2015

Annual Report

Kansas Electric Power
Cooperative, Inc.

Contents

KEPCo Staff

Marcus Harris................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

Stephanie Anderson................................Finance & Benefits Analyst 2

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

Chris Davidson....................................Engineer 3

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 2

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

Organization and Resources

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

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

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

KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission in 1980 to act as a G&T public utility. KEPCo's power supply resources consist of: 70 MW of owned generation from the Wolf Creek Generating Station; 30 MW of owned generation from the Iatan 2 Generating Unit; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration; and 13 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 750 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 www.kepco.org

A Touchstone Energy® Cooperative

2015 Message

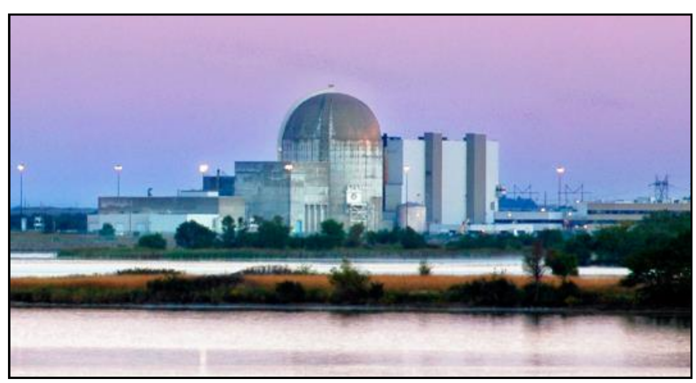
from
Scott Whittington
KEPCo President
&
Marcus Harris
Executive Vice President
& Chief Executive Officer

In 2015, KEPCo continued to provide our Members affordable, reliable electric energy from a diverse portfolio of generation resources. KEPCo's current owned and purchase power resources include nuclear, hydroelectric power, coal, natural gas, and wind capacity. KEPCo is also looking forward to adding solar generation in the coming months.

Ever-increasing regulatory oversight and environmental regulations continue to merit substantial attention and concern. In 2015, the Clean Power Plan (CPP) garnered such attention from the electric utility industry, due to the release of the CPP final rule in early August. The carbon dioxide reduction percentage for Kansas in the final rule was quite surprising and disappointing, since it was significantly more stringent than in the June 2014 proposed rule. In addition, the required carbon dioxide reductions from historic levels are substantially more stringent for Kansas when compared to other states.

In response to a motion filed by a majority of the states and many electric utilities, including KEPCo, the U.S. Supreme Court issued an unprecedented stay of the CPP in February of 2016. Prior to the stay of the rule, Kansas electric utilities worked diligently to develop plans and strategies to meet the reduction mandate. Planning will continue while the electric industry awaits the decision of the U. S. District Court, and ultimately the U.S. Supreme Court. The stay of the rule, and subsequent additional time, allows the industry to plan in a more deliberate, efficient manner.

KEPCo does not have an affected generating unit under the CPP rule in Kansas. However, KEPCo does have a 30 megawatt ownership

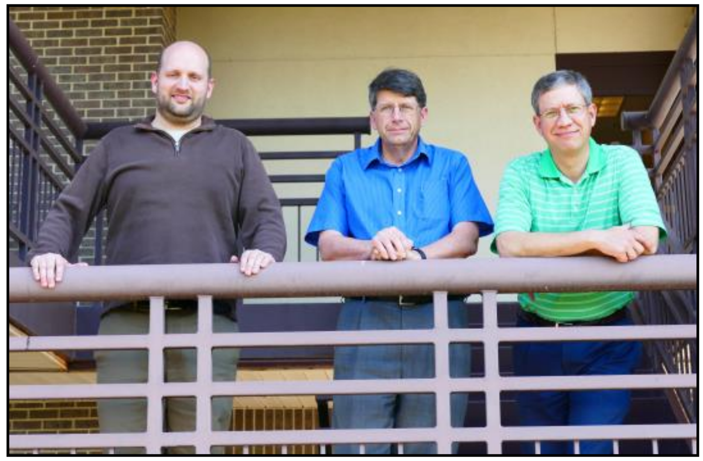


Wolf Creek Nuclear Generating Station

share of Iatan 2 in Missouri. Iatan 2 is one of the newest, most efficient coal-fired units in the country, thus establishing its per unit of carbon dioxide output at relatively low levels when compared to similar sized plants in the Midwest. Due to the modest coal-based ownership, KEPCo does not anticipate having stranded generating assets due to the CPP. The majority of generation resources that KEPCo relies upon to supply its power, whether through ownership or through purchase power agreements, are carbon-free, including nuclear, hydropower, and wind. These carbon-free resources account for approximately 52% of KEPCo's energy requirements. Given this diverse, low-carbon resource mix, KEPCo will only be economically impacted by the remaining fossil-fuel energy that comes from KEPCo's purchased power resources or from future owned fossil fuel generation. Resource diversity, coupled with KEPCo's limited fossil-fuel ownership exposure, will substantially mitigate the economic impact of CPP compliance to our Member cooperatives, if the rule is ultimately upheld in part or in whole by the courts.

As the utility industry enters into a carbon-constrained environment, whether through the CPP, other carbon reduction regulations, or other political pressures, renewable energy resources, such as solar and wind, will become more important than ever before in the generation resource mix of utilities. Reducing carbon dioxide emissions will likely force utilities to replace and or re-dispatch, in part, fossil fuel generation with renewable energy. In addition, KEPCo's Members have seen interest among their respective memberships regarding the ability to purchase solar energy for use at their homes, farms, and businesses. In consideration of these on-going changes, the KEPCo Board of Trustees, in the fourth quarter of 2015, unanimously approved KEPCo's plan to build a one megawatt solar farm, which will be located on a Member system in Butler County and shared by all KEPCo Member systems.

