP and CEO
DALE SHORT, KEPCo Board President

AUGUST

NO. 42

KEPCo Board of Trustees approves new Board Policy Bulletin No. 42, Energy Risk Management.

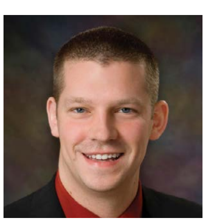
SEPTEMBER

Lane completes NRECA's CEO **"COMMITMENT TO ZERO CONTACTS,"** demonstrating KEPCo's commitment to safety.

NOVEMBER

DALE SHORT is re-elected president of KEPCo's Board of Trustees.

AUGUST



MATT OTTMAN earns cybersecurity certifications through NRECA's RC3 program.

OCTOBER

GDS Associates, Inc. completes a comprehensive **DEMAND-SIDE MANAGEMENT STUDY.**

NOVEMBER

KEPCo enters into a new **CAPACITY PURCHASE AGREEMENT** with Evergy beginning in January 2021.

LEGISLATIVE **HIGHLIGHTS**

For the past couple of legislative sessions, considerable attention has been given to the price of electricity in Kansas, as legislative and regulatory concepts have been deliberated to make rates in Kansas more regionally competitive.

In 2019, the Kansas legislature passed Substitute for Senate Bill No. 69, which authorized a 29-topic study to evaluate the upward pressure on rates and offer recommendations to stabilize or mitigate the upward trend. The study topics included ratemaking practices and principles, investments in utility infrastructure, retail choice, energy efficiency, securitization, electric vehicles, and transmission investment, among several others.

Phase one of the study, which evaluated about two-thirds of the study topics, was conducted by London Economics International, the consulting firm selected through a request for proposal process, over the latter half of 2019. Phase one was completed and presented to the Kansas legislature in January 2020. Phase two of the study, awarded to AECOM, along with its partner Energeia USA, is to be completed by July 2020.

Another significant issue addressed in 2019 involved economic challenges in rural Kansas. Recognizing the need to focus attention and resources on rural communities, Governor Laura Kelly established the Office of Rural Prosperity, with its stated purpose to improve life in rural Kansas. The office was tasked with developing rural housing, supporting rural hospitals, revitalizing main street corridors, making state government work for rural Kansas, supporting agribusiness, investing in rural infrastructure, and incentivizing active tourism. Throughout the year, Lt. Governor Lynn Rogers embarked on a 12-community listening tour to hear firsthand from residents and businesses in rural communities about issues regarding rural economic prosperity.

Further attention was given to rural economic prosperity as a new legislative committee, Rural Revitalization, was formed in the Kansas House of Representatives. Throughout the 2019 legislative

Continued on page 34

NOVEMBER

KEPCo employees collect for **BOYS AND GIRLS CLUB FOOD PANTRY.**

DECEMBER

KEPCo earns the designation of **"5-STAR CO-OP"** from NRECA.

DECEMBER

$18.8 MILLION

Over the course of 2019, KEPCo returns approximately **$18.8 MILLION** to its members through its Margin Stabilization Adjustment.

NOVEMBER

Wolf Creek successfully completes its **23RD REFUELING OUTAGE.**

DECEMBER

KEPCo completes 2019 with the **LOWEST AVERAGE MEMBER ENERGY COST** since 2010.

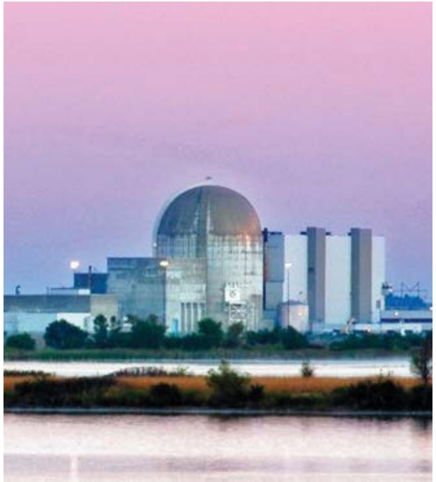
DECEMBER

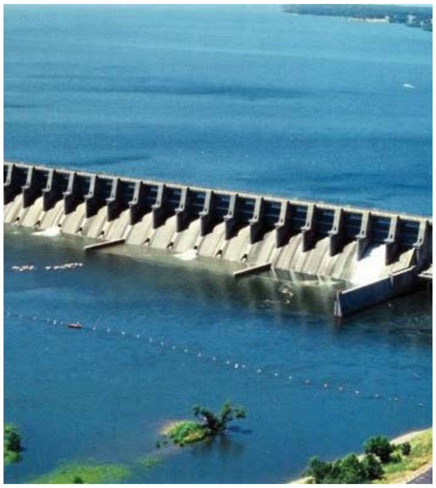
KEPCo completes the year with **ZERO** safety and cybersecurity incidents.

OUR DIVERSE **POWER SUPPLY**

As part of its power supply strategy, KEPCo seeks to maintain a diversified and balanced power supply, which includes a mix of owning generation when prudent, purchasing power using a combination of long- and short-term contracts, adding renewables when cost effective, and incorporating demand side technology in power supply planning processes through member load management programs.

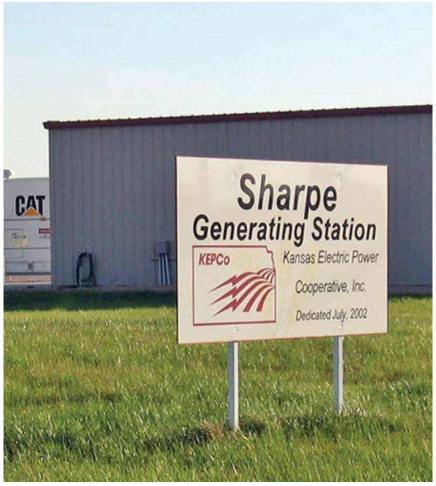
KEPCo's power supply continues to diversify and we are proud that approximately 60% of our energy resource mix is non-greenhouse gas emitting. Our energy mix includes:



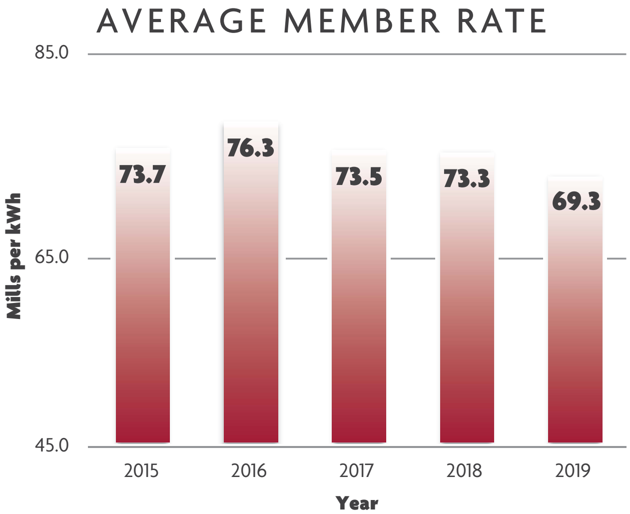


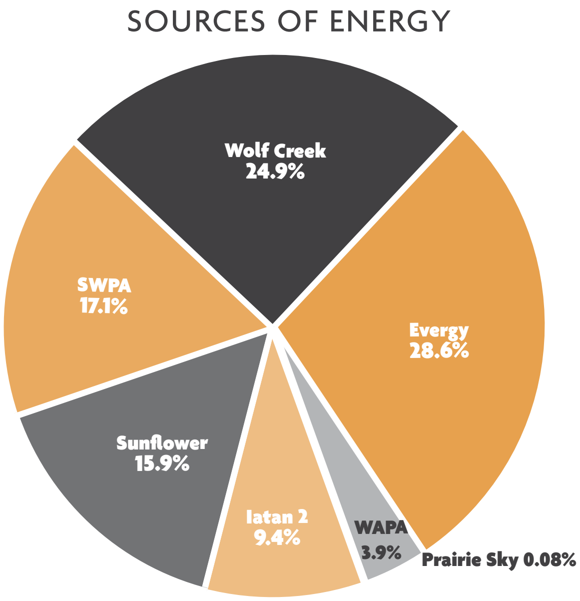
- **70 MEGAWATTS** of owned generation from the Wolf Creek Generating Station
- **30 MEGAWATTS** of owned generation from the Iatan 2 Generating Plant
- **20 MEGAWATTS** of peaking power from the Sharpe Generating Station
- **1 MEGAWATT** of solar power from the Prairie Sky Solar Farm
- **100 MEGAWATTS** of hydropower purchases from the Southwestern Power Administration
- **13 MEGAWATTS** of hydropower purchases from the Western Area Power Administration
- partial requirement power purchases from regional utilities

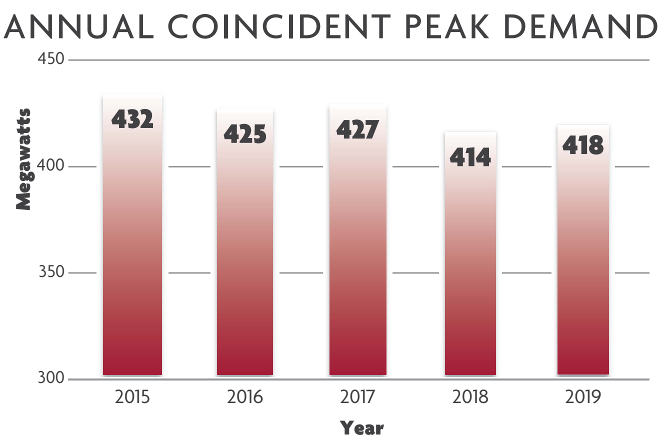
In an effort to create a long-term, reliable, economic power supply for its members, KEPCo has built a diverse power supply...



