2013

Annual Report

Dedicated to serving rural Kansas

KEPCo

Kansas Electric

Power Cooperative, Inc.

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KEPCo Staff

Charles Terrill................Executive Vice President & Chief Executive Officer

Les Evans..........................Senior Vice President & Chief Operating Officer

William Riggins.........Senior Vice President, Chief Strategic Officer & General Counsel

Coleen Wells................................Vice President & Chief Financial Officer

Mark Barbee.........Vice President of Engineering, KSI Vice President of Engineering

Chris Davidson...................................Engineer 2

Terry Deutscher.......................Manager, SCADA & Meter Maintenance

Mark Doljac...........Director of Rates & Regulation

Carol Gardner........................Operations Analyst

Shawn Geil..........Director of Information Systems

Maurice Hall.......Sr. SCADA/Metering Technician

Robert Hammersmith........................Sr. SCADA/ Metering Technician

Shari Koch............................Finance & Accounts Payable/Payroll Specialist

Elizabeth Lesline............Administrative Assistant/ Receptionist

Mitch Long....................................... Sr. SCADA/ Metering Technician

Matt Ottman......Information System Specialist 2

John Payne..............................Senior Engineer

Rita Petty.............................. Executive Assistant & Manager of Office Services

Kelsey Schrempp........... Administrative Assistant & Benefits Specialist

Paul Stone................................System Operator

Jill Taggart......Director of Forecasting & Planning

Phil Wages............. Director of Member Services, Government Affairs & Business Development

Stephanie Worthington........................... Finance & Benefits Analyst

Organization & Resources

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

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

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

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

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

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

A Touchstone Energy® Cooperative

2013 Message

from

Scott Whittington
KEPCo President

Charles Terrill
Executive Vice President
& Chief Executive Officer

In March, Mr. Charles "Chuck" Terrill was announced as KEPCo's fourth Executive Vice President & Chief Executive Officer (EVP & CEO). Mr. Terrill is not new to KEPCo. Prior to serving as the EVP & CEO of the North Carolina Association of Electric Cooperatives and the North Carolina Electric Membership Corporation from 1995 to 2007, Mr. Terrill served eight years as KEPCo's second EVP & CEO. Mr. Terrill has over thirty-five years of experience in the electric utility industry, primarily with electric cooperatives.

2013 was not only bookended by changes in leadership, both within KEPCo and with the KEPCo Board of Trustees, but change is occurring in the utility industry as well. Early in 2014, electric utilities that are members of the Southwest Power Pool (SPP), of which KEPCo is a member, will undergo a fundamental change in how electricity is dispatched. The SPP Integrated Marketplace will be implemented as the latest incremental step in SPP's evolutionary approach to improving service to SPP members and the region. The Integrated Marketplace will determine which generating units should run the next day for maximum cost effectiveness, provide participants with greater access to reserve electricity, improve regional balancing of supply and demand, and facilitate the integration of renewable resources. By working closely with SPP members, market participants, vendors, and customers, the SPP can focus collective energies on improving grid reliability and greater cost savings and efficiencies.

In order to accommodate the SPP Integrated Marketplace, KEPCo successfully completed negotiations with Westar Energy to formalize modifications to the existing Westar Generation Formula Rate Agreement. The modifications were necessary to adjust the methodology for billing KEPCo's usage and the crediting of KEPCo's generation resources. In addition, KEPCo negotiated agreeable terms with Westar Energy for an Energy Management Agreement (EMA). The EMA is a service agreement which allows

Westar, as the SPP Market Participant, to act as KEPCo's agent for the purposes of bidding, scheduling and settling KEPCo's generation resources in the SPP Integrated Marketplace.

In November, at KEPCo's Annual Meeting, Mr. Scott Whittington, manager of Lyon-Coffey Electric Cooperative, Inc., was unanimously elected as President of KEPCo, succeeding Mr. Kirk Thompson, manager of CMS Electric Cooperative, Inc. Mr. Thompson elected not to seek a fifth term. In addition to having over 15 years of electric cooperative experience, Mr. Whittington also serves on the CoBank Board and is a member of the CoBank Governance Committee, is a trustee for KEPCo, is an alternate trustee for Kansas Electric Cooperatives, and is an executive council member for Kansas Touchstone Energy Cooperatives.

The cost of electricity and regulatory uncertainty continue to be concerns. Over the past few years, electric utilities, particularly in the Midwest, have seen measurable increases in costs, driven substantially by the cost of environmental regulatory compliance. Controlling costs to keep wholesale rates as economic as possible is a principle responsibility and objective of KEPCo. In an effort to slow this upward cost trend, the KEPCo Board of Trustees approved the restructuring and refinancing of the original debt associated with the Wolf Creek Nuclear Generating Station (Wolf Creek). The debt has been extended to more closely match the useful life of the plant, which was granted an operating license extension to 2045. In December, as an immediate result of the restructuring, KEPCo, through its Margin Stabilization Adjustment, was able to apply a credit to the Member's December energy bill that reduced the average Member rate by four mills for the year. Over the life of the restructuring, KEPCo will be able to lower the principal payments on Wolf Creek, thus stabilizing, or potentially reducing, Wolf Creek's impact on wholesale rates.

At a time when the utility industry could use some certainty regarding the future of fossil fuel generation, particularly coal, the current administration seems to be moving in the opposite direction. Regulatory uncertainty hampers investment in generation resources, not only with new plants, but existing plants as well. Utilities across the nation are being forced to decide whether to invest millions of dollars in equipment to retrofit existing plants to comply with new, more stringent EPA regulations or to close plants and invest in other generation resources, which may also face new regulations in the future. Utilities cannot develop long-term generation resource plans when the regulations governing generation resources are constantly in flux.

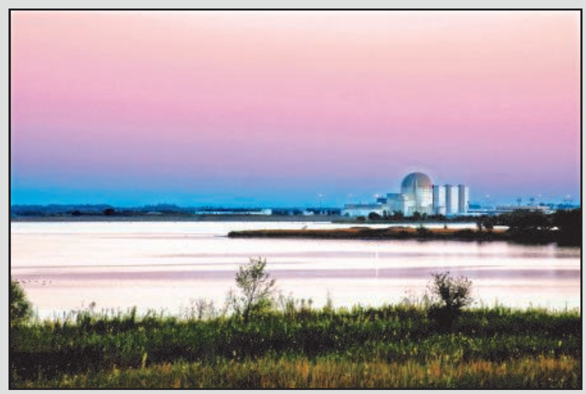

Bull Shoals Dam

KEPCo is not immune to EPA regulations and associated costs. KEPCo's wholesale rate is impacted by EPA compliance expenditures by utilities from which KEPCo purchases energy. Even though KEPCo has exposure to these expenditures, KEPCo has been able to shield its Members from substantial regulatory compliance costs through its partial ownership in Iatan 2, an 850 megawatt super-critical coal-fired plant, its six percent ownership of Wolf Creek, and its federal hydropower allocations. These three resources account for nearly 44 percent of KEPCo's energy supply.