KEPCo Services, Inc. (KSI) will serve as the project engineer and KEPCo will manage the long-term operations and maintenance of the solar facility. KSI staff performed the feasibility analysis, as well as several other analyses, to determine the viability and optimum location of the facility. The energy produced by the solar farm will be utilized to reduce KEPCo's power needs from traditional resources and will provide carbon-free energy year round to KEPCo's Members. This project further diversifies KEPCo's already varied energy portfolio and enables KEPCo's Members to reap the benefits of solar energy through the economics of a utility-scale project.


KEPCo Services Inc. (KSI) staff (left to right): Chris Davidson, John Payne, and Mark Barbee

Since KEPCo is a not-for-profit utility that has access to attractive cooperative financing, and since KEPCo will operate and maintain the array itself, the costs associated with the financing, operations and maintenance will be more economical than if KEPCo sought traditional financing and contracted for the operation and maintenance of the facility. These factors will reduce the cost associated with the project for KEPCo's Members.

In the first quarter of 2016, the KEPCo Board of Trustees unanimously approved a new tariff, M-11B, that more closely aligns KEPCo's cost recovery with the manner in which KEPCo incurs costs. KEPCo solicited the services of Guernsey, a rate consultant, to aid in the analysis and implementation strategy.

KEPCo had a solid financial performance in 2015. KEPCo ended the year with total revenue of $161.7 million and a consolidated net margin of $3.5 million. KEPCo's total assets, including those of its subsidiary, KEPCo Services Incorporated (KSI), were nearly $280 million. The solid financial performance allowed KEPCo to maintain Times Interest Earned and Debt Service Coverage ratios within acceptable levels and enabled KEPCo's equity-to-asset ratio to improve nearly three percent, to 23.9%. KEPCo Members received $3.3 million in patronage capital and $12 million through the Margin Stabilization Adjustment. KEPCo's commitment of keeping rates affordable to its Members is evidenced by 2015 being the fifth consecutive year of not seeking a base rate increase despite many cost pressures that have occurred during this time period.


KEPCo Finance and Accounting staff; (bottom to top) Coleen Wells, Shari Koch, and Stephanie Anderson

Kansas experienced relatively mild weather in 2015, which was reflected in KEPCo's peak demand being virtually identical to the peak demand of 433 MW set in 2014 and energy sales were nearly the same in 2014 as well. The average rate to Members decreased by nearly three mills per kWh, which was influenced by four factors; (1) KEPCo's owned generation producing more energy than in 2014; (2) the amount of available inexpensive hydropower increased substantially; (3) purchased power decreased; (4) lower principal payments associated with KEPCo's Wolf Creek debt as a result of the debt refinancing completed in 2014.

The safety of KEPCo's employees is a point of emphasis each year. KEPCo is proud to announce that 2015 is the fifth consecutive year without a lost time accident. This pattern illustrates the importance of the safety meetings KEPCo conducts not only for KEPCo SCADA Technicians, but administrative personnel as well.

KEPCo's continued success would not be possible without talented employees and a Board of Trustees dedicated to serving and providing KEPCo's Member cooperatives with the knowledge and expertise necessary to operate an electric utility in today's ever-changing environment. The resolve of all those involved with the operation of KEPCo will ensure the continued delivery of safe, reliable, sustainable, and economical energy for rural Kansans.

Marcus Harris
KEPCo EVP & CEO

Scott Whittington
KEPCo President

2015 KEPCo Highlights

The Wolf Creek Nuclear Generating Station celebrated its 30th anniversary of operation. Senior staff of Westar Energy, KCP&L, and KEPCo, along with Wolf Creek staff and invited dignitaries, celebrated the historic day. Marcus Harris, KEPCo EVP & CEO recognized the Wolf Creek staff for their hard work and dedication for the 30 years of successful operation of the facility and emphasized the importance of the facility as the industry enters into a carbon-constrained environment.

Marcus Harris provides remarks at the 30th anniversary celebration.

KEPCo began the development of a Long Range Generation Supply Plan (Integrated Resource Plan) to examine the generation resources needed in the future as the utility industry moves to a carbon-constrained environment.

KEPCo staff, along with contractor support, completed member load forecasts for Ark Valley, Butler, DS&O, and Flint Hills electric cooperatives.


Wolf Creek Nuclear Generating Station

Wolf Creek successfully completed refueling outage 20 in the spring and has ran continuously since the refueling. During the outage, Wolf Creek completed a major maintenance project on the Essential Service Water Pipe, which mitigated a water hammer issue.

KEPCo staff analyzed Sunflower Electric Power Corporation's proposed unbundled transmission charge rate for KEPCo under its Wholesale Power Agreement and negotiated with Sunflower to agree to a formula-based calculation of the monthly transmission charge rate, instead of the proposed stated rate, which resulted in a notable savings to KEPCo from April 2014 through October 2015.

For 18 years, KSI has provided valuable engineering services for KEPCo Members while covering its expenses and contributing to KEPCo overheads. In 2015, KSI generated $292,500 in gross revenue, contributed $43,600 towards KEPCo overheads and produced a net margin of $27,000. These revenues were the product of KSI's involvement with 71 projects for 14 KEPCo Members, two non-members and Kansas Electric Cooperatives (KEC). These projects included construction work plans, work order inspections, arc hazard assessment updates, spill prevention control and counter measures plan updates, load studies, and map updates.

KEPCo staff participated in two Southwest Power Pool (SPP) legislative events. The first was a two-day visit to Washington, D.C. to discuss with several members of Congress, two FERC Commissioners, and an EPA staff member federal energy legislation, as well as the Clean Power Plan final rule. The second event was a bus trip for Kansas legislators to the SPP headquarters in Little Rock, AR to learn about the responsibilities and operations of the SPP, and to discuss the SPP's role in compliance with the Clean Power Plan.

Phil Wages, KEPCo, and staff of Westar Energy and Sunflower Electric discuss energy issues with Senator Pat Roberts' staff during the SPP Washington, D.C. trip.