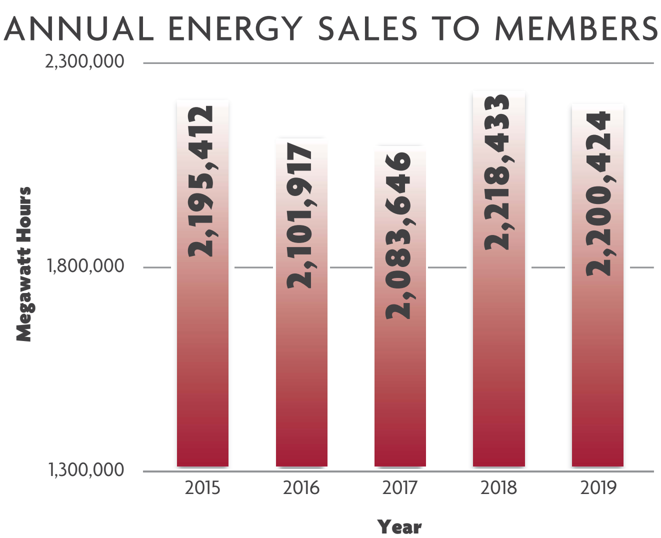
OPERATING STATISTICS

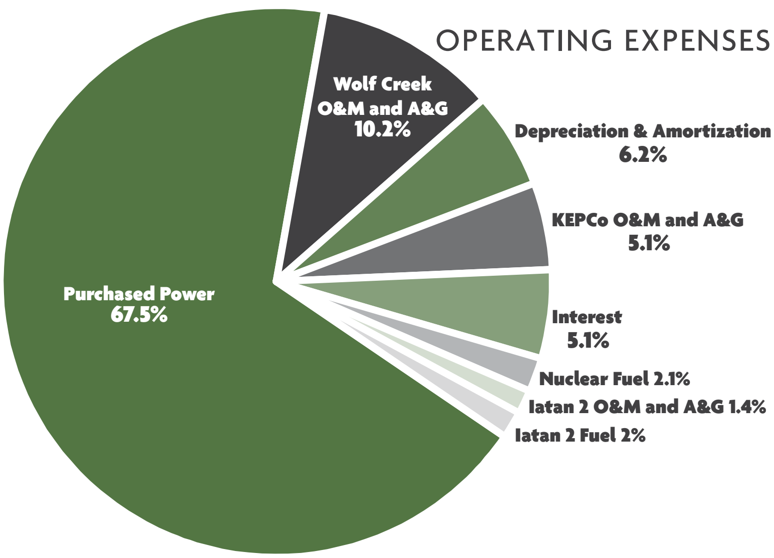






Proudly, KEPCo's current portfolio minimizes greenhouse gas emissions with approximately 60% of its supply from non-greenhouse gas emitting sources.





KEPCo

EXECUTIVE COMMITTEE **MEMBERS**

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


Larry Froese, Trustee
Ark Valley Electric Cooperative Assn., Inc.


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


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


Ron Oelkers, Alternate
Butler Rural Electric Cooperative Assn., Inc.


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


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


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


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


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


Harlan Hunt, Alternate
FreeState Electric Cooperative, Inc.


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


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


William Peterson, Trustee
Prairie Land Electric Cooperative, Inc.


Chuck Look, Alternate, Manager
Prairie Land Electric Cooperative, Inc.


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


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


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


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

2019 KEPCo BOARD OF TRUSTEES

EXECUTIVE COMMITTEE

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

Gary Buss, Alternate
Bluestem Electric Cooperative, Inc.

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

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

EXECUTIVE COMMITTEE

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

Linda Tomlinson, Alternate
CMS Electric Cooperative, Inc.

TREASURER

Dean Allison, Trustee
DS&O Electric Cooperative, Inc.

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

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

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

Dennis Svanes, Trustee, Manager
Lyon-Coffey Electric Cooperative, Inc.

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

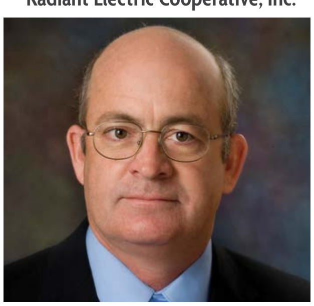
Tom Ayers, Trustee
Radiant Electric Cooperative, Inc.

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

VICE PRESIDENT

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

Paul Wilson, Alternate
Rolling Hills Electric Cooperative, Inc.



Bryan Coover, Trustee
Twin Valley Electric Cooperative, Inc.

Angie Erickson, Alternate, Manager
Twin Valley Electric Cooperative, Inc.

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

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

COMMUNITY **ENGAGEMENT**

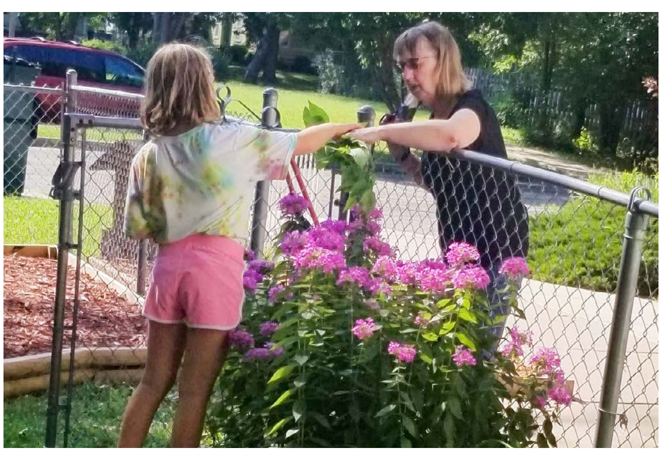
Both KEPCo and its employees value engagement in our communities and historically have been involved in a wide variety of community projects. From coaching and refereeing youth sports, to volunteering at charitable organizations and donating financial resources, KEPCo and its employees understand the importance of service. As a member services organization, KEPCo constantly strives for excellence in carrying out its core mission to provide safe, reliable, economical, and environmentally responsible power supply, as well as exceptional support and service to its members and the Kansans they serve. That same mindset is carried out by KEPCo's employees as we contribute our time, talents, and resources to serve the communities where we work and live.

KEPCo Staff Participates in National Trails Day

On June 1, 2019, KEPCo staff participated in the American Hiking Society National Trails Day, which is a day of public events aimed at advocacy and trail service. On this day, thousands of advocates came together nationwide to maintain and clean-up public lands and trails. KEPCo staff hiked two miles on the Shunga Trail. Special thanks to KEPCo's John Payne for organizing the event.

KEPCo Volunteers at Ronald McDonald House

On July 22, 2019, several members of the KEPCo staff and their family members volunteered at the Topeka Ronald McDonald House. KEPCo staff prepared a wonderful meal and donated food items, cookware, cleaning supplies, toiletries, and card games, as well as cleaned inside and outside the house. KEPCo staff chose the Ronald McDonald House as a volunteer opportunity as a way to give back to an organization that has provided valuable resources to families of KEPCo staff.



Suzanne Lane's daughter, Paxton, and Shari Koch performed yard work at Ronald McDonald House.

From left: Susan Cunningham's children, Ryan and Paige, Kelsey Schrempp, and Chris Davidson, participated in the Kansas Turkey Trot for Heroes 5K Charity Run held at the Combat Air Museum in Topeka.

Kansas Turkey Trot for Heroes

Bright and early on a cold and rainy Thanksgiving morning, Chris Davidson, Kelsey Schrempp, and Susan Cunningham's children, Paige and Ryan, participated in the Kansas Turkey Trot for Heroes 5K Charity Run held at the Combat Air Museum in Topeka. The run was held to raise funds for Sheep Dog Impact Assistance, a national non-profit organization that exists to engage, assist, and empower the men and women who make up our nation's military, law enforcement, fire and rescue, and EMS professions. Team KEPCo signed up for the Wild Gobbler event, which included the 3.1-mile run plus five different additional workouts along the route, with each workout station honoring the sacrifice of a different military or first responder.