Iatan 2

This year, the Iatan Generating Station was awarded the prestigious 2012 Power Plant Operational Excellence & Stewardship Award from GP Strategies. Iatan 2 achieved the best heat rate for a coal plant in the U.S. in 2012, and the entire Iatan Generating Station was the most efficient Powder River Basin coal-fired plant in the nation. The award recognizes efficiency and environmental stewardship, in addition to recognizing the efforts to restore 106 acres of Missouri River wetlands, which house rare wildlife, like peregrine falcons and bald eagles. As of December 31, Iatan 2 had run continuously for 289 days, and since commencing commercial operation in late 2010, Iatan 2 has met all EPA regulations without additional environmental controls.

Re-fuel 19 was completed at Wolf Creek this year, which will provide the unit with enough fuel until the spring of 2015. During the outage, several upgrades and modifications were completed, which will improve the overall operation of the plant. Wolf Creek does not emit any flue gas or greenhouse gas, thus shielding KEPCo Members from the costs associated with EPA air emission regulations.


Wolf Creek Nuclear Generating Station

Looking ahead, strategic analysis has shown where KEPCo can further improve its power supply program and processes. In 2014, KEPCo will focus upon the implementation and operation of the SPP Integrated Marketplace, study demand-side management opportunities, study the options for the availability for future financing, simplify KEPCo's cost adjustment factors in the Member tariff, and develop additional financial and rate forecasting tools. By focusing on these areas, KEPCo will be able to further enhance its operations and continue to provide an economic and reliable power supply, as it has for nearly four decades.

In closing, the electric utility industry today is far different than that of just ten years ago. To say these are challenging times is an understatement. The ability to act and react in an ever-changing industry is critical for continued viability. KEPCo is fortunate to have a Board of Trustees and staff that have the vision and experience to perform and excel in such an environment. Through their combined leadership, KEPCo will continue to provide rural Kansas with a resource necessary for a quality way of life and economic vitality.

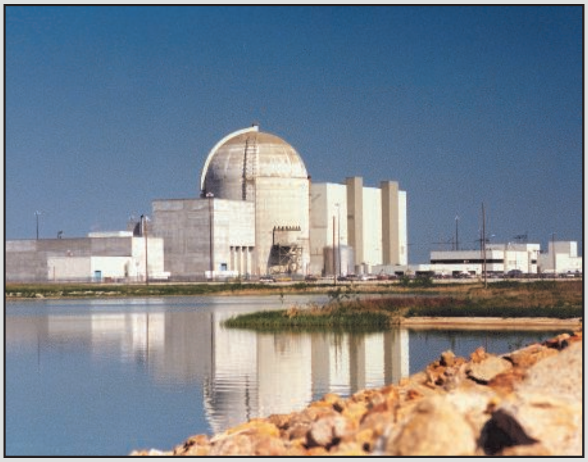
2013 KEPCo Highlights

Charles "Chuck" Terrill

Chuck Terrill was named Executive Vice President and Chief Executive Officer of KEPCo. Chuck returned to KEPCo, where he was previously the EVP & CEO from 1988 to 1995, after retiring as EVP & CEO of North Carolina Association of Electric Cooperatives and the North Carolina Electric Membership Corporation.

Iatan was recognized as the nation's most efficient coal-fired plant, as it was presented the 2012 Power Plant Operational Excellence & Stewardship Award by GP Strategies Corporation. The award is in recognition of the overall commitment to plant thermal efficiency and environmental stewardship.

Les Evans accepting Iatan award



Wolf Creek Nuclear Generating Station

KEPCo refinanced and restructured the debt associated with Wolf Creek. As such, KEPCo was able to lower the debt service on Wolf Creek, thus reducing the wholesale rate to Member Cooperatives in 2013 by four mills.

Re-fuel 19 was completed at Wolf Creek, which will provide the unit with enough fuel until the spring of 2015. Several upgrades and modifications were completed during the outage which will improve the overall operation of the plant.

In May, KEPCo successfully appealed the Department of Revenue's notice of property valuation. In June, KEPCo worked with KEC to further appeal the appraisal before the Court of Tax Appeals (COTA). In September, COTA issued an order, resulting in additional tax savings for KEPCo.

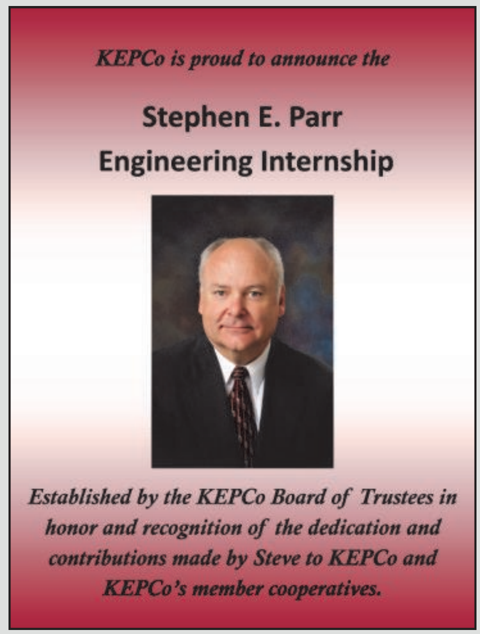
KEPCo provided technical consultation to Members on energy issues in areas such as generator interconnections, purchase power agreements, metering, regulatory and policy matters.

Member-owned wind generation

For 16 years, KSI has provided valuable engineering services for KEPCo Members, while covering its expenses and contributing to KEPCo overheads. Over the past year, KSI has been involved in over 60 projects for 12 KEPCo Members and two non-members.


U.S. Capitol, Washington, D.C.

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and Washington, D.C. Staff testified on several bills in 2013 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.



In memory and honor of Mr. Stephen Parr, KEPCo's EVP & CEO from 1996 to 2013, the KEPCo Board of Trustees unanimously approved the establishment of the Stephen E. Parr Engineering Internship, an electric engineering summer internship for students attending Kansas universities.

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

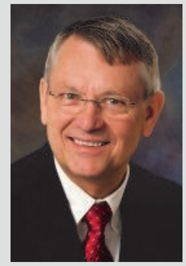
KEPCo settled a long-standing issue with Sunflower, MKEC, Victory and Prairie Land regarding power supply to areas previously served by Aquila.

Safety of our employees is essential to the continued operational success of KEPCo. Several safety meetings are conducted throughout the year for KEPCo's SCADA Technicians and administrative personnel. KEPCo is proud to report there were no lost time accidents recorded in 2013.