Kansas Electric Cooperatives (KEC) and MarksNelson, a CPA and business advisement firm, successfully appealed to the Kansas Board of Tax Appeals the increase in the capitalization rate (discount rate) used to establish the amount of property tax owed by KEPCo. The successful appeal resulted in a considerable refund to KEPCo.

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 staff worked with Westar Energy on an update to the Wholesale Distribution Service Charge (WDSC) that KEPCo pays for the use of Westar Energy distribution facilities (< 34.5 kV). This monthly charge is based on KEPCo's share of the load on the distribution assets used to provide this service, the depreciated value of these assets and a FERC approved carrying charge. The new WDSC, effective August 1, 2015, is a significant cost reduction for KEPCo.

KEPCo developed enhanced coordination of KEPCo member distributed generation for improved demand response during the summer peak demand months.

KEPCo staff completed the necessary coordination for approval and installation of five new delivery points. In addition, staff continued to monitor the service reliability for each of the KEPCo delivery points and to work closely with Westar Energy, and other transmission providers, to address any reliability concerns.

Butler Rural Electric Cooperative demand response generator

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 2015.

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 -- Jackie Holmberg
Manager -- Jackie Holmberg


Jackie Holmberg


Ken Maginley

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


Bob Ohlde


Kevin Compton

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


Jim Currie

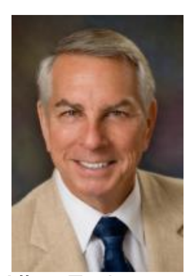

Dale Short

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


Riley Walters


Dwane Kessinger

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


Allen Zadorozny


Kirk Thompson

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


Cliff Friesen


Dean Allison

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


Tim Power


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

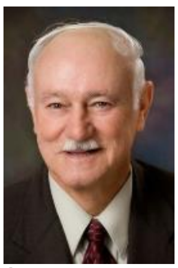

Donna Williams

KEPCo Member Cooperatives Trustees, Alternates and Managers


Paul Unruh

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


Teresa Miller


Gilbert Berland

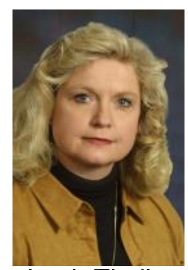
Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
District Office, Concordia 785-243-1750
Trustee Rep. -- Gilbert Berland
Alternate Trustee -- Allan J. Miller
Manager -- Allan J. Miller


Allan Miller


Dennis Duft

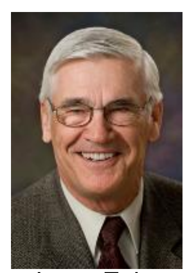
Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736   620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee -- Tom Ayers
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft


Tom Ayers


Leah Tindle


Doug Jackson

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. -- Douglas J. Jackson
Alternate Trustee -- Leon Eck
Manager -- Douglas J. Jackson


Leon Eck


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


John Schon

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


Cletas Rains


Bryan Coover

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


Ron Holsteen


Shane Laws

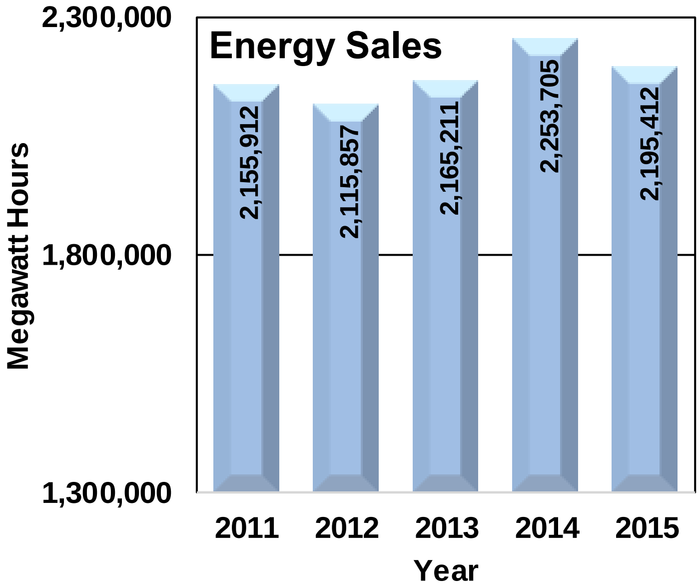
Victory Electric Cooperative Assn., Inc.
PO Box 1335, Dodge City, KS 67801   620-227-2139
Trustee Rep. -- Shane Laws
Alternate Trustee -- Daryl Tieben
Manager -- Shane Laws

