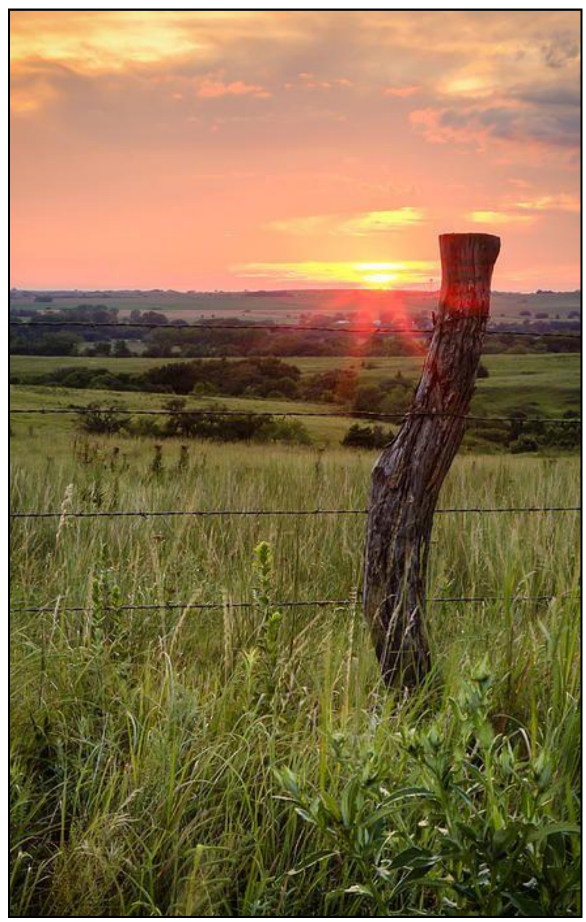
KANSAS ELECTRIC POWER COOPERATIVE, INC.

20 ANNUAL REPORT 17

Proudly serving the energy needs of rural Kansans



Contents

KEPCo Staff

Marcus Harris................Executive Vice President & Chief Executive Officer

Mark Barbee......................Senior Vice President of Engineering and Operations

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

Suzanne Lane………….Vice President - Member Services and Government Affairs

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

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

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

Mark Doljac……………………....Executive Director of Regulatory Affairs & Planning

Carol Gardner.....................Operations Analyst 2

Shawn Geil..............................Executive Director of Technical & Energy Services

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

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

Shari Koch............................Finance & Accounts Payable/Payroll Specialist 2

Melissa Kerstiens...........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, power requirement and engineering studies, and rate design, among others.

KEPCo is governed by a Board of Trustees representing 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; Prairie Sky Solar, a 1 MW solar facility in Butler County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration and 13 MW from the Western Area Power Administration; and 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

2017 Message

from
Kevin Compton
KEPCo President
&
Marcus Harris
Executive Vice President
& Chief Executive Officer


Mr. Kevin Compton, KEPCo President, and Mr. Marcus Harris, KEPCo EVP & CEO.

The role and responsibility of a generation and transmission electric cooperative utility is many faceted. Securing a reliable, economic, and safe power supply has always been at the forefront of our obligation to KEPCo's member cooperatives.

In 2016, Westar Energy announced its plans to be acquired by Great Plains Energy (GPE). KEPCo has a purchase power agreement with Westar Energy until 2045, and has several other interests with Westar Energy and GPE.

The acquisition of Westar Energy by GPE faced several regulatory approvals, one of which was by the Kansas Corporation Commission (KCC). KEPCo intervened in the case to protect its interests and those of its member cooperatives. In April of 2017, the KCC ruled unanimously against the proposed acquisition, citing in their ruling many of the concerns made by KEPCo during the hearing.

In August of 2017, Westar Energy and GPE announced their intention of merging the two companies as equals, rather than an acquisition, and subsequently filed the merger agreement with the KCC and other regulatory bodies.

KEPCo intervened in the proposed merger and will again monitor the merger proceedings with the intent of protecting the interests of KEPCo and its member cooperatives. A final ruling by the KCC is expected in June of 2018.

In the ever-evolving world of technology, consumers are demanding choices that will allow them to manage their energy needs, both dependent and independent of the utility, reduce their environmental footprint, and have access to technology that allows them to be more productive, efficient, and comfortable in their day-to-day lives. Technologies such as photovoltaic units, battery storage, high-efficiency HVAC units, smart home devices, and electric vehicles are just a few on the list of products and services impacting the utility industry. KEPCo is studying these various technologies to find beneficial and economic ways for electric cooperative members to save energy through better products and innovative solutions.

One technology that KEPCo invested a great deal of time researching and establishing a better understanding of in 2017 was electric vehicles and their impact to KEPCo when a significant number of vehicles in our members' territories is reached. Electric vehicles have the potential to impact the utility industry in ways no other technology has before and KEPCo fully supports their promotion and adoption. KEPCo views electric vehicles as a technology that holds promise of flattening our load duration curve, thus providing a positive economic impact to our member cooperatives. In support of the adoption of electric vehicles, KEPCo applied for a grant through the Kansas Department of Health and Environment to place thirty-eight electric vehicle charging stations within the service territories of KEPCo's nineteen member electric cooperatives. The grant money was made available as part of the Volkswagen settlement with the Environmental Protection Agency. Kansas will receive in excess of $15 million, to be dispersed over a ten-year period beginning in 2018.


Prairie Sky Solar ribbon cutting with Governor Sam Brownback (third from left), KEPCo Board members, and KEPCo staff.

KEPCo installed its first utility-scale solar farm in 2017. Prairie Sky Solar was placed into service on February 21 and reduced KEPCo's power purchase obligations from other suppliers. Prairie Sky Solar was added to KEPCo's diverse energy mix to supply energy throughout the year with the added benefit of offsetting capacity needs over KEPCo's summer peak. As a bonus, with the addition of Prairie Sky Solar, KEPCo's non-greenhouse gas emitting resource mix improved to where KEPCo now generates approximately 53% of its energy with non-greenhouse gas emitting resources. Not many utilities across the country can make such a claim.

Tantamount to providing an economical power supply is the ability to control costs. As a transmission-dependent utility, KEPCo has been experiencing escalating transmission costs over the past few years, primarily attributed to the construction of renewable energy and associated transmission line build-out and significant investments in transmission infrastructure by area utilities. Recognizing this trend, the KEPCo Board of Trustees approved the necessary amendment to existing policies that will allow and enable KEPCo to participate in economically viable transmission projects in the future. This amendment is pending Rural Utilities Service (RUS) approval.

KEPCo member cooperative distributed generation.