KEPCo Member Cooperatives
Trustees, Alternates and Managers

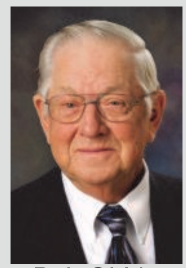

Joseph Seiwert

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


Bob Hall


Kenneth Maginley

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


Bob Ohlde

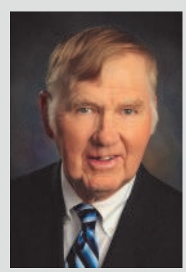

Kevin Compton

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


Jim Currie

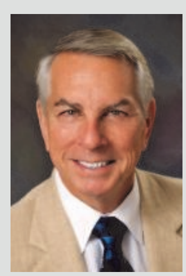

Dale Short

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


Riley Walters

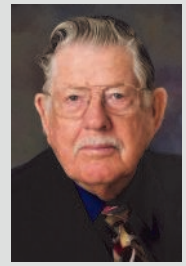

Dwane Kessinger

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


Allen Zadorozny


Kirk Thompson

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


Cliff Friesen


Dean Allison

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


Don Hellwig


Bob Reece

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


William Hein


Dennis Peckman

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


Dale Coomes

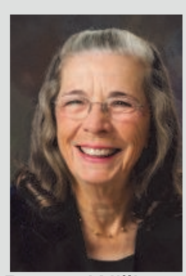

Larry Stevens

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


Steven Foss


Scott Whittington

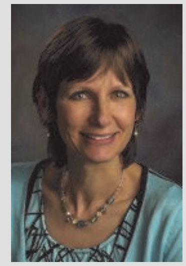
Lyon-Coffey Electric Cooperative, Inc.
PO Box 229, Burlington, KS 66839   620-364-2116
Trustee Rep. -- Scott Whittington
Alternate Trustee -- Donna Williams
Manager -- Scott Whittington

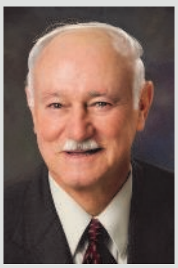

Donna Williams

KEPCo Member Cooperatives
Trustees, Alternates and Managers


Curtis Durall

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


Teresa Miller

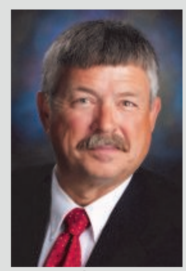

Gilbert Berland

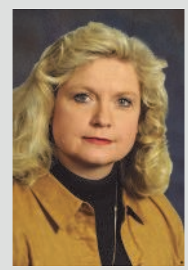
Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
District Office, Concordia 785-243-1750
Trustee Rep. -- Gilbert Berland
Alternate Trustee -- Allan J. Miller
Manager -- Allan J. Miller

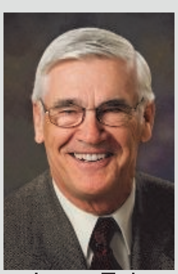

Allan Miller


Dennis Duft

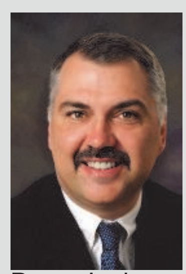
Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736   620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee -- Donald Songer
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft


Don Songer


Leah Tindle


Leon Eck

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


Doug Jackson


Donald Metzen

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


Dave Childers


Charles Riggs

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


Cletas Rains


Bryan Coover

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


Ron Holsteen


Daryl Tieben

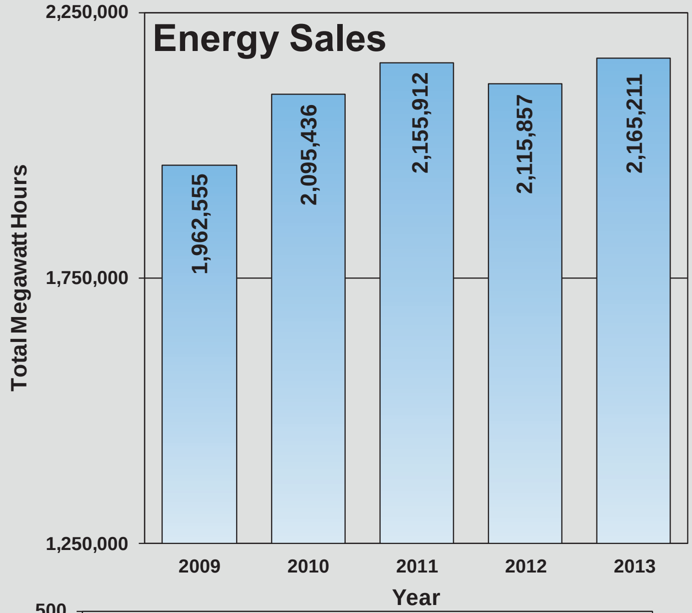
Victory Electric Cooperative Assn., Inc.
PO Box 1335, Dodge City, KS 67801   620-227-2139
Trustee Rep. -- Daryl Tieben
Alternate Trustee -- Shane Laws
Manager -- Shane Laws