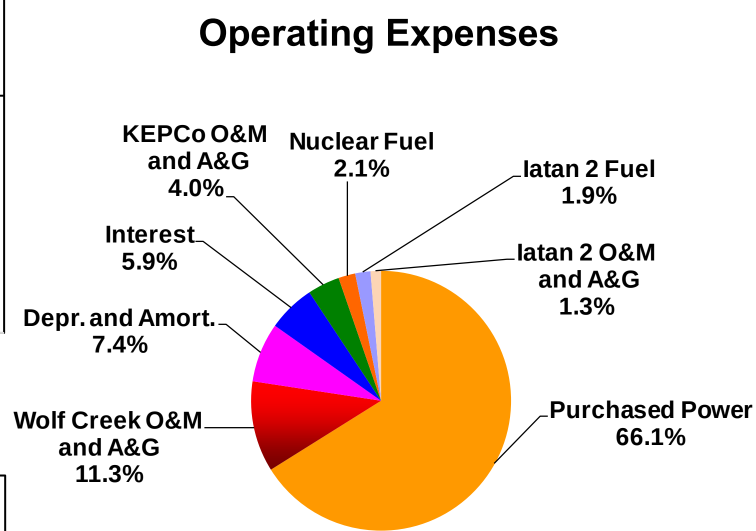

Daryl Tieben

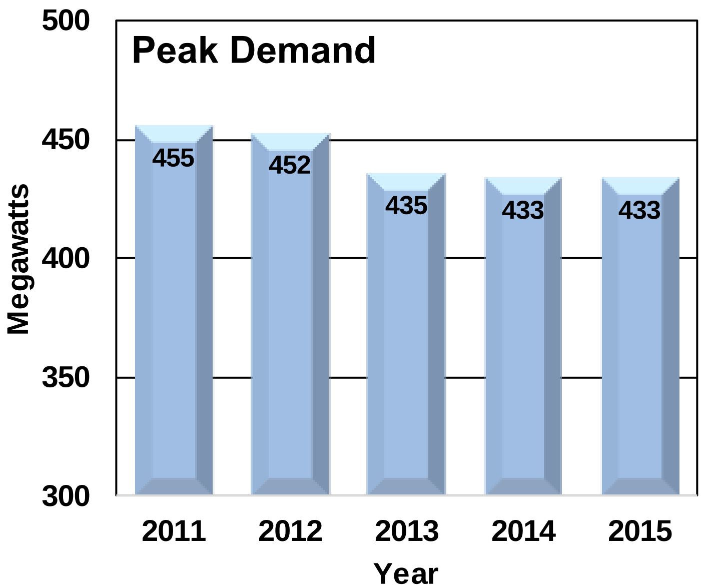
2015 - 2016 KEPCo Executive Committee

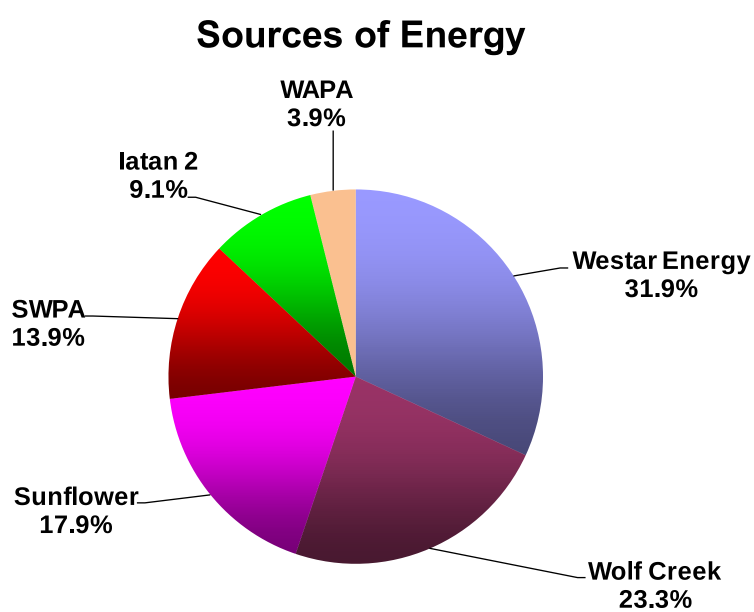
Back row, left to right: Dean Allison - Secretary; Kevin Compton - Vice President; Scott Whittington - President; Dale Short - Treasurer. Front row, left to right; Bryan Coover - Executive Committee; Larry Stevens - Executive Committee.; Dwane Kessinger—Executive Committee.

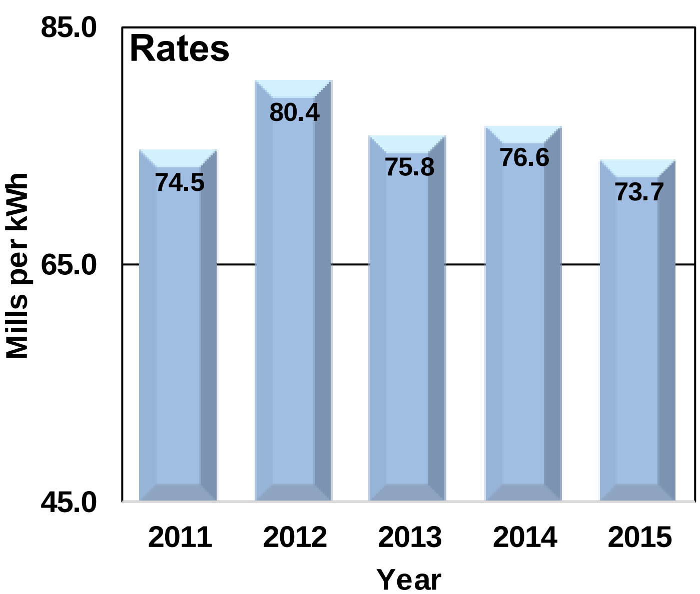
Operating Statistics











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, 2015 and 2014, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As more fully described in Note 3 to the financial statements, certain depreciation and amortization methods have been used in the preparation of the 2015 and 2014 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, 2015 and 2014, 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 6, 2016, 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 6, 2016

Consolidated Balance Sheets

Assets	December 31, 2015	2014
Utility Plant		
In-service	$ 352,889,719	$ 340,615,798
Less allowances for depreciation	(155,634,830)	(148,469,211)
Net in-service	197,254,889	192,146,587
Construction work in progress	9,970,255	9,776,657
Nuclear fuel (less accumulated amortization of $23,765,663 and $23,151,678 for 2015 and 2014, respectively)	8,459,672	9,809,670
Total utility plant	215,684,816	211,732,914
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	11,108,619	11,741,745
Bond fund reserve	-	4,490,786
Decommissioning fund	19,996,196	19,378,279
Investments in other associated organizations	282,188	264,976
Total restricted assets	31,387,003	35,875,786
Current Assets		
Cash and cash equivalents	6,307,421	1,202,643
Member account receivables	11,993,431	14,041,772
Materials and supplies inventory	6,645,359	6,391,899
Other assets and prepaid expenses	705,652	699,236
Total current assets	25,651,863	22,335,550
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $17,935,208 and $17,178,044 for 2015 and 2014, respectively)	8,047,713	8,804,877
Wolf Creek deferred plants costs (less accumulated amortization of $43,818,873 and $40,688,954 for 2015 and 2014, respectively)	3,129,920	6,259,839
Wolf Creek decommissioning regulatory asset	(6,624,525)	(7,217,629)
Deferred incremental outage costs	1,968,169	1,185,502
Other deferred charges (less accumulated amortization of $9,681,046 and $9,515,076 for 2015 and 2014, respectively)	359,142	391,103
Unamortized debt issuance costs	23,713	80,055
Other	270,943	247,538
Prepaid pension cost	941,896	1,073,323
Total long-term assets	8,116,971	10,824,608
Total assets	$ 280,840,653	$ 280,768,858

See Notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Liabilities and Patronage Capital	December 31, 2015	December 31, 2014
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	76,798,889	73,517,749
Accumulated other comprehensive loss	(7,284,730)	(8,379,226)
Total patronage capital	69,517,359	65,141,723
Long-term Debt	147,216,732	152,126,943
Other Long-term Liabilities		
Wolf Creek decommissioning liability	18,314,245	13,320,625
Wolf Creek pension and postretirement benefit plans	11,824,521	12,004,519
Wolf Creek deferred compensation	1,249,381	1,314,323
Total other long-term liabilities	31,388,147	26,639,467
Current Liabilities		
Current maturities of long-term debt	11,456,396	15,683,929
Accounts payable	13,053,258	14,199,898
Payroll and payroll-related liabilities	241,353	257,523
Short term note payable	-	1,429,000
Deferred revenue	6,104,206	3,325,322
Accrued property taxes	1,312,387	1,371,811
Accrued income taxes	(45)	3,518
Accrued interest payable	550,860	589,724
Total current liabilities	32,718,415	36,860,725
Total patronage capital and liabilities	$ 280,840,653	$ 280,768,858

See Notes to the Consolidated Financial Statements

Consolidated Statements of Margin

	For the years ending December 31, 2015	2014
Operating Revenues		
Sale of electric energy	$ 161,763,501	$ 172,576,128
Operating Expenses		
Power purchased	105,484,032	116,339,132
Nuclear fuel	3,368,666	3,402,688
Plant operations	17,340,438	16,231,337
Plant maintenance	5,406,848	6,647,651
Administrative and general	6,205,902	6,284,806
Amortization of deferred charges	4,053,051	4,122,663
Depreciation and decommissioning	8,480,727	7,444,553
Total operating expenses	150,339,664	160,472,830
Net operating revenues	11,423,837	12,103,298
Interest and Other Deductions		
Interest on long-term debt	9,090,142	9,415,650
Amortization of debt issuance costs	56,343	67,609
Other deductions	150,753	407,649
Total interest and other deductions	9,297,238	9,890,908
Operating income	2,126,599	2,212,390
Other Income/(Expense)		
Interest income	667,857	915,409
Other income	488,538	370,401
Income tax	(1,854)	(5,768)
Total other income	1,154,541	1,280,042
Net margin	$ 3,281,140	$ 3,492,432
Net Margin	$ 3,281,140	$ 3,492,432
Other comprehensive (loss)/income		
Net earnings/(loss) arising during year on pension obligation	329,818	(4,717,230)
Amortization of prior year service costs included in net periodic pension costs	764,678	409,785
Comprehensive income/(loss)	$ 4,375,636	$ (815,013)

See Notes to the Consolidated Financial Statements

Consolidated Statements of Patronage Capital

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	$ 3,200	$ 70,025,317	$ (4,071,781)	$ 65,956,736
Net margin	-	3,492,432	-	3,492,432
Defined benefit pension plans:				
Net loss arising during year	-	-	(4,717,230)	(4,717,230)
Amortization of prior year service costs included in net periodic pension costs	-	-	409,785	409,785
Balance at December 31, 2014	3,200	73,517,749	(8,379,226)	65,141,723
Net margin	-	3,281,140	-	3,281,140
Defined benefit pension plans:				
Net earnings arising during year	-	-	329,818	329,818
Amortization of prior year service costs included in net periodic pension costs	-	-	764,678	764,678
Balance at December 31, 2015	$ 3,200	$ 76,798,889	$ (7,284,730)	$ 69,517,359

See Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

	For the years ending December 31, 2015	2014
Cash Flows From Operating Activities		
Net margin	$ 3,281,140	$ 3,492,432
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	7,976,377	7,028,254
Decommissioning	4,400,516	1,495,700
Amortization of nuclear fuel	3,330,466	3,240,394
Amortization of deferred charges	3,901,324	4,122,662
Amortization or deferred incremental outage costs	2,387,697	5,668,059
Amortization of debt issuance costs	56,342	67,609
Changes in		
Member accounts receivable	2,048,341	(8,376,832)
Materials and supplies	(253,460)	(635,064)
Other assets and prepaid expense	(6,416)	35,701
Accounts payable	(1,146,640)	(323,319)
Payroll and payroll-related liabilities	(16,170)	14,479
Accrued property tax	(59,425)	(148,104)
Accrued interest payable	(38,864)	(45,341)
Accrued income taxes	(3,564)	3,518
Other long-term liabilities	826,151	445,958
Prepaid pension cost	131,428	472,371
Deferred revenue	2,778,884	2,100,898
Net cash flows from operating activities	29,594,127	18,659,375
Cash Flows From Investing Activities		
Additions to electrical plant	(13,317,627)	(15,556,312)
Additions to nuclear fuel	(1,980,468)	(5,243,757)
Reductions in deferred charges	17,720	174,656
Additions to deferred incremental outage costs	(3,170,364)	(594,202)
Investments in decommissioning fund assets	(617,917)	(1,533,935)
Proceeds from associated organizations	615,915	339,892
Investments in bond reserve assets	4,490,786	(24,918)
Proceeds from the sale of property	39,350	14,402
Net cash flows from investing activities	(13,922,605)	(22,424,174)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(15,700,763)	(19,429,155)
Proceeds from issuance of long-term debt	9,887,110	25,993,166
Short term notes payable	(1,429,000)	(5,071,000)
Payments unapplied	(3,324,091)	(1,707,113)
Net cash flows from financing activities	(10,566,744)	(214,102)
Net increase (decrease) in cash and cash equivalents	5,104,778	(3,978,901)
Cash and Cash Equivalents, Beginning of Year	1,202,643	5,181,544
Cash and Cash Equivalents, End of Year	$ 6,307,421	$ 1,202,643
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 9,279,800	$ 9,868,600

See Notes to the Consolidated Financial Statements

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 Services, Inc. (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. KEPCo Services, Inc. is an engineering consulting firm who specializes in consulting projects for other local electric cooperatives.