KEPCo Donates to Local and Regional Charities

Through KEPCo's Charitable Giving Program, KEPCo and KEPCo staff donated nearly $18,000 to local and regional charities in 2019. These charities perform a valuable service in our communities and KEPCo is proud to support their efforts.

In addition to the monetary contributions provided to KEPCo staff's selected charities, staff also held a food drive in December 2019 for the Boys and Girls Club and donated a large quantity of food items that were enjoyed and appreciated by club members in Topeka.

KEPCO SERVICES, INC.

KEPCo Services, Inc. (KSI), a wholly owned subsidiary of KEPCo, completed its 22nd year of operations. KSI offers a wide range of technical and engineering services to member and non-member cooperatives requiring engineering support. KSI's purpose is to provide value-added engineering services while creatively finding solutions that facilitate the goals and objectives of its clients. KSI places paramount importance on integrity, transparency, innovation, service, and commitment to excellence.

The staff of KSI was involved in over 53 projects for 15 KEPCo members and one non-member throughout the year. Of particular note, KSI provided technical support and project management for the CMS Electric Cooperative, Inc. Winter Storm Jupiter mitigation project. The project commenced in the fourth quarter of 2019 and will carry through 2020. KSI's role will be to act as the owner's engineer. Activities accomplished for the project in 2019 included securing engineering, procurement, and construction contracts.

Additionally, 2019 was a year of transition that saw longtime KSI head Mark Barbee transition into his role as senior vice president, engineering and operations, with the hiring of Rick Johnson as executive director, engineering, who assumed Barbee's role over KSI.

As the organization transitions into the future, KSI is evaluating a variety of modifications to its existing service offerings and additional services that will help clients manage their costs through engineering solutions. A description of KSI's current services is available on KEPCo's website.

USDA RURAL ECONOMIC DEVELOPMENT **LOAN AND GRANT PROGRAM**

The rural revitalization initiatives undertaken in Kansas throughout 2019 complement and augment KEPCo's storied economic development efforts. Since 1991, KEPCo has been an active participant in the USDA Rural Economic Development Loan and Grant (REDLG) program. By partnering with our members to promote and utilize the program, over $40 million in REDLG program funds have been brought into rural Kansas and more than 1,200 jobs have either been created or saved. In 2019 alone, if all the projects submitted to USDA are approved, over $2.5 million of REDLG program funds will be used to create nearly 50 new jobs in rural Kansas.

Throughout 2019, KEPCo and its member Rolling Hills Electric Cooperative, Inc. worked to secure USDA REDLG funding to provide crucial plumbing infrastructure improvements at the Osborne preK-12 school.

INDEPENDENT **AUDITOR'S REPORT**

We have audited the accompanying consolidated financial statements of Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary (KEPCo), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of margin and comprehensive income, patronage capital and cash flows for the year then ended, and the related notes to the consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the Unites 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KEPCo as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2018 consolidated financial statements were audited by other auditors, and their report thereon, dated April 15, 2019, expressed an unmodified opinion.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated April 8, 2020, on our consideration of KEPCo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of KEPCo's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering KEPCo's internal control over financial reporting and compliance.

BKD
CPAs & Advisors

OKLAHOMA CITY, OKLAHOMA
APRIL 8, 2020

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KEPCo & SUBSIDIARY CONSOLIDATED **BALANCE SHEETS**

Assets

	2019	2018
Utility Plant		
In-service	$ 365,036,667	$ 358,127,271
Less allowance for depreciation	(181,555,754)	(173,575,946)
Net in-service	183,480,913	184,551,325
Construction work in progress	8,515,002	11,019,241
Nuclear fuel (less accumulated amortization of $26,061,652 and $22,842,248 for 2019 and 2018, respectively)	8,075,506	8,353,561
Total utility plant	200,071,421	203,924,127
Restricted Assets		
Investments in NRUCFC	11,316,855	11,574,532
Decommissioning fund	30,527,216	25,005,537
Investments in other associated organizations	284,225	280,970
Total restricted assets	42,128,296	36,861,039
Current Assets		
Cash and cash equivalents	20,369,872	11,957,905
Member accounts receivable	9,921,216	11,293,402
Materials and supplies inventory	6,802,071	7,107,008
Other assets and prepaid expenses	924,034	707,939
Total current assets	38,017,193	31,066,254
Other Long-Term Assets		
Deferred charges		
WCNOC disallowed costs (less accumulated amortization of $19,662,718 and $19,339,269 for 2019 and 2018, respectively)	6,322,515	6,643,652
Deferred incremental outage costs	1,841,056	1,254,606
Southwest Power Pool charges	854,871	1,343,368
Other deferred charges (less accumulated amortization of $177,877 and $170,633 for 2019 and 2018, respectively)	297,807	282,149
Other assets	1,310,059	1,190,783
Prepaid pension cost	416,186	547,613
Total long-term assets	11,042,494	11,262,171
Total assets	$ 291,259,404	$ 283,113,591

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Patronage Capital and Liabilities

	2019	2018
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	86,591,026	83,794,567
Accumulated other comphrehensive loss	(8,468,072)	(8,693,156)
Total patronage capital	78,126,154	75,104,611
Long-Term Debt	144,545,734	145,663,985
Other Long-Term Liabilities		
WCNOC decommissioning regulatory liability	7,633,876	2,945,106
WCNOC decommissioning liability	17,000,455	15,945,308
WCNOC pension and postretirement benefit plans	10,994,841	12,093,234
WCNOC provision for injuries	23,339	18,000
WCNOC deferred compensation	1,381,339	1,375,745
Other deferred credits	181,795	114,018
Total other long-term liabilities	37,215,645	32,491,411
Current Liabilities		
Current maturities of long-term debt	9,251,502	8,969,186
Accounts payable	12,321,308	13,212,076
Payroll and payroll-related liabilities	322,596	267,889
Member investments	6,903,704	4,935,461
Accrued property taxes	947,749	1,034,659
Accrued interest payable	432,259	454,575
Current provision for pension and postretirement benefit plans	1,192,753	979,738
Total current liabilities	31,371,871	29,853,584
Total patronage capital and liabilities	$ 291,259,404	$ 283,113,591

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KEPCo & SUBSIDIARY CONSOLIDATED **STATEMENTS OF MARGIN & COMPREHENSIVE INCOME** DECEMBER 31, 2019 AND 2018

	2019	2018 (As Adjusted – *Note 1*)
Operating Revenues		
Sale of electric energy	$ 153,016,979	$ 162,619,958
Operating Expenses		
Power purchased	102,408,677	110,164,569
Nuclear fuel	3,243,368	3,278,936
Plant operations	16,453,641	15,964,388
Plant maintenance	4,875,888	5,361,688
Administrative and general	6,243,466	7,952,441
Amortization of deferred charges	330,693	331,605
Depreciation and decommissioning	9,597,289	9,459,981
Total operating expenses	143,153,022	152,513,608
Net Operating Revenues	9,863,957	10,106,350
Interest and Other Deductions		
Interest on long-term debt	7,878,690	8,148,586
Amortization of debt issuance costs	-	19,581
Other deductions	159,366	107,576
Total interest and other deductions	8,038,056	8,275,743
Operating Income	1,825,901	1,830,607
Other Income (Expense)		
Interest income	1,345,913	1,317,339
Other income	294,124	230,199
Postretirement benefit expense	(669,479)	(665,746)
Income tax	-	(2,097)
Total other income (expense)	970,558	879,695
Net Margin	2,796,459	2,710,302
Other Comprehensive Income (Loss)		
Net loss arising during the year on pension obligation	(422,520)	(611,562)
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	647,604	845,293
Comprehensive Income	$ 3,021,543	$ 2,944,033

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

YEARS ENDED DECEMBER 31, 2019 AND 2018

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2018	$ 3,200	$ 81,084,265	$ (8,926,887)	$ 72,160,578
Net margin	-	2,710,302	-	2,710,302
Defined benefit pension plans				
Net loss arising during the year on pension obligation	-	-	(611,562)	(611,562)
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	-	-	845,293	845,293
Balance, December 31, 2018	3,200	83,794,567	(8,693,156)	75,104,611
Net margin	-	2,796,459	-	2,796,459
Defined benefit pension plans				
Net loss arising during the year on pension obligation	-	-	(422,520)	(422,520)
Amortization of prior year service costs and actuarial gains included in net periodic benefit costs	-	-	647,604	647,604
Balance, December 31, 2019	$ 3,200	$ 86,591,026	$ (8,468,072)	$ 78,126,154