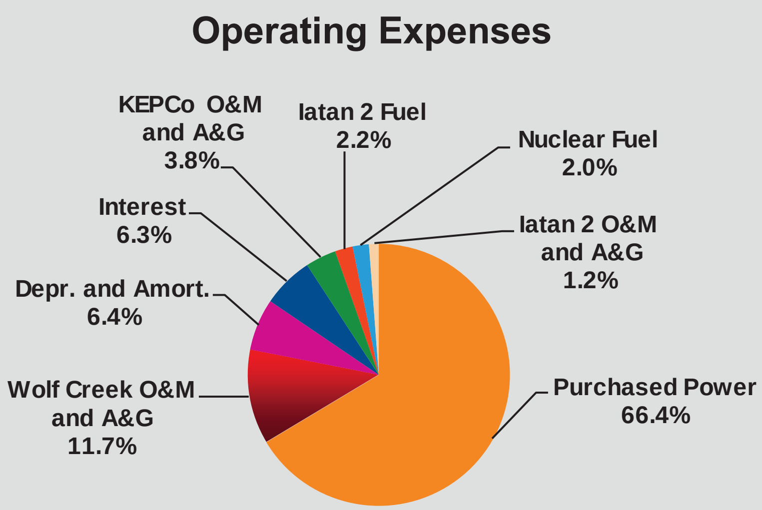

Shane Laws

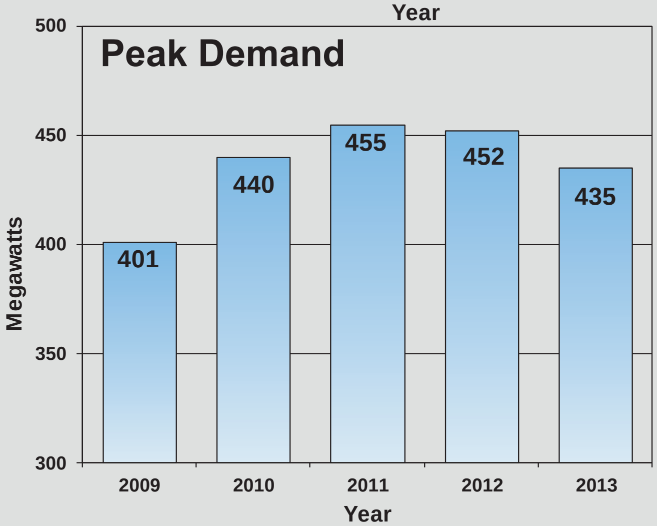
2013 - 2014 KEPCo Executive Committee

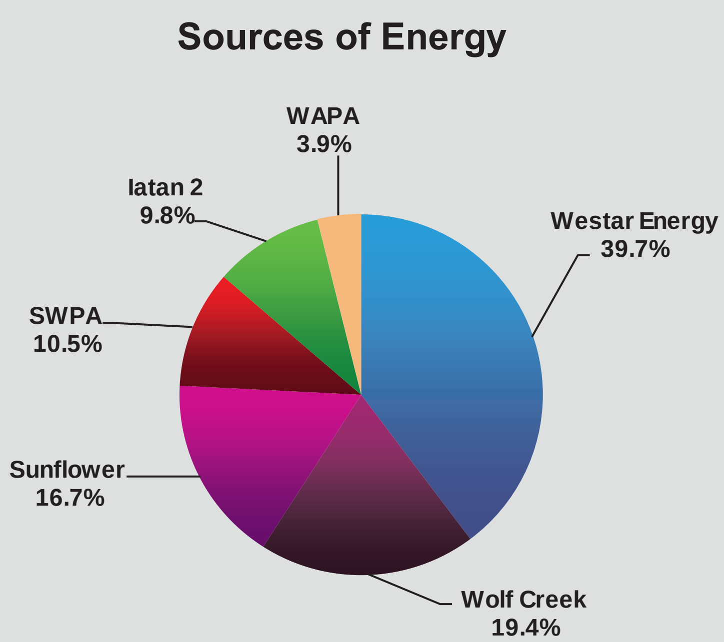
Scott Whittington - President
Kevin Compton - Vice President
Dale Short - Treasurer
Dean Allison - Secretary
Kenneth Maginley - Committee Member
Larry Stevens - Committee Member
Kirk Thompson - Committee Member

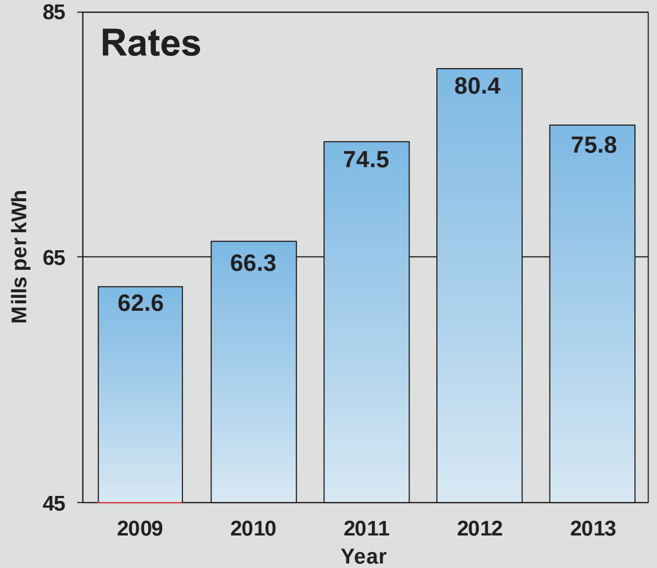
Operating Statistics











INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kansas Electric Power Cooperative, Inc.
Topeka, Kansas

We have audited the accompanying consolidated financial statements of Kansas Electric Power Cooperative, Inc. and subsidiary ("KEPCo"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion
As more fully described in Note 3 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the 2013 and 2012 consolidated financial statements which, in our opinion, are not in accordance with accounting principles generally accepted in the United States of America. The effects on the consolidated financial statements of the aforementioned departure are explained in Note 3.

Qualified Opinion
In our opinion, except for the effects of using the aforementioned depreciation and amortization methods as discussed in Note 3, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of KEPCo as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards
In accordance with Government Auditing Standards, we also have issued our report dated April 3, 2014, on our consideration of KEPCo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEPCo's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Topeka, Kansas
April 3, 2014

Consolidated Balance Sheets

Assets	December 31, 2013	December 31, 2012
Utility Plant		
In-service	$ 318,326,772	$ 307,831,825
Less allowances for depreciation	(143,755,156)	(137,817,916)
Net in-service	174,571,616	170,013,909
Construction work in progress	18,837,972	12,700,102
Nuclear fuel (less accumulated amortization of $19,911,283 and $19,473,196 for 2013 and 2012, respectively)	7,806,307	10,122,622
Total utility plant	201,215,895	192,836,633
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	12,094,536	12,130,495
Bond fund reserve	4,465,868	4,439,704
Decommissioning fund	17,844,344	14,902,017
Investments in other associated organizations	252,077	233,560
Total restricted assets	34,656,825	31,705,776
Current Assets		
Cash and cash equivalents	5,181,544	2,824,134
Member account receivables	5,664,940	13,274,272
Materials and supplies inventory	5,756,835	5,270,885
Other assets and prepaid expenses	734,937	841,441
Total current assets	17,338,256	22,210,732
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $16,420,880 and $15,663,720 for 2013 and 2012, respectively)	9,562,041	10,319,201
Wolf Creek deferred plants costs (less accumulated amortization of $37,559,034 and $34,429,111 for 2013 and 2012, respectively)	9,389,759	12,519,682
Wolf Creek decommissioning regulatory asset	(6,499,881)	(4,328,140)
Deferred incremental outage costs	6,259,359	1,286,856
Other deferred charges (less accumulated amortization of $9,279,497 and $8,991,323 for 2013 and 2012, respectively)	801,338	1,184,847
Unamortized debt issuance costs	147,664	225,477
Other	235,182	676,008
Prepaid pension cost	1,545,694	-
Total long-term assets	21,441,156	21,883,931
Total assets	$ 274,652,132	$ 268,637,072

Consolidated Balance Sheets

Liabilities and Patronage Capital	December 31, 2013	December 31, 2012
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage Capital	70,025,317	67,431,537
Accumulated other comprehensive loss	(4,071,781)	(8,789,873)
Total patronage capital	65,956,736	58,644,864
Long-term Debt	140,460,064	149,068,800
Other Long-term Liabilities		
Wolf Creek decommissioning liability	12,542,673	11,810,322
Wolf Creek pension and postretirement benefit plans	7,432,482	11,487,819
Wolf Creek deferred compensation	1,120,601	1,035,171
Other deferred credits	-	41,432
Total other long-term liabilities	21,095,756	24,374,744
Current Liabilities		
Current maturities of long-term debt	22,493,911	20,070,937
Accounts payable	14,523,217	13,923,363
Payroll and payroll-related liabilities	243,044	345,883
Short term note payable	6,500,000	-
Deferred revenue	1,224,424	-
Accrued property taxes	1,519,915	1,587,064
Accrued income taxes	-	(1,092)
Accrued interest payable	635,065	622,509
Total current liabilities	47,139,576	36,548,664
Total patronage capital and liabilities	$ 274,652,132	$ 268,637,072