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

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

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

Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management's estimates and assumptions include, but are not limited to, estimates of salvage values, estimated useful lives of fixed assets and estimated asset retirement obligations. Management's estimates and assumptions are derived from and are continually evaluated based upon available information, judgement and experience.

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 2015 and 2014. 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, 2015 and 2014 are 3.76% and 3.59%, 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 in the financial statements on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from WCNOC, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 6% of the operations, maintenance, administrative and general costs, and cost of plant additions related to WCNOC.

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

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

Nuclear Fuel - The cost of nuclear fuel in the process of refinement, conversion, enrichment and fabrication is recorded as a utility plant asset at original cost and is amortized to nuclear fuel expenses based upon the quantity of heat produced for the generation of electric power. Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent disposal of spent nuclear fuel. Wolf Creek paid into a federal Nuclear Waste Fund administered by the DOE a quarterly fee for the future disposal of spent nuclear fuel. In November 2013, a federal court of appeals ruled that the DOE must stop collecting this fee effective May 2014. KEPCo's share of the fee, calculated as one tenth of a cent for each kilowatt-hour of net nuclear generation delivered to customers, was $0 and $104,499 in 2015 and 2014, respectively. KEPCo included these costs in fuel and purchased power expense on the consolidated statements of margin.

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

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

In 2014, 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 $45.9 million. This amount compares to the prior site study estimate of $37.8 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 2015 and $0.5 million in 2014. KEPCo records its investment in the Nuclear Decommissioning Trust fund at fair value, which approximated $20.0 million and $19.4 million as of December 31, 2015 and 2014, 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, 2015 and 2014 is as follows:

	2015	2014
Balance at January 1	$ 13,320,625	$ 12,542,673
2014 decommission study	3,952,587	-
Accretion	1,041,033	777,952
Balance at December 31	$ 18,314,245	$ 13,320,625

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.

	2015	2014
Cash surrender value of contracts	$ 7,423,520	$ 7,169,654
Borrrowings against contracts	(7,167,492)	(6,922,116)
	$ 256,028	$ 247,538

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, 2015 and 2014.

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 2012.

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.

(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

Wolf Creek Deferred Plant Costs - 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:

	2015	2014
Deferred charges	$ 3,563,634	$ 7,127,268
Patronage capital	$ 3,563,634	$ 7,127,268
Net margin	$ (3,563,634)	$ (3,563,634)

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, 2015 and 2014.

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.

Wolf Creek Disallowed Costs - Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in Wolf Creek, which disallowed $26.0 million of KEPCo's investment in Wolf Creek ($8.0 million net of accumulated amortization as of December 31, 2015). 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, 2015, and 2014.

(4) Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2015 and 2014, investments in associated organizations consisted of the following:

	2015	2014
Cooperative Financial Corporation		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Patronage capital certificates	1,575,231	1,317,279
Equity term certificates	9,136,418	10,027,496
	11,108,619	11,741,745
Other	282,188	264,976
	$ 11,390,807	$ 12,006,721

(5) 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 $3.2 million and $0.6 million in 2015 and 2014, respectively. The current year amortization of the deferred incremental outage costs was $2.4 million and $5.7 million in 2015 and 2014, 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.

(6) Line of Credit

As of December 31, 2015, 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, 2015 and 2014. 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, 2015 and 2014. This line of credit expires in March 3, 2017.

At December 31, 2015, 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, 2015 and 2014. 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, 2016.

(7) Short-Term Note Payable

As of December 31, 2014 KEPCo had a short-term note payable in the amount of $1.4 million to the Cooperative Finance Corporation at an interest rate of 2.5%. As of December 31, 2015, this note has been paid off.

(8) 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:

	2015	2014
Mortgage notes payable to the FFB at fixed rates varying from .818% to 9.21%, payable in quarterly installments through 2043	$ 59,050,988	$ 62,732,450
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	7,240,000	13,140,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate of .34%, payable annually through 2015	-	1,995,000
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	991,073	1,111,684
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 2.80% to 7.50%, payable quarterly through 2045	91,391,067	88,831,738
	158,673,128	167,810,872
Less current maturities	(11,456,396)	(15,683,929)
	$ 147,216,732	$ 152,126,943

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

2016	$ 11,456,396
2017	10,587,758
2018	7,204,862
2019	7,317,138
2020	7,447,676
Thereafter	114,659,298
	$ 158,673,128

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, 2015 and 2014.

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, 2015 and 2014.

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

The swap agreement terminates in 2017, but is subject to early termination upon the early redemption of the debt. However, any termination costs relating to the termination of the assigned interest rate swaps is KEPCo's responsibility. At December 31, 2015, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $0.6 million.

This fair value estimate is based on information available at December 31, 2015, 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.