Critical to managing wholesale energy costs is the ability of KEPCo and its member cooperatives to control peak demand. For decades, KEPCo and its member cooperatives have managed peak loads using various demand-side management programs and incentives. KEPCo's demand management program has resulted in millions of dollars in savings for our member cooperatives and ultimately, the members of our member distribution cooperatives. To augment KEPCo's existing programs, KEPCo presented to the RUS an addendum to a current Board Policy that would allow KEPCo's member cooperatives to add an additional ten percent in distributed generation, five percent of which will be solar generation, to the current five percent distributed generation allowance. The addendum, if approved, will provide our member cooperatives the ability to enhance their fiscal management controls by offsetting demand by utilizing their own generation.

Through prudent and diligent fiscal management, KEPCo was able to return $15 million in 2017 to its member cooperatives through its Margin Stabilization Adjustment (MSA). The MSA was instituted in 2011 as a method to keep KEPCo's margin in line with the budgeted amount. Since inception of the MSA, KEPCo has returned over $68 million to its member cooperatives.

Les Evans

Betty Lesline

This year, two longtime, valued KEPCo employees announced their retirements. Mr. Les Evans, Senior Vice President and Chief Operating Officer, announced his retirement at the end of December, after dutifully serving KEPCo for 13 years. Mr. Evans will retain a relationship with KEPCo, working on power supply issues. In February, Ms. Betty Lesline, Receptionist/Administrative Assistant, retired, ending her 17-year career with KEPCo. We wish both Les and Betty a long and happy retirement.

Suzanne Lane

Mark Barbee

Mark Doljac

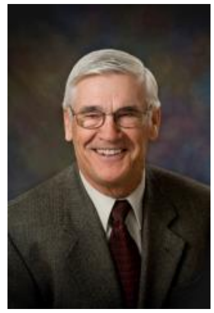
Shawn Geil

In June, KEPCo added Ms. Suzanne Lane to its senior staff as Director of Strategy. Ms. Lane was previously employed by Westar Energy, holding various positions in her 19-year tenure. Effective January 2018, four senior staff members were promoted. Ms. Lane was promoted to the position of Vice President of Member Services and Government Affairs. Mr. Mark Barbee, Vice President of Engineering, was promoted to Senior Vice President of Engineering and Operations. With their new responsibilities, Ms. Lane and Mr. Barbee will share the duties of the retired Mr. Evans. Mr. Mark Doljac, Director of Rates and Regulation, and Mr. Shawn Geil, Director of Information Systems, were each promoted to Executive Director.


Dale Coomes


Ken Maginley


Bob Reece


Leon Eck


Dennis Peckman

KEPCo also had changes in its Board room, as five Trustees retired during 2017. KEPCo said goodbye to Mr. Dale Coomes, CEO of Heartland Electric Cooperative, Mr. Ken Maginley, Manager of Bluestem Electric Cooperative, Mr. Bob Reece, Manager of Flint Hills Electric Cooperative, Mr. Leon Eck, former KEPCo President (1993-1997) and KEPCo Alternate Trustee from Rolling Hills Electric Cooperative, and Mr. Dennis Peckman, KEPCo Trustee from Heartland Electric Cooperative, who have a combined KEPCo Board of Trustees service tenure of 151 years. During their careers, these gentlemen were involved in essentially every decision that was made in the past 30-plus years at KEPCo. Their depth and breadth of knowledge and experience will be missed.

In November at KEPCo's annual meeting, Mr. Kevin Compton was unanimously re-elected to a second term as President of the KEPCo Board of Trustees. Mr. Compton is from Hiawatha, Kansas, and is the Vice President of the Brown-Atchison Electric Cooperative Board of Trustees. The KEPCo Executive Committee was also re-elected.

As the utility industry continues to progress with and adapt to technological advancements, it is essential that KEPCo operates under the direction of a knowledgeable and proactive Board of Trustees. KEPCo is fortunate to have such a Board in place. Much appreciation and gratitude is extended to the KEPCo Board of Trustees for the knowledge and resolve demonstrated this past year on some difficult issues and the confidence the Board has in KEPCo staff to operate and manage KEPCo in a purposeful manner and serve rural Kansans with accountability, innovation, and a commitment to the communities served by our member cooperatives.

Marcus Harris
KEPCo EVP & CEO

Kevin D. Compton
KEPCo President

2017 KEPCo Highlights

KEPCo's Marcus Harris, Bill Riggins, and Phil Wages, along with a contingent of another 20 Kansas electric cooperative representatives, attended the NRECA Legislative Conference in Washington, D.C. The Kansas contingent, along with over 2,000 electric cooperative representatives from across the country, conveyed industry issues to their respective Congressional leaders.

Kansas electric cooperative representatives with Kansas Senator Pat Roberts.

Safety of our employees is essential to the continued operational success of KEPCo. Appropriate safety meetings are held throughout the year for KEPCo staff. KEPCo is proud to report there were no lost time accidents recorded in 2017.

KEPCo, along with representatives from several Kansas electric utilities, attended a Southwest Power Pool (SPP) meeting with Governor Sam Brownback, Kansas Senator Rob Olson, and Kansas Representative Joe Seiwert. Senior management of SPP presented information regarding transmission planning, the energy mix in the day-ahead market, cost allocation, governance, FERC Order 1000, and interregional seams issues.

Kansas electric utility representatives with Governor Brownback at the SPP meeting.

KEPCo completed 10-Year Power Cost Projections for five of KEPCo's member cooperatives and completed 10-year Load Forecasts for four of KEPCo's member cooperatives.

KEPCo Services, Inc. (KSI), a wholly-owned subsidiary of KEPCo, completed its 20th year of operations. The staff of KSI completed several projects throughout the year, which included: the Prairie Sky Solar Farm, which was brought on-line in February; an EPA/ KDHE air emissions test of KEPCo's Sharpe Generating Station; KSI's NERC compliance audit; two construction work plans and one sectionalizing study; assisting a member cooperative with damage assessment following winter storm Jupiter and the identification of $5.5 million in repairs needed to restore the facilities to pre-disaster condition; and replacing meter reading communication devices and associated software and hardware.

KSI Engineering


Wolf Creek Nuclear Generating Station

The Wolf Creek Nuclear Generating Station performed exceptionally well and ran continuously in 2017. Wolf Creek set an annual generation record of 10,647,988 MWh and also set three of the top five all-time monthly production records. This exceptional performance is indicative of the great strides Wolf Creek has made with regulatory and operational performance in recent years.

KEPCo staff participated in the annual Southwest Power Pool (SPP) Legislative Conference. The conference was a three-day visit to Washington, D.C., centered around discussing issues impacting the electric utility industry and how Congress and the Administration are addressing these matters. The speakers for the conference included several experts in the energy industry, as well as members of Congress serving on jurisdictional energy committees and representing districts within the SPP region. KEPCo Staff also continued to work diligently with the KEC, Sunflower Electric, and Midwest Energy on legislative issues in Kansas and Washington, D.C. Staff testified on several bills in 2017 and tracked numerous pieces of legislation.