Consolidated Statements of Margin

	For the years ending December 31, 2013	2012
Operating Revenues		
Sale of electric energy	$ 164,048,145	$ 170,131,188
Operating Expenses		
Power purchased	107,958,510	104,171,556
Nuclear fuel	3,303,643	3,511,788
Plant operations	18,223,619	17,587,807
Plant maintenance	6,115,338	6,616,513
Administrative and general	6,105,859	6,021,574
Amortization of deferred charges	4,185,313	4,245,720
Depreciation and decommissioning	6,944,842	6,902,435
Total operating expenses	152,837,124	149,057,393
Net operating revenues	11,211,021	21,073,795
Interest and Other Deductions		
Interest on long-term debt	9,599,108	10,303,239
Amortization of debt issuance costs	77,813	86,954
Other deductions	190,317	79,752
Total interest and other deductions	9,867,238	10,469,945
Operating income	1,343,783	10,603,850
Other Income/(Expense)		
Interest income	859,711	974,021
Other income	390,286	338,700
Total other income	1,249,997	1,312,721
Net margin	$ 2,593,780	$ 11,916,571
Net Margin	$ 2,593,780	$ 11,916,571
Other comprehensive income		
Net earnings (loss) arising during year on pension obligation	3,984,833	(759,456)
Less amortization of prior year service costs included in net periodic pension costs	733,259	723,090
Comprehensive income	$ 7,311,872	$ 11,880,205

Consolidated Statements of Patronage Capital

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	$ 3,200	$ 55,514,966	$ (8,753,507)	$ 46,764,659
Net margin	-	11,916,571	-	11,916,571
Defined benefit pension plans:				
Net loss arising during year	-	-	(759,456)	(759,456)
Less amortization of prior year service costs included in net periodic pension costs	-	-	723,090	723,090
Balance at December 31, 2012	3,200	67,431,537	(8,789,873)	58,644,864
Net margin	-	2,593,780	-	2,593,780
Defined benefit pension plans:				
Net earnings arising during year	-	-	3,984,833	3,984,833
Less amortization of prior year service costs included in net periodic pension costs	-	-	733,259	733,259
Balance at December 31, 2013	$ 3,200	$ 70,025,317	$ (4,071,781)	$ 65,956,736

Consolidated Statements of Cash Flows

	For the years ending December 31, 2013	2012
Cash Flows From Operating Activities		
Net margin	$ 2,593,780	$ 11,916,571
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	6,540,599	6,417,670
Decommissioning	2,904,092	1,500,024
Amortization of nuclear fuel	2,819,442	3,004,990
Amortization of deferred charges	4,175,257	4,245,720
Amortization or deferred incremental outage costs	5,386,940	7,179,415
Amortization of debt issuance costs	77,813	86,953
Changes in		
Member accounts receivable	7,609,332	(5,624,402)
Materials and supplies	(485,950)	(899,836)
Other assets and prepaid expense	106,504	(305,776)
Accounts payable	599,854	2,607,180
Payroll and payroll-related liabilities	(102,839)	17,531
Accrued property tax	(67,149)	180,292
Accrued interest payable	12,556	(34,313)
Accrued income taxes	1,092	(847)
Other long-term liabilities	1,147,579	(106,340)
Prepaid pension cost	(1,545,694)	-
Deferred revenue	1,224,424	-
Net cash flows from operating activities	32,997,632	30,184,832
Cash Flows From Investing Activities		
Additions to electrical plant	(17,278,012)	(9,658,692)
Additions to nuclear fuel	(503,127)	(3,709,772)
(Reductions in)/additions to deferred charges	95,335	(280,455)
Additions to deferred incremental outage costs	(10,359,443)	(900,384)
Investments in decommissioning fund assets	(2,942,327)	(1,966,895)
Investments in associated organizations	17,442	304,392
Investments in bond reserve assets	(26,164)	(24,930)
Proceeds from the sale of property	41,837	7,958
Net cash flows from investing activities	(30,954,459)	(16,228,778)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(20,168,539)	(18,781,860)
Proceeds from issuance of long-term debt	11,594,273	1,048,000
Short term notes payable	6,500,000	-
Payments unapplied	2,388,503	(2,388,504)
Net cash flows from financing activities	314,237	(20,122,364)
Net increase (decrease) in cash and cash equivalents	2,357,410	(6,166,310)
Cash and Cash Equivalents, Beginning of Year	2,824,134	8,990,444
Cash and Cash Equivalents, End of Year	$ 5,181,544	$ 2,824,134
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 9,776,900	$ 10,417,400

Notes to Consolidated Financial Statements

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

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

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

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

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

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

Utility Plant and Depreciation - Utility plant is stated at cost. Cost and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. No interest has been capitalized in 2013 and 2012. The cost of repairs and minor replacements are charged to operating expenses as appropriate. The original cost of utility plant retired and the cost of removal less salvage are charged to accumulated depreciation.

The composite depreciation rates for electric generation plant for the years ended December 31, 2013 and 2012 are 3.77% and 3.63%, 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

Iatan 2 - Iatan 2 is an 850 MW high efficiency coal-fired power plant utilizing state-of-the-art environmental controls that became commercially operational December 31, 2010. KEPCo owns a 3.53% share of Iatan 2, or 30 MW. Iatan 2, located in Weston, MO, is operated and majority owned by KCP&L.

Wolf Creek Nuclear Operating Corporation - KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL) 47% and Kansas Gas & Electric Company (KGE) 47%. KGE is a wholly owned subsidiary of Westar Energy, Inc. KCPL is a wholly owned subsidiary of Great Plains Energy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from WCNOC, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 6% of the operations, maintenance, administrative and general costs, and cost of plant additions related to WCNOC.

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

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

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

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

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

In 2011, the nuclear decommissioning study was revised. Based on the study, KEPCo's share of decommissioning costs, including decontamination, dismantling and site restoration, is estimated to be $37.8 million. This amount compares to the prior site study estimate of $35.6 million. The site study cost estimate represents the estimate to decommission Wolf Creek as of the site study year. The actual nuclear decommissioning costs may vary from the estimates because of changes in regulations and technologies as well as changes in costs for labor, materials, and equipment.

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

KEPCo recovered in its prices and deposited in an external trust fund for nuclear decommissioning approximately $0.5 million in 2013 and $0.5 million in 2012. KEPCo records its investment in the NDT fund at fair value, which approximated $17.8 million and $14.9 million as of December 31, 2013 and 2012, respectively.

Asset retirement obligation - KEPCo recognizes and estimates the legal obligation associated with the cost to decommission Wolf Creek. KEPCo initially recognized an asset retirement obligation at fair value for the estimated cost with a corresponding amount capitalized as part of the cost of the related long-lived asset and depreciated over the useful life.

A reconciliation of the asset retirement obligation for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Balance at January 1	$11,810,322	$16,298,000
Accretion	732,351	622,388
Decrease from 2011 study	-	(5,110,066)
Balance at December 31	$12,542,673	$11,810,322

Any net margin effects are deferred in the Wolf Creek decommissioning regulatory asset and will be collected from members in future electric rates.

Cash and Cash Equivalents - All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents and are stated at cost, which approximates fair value. Cash equivalents consisted primarily of repurchase agreements, money market accounts and certificates of deposit.

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

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

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

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

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

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

	2013	2012
Cash surrender value of contracts	$ 6,814,094	$ 6,470,143
Borrowings against contracts	(6,578,912)	(6,246,370)
	$ 235,182	$ 223,773

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, 2013 and 2012.