(9) Benefit Plans

National Rural Electric Cooperative Association (NRECA) Retirement and Security Program - KEPCo participates in the NRECA Retirement and Security Program for its employees. The NRECA is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plans sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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

KEPCo's contributions to the Retirement and Security Plan in 2015 and 2014 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 for each of the years ended December 31, 2015 and 2014, respectively. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2015 and over 80 percent funded on January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

NRECA Savings 401(k) Plan - All employees of KEPCo are eligible to participate in the NRECA Savings 401(k) Plan. Under the plan, KEPCo contributes an amount not to exceed 5%, dependent upon each employee's level of participation and completion of one year of service, of the respective employee's base pay to provide additional retirement benefits. KEPCo contributed approximately $100,000 and $90,000 to the plan for the years ended December 31, 2015 and 2014.

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.

Notes to Consolidated Financial Statements

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Change in benefit obligation:				
Benefit obligation beginning of year	$ 26,849,361	$ 20,785,543	$ 1,051,925	$ 1,277,753
Service cost	969,547	726,956	17,627	22,122
Interest cost	1,150,940	1,081,152	40,150	59,182
Plan participants' contributions	-	-	119,195	97,847
Benefits paid	(793,702)	(643,257)	(207,086)	(164,795)
Actuarial (gains) losses	(1,824,960)	4,898,967	(26,957)	(240,184)
Benefit obligations, end of year	$ 26,351,186	$ 26,849,361	$ 994,854	$ 1,051,925

Change in plan assets:				
Fair value of plan assets, beginning of year	$ 15,914,004	$ 14,646,824	$ 762	$ 1,990
Actual return on plan assets	(367,512)	973,542	-	-
Employer contributions	741,046	905,022	100,500	65,720
Plan participants' contributions	-	-	119,195	97,847
Benefits paid	(761,388)	(611,384)	(207,087)	(164,795)
Fair value of plan assets, end of year	15,526,150	15,914,004	13,370	762
Funded status, end of year	$ (10,825,036)	$ (10,935,357)	$ (981,484)	$ (1,051,163)

Amounts recognized in the consolidated balance sheets:

	2015	2014
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	$ 11,824,521	$ 12,004,519

Notes to Consolidated Financial Statements

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Net (loss) gain	$ (7,244,265)	$ (8,304,185)	$ 23,533	$ (3,718)
Prior service cost	(63,998)	(71,323)	-	-
Accumulated other comprehensive (loss) gain	$ (7,308,263)	$ (8,375,508)	$ 23,533	$ (3,718)

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Projected benefit obligation	$ 26,351,186	$ 26,849,361	$ (994,854)	$ 1,051,925
Accumulated benefit obligation	23,070,405	22,880,170	-	-
Fair value of plan assets	$ 15,526,150	$ 15,914,004	$ 13,370	$ 762

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Discount rate	4.61%	4.20%	4.27%	4.70%
Annual salary increase rate	4.00%	4.00%	N/A	N/A

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

	Pension Benefits		Postretirement Benefits	
	2015	2014	2015	2014
Components of net periodic cost (benefit):				
Service cost	$ 969,548	$ 726,956	$ 17,628	$ 22,122
Interest cost	1,150,940	1,081,152	40,150	59,182
Expected return on plan assets	(1,154,587)	(1,031,989)	-	-
Amortization				
Transition obligation, net	-	-	-	-
Prior service cost	7,325	7,436	-	-
Actuarial loss, net	757,059	381,287	294	21,062
Net periodic cost	$ 1,730,285	$ 1,164,842	$ 58,072	$ 102,366
Other changes in plan obligations recognized in other comprehensive income:				
Current year actuarial loss(gain)	$ (302,862)	$ 4,957,414	$ (26,957)	$ (240,184)
Amortization of actuarial loss	(757,059)	(381,287)	(294)	(21,062)
Amortization of prior service cost	(7,325)	(7,436)	-	-
Amortization of transition obligation	-	-	-	-
Total recognized in other comprehensive income	(1,067,246)	4,568,691	(27,251)	(261,246)
Total recognized in net periodic cost and other comprehensive income	$ 663,040	$ 5,733,533	$ 30,821	$ 158,800
Weighted average actuarial assumptions used to determine net periodic cost:				
Discount rate	4.20%	4.20%	3.89%	4.70%
Expected long term return on plan assets	7.50%	7.50%	N/A	N/A
Compensation rate increase	4.00%	4.00%	N/A	N/A

KEPCo estimates they will amortize the following amounts from regulatory assets into net periodic cost in 2016:

	Pension Benefits	Postretirement Benefits
Actuarial loss	$ 556,200	$ (1,850)
Prior service cost	7,071	-
Total	$ 563,271	$ (1,850)

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:

	2015	2014
Health care cost trend rate assumed for next year	7.00%	7.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2020	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	$ (983)	$ 1,038
Effect on post-retirement benefit obligation	$ (12,178)	$ 12,368

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, 2015 and 2014:

		Fair Value Measurements Using		
December 31, 2015	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 66,902	$ -	$ 66,902	$ -
Equity securities				
U.S.	3,893,997	-	3,893,997	-
International	4,810,439	-	4,810,439	-
Debt securities		-		
Core bonds	3,866,471	-	3,866,471	-
Commodities	741,858	-	741,858	-
Alternative investments	543,482	-	-	543,482
Real estate	1,603,001	-	781,678	821,323
Total	$ 15,526,150	$ -	$ 14,161,345	$ 1,364,805

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

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, 2015 and 2014:

	Real Estate Securities	Alternative Investments
Balance at January 1, 2015	$ 721,134	$ 550,033
Actual return on plan assets		
Relating to assets still held at the reporting date	100,189	(6,551)
Balance at December 31, 2015	$ 821,323	$ 543,482
Balance at January 1, 2014	$ 650,341	$ 529,374
Actual return on plan assets		
Relating to assets still held at the reporting date	70,793	20,659
Balance at December 31, 2014	$ 721,134	$ 550,033

Estimated future benefit payments as of December 31, 2015, for the Plans, which reflect expected future services, are as follows:

	To/from trust	From company assets	To/from trust	From company assets
Expected contributions:				
2016	$ 1,020,000	$ -	$ 77,798	$ -
Expected benefit payments:				
2016	$ 768,995	$ 32,220	$ 227,302	$ -
2017	875,934	32,301	254,605	-
2018	990,346	31,981	291,497	-
2019	1,105,753	32,073	328,966	-
2020	1,222,595	32,001	365,477	-
2021-2024	7,828,560	159,705	2,319,763	-

(10) Commitments and Contingencies

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

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

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

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

Letter of Credit - KEPCo has an open letter of credit with the Cooperative Finance Corporation in the amount of $1,500,000 which matures May 23, 2016. This letter of credit renews automatically each year unless notice is given. The letter of credit is intended to provide financial security to Southwest Power Pool pursuant to its credit policy.