Representatives from Midwest Energy, KEPCo, Empire District, ITC, and Sunflower visit with Congresswoman Lynn Jenkins during the SPP conference.

KEPCo continues to work with its member cooperatives on 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.

Per the mission of KEPCo, KEPCo staff continuously monitors, reviews, and evaluates all of the associated formula rates that impact KEPCo's power supply and transmission costs. As part of that routine process, KEPCo staff discovered an error in both the Westar Generation Formula Rate and Transmission Formula Rate associated with property taxes. KEPCo staff will be reviewing Westar's filed documents to assure corrections are appropriate.

Iatan 2, a coal-fired facility in Weston, Missouri, of which KEPCo has a partial ownership interest, provided KEPCo with nearly 11% of its energy requirements in 2017. Iatan 2 is an 850 MW super-critical plant that utilizes state-of-the-art emission control systems and continues to be one of the most efficient and lowest greenhouse gas emitting coal plants in the U.S.

Iatan 2, located in Weston, Missouri.

Prairie Sky Solar, a one MW solar facility located in Butler County.

Prairie Sky Solar went on-line in late February, producing 1,803 MWh in 2017 and averaging 841 kW during the four peak summer months. This performance reduced KEPCo's demand costs for those months, and also reduced KEPCo's ratchet demand for the following eight months.

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

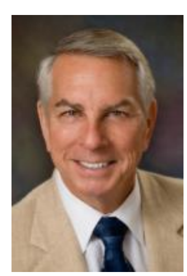

Dale Short

Butler 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 -- Terry Olsen
Manager -- Robert E. Reece


Terry Olsen


H.H. Stockebrand

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


Dale Coomes


Steven Foss

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


Harlan Hunt


Scott Whittington

Lyon-Coffey Electric Cooperative, Inc.
2731 Milo Terrace, Lebo, KS 66856   620-364-2116
Trustee Rep. -- Scott Whittington
Alternate Trustee -- Robert Converse
Manager -- Scott Whittington


Robert Converse

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


Bill Peterson

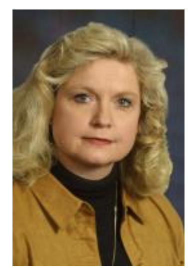
Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
District Office, Concordia 785-243-1750
Trustee Rep. -- Bill Peterson
Alternate Trustee -- Allan J. Miller
Manager -- Allan J. Miller


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 339, Beloit, KS 67420   785-534-1601
Trustee Rep. -- Douglas J. Jackson
Alternate Trustee -- Paul Wilson
Manager -- Douglas J. Jackson


Paul Wilson


Don Metzen

Sedgwick County Electric Cooperative Assn., Inc.
PO Box 220, Cheney, Ks 67025   316-542-3131
Trustee Rep. -- Don Metzen
Alternate Trustee -- Rex Smith
Manager -- Scott Ayres


Rex Smith


Scott Ayres


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

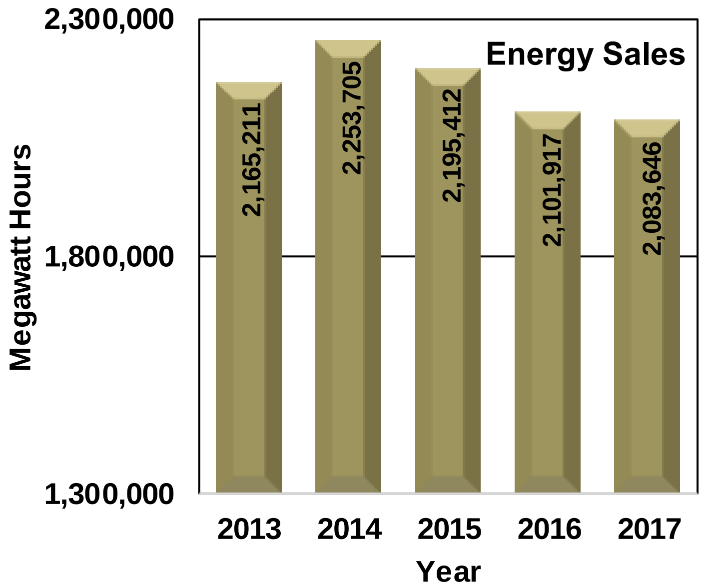
Victory Electric Cooperative Assn., Inc.
PO Box 1335, Dodge City, KS 67801   620-227-2139
Trustee Rep. -- Shane Laws
Alternate Trustee -- Daryl Tieben
Manager -- Shane Laws