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

	2019	2018
Operating Activities		
Net margin	$ 2,796,459	$ 2,710,302
Adjustments to reconcile net margin to net cash flows provided by operating activities		
Depreciation	9,131,591	9,259,655
Amortization of nuclear fuel	3,219,404	3,254,982
Amortization of deferred charges	619,924	619,926
Amortization of deferred incremental outage costs	1,623,886	1,714,963
Amortization of debt issuance costs	-	9
Net periodic benefit costs	1,617,453	1,818,228
Patronage capital credits allocated	(525,298)	(534,773)
Loss on sale of property and equipment	54,666	49,085
Changes in		
Member accounts receivable	1,372,186	1,224,564
Materials and supplies	304,937	198,295
Other long-term assets and prepaid expenses	(1,286,835)	(351,459)
Accounts payable	(890,768)	(799,598)
Payroll and payroll-related liabilities	54,707	10,079
Accrued property tax	(86,910)	(63,893)
Accrued interest payable	(22,316)	(21,458)
Accrued income taxes	-	(1,216)
Other long-term liabilities	(2,199,037)	(1,405,302)
Net cash provided by operating activities	15,784,049	17,682,389
Investing Activities		
Additions to electrical plant	(5,065,919)	(8,122,948)
Additions to nuclear fuel	(2,941,349)	(2,630,814)
Proceeds from investments in decommissioning fund assets	103,332	1,123,204
Purchases of investments in decommissioning fund assets	(1,380,174)	(3,034,090)
Investments in associated organizations	779,720	767,606
Proceeds from sale of property	-	32,428
Net cash used in investing activities	(8,504,390)	(11,864,614)
Financing Activities		
Principal payments on long-term debt	(9,033,456)	(8,489,349)
Proceeds from issuance of long-term debt	4,110,126	2,057,401
Principal payments on NRUCFC line of credit	(1,205,000)	(75,000)
Proceeds from draw downs on NRUCFC line of credit	1,205,000	75,000
Change in cushion of credit	4,087,395	307,788
Change in member investments	1,968,243	871,510
Net cash provided by (used in) financing activities	1,132,308	(5,252,650)

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	2019	2018
Increase in Cash and Cash Equivalents	$ 8,411,967	$ 565,125
Cash and Cash Equivalents, Beginning of Year	11,957,905	11,392,780
Cash and Cash Equivalents, End of Year	$ 20,369,872	$ 11,957,905
Supplemental Cash Flows Information		
Interest paid	$ 7,901,006	$ 8,277,000
Change in defined benefit pension plans – losses	$ (422,520)	$ (611,562)
Change in fair value of decommissioning trust	$ 4,244,837	$ (2,407,953)

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

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

NATURE OF OPERATIONS

Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a tax-exempt generation and transmission cooperative (G&T). KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission (KCC) in 1980 to act as a G&T public utility. It is KEPCo's responsibility to procure an adequate and reliable power supply for its 19 distribution rural electric cooperative members pursuant to all requirements of contracts with its members. KEPCo is governed by a board of trustees representing each of its 19 members, which collectively serve approximately 120,000 electric meters in rural Kansas.

SYSTEM OF ACCOUNTS

KEPCo maintains its accounting records substantially in accordance with the Federal Energy Regulatory Commission's (FERC) uniform system of accounts as modified and adopted by the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) and in accordance with accounting practices prescribed by the KCC. In accordance with generally accepted accounting principles (GAAP) and FERC guidelines, KEPCo also maintains its accounts in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, Regulated Operations.

RATES

Under a 2009 change in Kansas law, KEPCo has elected to be exempt from KCC regulation for most purposes, including the setting of rates. Rates are set by action of the Board, subject only to statutory review by the KCC if requested by four or more members. KEPCo's rates were last set by the KCC by an order effective September 1, 2008. KEPCo's rates now include an Energy Cost Adjustment (ECA) mechanism and an annual Demand Cost Adjustment (DCA) mechanism allowing KEPCo to pass along increases and decreases in certain energy and demand costs to its member cooperatives. Additionally, KEPCo implemented a Margin Stabilization Adjustment (MSA) in 2011, which is a mechanism to refund (or collect) a portion of KEPCo's margin when the total margin exceeds (or falls short of) the amount necessary to cover KEPCo's financial obligations.

PRINCIPLES OF CONSOLIDATION

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

IATAN 2

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

KEPCo's utility plant in service for its 3.53% share of Iatan 2 was approximately $82,600,000 and $82,100,000 with an allowance for depreciation of approximately $19,000,000 and $17,000,000 and construction work in progress of approximately $300,000 and $800,000 at December 31, 2019 and 2018, respectively.

WOLF CREEK NUCLEAR OPERATING CORPORATION

KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by Evergy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from WCNOC, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 6% of the operations, maintenance, administrative and general costs, and cost of plant additions related to WCNOC. Each owner is responsible for providing its own financing for all costs incurred at the plant.

KEPCo's utility plant in service for its 6% share of WCNOC was approximately $269,500,000 and $263,100,000 with an allowance for depreciation of approximately $149,100,000 and $143,500,000 and construction work in progress of approximately

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Continued NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

$8,100,000 and $10,100,000 at December 31, 2019 and 2018, respectively.

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

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

ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP 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. Costs and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. No interest has been capitalized in 2019 or 2018. The costs of repairs and minor replacements are charged to operating expenses as appropriate. The original cost of utility plant retired and the cost of removal less salvage are charged to accumulated depreciation.

The composite depreciation rate for electric generation plant for the years ended December 31, 2019 and 2018, is 4.45% and 4.26%, 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

LONG-LIVED ASSET IMPAIRMENT

KEPCo evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

NUCLEAR FUEL

The cost of nuclear fuel in the process of refinement, conversion, enrichment and fabrication is recorded as a utility plant asset at original cost and is amortized to nuclear fuel expenses based upon the quantity of heat produced for the generation of electric power.

NUCLEAR DECOMMISSIONING

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

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

In 2017, the triennial nuclear decommissioning study was revised. Based on the study, KEPCo's share of decommissioning costs, including decontamination, dismantling and site restoration, is estimated to be approximately $65,600,000. This amount does not compare to the prior site study estimate of $45,900,000 due to a KCC order requiring a new method of calculating the decommissioning costs. The new method, called SAFSTOR, requires long-term storage of spent fuel on-site for 60 years after the plant is decommissioned. The site study cost estimate represents the estimate to decommission WCNOC as of the site study year. The actual nuclear decommissioning costs may vary from the estimates because of changes in regulations and technologies as well as changes in costs for labor, materials and equipment.

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

KEPCo recovered in its prices and deposited in an external trust fund for nuclear decommissioning approximately $544,000 and $508,000 in 2019 and 2018, respectively. KEPCo records its investment in the nuclear decommissioning trust (NDT) at fair value, which approximated $30,527,000 and $25,000,000 at December 31, 2019 and 2018, respectively. The change in the fair value of investments in the NDT was approximately $4,245,000 and $(2,408,000) for the years ended December 31, 2019 and 2018, respectively, and is included in WCNOC decommissioning regulatory liability on the accompanying consolidated balance sheets.

ASSET RETIREMENT OBLIGATION

KEPCo recognizes and estimates the legal obligation associated with the cost to decommission WCNOC. 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 is as follows:

	2019	2018
Balance, beginning of year	$ 15,945,308	$ 20,589,586
Accretion	1,055,147	990,927
2017 decommissioning study	-	(5,635,205)
Balance, end of year	$ 17,000,455	$ 15,945,308

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Any net margin effects are deferred in the WCNOC decommissioning regulatory liability and will be collected from or returned to members in future electric rates

CASH AND CASH EQUIVALENTS

KEPCo considers 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. At December 31, 2019 and 2018, cash equivalents consisted primarily of a repurchase agreement and commercial paper.

KEPCo has invested $19,000,000 and $11,800,000 in National Rural Utilities Cooperative Finance Corporation (NRUCFC), a related party, commercial paper at December 31, 2019 and 2018, respectively. The commercial paper is exposed to credit risk and is not federally insured.

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

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount billed to members and customers. KEPCo provides allowances for doubtful accounts, which are based upon a review of outstanding receivables, historical collection information and existing economic conditions. No allowance was recorded at December 31, 2019 or 2018.

Accounts receivable are stated at the amount of consideration from members and customers, of which KEPCo has an unconditional right to receive. KEPCo provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are ordinarily due 15 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the member or customer.

During the years ended December 31, 2019 and 2018, there were no impairment losses on doubtful accounts receivable where collectibility is not reasonably assured.

MATERIALS AND SUPPLIES INVENTORY

Materials and supplies inventory are valued at average cost.

CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACTS

The following amounts related to WCNOC corporate-owned life insurance contracts, primarily with one highly rated major insurance company, are included in other long-term assets in the accompanying consolidated balance sheets:

	2019	2018
Cash surrender value of contracts	$ 8,293,065	$ 8,315,949
Borrowings against contracts	(8,006,818)	(8,028,528)
	$ 286,247	$ 287,421

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, 2019 and 2018.

