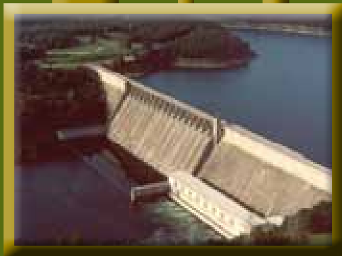


2008 Annual Report

KEPCo

Kansas Electric Power Cooperative, Inc.

A Touchstone Energy® Cooperative

Contents

KEPCo Staff

Stephen Parr .... Executive Vice President & Chief Executive Officer

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

Bob Bowser .... Vice President of Regulatory & Technical Services

Les Evans.................. Vice President of Power Supply

J. Michael Peters .... Vice President of Administration & General Counsel

Coleen Wells ... Vice President of Finance & Controller

Laura Armstrong ....Administrative Assistant

Sam Delap.................... Information System Specialist

Terry Deutscher .... EMS/SCADA System Specialist

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

Robert Hammersmith ...SCADA/Metering Technician 2

Shari Koch ... Accounting, Payroll & Benefits Specialist

Elizabeth Lesline ....Administrative Assistant/ Receptionist

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

Michael Morris ....Sr. SCADA/Metering Technician

Erika Old.........................Finance & Benefits Analyst 2

Matt Ottman... Engineer 3

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

Robert Peterson .... Sr. Engineering Technician

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

Paul Stone ....System Operator

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

Organization & Resources

Kansas Electric Power Cooperative, Inc. (KEPCo), headquartered at 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, rate design, etc.

KEPCo is governed by a Board of Trustees representing each of its nineteen Members which collectively serve more than 115,000 electric meters in two-thirds of rural 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 is under the jurisdiction of the Kansas Corporation Commission (KCC) and was granted a limited certificate of convenience and authority 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; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration, and 14 MW from the Western Area Power Administration; plus partial requirement power purchases from regional utilities.

KEPCo is a Touchstone Energy® Cooperative. Touchstone Energy® is a nationwide alliance of more than 650 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

2008 Message

from

Kenneth J. Maginley
KEPCo President

Stephen E. Parr
Executive Vice President
& Chief Executive Officer


Mr. Maginley and Mr. Parr

A probable consensus of industry and individuals alike would be that 2008 was a year that is best forgotten, but unfortunately, will be remembered for decades to come. Climate concerns, stock market decline, credit tightening, rising unemployment, housing crisis, and bailouts were issues that enveloped our great country in a cloak of fear and despair.

The new administration in Washington, D.C. has a daunting task over the next four years to chart a course that leads the nation back to prosperity. Measures were taken by Congress to shore-up several companies whose financial failure could have precipitated a global economic catastrophe. However, the other maladies plaguing the U.S. and global economies appear to be deeply entrenched and from all indications, will continue to be so for a protracted period of time.

KEPCo has been able to shield itself from the hardships facing many companies and industries. The availability of credit has substantially tightened and the cost of capital has dramatically increased, causing pause for companies considering capital investment projects. In addition, the valuations of many publicly-traded companies have been adversely impacted as well, thus making it even more difficult to access capital. As a not-for-profit membership corporation, KEPCo does not have stockholders or a relationship with Wall Street. KEPCo continues to have access to affordable capital through Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Finance Corporation. The access to affordable capital has been a key component in KEPCo's ability to keep rates stable for over two decades.

A carbon constrained world appears to be the future. Much speculation and anxiety surrounds the enactment of a cap and trade policy by Congress as an effort to reduce carbon dioxide and other greenhouse gas emissions. The enactment of such a policy has the potential to raise energy prices substantially. Many utilities have an eighty-five to one hundred percent exposure to greenhouse gas emitting resources, comprised primarily of coal and natural gas. KEPCo is in a unique position regarding efforts to reduce carbon emissions. Approximately fifty percent of KEPCo's generation resources, Wolf Creek and hydroelectric power through SWPA and WAPA, do not emit any greenhouse gases. As such, KEPCo's greenhouse gas exposure will only be on the purchase power agreements it has with area utilities, thus substantially softening the economic impact of any cap and trade or carbon tax policy to KEPCo's Member Cooperatives and their respective Members.

Increases in purchased power costs, as well as operations and maintenance costs, predicated the need for

KEPCo to file for a rate increase in late 2007. In June 2008, KEPCo reached a settlement with the Kansas Corporation Commission (KCC), without a formal hearing. The KCC granted KEPCo a 5.2% increase which will enable KEPCo to continue to meet its mortgage obligations with RUS and to remain in a solid financial state.