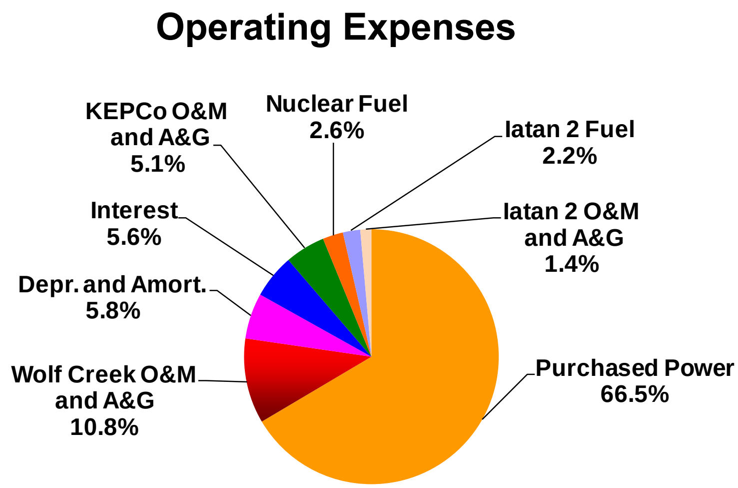

Daryl Tieben

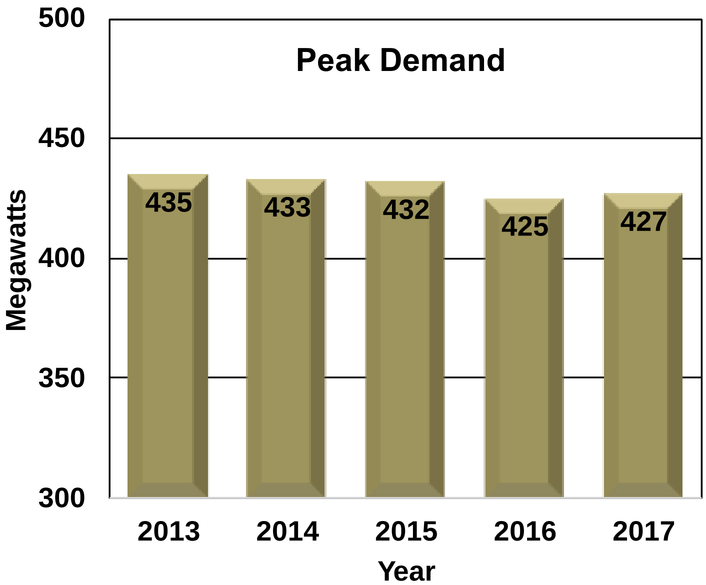
2017 - 2018 KEPCo Executive Committee

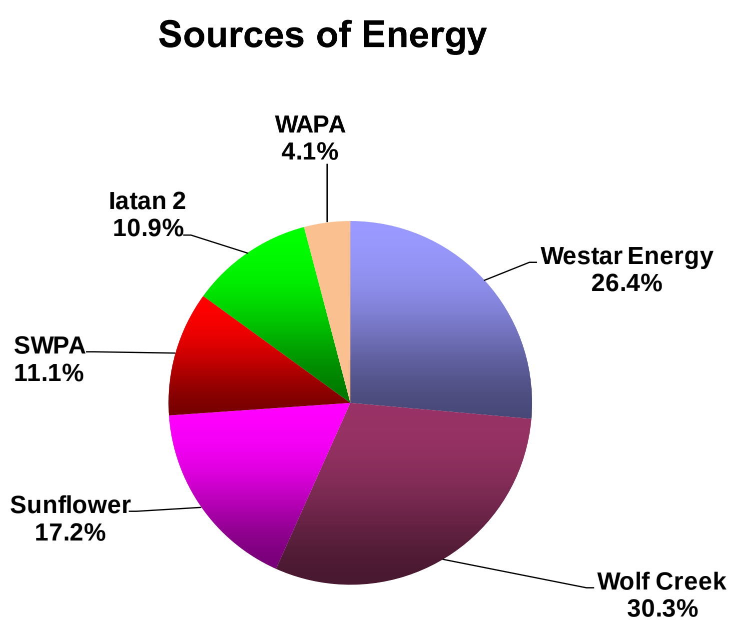

Back row, left to right: Kevin Compton - President; Dale Short - Vice President; Dean Allison - Treasurer; Doug Jackson - Secretary.
Front row, left to right: Steve Foss - Executive Committee; Kirk Thompson - Executive Committee; Scott Whittington - Executive Committee.

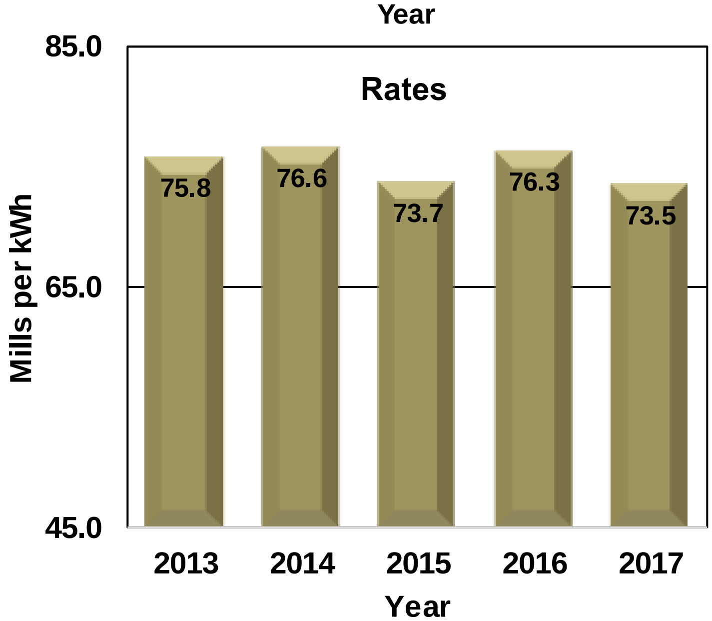
Operating Statistics











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, 2017 and 2016, 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 auditors' 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 unmodified opinion on 2017 and our qualified audit opinion on 2016.

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 2016 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.

Unmodified Opinion on 2017 and Qualified Opinion on 2016

In our opinion, except for the possible effects on the 2016 consolidated financial statements of the matters discussed in the Basis for Qualified Opinion paragraph, 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, 2017 and 2016, 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.

Changes in Accounting Principle

As described in Note 1 to the financial statements, the Company adopted the provisions of Accounting Standards Updates 2016-01 and 2015-07 in 2016. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 13, 2018, 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 13, 2018

Consolidated Balance Sheets

Assets	December 31, 2017	December 31, 2016
Utility Plant		
In-service	$ 364,467,610	$ 358,299,394
Less allowances for depreciation	(169,170,225)	(162,033,119)
Net in-service	195,297,385	196,266,275
Construction work in progress	11,885,675	13,587,572
Nuclear fuel (less accumulated amortization of $25,160,432 and $21,184,282 for 2017 and 2016, respectively)	8,977,729	7,671,517
Total utility plant	216,160,789	217,525,364
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	11,771,055	11,552,345
Decommissioning fund	25,502,604	21,662,907
Investments in other associated organizations	317,280	306,626
Total restricted assets	37,590,939	33,521,878
Current Assets		
Cash and cash equivalents	11,392,780	13,097,952
Member account receivables	12,517,966	13,584,071
Materials and supplies inventory	7,305,303	6,587,450
Other assets and prepaid expenses	700,276	699,538
Total current assets	31,916,325	33,969,011
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $19,015,820 and $18,692,371 for 2017 and 2016, respectively)	6,967,100	7,290,549
Wolf Creek decommissioning regulatory asset	(9,515,616)	(7,017,075)
Deferred incremental outage costs	717,688	2,421,944
Other deferred charges (less accumulated amortization of $9,846,819 and $9,782,828 for 2017 and 2016, respectively)	324,007	6,664
Unamortized debt issuance costs	9	8,322
Other assets	1,209,075	311,016
Southwest Power Pool charges	1,831,866	2,320,364
Prepaid pension cost	679,041	810,468
Total long-term assets	2,213,170	6,152,252
Total assets	$ 287,881,223	$ 291,168,505

See Notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Patronage Capital and Liabilities	December 31, 2017	December 31, 2016
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	81,084,265	78,731,784
Accumulated other comprehensive loss	(8,926,887)	(8,440,302)
Total patronage capital	72,160,578	70,294,682
Long-term Debt	152,297,209	151,532,880
Other Long-term Liabilities		
Wolf Creek decommissioning liability	20,589,586	19,418,417
Wolf Creek pension and postretirement benefit plans	12,926,862	12,469,376
Wolf Creek deferred compensation	1,360,660	1,319,029
Other deferred credits	176,979	9,250
Total other long-term liabilities	35,054,087	33,216,072
Current Liabilities		
Current maturities of long-term debt	8,460,122	11,129,805
Accounts payable	14,012,131	14,393,732
Payroll and payroll-related liabilities	257,810	233,212
Deferred revenue	4,063,942	8,704,942
Accrued property taxes	1,098,552	1,157,946
Accrued income taxes	759	479
Accrued interest payable	476,033	504,755
Total current liabilities	28,369,349	36,124,871
Total patronage capital and liabilities	$ 287,881,223	$ 291,168,505

See Notes to the Consolidated Financial Statements

Consolidated Statements of Margin

	For the years ending December 31, 2017	2016
Operating Revenues		
Sale of electric energy	$ 153,163,951	$ 160,274,808
Operating Expenses		
Power purchased	101,329,950	106,192,839
Nuclear fuel	3,990,729	3,303,026
Plant operations	16,576,656	15,719,345
Plant maintenance	5,152,290	5,830,421
Administrative and general	7,473,429	7,050,359
Amortization of deferred charges	387,441	3,988,865
Depreciation and decommissioning	9,005,184	8,686,169
Total operating expenses	143,915,679	150,771,024
Net operating revenues	9,248,272	9,503,784
Interest and Other Deductions		
Interest on long-term debt	8,465,229	8,558,224
Amortization of debt issuance costs	8,313	15,391
Other deductions	169,056	139,195
Total interest and other deductions	8,642,598	8,712,810
Operating income	605,674	790,974
Other Income/(Expense)		
Interest income	1,258,850	860,660
Other income	495,520	285,944
Income tax	(7,563)	(4,683)
Total other income	1,746,807	1,141,921
Net margin	$ 2,352,481	$ 1,932,895
Net Margin	$ 2,352,481	$ 1,932,895
Other comprehensive loss		
Net loss arising during year on pension obligation	(1,122,878)	(1,716,993)
Amortization of prior year service costs included in net periodic pension costs	636,293	561,421
Comprehensive income	$ 1,865,896	$ 777,323

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, 2015	$ 3,200	$ 76,798,889	$ (7,284,730)	$ 69,517,359
Net margin	-	1,932,895	-	1,932,895
Defined benefit pension plans:				
Net earnings arising during year	-	-	(1,716,993)	(1,716,993)
Amortization of prior year service costs included in net periodic pension costs	-	-	561,421	561,421
Balance at December 31, 2016	3,200	78,731,784	(8,440,302)	70,294,682
Net margin	-	2,352,481	-	2,352,481
Defined benefit pension plans:				
Net loss arising during year	-	-	(1,122,878)	(1,122,878)
Amortization of prior year service costs included in net periodic pension costs	-	-	636,293	636,293
Balance at December 31, 2017	$ 3,200	$ 81,084,265	$ (8,926,887)	$ 72,160,578

See Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

	For the years ending December 31, 2017	2016
Cash Flows From Operating Activities		
Net margin	$ 2,352,481	$ 1,932,895
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	8,498,847	8,173,568
Decommissioning	3,669,710	1,496,722
Amortization of nuclear fuel	3,976,149	3,294,777
Amortization of deferred charges	335,200	3,898,956
Amortization of deferred incremental outage costs	2,055,696	2,373,725
Amortization of debt issuance costs	8,313	15,391
Changes in		
Member accounts receivable	1,066,105	(1,590,640)
Materials and supplies	(717,853)	57,909
Other assets and prepaid expense	(896,884)	(3,509,895)
Accounts payable	(381,601)	1,340,474
Payroll and payroll-related liabilities	24,598	(8,141)
Accrued property tax	(59,394)	(154,440)
Accrued interest payable	(28,722)	(46,105)
Accrued income taxes	280	525
Other long-term liabilities	666,846	723,753
Prepaid pension cost	131,427	131,427
Deferred revenue	(4,641,000)	2,600,736
Net cash flows from operating activities	16,060,198	20,731,637
Cash Flows From Investing Activities		
Additions to electrical plant	(5,831,470)	(10,825,350)
Additions to nuclear fuel	(5,282,361)	(2,506,622)
(Additions)/reductions to deferred charges	(329,094)	340,606
Additions to deferred incremental outage costs	(351,440)	(2,827,500)
Investments in decommissioning fund assets	(3,839,697)	(1,666,711)
Investments in associated organizations	(229,364)	(468,165)
Proceeds from the sale of property	3,410	23,079
Net cash flows from investing activities	(15,860,016)	(17,930,663)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(6,558,200)	(11,457,281)
Proceeds from issuance of long-term debt	5,401,047	21,229,828
Payments unapplied	(748,201)	(5,782,990)
Net cash flows from financing activities	(1,905,354)	3,989,557
Net (decrease)/increase in cash and cash equivalents	(1,705,172)	6,790,531
Cash and Cash Equivalents, Beginning of Year	13,097,952	6,307,421
Cash and Cash Equivalents, End of Year	$ 11,392,780	$ 13,097,952
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 8,663,000	$ 8,743,500

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 (jointly "KEPCo"), headquartered in Topeka, Kansas, was incorporated in 1975 as a tax-exempt generation and transmission cooperative (G&T). KEPCo was granted a limited certificate of convenience and authority by the Kansas Corporation Commission (KCC) in 1980 to act as a G&T public utility. It is KEPCo's responsibility to procure an adequate and reliable power supply for its 19 distribution rural electric cooperative members pursuant to all requirements of 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.

Recent Accounting Pronouncements - In January 2016, the Financial Accounting Standards Board (FASB) published Accounting Standards Update (ASU) No. 2016-01, which, among other things, changes the presentation and disclosure requirements for non-public entities related to fair value disclosures required for financial instruments not recognized at fair value. Previous standards required the disclosure of the fair value of debt if a non-public entity had in excess of $100 million of assets. Under the new standard, non-public entities, regardless of size, no longer need to disclose the fair value of debt. The standard is not fully effective until periods beginning after December 15, 2018; however, early adoption of this specific change is permitted. Management has decided to early adopt this provision, and thus will no longer disclose the fair value of financial instruments that are not reported at fair value.

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The ASU removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value per share as a practical expedient provided by FASB Accounting Standards Codification ("ASC") 820 Fair Value Measurement. Disclosures about investments in certain entities that calculate net asset value per share are limited under this ASU to investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. The guidance requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. Management elected to early adopt the provisions of this new standard. The adoption has been reflected in Note 9 to the financial statements.