MEMBER INVESTMENTS

KEPCo has a member investment program whereby members can invest funds with KEPCo. KEPCo pays interest on the balance of these funds. The member investments are payable back to the member upon demand or can be used to pay the balance due on the member's power bill.

REVENUE RECOGNITION

Revenue is recognized when control of the promised goods or services is transferred to KEPCo's members or customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. See Note 7 for additional information about KEPCo's revenue.

INCOME TAXES

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

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

EQUITY INVESTMENTS

KEPCo measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in net margin. Under ASC 980, KEPCo has elected to defer changes to all unrealized gains and losses of equity investments with readily determined fair market values. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities and equity investments without a readily determinable fair value are measured at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

For equity securities and equity investments measured under the practicability exception, KEPCo performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, KEPCo will recognize a loss based on the difference between carrying value and fair value.

INVESTMENTS IN ASSOCIATED ORGANIZATIONS AND NRUCFC

KEPCo has equity ownership in the form of patronage capital through various lenders and other associated organizations (see Note 3). Patronage capital equity is increased as patronage is allocated to KEPCo and decreased as patronage is retired and cash received.

These investments are considered equity investments without readily determinable fair values and are accounted for at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment. No impairment or observable price changes were recorded during 2019 and 2018.

WCNOC DISALLOWED COSTS

Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in WCNOC, which disallowed $26,000,000 of KEPCo's investment in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WCNOC. A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a 30-year period. The disallowed costs are being recovered through the use of straight-line amortization over the period required by the KCC.

COMPREHENSIVE INCOME

Comprehensive income consists of net margin and other comprehensive income (loss). Other comprehensive income (loss) includes changes in the funded status of the WCNOC pension and postretirement plans (see Note 8).

REVISIONS

Certain immaterial revisions have been made to the 2018 consolidated financial statements. These revisions did not have a significant impact on the consolidated financial statement line items impacted and did not impact previously reported comprehensive income. Following is a summary of revisions made to the 2018 consolidated financial statements:

	As Revised	As Previously Reported	Effect of Change
Balance Sheet			
WCNOC decomissioning regulatory asset	$ -	$ (2,945,106)	$ 2,945,106
Total long-term assets	$ 11,262,171	$ 8,317,065	$ 2,945,106
WCNOC pension and postretirement benefit plans	$ 12,093,234	$ 13,072,972	$ (979,738)
WCNOC decomissioning regulatory liability	$ 2,945,106	$ -	$ 2,945,106
Total other long-term liabilities	$ 32,491,411	$ 30,526,043	$ 1,965,368
Current provision for pension and postretirement benefit plans	$ 979,738	$ -	$ 979,738
Total current liabilities	$ 29,853,584	$ 28,873,846	$ 979,738
Statement of Cash Flows			
Adjustments to reconcile net margin to net cash flows provided by operating activities			
Net periodic benefit costs	$ 1,818,228	$ -	$ 1,818,228
Other noncash items	$ 9,393,893	$ 8,784,824	$ 609,069
Changes in			
Other long-term assets and prepaid expenses	$ (351,459)	$ 732,858	$ (1,084,317)
Other long-term liabilities	$ (1,405,302)	$ 116,234	$ (1,521,536)
Other balance sheet accounts	$ -	$ 1,002,947	$ (1,002,947)
Net cash provided by operating activities	$ 17,682,389	$ 18,863,892	$ (1,181,503)
Proceeds from investments in decommissioning fund assets	$ 1,123,204	$ -	$ 1,123,204
Purchases of investments in decommissioning fund assets	$ (3,034,090)	$ 497,067	$ (3,531,157)
Additions to deferred incremental outage costs	$ -	$ (2,251,881)	$ 2,251,881
Other cash used in investing activities	$ (7,322,914)	$ (7,788,979)	$ 466,065
Net cash used in investing activities	$ (11,864,614)	$ (12,174,607)	$ 309,993
Change in member investments	$ 871,510	$ -	$ 871,510
Net cash used in financing activities	$ (5,252,650)	$ (6,124,160)	$ 871,510
Change in defined benefit pension plans – losses	$ (611,562)	$ -	$ (611,562)
Change in fair value of decommissioning trust	$ (2,407,953)	$ -	$ (2,407,953)

CHANGES IN ACCOUNTING PRINCIPLES

ACCOUNTING STANDARDS UPDATE (ASU) 2014-09, REVENUE FROM CONTRACTS WITH CUSTOMERS (TOPIC 606)

In May 2014, FASB issued guidance, Topic 606, that provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. KEPCo adopted Topic 606 with a date of initial application of January 1, 2019 (see Note 7).

ASU 2016-01, FINANCIAL INSTRUMENTS – OVERALL (SUBTOPIC 825-10): RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2016, FASB issued ASU 2016-01, which amends guidance related to certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption not permitted with certain exceptions. KEPCo began application of ASU 2016-01 on January 1, 2019. Adoption of ASU 2016-01 did not have a material effect on the results of KEPCo's operations, financial position and cash flows.

ASU 2017-07, COMPENSATION – RETIREMENT BENEFITS (TOPIC 715), IMPROVING THE PRESENTATION OF NET PERIODIC PENSION COST AND NET PERIODIC POSTRETIREMENT BENEFIT COST

In 2019, KEPCo changed its method of accounting for defined benefit pension plans, other postretirement plans and other retirement benefits accounted for under Topic 715, Compensation – Retirement Benefits, by adopting ASU 2017-07. The new accounting guidance in ASU 2017-07 improves the presentation of net periodic postretirement benefit costs by requiring employers to report the service cost component of net periodic postretirement benefit cost in the same financial statement line as other employee compensation costs arising from the pertinent employees during the period. ASU 2017-07 also

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allows for capitalization of only the service cost component of net periodic postretirement benefit costs, if applicable. Other components of benefit costs are prohibited from capitalization as part of an asset. The impact of adopting ASU 2017-07 resulted in KEPCo reclassifying $669,479 and $665,746 in postretirement benefit costs from administrative and general expenses to other expenses for the years ended December 31, 2019 and 2018, respectively.

Note 2: Factors that Could Affect Future Operating Results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation and, accordingly, has recorded regulatory assets and liabilities related to its G&T operations in accordance with 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 in 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, WCNOC and Iatan 2 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 FERC 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 ratemaking for sales to its members under recent statutory amendments.

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

Note 3: Investments in Associated Organizations

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

	2019	2018
NRUCFC		
Memberships	$ 1,000	$ 1,000
Capital term certificates, bearing interest of 5.0% and maturing in 2080 (A)	395,970	395,970
Patronage capital certificates	2,613,206	2,361,678
Equity term certificates, bearing interest of 3.16% to 6.0% and maturing from 2020 through 2045 (A)	8,306,679	8,815,884
Total NRUCFC	11,316,855	11,574,532
Other	284,225	280,970

(A) KEPCo is required to maintain these investments pursuant to certain loan agreements.

Note 4: Deferred Charges

DEFERRED INCREMENTAL OUTAGE COSTS

In 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of WCNOC. Operating and maintenance costs 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 approximately $2,200,000 and $2,300,000 in 2019 and 2018, respectively. The current year amortization of the deferred incremental outage costs was approximately $1,600,000 and $1,700,000 for the years ended December 31, 2019 and 2018, respectively.

SOUTHWEST POWER POOL CHARGES

During 2016, KEPCo was assessed historical charges in the amount of approximately $2,442,000 from Southwest Power Pool related to a Z2 billing issue for generation system upgrades from 2008 through 2016. The total amount of historical charges was paid in October 2016 and will be amortized over a five-year period ending October 2021. The balance as of December 31, 2019 and 2018, was approximately $900,000 and $1,300,000, respectively. Accumulated amortization as of December 31, 2019 and 2018, was approximately $1,500,000 and $1,100,000, respectively.

Note 5: Lines of Credit

At December 31, 2019 and 2018, KEPCo has a $10,000,000 line of credit available with CoBank, ACB. There were no funds borrowed against the line of credit at December 31, 2019 or 2018. Interest rate options, as selected by KEPCo, are a weekly quoted variable rate in which CoBank establishes a rate on the first business day of each week or a London InterBank Offered Rate (LIBOR) option at a fixed rate equal to LIBOR plus 1.6%. This line of credit expires January 2020 and was subsequently renewed through January 2021 and is secured by substantially all of KEPCo's assets.