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

Income Taxes - As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying consolidated financial statements. KEPCo is no longer subject to federal or state income tax examinations by taxing authorities for years prior to 2010.

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

There has been no interest or penalties recognized neither in the statements of margin nor in the balance sheets related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. Tax years with open statutes of limitations are 2010 and forward.

(2) Factors That Could Affect Future Operating Results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation and, accordingly, has recorded regulatory assets and liabilities related to its generation and transmission operations in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations.* In the event KEPCo determines that it no longer meets the criteria of ASC 980, the accounting impact could be a noncash charge to operations of an amount that would be material. Criteria that could give rise to the discontinuance of ASC 980 include: 1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs and 2) a significant change in the manner in which rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of ASC 980 is appropriate. Any changes that would require KEPCo to discontinue the application of ASC 980 due to increased competition, regulatory changes or other events may significantly impact the valuation of KEPCo's investment in utility plant, its investment in Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets that could be recovered in such an environment cannot be predicted.

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

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

(3) Departures From Generally Accepted Accounting Principles

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

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

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

	2013	2012
Deferred charges	$ 10,690,902	$ 14,254,536
Patronage capital	$ 10,690,902	$ 14,254,536
Net margin	$ (3,563,634)	$ (3,563,634)

Wolf Creek Disallowed Costs - Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed $26.0 million of KEPCo's investment in Wolf Creek ($9.6 million net of accumulated amortization as of December 31, 2013). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a 30-year period. Through December 31, 2001, KEPCo used the present worth (sinking fund) method to recover the disallowed costs, which enabled it to meet the times-interest-earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo through 2001 constituted a phase-in plan that did not meet the requirements of ASC 980- 340, *Regulated Operations, Other Assets and Deferred Costs.*

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

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

Amortization of the Wolf Creek disallowed costs is included in amortization of disallowed charges and amounts to $0.8 million for each of the years ended December 31, 2013, and 2012.

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

Amortization of the Wolf Creek deferred plant costs is included in amortization of deferred charges and amounts to $3.1 million for each of the years ended December 31, 2013 and 2012.

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

(4) Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2013 and 2012, investments in associated organizations consisted of the following:

	2013	2012
Cooperative Financial Corporation		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Patronage capital certificates	1,054,664	792,064
Equity term certificates	8,142,902	8,441,461
Member capital certificates	2,500,000	2,500,000
	12,094,536	12,130,495
Other	252,077	233,560
	$ 12,346,613	$ 12,364,055

(5) Bond Fund Reserve

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

(6) Deferred Charges

Deferred Incremental Outage Costs - In 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coinciding with the recognition of the related revenues. Additions to the deferred incremental outage costs were $10.4 million and $0.9 million in 2013 and 2012, respectively. The current year amortization of the deferred incremental outage costs was $5.4 million and $7.2 million in 2013 and 2012, respectively.

Other Deferred Charges - KEPCo includes in other deferred charges the early call premium resulting from refinancing. These early call premiums are amortized using the effective interest method over the remaining life of the new agreements.

(7) Line of Credit

As of December 31, 2013, KEPCo has a $20 million line of credit available with the Cooperative Finance Corporation. There were no funds borrowed against the line of credit at December 31, 2013. The line of credit requires the Cooperative to pay down the balance to zero annually. Interest rates vary and were 2.90% at December 31, 2013, and 2.90% at December 31, 2012. This line of credit expires in November 2016.

At December 31, 2013, KEPCo has a $10 million line of credit available with CoBank, ACB. There were no funds borrowed against the line of credit at December 31, 2013. Interest rate options, as selected by the Company, are a weekly quoted variable rate in which CoBank establishes a rate on the first business day of each week or a LIBOR option at a fixed rate equal to LIBOR plus 1.6%. This line of credit expires May, 30 2015.

(8) Short-Term Note Payable

As of December 31, 2013, KEPCo has a $5.0 million short-term note payable to the Cooperative Finance Corporation at an interest rate of 2.4% and a $1.5 million short-term note payable to the Cooperative Finance Corporation at an interest rate of 2.5%.

Notes to Consolidated Financial Statements

(9) Long-Term Debt

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

	2013	2012
Mortgage notes payable to the FFB at fixed rates varying from .818% to 9.21%, payable in quarterly installments through 2043	$ 49,124,279	$ 53,630,090
Mortgage notes payable to the Grantor Trust Series 1997 at a rate of 7.522%, payable semi-annually, principal payments commencing in 1999 and continuing annually through 2017	18,440,000	23,240,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate of .34%, payable annually through 2015	5,795,000	9,195,000
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	1,228,745	-
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 2.45% to 7.70%, payable quarterly through 2045	88,365,951	83,074,647
	162,953,975	169,139,737
Less current maturities	(22,493,911)	(20,070,937)
	$ 140,460,064	$ 149,068,800

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

2014	$ 22,493,911
2015	21,778,575
2016	12,657,100
2017	11,169,716
2018	7,825,675
Thereafter	87,028,998
	$ 162,953,975

Restrictive covenants related to the CFC debt require KEPCo to design rates that would enable it to maintain a times-interest earned ratio of at least 1.05 and debt-service coverage ratio of at least 1.0, on average, in the two best years out of the three most recent calendar years. The covenants also prohibit distribution of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets, unless such distribution is approved by the Rural Utility Service. KEPCo was in compliance with such restrictive covenants as of December 31, 2013 and 2012.

Restriction covenants related to the CoBank debt require KEPCo to design rates that would enable it to maintain a debt-service coverage ratio, as defined by CoBank of at least 1.10. KEPCo was in compliance with the restrictive covenant as of December 31, 2013.

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

The swap agreement terminates in 2017, but is subject to early termination upon the early redemption of the debt. However, any termination costs relating to the termination of the assigned interest rate swaps is KEPCo's responsibility. At December 31, 2013, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $2.7 million.

This fair value estimate is based on information available at December 31, 2013, and is expected to fluctuate in the future based on changes in interest rates and outstanding principal balance.

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

(10) Benefit Plans

National Rural Electric Cooperative Association (NRECA) Retirement and Security Program - KEPCo participates in the NRECA Retirement and Security Program for its employees. The NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards.

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

KEPCo’s contributions to the RS Plan in 2013 and 2012 represented less than 5 percent of the total contributions made to the plan by all participating employers. KEPCo's expense under this program was approximately $0.4 million, and $0.5 million, for the year ended December 31, 2013 and 2012, respectively. There have been no significant changes that affect the comparability of 2013 and 2012 contributions.

NRECA Savings 401(k) Plan - All employees of KEPCo are eligible to participate in the NRECA Savings 401(k) Plan. Under the plan, KEPCo contributes an amount not to exceed 5%, dependent upon each employee's level of participation and completion of one year of service, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed approximately $90,000, and $100,000 to the plan for the years ended December 31, 2013 and 2012, respectively.