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

Iatan 2 - Iatan 2 is an 850 MW high efficiency coal-fired power plant utilizing state-of-the-art environmental controls that became commercially operational December 31, 2010. KEPCo owns a 3.53% share of Iatan 2, or 30 MW. Iatan 2, located in Weston, MO, is operated and majority owned by Kansas City Power & Light Company (KCPL). KEPCo's undivided interest in Iatan 2 is consolidated on a pro rata basis. KEPCo is entitled to a proportionate share of the capacity and energy from Iatan 2, which is used to supplement a portion of KEPCo's members' requirements. KEPCo is billed on a daily basis for 3.53% of the operations, maintenance, administrative and general costs, and cost of plant additions related to Iatan 2.

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 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. WCNOC is regulated by the Nuclear Regulatory Commission (NRC), with respect to licensing, operations and safety related requirements.

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

Estimates - The preparation of consolidated financial statements in conformity with 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 and estimated useful lives of fixed assets, estimated asset retirement obligations, incremental outage costs and pension and postretirement liability costs. Management’s estimates and assumptions are derived from and are continually evaluated based upon available information, judgment 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 2017 and 2016. 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, 2017 and 2016 are 4.09% and 3.92%, 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

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

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

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

In 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 WCNOC as of the site study year. The actual nuclear decommissioning costs may vary from the estimates because of changes in regulations and technologies as well as changes in costs for labor, materials, and equipment.

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

KEPCo recovered in its prices and deposited in an external trust fund for nuclear decommissioning approximately $0.5 million in 2017 and $0.5 million in 2016. KEPCo records its investment in the nuclear decommissioning trust (NDT) fund at fair value, which approximated $25.5 million and $21.7 million as of December 31, 2017 and 2016, respectively.

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

A reconciliation of the asset retirement obligation for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Balance at January 1	$ 19,418,417	$ 18,314,245
Accretion	1,171,169	1,104,172
Balance at December 31	$ 20,589,586	$ 19,418,417

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. No allowance was recorded at December 31, 2017 and 2016.

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 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.

	2017	2016
Cash surrender value of contracts	$ 8,183,622	$ 7,797,588
Borrowings against contracts	(7,900,835)	(7,528,198)
	$ 282,787	$ 269,390

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, 2017 and 2016.

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

Investments – Investments in associated organizations are carried at cost and are classified as held to maturity securities.

(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 Disallowed Costs - Effective October 1, 1985, the KCC issued a rate order relating to KEPCo's investment in WCNOC, which disallowed $26.0 million of KEPCo's investment in Wolf Creek ($7.0 million and $7.3 million net of accumulated amortization as of December 31, 2017 and 2016, respectively). 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 WCNOC disallowed costs over a 15-year period. Such depreciation practice does not constitute a 282 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 WCNOC disallowed costs is included in amortization of disallowed charges and amounts to $0.4 million for the year ended December 31, 2016. As of December 31, 2016, the disallowed costs were fully amortized.

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 WCNOC 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 WCNOC 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. Amortization of the WCNOC deferred plant costs is included in amortization of deferred charges and amounts to $3.6 million for the year ended December 31, 2016. As of December 31, 2016, the deferred plant costs were fully amortized.

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.

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:

	2017	2016
Deferred charges	$ -	$ -
Patronage capital	$ -	$ -
Net margin	$ -	$ (3,563,634)

As of 2017, KEPCo is no longer under this method of amortization and is in compliance with accounting principles generally accepted in the United States of America.

(4) Investments in Associated Organizations

At December 31, 2017 and 2016, investments in associated organizations consisted of the following:

	2017	2016
National Utilities Cooperative Financial Corporation		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Patronage capital certificates	2,095,294	1,831,901
Equity term certificates	9,278,791	9,323,474
Total NUCFC	11,771,055	11,552,345
Other	317,280	306,626
Total investments in associated organizations	$ 12,088,335	$ 11,858,971

Notes to Consolidated Financial Statements

(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 WCNOC. 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 $0.4 million and $2.8 million in 2017 and 2016, respectively. The current year amortization of the deferred incremental outage costs was $2.1 million and $2.4 million in 2017 and 2016, 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) Southwest Power Pool Charges

During 2016, KEPCo was assessed historical charges in the amount of $2,442,488 from Southwest Power Pool related to the Z2 billing issue for generation system upgrades from 2008-2016. The total amount of historical charges was paid in October 2016, and will be amortized over a five year period, ending October 2021. Balance as of December 31, 2017 and 2016 was $1,831,866 and $2,320,364, respectively. Accumulated amortization as of December 2017 and 2016 was $610,622 and $122,124, respectively.

(7) Line of Credit

At December 31, 2017, 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, 2017 or 2016. Interest rate options, as selected by KEPCo, are a weekly quoted variable rate in which CoBank establishes a rate on the first business day of each week or a LIBOR option at a fixed rate equal to LIBOR plus 1.6%. This line of credit expires July 31, 2018.

As of December 31, 2017, KEPCo has a $20 million line of credit available with the CFC. There were no funds borrowed against the line of credit at December 31, 2017. The line of credit requires KEPCo to pay down the balance to zero within 36 months of the effective date. The interest rate varies and was 2.75% at December 31, 2017. This line of credit expires on March 03, 2020.

(8) Long-Term Debt

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

	2017	2016
Mortgage notes payable to the FFB at fixed rates varying from .818% to 6.00%, payable in quarterly installments through 2043	$ 68,402,358	$ 65,406,702
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	-	3,240,000
Note payable to CoBank at a rate of 3.03%, payable in quarterly installments through 2023	738,760	866,802
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 3.25% to 7.50%, payable quarterly through 2045	91,616,213	93,149,181
	160,757,331	162,662,685
Less current maturities	(8,460,122)	(11,129,805)
	$ 152,297,209	$ 151,532,880

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

2018	$ 8,460,122
2019	8,909,621
2020	9,056,719
2021	8,133,840
2022	8,281,681
Thereafter	117,915,348
	$ 160,757,331

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 RUS. KEPCo was in compliance with such restrictive covenants as of December 31, 2017 and 2016.

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, 2017 and 2016.

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, 2016, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $186,800.

Until the termination date, KEPCo was exposed to possible credit loss in the event of noncompliance by the counterparty to the swap agreement. However, KEPCo did not anticipate nonperformance by the counterparty.

The mortgage notes payable were paid off in 2017 in line with the agreement.

(9) Benefit Plans

National Rural Electric Cooperative Association (NRECA) Retirement and Security Program
KEPCo participates in the NRECA Retirement and Security Program (RS Plan) for its employees. The NRECA 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 plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

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

KEPCo's contributions to the RS Plan in 2017 and 2016 represented less than 5 percent of the total contributions made to the plan by all participating employers. KEPCo made contributions to the RS Plan of $490,000, and $470,000, for the years ended December 31, 2017 and 2016, respectively. There have been no significant changes that affect the comparability of 2017 and 2016 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, 2017 and over 80 percent funded on January 1, 2016 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.