KEPCo has available from the NRUCFC two lines of credit available from the NRUCFC totaling $20,000,000, of which no funds were borrowed against at December 31, 2019 and 2018. One line is for $10,000,000 and matures March 2020. Interest varies as determined by the lender and was 3.25% and 3.75% at December 31, 2019 and 2018, respectively. The line requires an annual paydown of the line or it becomes immediately callable at the discretion of the NRUCFC. The other line is for $10,000,000 and matures December 2049. Interest varies as determined by the lender and was 2.85% and 4.00% at December 31, 2019 and 2018, respectively. The lines are collateralized by substantially all of KEPCo's assets.

Note 6: Long-Term Debt

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

	2019	2018
Mortgage notes payable to the FFB at fixed rates varying from 0.818% to 6.107%, payable in quarterly installments through 2043	$ 79,645,170	$ 79,033,679
RUS cushion of credit (A)	(7,167,211)	(11,254,607)
FFB mortgage notes payable, net of cushion of credit	72,477,959	67,779,072
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	470,904	606,834
Mortgage notes payable, equity certificate loans and member capital security notes to NRUCFC at fixed rates of 3.80% to 7.50%, payable quarterly through 2045	80,848,373	86,247,265
	153,797,236	154,633,171
Less current maturities	(9,251,502)	(8,969,186)
	$ 144,545,734	$ 145,663,985

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Continued NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

(A) RUS cushion of credit funds are required to be applied to the debt service requirements of the FFB mortgage notes payable and are, therefore, reflected net in the related balances in the accompanying consolidated balance sheets. The RUS cushion of credit is offered by the USDA and earns interest annually at a rate approved by the USDA.

KEPCo has approximately $21,493,000 of unadvanced loan funds with the FFB as of December 31, 2019.

Aggregate maturities of long-term debt are as follows:

2020	$ 9,251,502
2021	8,332,506
2022	8,486,793
2023	8,519,535
2024	7,599,932
Thereafter	111,606,968
	$ 153,797,236

Restrictive covenants related to the NRUCFC and FFB debt require KEPCo to design rates that would enable it to maintain a times-interest earned ratio of at least 1.05 and debt service coverage ratio of at least 1.0, on average, in the two best years out of the three most recent calendar years. The covenants also prohibit distribution of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets, unless such distribution is approved by the RUS or NRUCFC. KEPCo was in compliance with such restrictive covenants as of December 31, 2019 and 2018.

Restrictive covenants related to 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 covenants as of December 31, 2019 and 2018.

Note 7: Revenue from Contracts with Customers

In 2019, KEPCo changed its accounting policy on revenue recognition by adopting the provisions of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

KEPCo adopted this standard on January 1, 2019, using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in patronage capital at the beginning of the year of adoption. There was not an adjustment to beginning patronage capital as a result of adoption of Topic 606. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC 605, Revenue Recognition. KEPCo has applied the new standard to all contracts not complete at the date of adoption.

KEPCo's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

PERFORMANCE OBLIGATIONS – OPERATING REVENUES

The majority of KEPCo's revenues are derived primarily from the sale of electric power to members. Members consist of distribution cooperatives within dedicated territories in Kansas.

Rates charged for electric power sales to members are established at least annually by the Board. KEPCo provides energy and demand to members as one stand-ready performance obligation. Electric power revenue is recognized by KEPCo upon transfer of control of the promised services to members in an amount that reflects the consideration KEPCo expects to receive in exchange for those services. KEPCo transfers control of the electric power to members at each member's meter point and the members simultaneously receive and consume the benefits of the energy provided. Electric power provided to members is accounted for as a series of performance obligations. Progress toward completion is measured using the output method. Meter readings are taken at the end of each month for billing purposes, and the quantity of energy transferred is determined after the meter readings. Customers are billed monthly and KEPCo accrues for unbilled amounts. Payments from members are received in accordance with each member's contract, which is less than 30 days from the invoice date.

Revenue associated with the electric power performance obligation to members is recorded as sales of electric energy in the accompanying consolidated statements of margin and comprehensive income.

KEPCo has determined that the nature, amount, timing and uncertainty of revenue and cash flows are not materially affected by any factors, such as the geography of the service location, customer type or service line.

ACCOUNTING POLICIES AND PRACTICAL EXPEDIENTS ELECTED

KEPCo has applied an accounting policy election that allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes KEPCo collects concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

KEPCo has also elected to use the right to invoice practical expedient. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer.

Note 8: Benefit Plans

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION (NRECA) RETIREMENT AND SECURITY PROGRAM

KEPCo participates in the NRECA Retirement and Security Program (RS Plan) for its employees. The NRECA RS Plan 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 multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer 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 NRECA RS Plan in 2019 and 2018 represented less than 5% of the total contributions made to the plan by all participating employers. KEPCo made contributions to the NRECA RS Plan of approximately $470,000 and $450,000 for the years ended December 31, 2019 and 2018, respectively. There have been no

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significant changes that affect the comparability of 2019 and 2018 contributions.

For the NRECA RS Plan, a "zone status" determination is not required, and thus not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the NRECA RS Plan was more than 80% funded at January 1, 2019 and 2018, 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 NRECA 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.

In 2012, NRECA approved an option to allow participating cooperatives in the NRECA RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the NRECA RS Plan's unfunded value of benefits earned to date using NRECA RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual NRECA RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives, the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the NRECA RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experiences different from expected; plan assumption changes; and other factors may have an impact on the differential in billing rates and the 15-year period. KEPCo participated in the prepayment program and is amortizing the $1,314,273 over a 10-year period through 2023. This balance is included in prepaid pension cost in other long-term assets on the accompanying consolidated balance sheets.

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 $121,000 and $110,000 to the NRECA Savings 401(k) Plan for the years ended December 31, 2019 and 2018, respectively.

WCNOC PENSION AND POSTRETIREMENT PLANS

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

WCNOC uses a measurement date of December 31 for the Plans.

Information about KEPCo's 6% share of the Plans' funded status follows:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Change in benefit obligation				
Beginning of year	$ 32,123,209	$ 33,417,035	$ 883,170	$ 895,586
Service cost	931,676	1,133,901	16,298	18,581
Interest cost	1,406,986	1,265,435	35,839	31,273
Plan participants' contributions	-	-	195,382	178,971
Benefits paid	(1,968,736)	(1,268,318)	(399,263)	(324,079)
Actuarial (gains) losses	3,412,192	(2,424,844)	172,877	82,838
End of year	35,905,327	32,123,209	904,303	883,170
Change in fair value of plan assets				
Beginning of year	19,916,182	21,403,425	35,225	333
Actual return on plan assets	4,583,499	(1,527,073)	-	-
Employer contributions	2,028,000	1,273,914	213,000	180,000
Plan participants' contributions	-	-	191,140	178,971
Benefits paid	(1,934,119)	(1,234,084)	(387,552)	(324,079)
End of year	24,593,562	19,916,182	51,813	35,225
Funded status, end of year	$ (11,311,765)	$ (12,207,027)	$ (852,490)	$ (847,945)

Amounts recognized in the accompanying consolidated balance sheets:

	2019	2018
Other long-term liabilities		
WCNOC pension and postretirement benefit plans	$ 10,994,841	$ 12,093,234
WCNOC provision for injuries	$ 23,339	$ 18,000
Current liabilities		
Current provision for pension and postretirement benefit plans	$ 1,192,753	$ 979,738

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts recognized in accumulated other comprehensive loss not yet recognized as components of net periodic benefit costs consist of: 2019

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Net gain (loss)	$ (8,264,153)	$ (8,655,715)	$ (167,941)	$ 5,344
Prior service cost	(35,978)	(42,785)	-	-
	$ (8,300,131)	$ (8,698,500)	$ (167,941)	$ 5,344

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

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Projected benefit obligation	$ 35,905,327	$ 32,123,209	$ 904,303	$ 883,170
Fair value of plan assets	$ 24,593,562	$ 19,916,183	$ 51,813	$ 35,225

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

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Discount rate	4.34%	4.34%	3.42%	4.27%
Annual salary increase rate	4.14%	4.03%	0.00%	N/A

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

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Components of net periodic benefit costs				
Service cost	$ 931,676	$ 1,133,901	$ 16,298	$ 18,581
Interest cost	1,406,986	1,265,435	35,839	31,273
Expected return on plan assets	(1,420,950)	(1,476,256)	-	-
Prior service cost amortization	6,807	7,071	-	-
Actuarial gain (loss)	641,205	845,577	(408)	(7,354)
Net periodic benefit costs	1,565,724	1,775,728	51,729	42,500
Other changes in plan obligations recognized in other comprehensive income (loss)				
Current year actuarial loss	249,643	578,485	172,877	82,838
Amortization of actuarial loss (gain)	(641,205)	(845,578)	408	7,354
Amortization of prior service cost	(6,807)	(7,071)	-	-
Total recognized in other comprehensive income (loss)	(398,369)	(274,164)	173,285	90,192
Total recognized in net periodic benefit costs and other comprehensive income (loss)	$ 1,167,355	$ 1,501,564	$ 225,014	$ 132,692
Weighted-average actuarial assumptions used to determine net periodic benefit costs				
Discount rate	3.61%	3.73%	3.42%	3.56%
Expected long-term return on plan assets	6.70%	7.25%	N/A	N/A
Compensation rate increase	3.75%	4.00%	N/A	N/A