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

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation beginning of year	$22,581,857	$20,603,780	$ 1,406,813	$ 1,293,078
Service cost	872,519	773,872	26,348	24,483
Interest cost	965,450	962,263	52,648	52,432
Plan participants' contributions	-	-	88,823	77,589
Benefits paid	(555,243)	(1,094,009)	(130,531)	(126,126)
Actuarial (gains) losses	(3,079,040)	1,252,917	(166,348)	85,357
Amendments	-	83,034	-	-
Benefit obligations, end of year	$20,785,543	$22,581,857	$ 1,277,753	$ 1,406,813

Notes to Consolidated Financial Statements

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Change in plan assets:				
Fair value of plan assets, beginning of year	$12,517,154	$ 10,305,630	$ 1,698	$ 487
Actual return on plan assets	1,680,711	1,501,730	-	-
Employer contributions	973,210	1,772,810	42,000	49,748
Plan participants' contributions	-	-	88,823	77,589
Benefits paid	(524,251)	(1,063,016)	(130,531)	(126,126)
Fair value of plan assets, end of year	14,646,824	12,517,154	1,990	1,698
Funded status, end of year	$ (6,138,719)	$(10,064,703)	$(1,275,763)	$(1,405,115)

Amounts recognized in the consolidated balance sheets:

	2013	2012
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	$ 7,432,482	$ 11,487,819

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Net loss	$ (3,728,059)	$ (8,238,528)	$ (264,963)	$ (465,118)
Prior service cost	(78,759)	(86,195)	-	-
Transition obligation	-	-	-	(32)
Accumulated other comprehensive loss	$ (3,806,818)	$ (8,324,723)	$ (264,963)	$ (465,150)

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Projected benefit obligation	$ 20,785,543	$ 22,581,857	$ 1,277,752	$ 1,406,813
Accumulated benefit obligation	17,547,994	18,092,202	-	-
Fair value of plan assets	$ 14,646,824	$ 12,517,154	$ 1,990	$ 1,698

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	4.16%	4.16%	4.70%	3.78%
Annual salary increase rate	4.00%	4.00%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Components of net periodic cost (benefit):				
Service cost	$ 872,519	$773,872	$26,348	$24,483
Interest cost	965,450	962,263	52,648	52,432
Expected return on plant assets	(941,266)	(839,619)	-	-
Amortization				
Transition obligation, net	-	-	32	7,350
Prior service cost	7,436	714	-	-
Actuarial loss, net	691,984	685,000	33,807	29,767
Net periodic cost	$1,596,123	$1,582,230	$112,835	$114,032

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Other changes in plan obligations recognized in other comprehensive income:				
Current year actuarial loss(gain)	$ (3,818,485)	$ 590,806	$ (166,348)	$ 85,357
Amortization of actuarial loss	(691,984)	(685,000)	(33,807)	(29,767)
Current year prior service cost	-	83,034		-
Amortization of prior service cost	(7,436)	(714)	-	-
Amortization of transition obligation	-	-	(32)	(7,350)
Total recognized in other comprehensive income	(4,517,905)	(11,874)	(200,187)	48,240
Total recognized in net periodic cost and other comprehensive income	$ (2,921,782)	$ 1,570,356	$ (87,352)	$ 162,272
Weighted average actuarial assumptions used to determine net periodic cost:				
Discount rate	4.16%	4.55%	4.70%	4.10%
Expected long term return on plan	7.50%	7.50%	N/A	N/A
Compensation rate increase	4.00%	4.00%	N/A	N/A

KEPCo estimates they will amortize the following amounts from regulatory assets into net periodic cost in 2014:

	Pension	Postretirement
Actuarial loss	$ 381,287	$ 21,062
Prior service cost	7,436	-
Total	$ 388,723	$ 21,062

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each asset class were selected after analyzing long-term historical experience and future expectations of the volatility of the various asset classes. Based on target asset allocations for each asset class, the overall expected rate of return for the portfolios was developed, adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

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

	2013	2012
Health care cost trend rate assumed for next year	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2019

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

	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	(1,177)	1,208
Effect on post-retirement benefit obligation	(13,002)	12,354

In 2012, Wolf Creek changed its investment advisor resulting in the sale of its then existing levels 1, 2 and 3 investments and the purchase of other level 2 and 3 investments. Its pension and post-retirement plan investment strategy is to manage assets in a prudent manner with regard to preserving principal while providing reasonable returns. It has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. Part of its strategy includes managing interest rate sensitivity of plan assets relative to the associated liabilities. The primary objective of the pension plan is to provide a source of retirement income for its participants and beneficiaries, and the primary financial objective of the plan is to improve its funded status. The primary objective of the post-retirement benefit plan is growth in assets and preservation of principal, while minimizing interim volatility, to meet anticipated claims of plan participants. Wolf Creek delegates the management of its pension and post-retirement benefit plan assets to independent investment advisors who hire and dismiss investment managers based upon various factors. The investment advisors strive to diversify investments across asset classes, sectors and manager styles to minimize the risk of large losses, based upon objectives and risk tolerance specified by Wolf Creek, which include allowable and/or prohibited investment types. It measures and monitors investment risk on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

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

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

Similar to other assets measured at fair value, GAAP establishes a hierarchal framework for disclosing the transparency of the inputs utilized in measuring pension and post-retirement benefit plan assets at fair value. From time to time, the Wolf Creek pension trust may buy and sell investments resulting in changes within the hierarchy. Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents, equity and debt investments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 investments include cash equivalents, equity, debt and commodity investments. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy and include certain real estate investments. Significant inputs and valuation techniques used in measuring Level 3 fair values include market discount rates, projected cash flows and the estimated value into perpetuity

Notes to Consolidated Financial Statements

The following table provides the fair value of KEPCo's 6% share of Wolf Creek's pension plan assets and the corresponding level of hierarchy as of December 31, 2013 and 2012:

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

December 31, 2012	Fair Value	Fair Value Measurements Using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 37,956	$ -	$ 37,956	$ -
Equity securities				
U.S. companies	3,102,797	-	3,102,797	-
International companies	3,891,671	-	3,891,671	-
Debt securities				
Core bonds	3,161,175	-	3,161,175	-
Commodities	611,305	-	611,305	-
Alternative investments	497,891	-	-	497,891
Real estate	1,214,360	-	634,695	579,665
Total	$ 12,517,155	$ -	$ 11,439,599	$ 1,077,556

The following tables provides reconciliation of KEPCo's 6% share of Wolf Creek's pension plan assets measured at fair value using significant level 3 inputs for the years ended December 31, 2013 and 2012:

	Real Estate Securities	Alternative Investments
Balance at January 1, 2013	$ 579,665	$ 497,891
Actual return on plan assets		
Relating to assets still held at the reporting date	70,676	31,483
Balance at December 31, 2013	$ 650,341	$ 529,374
Balance at January 1, 2012	$ 463,355	$ -
Actual return on plan assets		
Relating to assets still held at the reporting date	(52,517)	2,891
Relating to assets sold during the year	96,384	-
Purchases, sales, and settlements	72,443	495,000
Balance at December 31, 2012	$ 579,665	$ 497,891

Estimated future benefit payments as of December 31, 2013, for the Plans, which reflect expected future services, are as follows:

	Pension Benefits		Postretirement Benefits	
	To/from trust	From company assets	To/from trust	From company assets
Expected contributions:				
2014	$ -	$ -	$ 80,322	$ -
Expected benefit payments:				
2014	$ 554,193	$ 31,024	$ 82,312	$ -
2015	649,227	31,060	89,656	-
2016	750,917	31,119	95,774	-
2017	857,653	31,253	101,883	-
2018	968,597	31,437	107,906	-
2019-2023	6,598,856	161,416	561,212	-

(11) Commitments and Contingencies

Current Economic Environment - KEPCo considers the current economic conditions when planning for future power supply and liquidity needs. The current economic climate may also affect the Cooperative's ability to obtain financing.