At the December 2012 meeting of the Insurance and Financial Services Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to the January 1st of the year in which the amount is paid to the RS Plan.

Notes to Consolidated Financial Statements

The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

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 $120,000 to the plan for each of the years ended December 31, 2017 and 2016.

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.

Notes to Consolidated Financial Statements

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	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 29,237,240	$ 26,351,186	$ 921,124	$ 994,854
Service cost	995,723	861,508	18,668	16,209
Interest cost	1,263,807	1,232,522	35,708	41,529
Plan participants' contributions	-	-	139,866	126,206
Benefits paid	(1,069,863)	(890,285)	(207,201)	(195,427)
Actuarial losses (gains)	2,990,128	(857,971)	(12,580)	(62,247)
Benefit obligations, end of year	33,417,035	26,696,960	895,585	921,124
Change in plan assets:				
Fair value of plan assets, beginning of year	17,704,794	15,526,150	2,193	13,370
Actual return on plan assets	3,198,260	1,144,696	5,923	(456)
Employer contributions	1,537,920	1,891,919	59,552	58,500
Plan participants' contributions	-	-	139,866	126,206
Benefits paid	(1,037,549)	(857,971)	(207,201)	(195,427)
Fair value of plan assets, end of year	21,403,425	17,704,794	333	2,193
Funded status, end of year	$ (12,013,610)	$ (11,532,445)	$ (895,252)	$ (918,931)

Amounts recognized in the consolidated balance sheets:

	2017	2016
Other long-term liabilities		
WCNOC pension and postretirement benefit plans	$ 12,908,862	$ 12,451,376
WCNOC provision for injuries	18,000	18,000
Total other long-term liabilities	$ 12,926,862	$ 12,469,376

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Net (loss)/gain	$ (8,972,567)	$ (8,466,849)	$ 95,536	$ 83,474
Prior service cost	(49,856)	(56,927)	-	-
	$ (9,022,423)	$ (8,523,776)	$ 95,536	$ 83,474

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Projected benefit obligation	$33,417,035	$29,237,239	$ 895,585	$ 921,124
Accumulated benefit obligation	$29,346,792	$25,782,492	$ -	$ -
Fair value of plan assets	$21,403,425	$17,704,794	$ 333	$ 2,193

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Discount rate	3.73/3.63%	4.26%	3.56%	3.95%
Annual salary increase rate	4.00%	4.00%	N/A	N/A

WCNOC 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	
	2017	2016	2017	2016
Components of net periodic cost (benefit):				
Service cost	$ 995,723	$ 861,508	$ 18,669	$ 16,209
Interest cost	1,263,807	1,232,522	35,709	41,529
Expected return on plan assets	(1,349,514)	(1,241,172)	-	-
Amortization:				
Transition obligation, net	-	-	-	-
Prior service cost	7,071	7,071	-	-
Actuarial loss, net	635,663	556,200	(6,441)	(1,850)
Net periodic cost	1,552,750	1,416,129	47,937	55,888
Other changes in plan obligations recognized in other comprehensive income:				
Current year actuarial loss (gain)	1,141,381	1,778,784	(18,503)	(61,791)
Amortization of actuarial loss	(635,663)	(556,200)	6,441	1,850
Amortization of prior service cost	(7,071)	(7,071)	-	-
Amortization of transition obligation	-	-	-	-
Total recognized in other comprehensive income	498,647	1,215,513	(12,062)	(59,941)
Total recognized in net periodic cost and other comprehensive income	$ 2,051,397	$ 2,631,642	$ 35,875	$ (4,054)
Weighted average actuarial assumptions used to determine net periodic cost:				
Discount rate	4.26/4.06%	4.61%	3.95%	4.27%
Expected long term return on plan assets	7.25%	7.25%	N/A	N/A
Compensation rate increase	4.00%	4.00%	N/A	N/A

KEPCo estimates they will amortize the following amounts into net periodic cost in 2018:

	Pension Benefits	Postretirement Benefits
Actuarial loss	$ 850,889	$ (7,354)
Prior service cost	7,071	-
Total	$ 857,960	$ (7,354)

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:

	2017	2016
Health care cost trend rate assumed for next year	6.00%	6.50%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2020	2020

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	$ (1,156)	$ 1,253
Effect on post-retirement benefit obligation	$ (16,058)	$ 18,155

WCNOC 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. WCNOC 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 are instructed to diversify investments across asset classes, sectors and manager styles to minimize the risk of large losses, based upon objectives and risk tolerance specified by WCNOC, which include allowable and/or prohibited investment types. It measures and monitors investment risk on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

The target allocations for WCNOC's pension plan assets are 31% to international equity securities, 25% to domestic equity securities, 25% to debt securities, 10% to real estate securities, 5% to commodity investments and 4% to other investments. The investments in both international and domestic equity include investments in large-, mid- and small-cap companies and investment funds with underlying investments similar to those previously mentioned. The investments in debt include core and high-yield bonds. Core bonds include funds invested in investment grade debt securities of corporate entities, obligations of U.S. and foreign governments and their agencies and 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 WCNOC's pension plan assets are recorded at fair value using daily net asset values as reported by the trustee.

Similar to other assets measured at fair value, accounting principles generally accepted in the United Stated of America establish 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 WCNOC pension trust may buy and sell investments resulting in changes within the hierarchy. Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash equivalents, 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. Investments that do not have a readily determinable fair value are measured at net asset value (NAV). These investments do not consider the observability of inputs; therefore, they are not included within the fair value hierarchy. We include investments in private equity, real estate and alternative investment funds that do not have a readily determinable fair value in this category. The underlying alternative investments include collateralized debt obligations, mezzanine debt, and a variety of other investments.