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KEPCo estimates it will amortize the following amounts into net periodic benefit costs in 2020:

	Pension Benefits		Postretirement Benefits	
Actuarial loss	$	863,138	$	11,597
Prior service cost		6,722		-
Total	$	869,860	$	11,597

The expected long-term rate of return on plant 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 trend rates were as follows:

	2019	2018
Health care cost trend rate assumed for next year	6.25%	6.50%
Rate to which the health care cost trend rate is assumed to decline	4.50%	4.50%
Year the health care cost trend rate reaches the ultimate trend rate	2027	2027

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

	One-Percentage-Point Increase		One-Percentage-Point Decrease	
Effect on total of service and interest cost components	$	(1,002)	$	1,083
Effect on postretirement benefit obligation	$	(16,050)	$	16,802

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

The target allocations for WCNOC's pension plan assets are 31% to international equity securities, 25% to domestic equity securities, 25% to debt securities, 10% to real estate securities, 5% to commodity investments and 4% to other investments. The investments in both international and domestic equity include investments in large-, mid- and small-cap companies and investment funds with underlying investments similar to those previously mentioned. The investments in debt include core and high-yield bonds. Core bonds include funds invested in investment grade debt securities of corporate entities, obligations of U.S. and foreign governments and their agencies and rivate debt securities. High-yield bonds include a fund with underlying investments in noninvestment grade
debt securities of corporate entities, private placements and bank

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debt. Real estate securities include funds invested in commercial and residential real estate properties while commodity investments include funds invested in commodity-related instruments.

PENSION PLAN ASSETS

All of WCNOC's pension plan assets are recorded at fair value using daily net asset values as reported by the trustee. Similar to other assets measured at fair value, GAAP establishes a hierarchal framework for disclosing the transparency of the inputs utilized in measuring pension and postretirement benefit lan assets at fair value. From time to time, the WCNOC pension trust may buy and sell investments resulting in changes within the hierarchy. Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents. 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. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. Significant inputs and valuation techniques used in measuring Level 3 fair values include market discount rates, projected cash flows and the estimated value into perpetuity. Investments that do not have a readily determinable fair value are measured at net asset value (NAV). These investments do not consider the observability of inputs; therefore, they are not included within the fair value hierarchy. WCNOC includes investments in private equity, real estate and alternative investmetn funds that do not have a readily determinable fair value in this category. The underlying alternative investments include collarteralized debt obligations, mezzanine debt and a variety of other investments.

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

		Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3	NAV
2019					
Cash equivalents	$ 135,489	$ 135,489	$ -	$ -	$ -
Equity securities					
U.S.	6,314,393	-	-	-	6,314,393
International	7,778,190	-	-	-	7,778,190
Debt securities					
Core bonds	6,211,176	-	-	-	6,211,176
Alternative investments	4,154,314	-	-	-	4,154,314
Total investments	$ 24,593,562	$ 135,489	$ -	$ -	$ 24,458,073
2018					
Cash equivalents	$ 123,280	$ 123,280	$ -	$ -	$ -
Equity securities					
U.S.	5,037,650	-	-	-	5,037,650
International	5,990,324	-	-	-	5,990,324
Debt securities					
Core bonds	5,234,570	-	-	-	5,234,570
Alternative investments	3,530,358	-	-	-	3,530,358
Total investments	$ 19,916,182	$ 123,280	$ -	$ -	$ 19,792,902

Estimated future benefit payments as of December 31, 2019, for the Plans, which reflect expected future services, are as follows:

	Pension Benefits	Other Postretirement Benefits
Expected contributions		
2020	$ 1,098,000	$ 94,753
Expected benefit payments		
2020	$ 1,479,975	$ 94,753
2021	$ 1,498,531	$ 91,296
2022	$ 1,571,863	$ 85,518
2023	$ 1,651,940	$ 77,646
2024	$ 1,772,837	$ 72,883
2025–2029	$ 9,697,903	$ 291,491

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Note 9: Commitments and Contingencies

CURRENT ECONOMIC CONDITIONS

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

LETTER OF CREDIT

KEPCo has an open letter of credit with NRUCFC in the amount of $1,500,000 that automatically renews every year. The letter of credit is intended to provide financial security to Southwest Power Pool pursuant to its credit policy.

NUCLEAR LIABILITY INSURANCE

Pursuant to the Price-Anderson Act, liability insurance includes coverage against public nuclear liability claims resulting from nuclear incidents to the required limit of public liability, which is approximately $13.9 billion. This limit of liability consists of the maximum available commercial insurance of $0.4 billion, and the remaining $13.5 billion is provided through mandatory participation in an industry-wide retrospective assessment program. Under this retrospective assessment program, the owners of WCNOC are jointly and severally subject to an assessment of up to $137.6 million (KEPCo's share is $8.30 million), payable at no more than $20.5 million (KEPCo's share is $1.2 million) per incident per year per reactor for any commercial U.S. nuclear reactor qualifying incident. Both the total and yearly assessments are subject to an inflationary adjustment based on the Consumer Price Index and applicable premium taxes. In addition, Congress could impose additional revenue-raising measures to pay claims.

The owners of WCNOC carry nuclear accident decontamination liability, premature nuclear decommissioning liability and property damage insurance for WCNOC totaling approximately $2.8 billion (KEPCo's share is $168.0 million). In the event of a nuclear accident, insurance proceeds must first be used for reactor stabilization and site decontamination in accordance with a plan mandated by the NRC. The owners' share of any remaining proceeds can be used to pay for property damage or, if certain requirements are met, including decommissioning the plant, toward a shortfall in the NDT.

The owners also carry additional insurance with Nuclear Electric Insurance Limited (NEIL) to help cover costs of replacement power and other extra expenses incurred during a prolonged outage resullting from accidental property damage at WCNOC. If significant losses were incurred at any of the nuclear plants insured under the NEIL policites, the owners may be subject to retrospective asscessments under the current policies of approximately $33.2 million (KEPCo's share is $2.0 million) in 2019 and $37.4 million (KEPCo's share is $2.2 million) in 2018.

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

DECOMMISSIONING INSURANCES

KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if WCNOC incurs an accident exceeding $500.0 million in expenses to safely stabilize the reactor, decontaminate the reactor and reactor station site in accordance with a plan approved by the NRC and pay for on-site property damages.

Once the NRC property rule requiring insurance proceeds to be used first for stabilization and decontamination has been complied with, the premature decommissioning coverage could pay for the decommissioning fund shortfall in the event an accident at WCNOC exceeds $500.0 million in covered damages and causes WCNOC to be prematurely decommissioned.

NUCLEAR FUEL COMMITMENTS

KEPCo owns a 6% undivided interest in WCNOC and provides its own financing for costs incurred by WCNOC. KEPCo's share of anticipated costs for ongoing nuclear fuel for WCNOC is estimated to be approximately $18,523,000 for the next five years.

COAL COMMITMENTS

KEPCo owns a 3.53% undivided interest in Iatan 2 and provides its own financing for costs incurred by Iatan 2. KEPCo's share of anticipated costs for ongoing coal fuel for Iatan 2 is estimated to be approximately $15,034,000 for the next five years.

PURCHASE POWER COMMITMENTS

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

Note 10: Significant Estimates and Concentrations

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

LITIGATION

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

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

DEFERRED COMPENSATION AGREEMENT

The amount of annual expense accrued for deferred compensation is based on an estimate of the total amounts payable under the contract over the lifetimes of the beneficiaries.

ASSET RETIREMENT OBLIGATION

As described in Note 1, KEPCo has recorded a liability for its conditional asset retirement obligation related to the WCNOC plant decommissioning costs.

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PENSION AND OTHER POSTRETIREMENT BENEFIT OBLIGATIONS

KEPCo, through its 6% share in WCNOC, has a noncontributory defined benefit pension and postretirement medical plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

INVESTMENTS

KEPCo invests in various investment securities in its NDT. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 11: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data forsubstantially 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 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:

		Fair Value Measurements		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Equity Securities				
Domestic fund	$ 17,014,773	$ 17,014,773	$ -	$ -
International fund	1,981,101	1,981,101	-	-
Domestic bond fund	10,636,865	10,636,865	-	-
Money market	894,477	894,477	-	-
Total	$ 30,527,216	$ 30,527,216	$ -	$ -
2018				
Equity Securities				
Domestic fund	$ 13,156,688	$ 13,156,688	$ -	$ -
International fund	1,572,454	1,572,454	-	-
Domestic bond fund	9,834,610	9,834,610	-	-
Money market	441,785	441,785	-	-
Total	$ 25,005,537	$ 25,005,537	$ -	$ -

Continued on next page

NOTES TO CONSOLIDATED **FINANCIAL STATEMENTS**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The estimated fair values of KEPCo's other financial instruments at December 31 are as follows:

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$ 20,369,872	$ 20,369,872	$ 11,957,905	$ 11,957,905
Investments in associated organizations	$ 11,601,080	$ 11,601,080	$ 11,855,502	$ 11,855,502

The following methods were used to estimate the fair value of all other financial instruments not recognized in the accompanying consolidated balance sheets.