Nuclear Liability Insurance - Pursuant to the Price-Anderson Act, which has been reauthorized through December 31, 2025, by the Energy Policy Act of 2005, the Cooperative is required to insure against public liability claims resulting from nuclear incidents to the current limit of public liability, approximately $13.5 billion. This limit of liability consists of the maximum available commercial insurance of $375.0 million and the remaining $13.1 billion is provided through mandatory participation in an industry-wide retrospective assessment program. In addition, Congress could impose additional revenue-raising measures to pay claims. Under this retrospective assessment program, the owners of Wolf Creek are jointly and severally subject to an assessment of up to $127.3 million (KEPCo share is $7.64 million), payable at no more than $19.0 million (KEPCo share is $1.14 million) per incident per year per reactor. Both the total and yearly assessment is subject to an inflationary adjustment every five years with the next adjustment in 2018.

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

The owners also carry additional insurance with Nuclear Energy Industry Limited (NEIL) to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, KEPCo may be subject to retrospective assessments under the current policies of approximately $2.52 million.

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

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

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

Nuclear Fuel Commitments - At December 31, 2015, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $2.1 million for uranium concentrates expiring in 2017, $0.3 million for conversion expiring in 2017, $12.0 million for enrichment expiring at various times through 2045 and $4.2 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.

(11) Fair Value of Assets and Liabilities

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

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

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, 2015:

		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				
Domestic fund	$ 10,865,536	$ 10,865,536	$ -	$ -
International fund	1,440,767	1,440,767	-	-
Domestic bond fund	7,189,822	7,189,822	-	-
Money market	500,071	500,071	-	-
Total	$ 19,996,196	$ 19,996,196	$ -	$ -

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, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 6,307,421	$ 6,307,421	$ 1,202,643	$ 1,202,643
Bond fund reserve	-	-	4,490,786	4,531,117
Financial liabilities:				
Long-term debt	$ 158,673,128	$ 171,937,869	$ 167,810,872	$ 187,686,399

(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. As disclosed in note 3, 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 2015 and 2014.

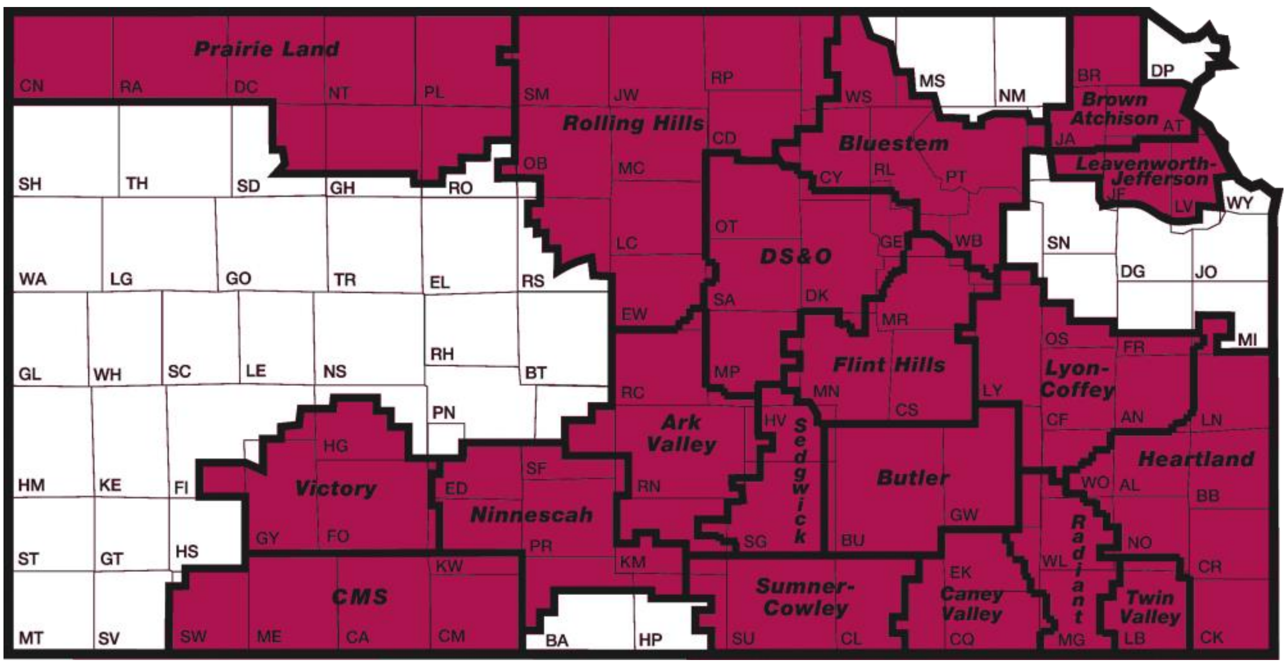
(13) Subsequent Events

The Company has evaluated subsequent events through April 6, 2016, 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 System Map



KEPCo's Vision Statement

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

Kansas Electric
Power Cooperative, Inc.

A Touchstone Energy® Cooperative

PO Box 4877 - Topeka, KS 66604
600 SW Corporate View - Topeka, KS 66615
(785)-273-7010
www.kepco.org