The following table provides the fair value of KEPCo's 6% share of WCNOC's pension plan assets and the corresponding level of hierarchy as of December 31, 2017 and 2016:

		Fair Value Measurements Using		
December 31, 2017	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	$ 89,726	$ -	$ 89,726	$ -
Equity securities				
U.S.	5,539,932	-	5,539,932	-
International	6,700,267	-	6,700,267	-
Debt securities				
Core bonds	5,400,490	-	5,400,490	-
Alternative investments	2,168,621		2,168,621	-
Total	$ 19,899,036	$ -	$ 19,899,036	$ -
Investments measured at NAV	1,504,389			
Total	$ 21,403,425			

		Fair Value Measurements Using		
December 31, 2016	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	$ 76,575	$ -	$ 76,575	$ -
Equity securities				
U.S.	4,415,136	-	4,415,136	-
International	5,523,744	-	5,523,744	-
Debt securities				
Core bonds	4,474,271	-	4,474,271	-
Alternative investments	1,796,594	-	1,796,594	-
Total	$ 16,286,320	$ -	$ 16,286,320	$ -
Investments measured at NAV	1,418,474			
Total	$ 17,704,794			

Estimated future benefit payments as of December 31, 2017, 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:				
2018	$ 1,140,000	$ -	$ 72,042	$ -
Expected benefit payments:				
2018	$ 1,027,559	$ 35,133	$ 254,469	$ -
2019	1,149,331	36,975	291,676	-
2020	1,268,283	38,114	333,005	-
2021	1,382,726	38,348	370,536	-
2022	1,497,282	38,715	406,778	-
2023-2027	9,026,695	236,688	2,511,925	-

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

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

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

Letter of Credit - KEPCo has an open letter of credit with the CFC in the amount of $1,500,000 which matures May 23, 2018. 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 2025 by the Energy Policy Act of 2005, KEPCo insures against public liability claims resulting from nuclear incidents to the current limit of public liability, which is approximately $13.4 billion. This limit of liability consists of the maximum available commercial insurance of $450.0 million and the remaining $13.0 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 WCNOC are jointly and severally subject to an assessment of up to $127.3 million (KEPCo's share is $7.64 million), payable at no more than $19.0 million (KEPCo's share is $1.14 million) per incident per year per reactor for any nuclear plant in the U.S. industry. Both the total and yearly assessment is subject to an inflationary adjustment every five years with the next adjustment in 2018.

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

The owners also carry additional insurance with Nuclear Electric Insurance Limited (NEIL) to help cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, the owners may be subject to retrospective assessments under the current policies of approximately $36.8 million (KEPCo's share is $2.21 million) in 2017 and $37.5 million (KEPCo's share is $2.25 million) in 2016.

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

Decommissioning Insurances - KEPCo carries premature decommissioning insurance that has several restrictions, one of which can only be used if WCNOC incurs an accident exceeding $500 million in expenses to safely stabilize the reactor, to decontaminate the reactor and reactor station site in accordance with a plan approved by the 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 WCNOC exceeds $500 million in covered damages and causes WCNOC to be prematurely decommissioned.

Nuclear Fuel Commitments - At December 31, 2017, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $1.7 million for uranium concentrates, $10.9 million for conversion, $8.9 million for enrichment, and $4.0 million for fabrication, all expiring at various times from 2023 through 2025.

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 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, 2017:

		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	$ 14,485,582	$ 14,485,582	$ -	$ -
International fund	1,851,758	1,851,758	-	-
Domestic bond fund	8,938,139	8,938,139	-	-
Money market	227,125	227,125	-	-
Total	$ 25,502,604	$ 25,502,604	$ -	$ -

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2016:

		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	$ 11,909,616	$ 11,909,616	$ -	$ -
International fund	1,468,769	1,468,769	-	-
Domestic bond fund	7,670,901	7,670,901	-	-
Money market	613,621	613,621	-	-
Total	$ 21,662,907	$ 21,662,907	$ -	$ -

(12) Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were 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 2017 and 2016.

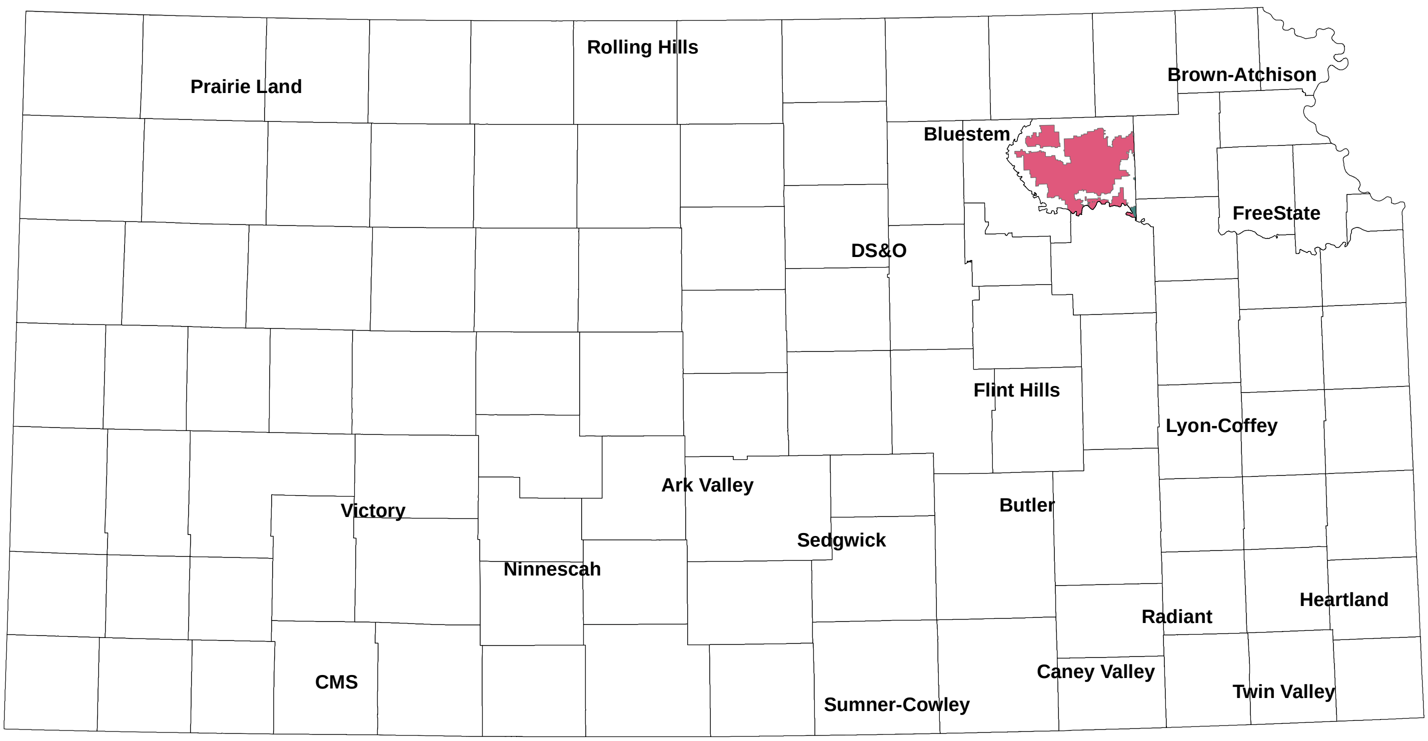
(13) Subsequent Events

The Company has evaluated subsequent events through April 13, 2018, 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
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A Touchstone Energy® Cooperative

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