CASH AND CASH EQUIVALENTS

The carrying amount approximates fair value.

INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Management was not able to estimate the fair value of investments that represent KEPCo's investment in memberships and other associated organizations and they remain at their cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Note 12: Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were no longer prepared under the regulatory basis of accounting as prescribed by ASC 980, Regulated Operations, total patronage capital would be substantially less. As noted in the accompanying consolidated statements of patronage capital, no patronage capital distributions were made to members in 2019 and 2018.

Note 13: Subsequent Events

Subsequent events have been evaluated through April 8, 2020, which is the date the consolidated financial statements were available to be issued.

DECLINE IN INVESTMENT FAIR VALUE

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline, which has resulted in a substantial decline in the value of the NDT investment portfolio.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT **AUDITOR'S REPORT**

BOARD OF TRUSTEES KANSAS ELECTRIC POWER COOPERATIVE, INC. TOPEKA, KANSAS

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of Kansas Electric Power Cooperative, Inc. and its wholly owned subsidiary (KEPCo), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of margin and comprehensive income, patronage capital and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 8, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we consider KEPCo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEPCo's internal control. Accordingly, we do not express an opinion on the effectiveness of KEPCo's internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001, that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether KEPCo's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

MANAGEMENT'S RESPONSE TO THE FINDING

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

OKLAHOMA CITY, OKLAHOMA
APRIL 8, 2020

BKD
CPAs & Advisors

LEGISLATIVE **HIGHLIGHTS** *Continued from page 7*

session, the committee heard testimony from several rural businesses representing a wide range of industries, as well as numerous associations and social services providers, each highlighting the issues pertaining to attracting and retaining businesses and the need for essential services in rural Kansas communities.

Kansas electric cooperatives met with area legislators and members during Co-ops Vote events. Pictured are Ark Valley staff along with KEC and KEPCo representatives.

As part of our advocacy efforts, KEPCo attended each of the Co-ops Vote events sponsored by our member cooperatives. Each event was attended by electric cooperative employees, city and county officials, and area state legislators.

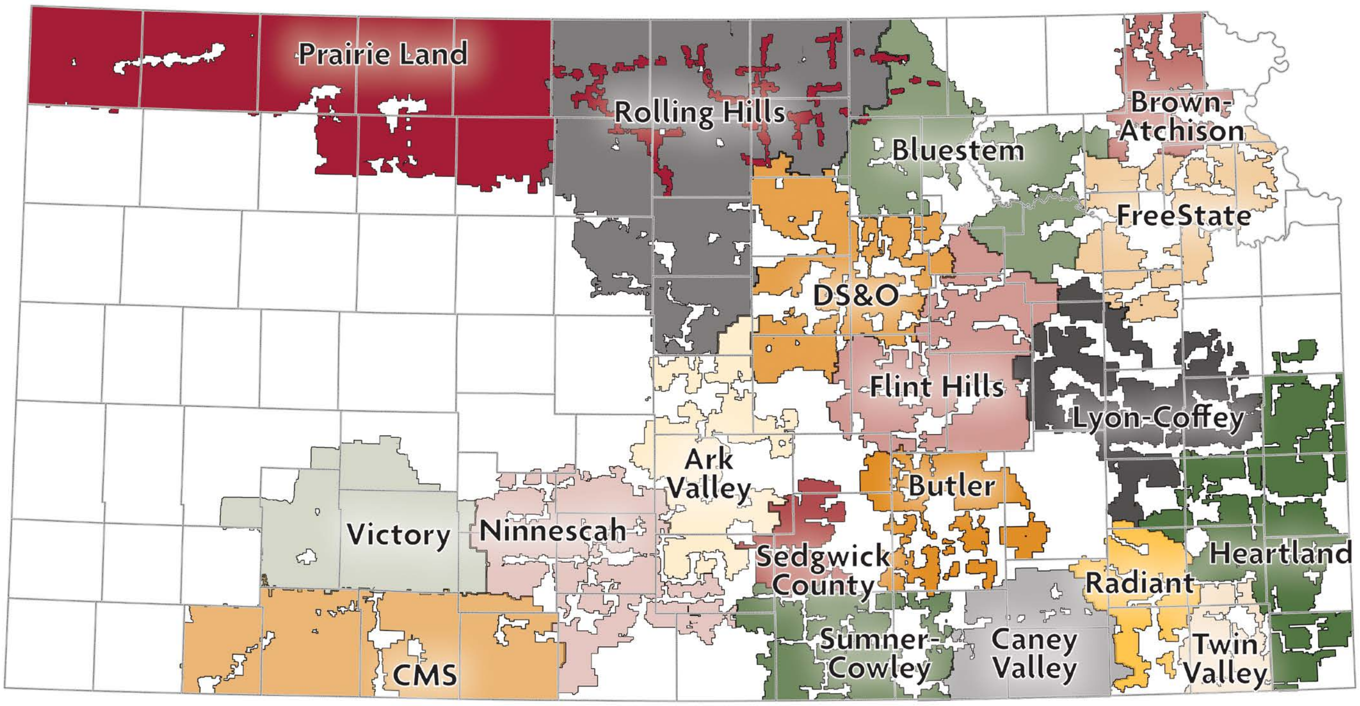
Co-ops Vote is a program that encourages electric cooperatives to stand together as a unified, powerful voice in local, state, and national elections. This non-partisan program also strives to inform both members and the candidates about issues important to America's electric cooperatives and the communities they serve, from the continued need for affordable and reliable electricity to broadband access and other rural economic development issues. Through participation in Co-ops Vote events and other advocacy efforts, KEPCo earned the "5-Star Co-op" designation from NRECA.

At the national level, Suzanne Lane, Susan Cunningham, and Phil Wages represented KEPCo at the Kansas Electric Cooperatives, Inc. (KEC) biannual Congressional Fly-Ins in Washington, D.C. Held in April and September 2019, KEPCo's representatives, along with representatives from other Kansas electric cooperatives and KEC, met with each member of the Kansas delegation to discuss such topics as the RURAL Act (co-op tax exempt status), expansion of rural broadband, expanding access to sustainable energy (EASE Act), and the Endangered Species Act (particularly with regard to the lesser prairie chicken).

Kansas electric cooperative representatives met with Senator Jerry Moran during their April visit to Washington, D.C.

Cooperative representatives met with Congressman Ron Estes at the KEC fall legislative fly-in. From left are: Doug Jackson, Rolling Hills; Dennis Svanes, Lyon-Coffey; Leslie Kaufman, Kansas Electric Cooperatives; Congressman Estes; Phil Wages, KEPCo; Doug Shepherd, Kansas Electric Cooperatives; Stuart Lowry, Sunflower; and Scott Ayres, Sedgwick County.

ABOUT **KEPCo**



Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered in Topeka, Kansas, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). It is KEPCo's responsibility to procure an adequate and reliable power and energy supply for its 19 distribution electric cooperative members at a reasonable cost.

In addition to its core mission, KEPCo partners with its member cooperatives on such important activities as rural economic development, electric energy efficient appliance rebates, load and power cost forecasting, and system enhancement projects. KEPCo also offers a wide range of technical and engineering services to its member cooperatives, non-member cooperatives, and other electric utility providers requiring consulting services through its wholly owned, for-profit subsidiary, KEPCo Services, Inc. (KSI).

Governed by a 19-member board of trustees, KEPCo's members collectively serve more than 125,000 electric meters in the eastern two-thirds of Kansas, which represents more than 300,000 rural Kansans. The board of trustees establishes policies and acts on issues that often include recommendations from working committees of the board and KEPCo staff. The board also elects a seven-person executive committee, which includes the president, vice president, secretary, treasurer, and three additional members.

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

Currently, KEPCo employs 24 employees with expertise in engineering, information technology, power supply, transmission, supervisory control and data acquisition (SCADA) operations, rates and rate design, finance, and accounting.

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

It is KEPCo's responsibility to procure an adequate and reliable power supply for its 19 distribution electric cooperative members at a reasonable cost.

2019

KEPCo

600 SW Corporate View
PO Box 4877
Topeka, KS 66615

785-273-7010

www.kepco.org