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

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

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

Letter of Credit - KEPCo has an open letter of credit with the Cooperative Finance Committee in the amount of $1,500,000 which matures March 23, 2014. The letter of credit is intended to provide financial security to Southwest Power Pool pursuant to its credit policy.

Nuclear Liability Insurance - Pursuant to the Price-Anderson Act, which was reauthorized through December 31, 2025 by the Energy Policy Act of 2005, KEPCo is required to insure against public liability claims resulting from nuclear incidents to the full limit of public liability, which is currently approximately $13.6 billion. This limit of liability consists of the maximum available commercial insurance of $375 million, and the remaining $13.2 billion is provided through mandatory participation in an industry wide retrospective assessment program. Under this retrospective assessment program, owners are jointly and severally subject to an assessment of up to $127.3 million ($7.64 million - KEPCo's share) at any commercial reactor in the country, payable at no more than $19 million ($1.14 million - KEPCo's share) per incident per year, per reactor. Both the total and yearly assessment is subject to an inflationary adjustment every five years with the next adjustment in 2018.

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

The owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, KEPCo may be subject to retrospective assessments under the current policies of approximately $2.06 million.

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

Decommissioning Insurances - KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if Wolf Creek incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the Nuclear Regulatory Commission (NRC) and to pay for on-site property damages.

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

Nuclear Fuel Commitments - At December 31, 2013, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $5.3 million for uranium concentrates expiring in 2017, $0.8 million for conversion expiring in 2017, $13.9 million for enrichment expiring at various times through 2045 and $5.3 million for fabrication through 2045.

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

(12) <u>Fair Value of Assets and Liabilities</u>

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

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

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

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

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

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

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2013:

		Fair Value Measurements Using		
	Fair Value	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Decommissioning fund	$17,844,344	$17,844,344	$ -	$ -

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

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

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

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

Line of Credit and Long-Term Debt

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

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

The following table presents estimated fair values of KEPCo's financial instruments at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 5,181,544	$ 5,181,544	$ 2,824,134	$ 2,824,134
Bond fund reserve	4,465,868	4,579,181	4,439,704	4,607,690
Financial liabilities:				
Long-term debt	$ 162,953,975	$ 170,011,842	$ 169,139,737	$ 189,582,020

(13) Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were adjusted to reflect accounting principles generally accepted in the United Stated of America, total patronage capital would be substantially less. As noted in the consolidated statements of changes in patronage capital, no patronage capital distributions were made to members in 2013 and 2012.

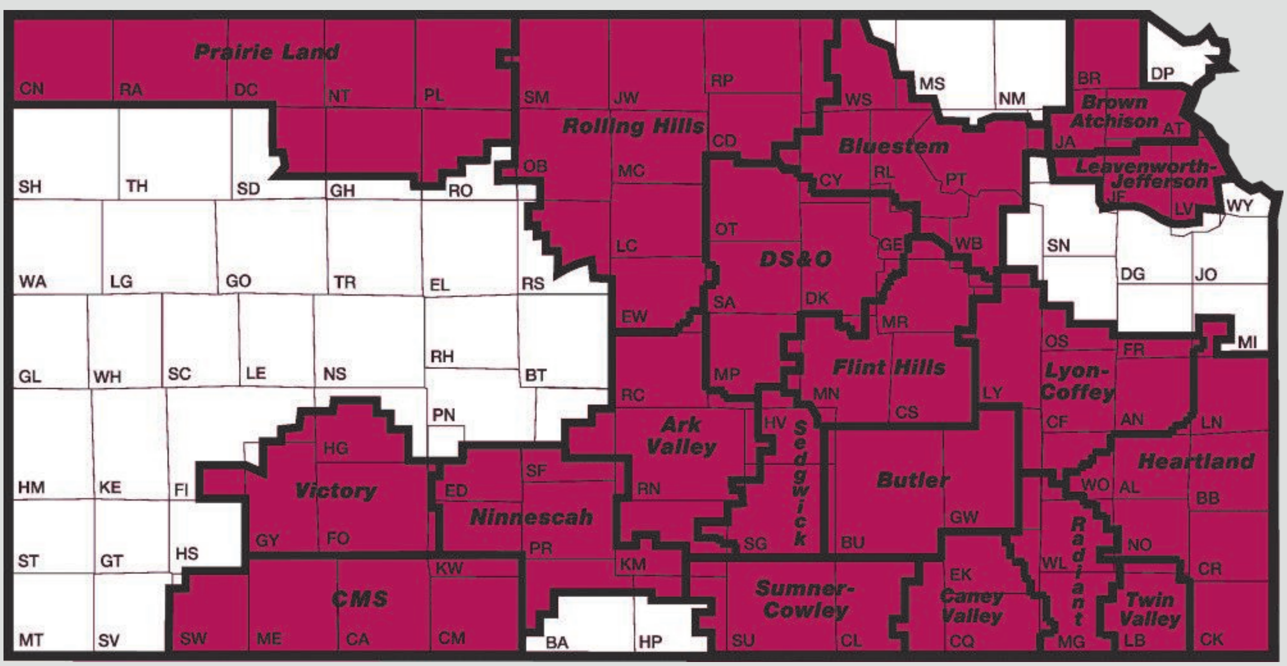
(14) Subsequent Events

The Company has evaluated subsequent events through April 3, 2014, which is the date the financial statements were available to be issued. No events were significant enough to warrant disclosures in the accompanying financial statements or notes.

KEPCo's Mission Statement

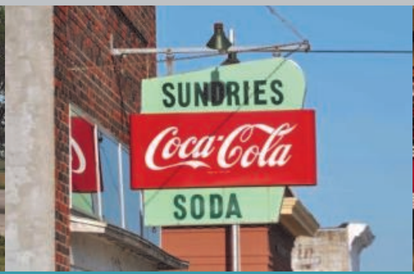
KEPCo exists on behalf of its Members to produce, procure, transmit, deliver and maintain a reliable supply of wholesale electricity within financial guidelines and risk tolerances established by the Board.

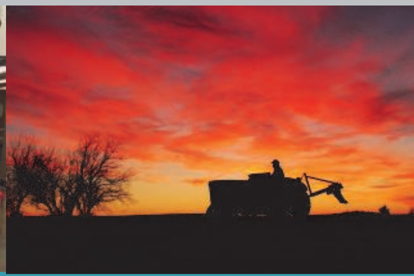
KEPCo Member Area Map



KEPCo's Vision Statement

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



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