For over two years, KEPCo worked diligently with Westar Energy, Inc. on a thirty-eight year Purchase Power Agreement (PPA). In August 2007, KEPCo and Westar agreed upon the terms of the contract and filed the contract with FERC for approval. Subsequent negotiations with numerous parties continued through September 2008 when a settlement was filed with FERC. The formula-based PPA follows the actual cost to supply energy rather than a market-based pricing of energy. Once approved, the new contract will enable KEPCo and its Members access to Westar's existing low-cost generating resources and mitigate the risk of being vulnerable to price fluctuations in the open market.

In November, the Wolf Creek Nuclear Operating Corporation received a twenty-year license extension to 2045 from the Nuclear Regulatory Commission for the continued operation of the Wolf Creek Nuclear Generating Station in Burlington, KS. Wolf Creek came on line in 1985 and has been a cornerstone in providing safe, reliable, economical energy for KEPCo's Member Cooperatives. This license extension is invaluable to KEPCo's continued mission of providing reliable energy at a reasonable price.

2008-09 KEPCo Executive Committee (seated): Scott Whittington; Larry Stevens; Robert Reece; (standing) Stephen Parr, Executive Vice President & CEO; Kenneth Maginley, President; Kirk Thompson, Vice President; Dale Short,Secretary; and Kevin Compton, Treasurer.

Construction of Iatan 2 continues to progress and is on schedule for commercial operation the summer of 2010. Iatan 2 will be a state of the art, high efficiency coal plant utilizing the latest clean coal technology for environmental controls. KEPCo's 30 MW ownership of the plant will be an additional resource in ensuring a continued reliable, economical, and diversified power supply portfolio for KEPCo's Members.

Sales and earnings for companies around the world continue to disappoint, as evidenced in the U.S. by poor GDP numbers. The economy in Kansas started to mirror the rest of the nation in the third and fourth quarters. KEPCo witnessed a slowing of ethanol production, a tightening of discretionary spending, and an impetus towards energy efficiency. Even with the economic and lifestyle changes that have been exhibited, KEPCo's energy sales continue to show an upward trend, increasing four percent over 2007. KEPCo attributes this trend to the continued demand of consumer electronic products, the change from natural gas as the fuel of choice for heating, both home and water, to electricity, and the change from natural gas-fired irrigation to electricity.

Another relatively mild summer, as was the case in 2007, caused peak demand to remain steady at 407.6

Continued on page 12

2008 KEPCo Highlights

After receiving a lien accommodation from RUS, KEPCo finalized a $75 million long-term loan from CFC to finance KEPCo's 30 MW share of Iatan 2. The ownership participation in Iatan 2 is a key component in KEPCo's energy resource mix. In a time of market uncertainty and market-based energy prices, the opportunity to own an economical and reliable generation resource is of tremendous value.


North view of Iatan 2 under construction

In August, a settlement on KEPCo's new long-term power purchase agreement with Westar Energy was filed at FERC. Implementation of this new, cost-based contract is anticipated in 2009.

KEPCo received a record amount of hydroelectric power, saving Members an estimated $4 million.


Kansas House of Representatives honors WCNOC's license extension with House Resolution

In September, KEPCo implemented new rates, including a purchased power demand adjuster, through a successful rate case filing with the Kansas Corporation Commission (KCC).

Wolf Creek Nuclear Generating Station continues to be a safe and economical resource for KEPCo's Members and has run continuously since completing refueling outage 16 in the spring of 2008. In November, WCNOC received a twenty-year license extension to 2045 from the NRC.

KEPCo continues to actively support SPP's efforts to assure adequate transmission is available in Kansas and successfully obtained approval from the SPP for firm long-term transmission service for Member load in the Aquila North (MKEC) service territory.

KEPCo continues to fund and assist Members in the promotion of an energy efficient electric water heater and heating/cooling system rebate program. Since inception, KEPCo has issued over 5,500 heating/cooling rebates and over 14,000 water heater rebates.

Kansas electric cooperative representatives with Senator Pat Roberts

KEPCo continues to work diligently with KEC and Sunflower on legislative issues in Kansas and in Washington, D.C. KEPCo testified on numerous pieces of legislation in 2008 and tracked several House and Senate bills. In Washington, D.C., KEPCo participated in the NRECA Legislative Conference.

Mr. Russ Wasson, NRECA, conducts financial retreat for KEPCo Trustees

KEPCo conducted a retreat for KEPCo Trustees that focused on the financial challenges facing the electric utility industry and KEPCo.

Four projects were selected by USDA for REDLG funding. The total combined project costs equal $8,030,102 with $2,072,200 being zero interest financing. These four projects created sixty-one new jobs.

KEPCo continues to support critical energy issues in the state through appointments by the Governor to special working groups and boards such as the Kansas Electric Transmission Authority and the Kansas Wind Working Group.

KSI Engineering assisted several cooperatives with ice storm damage assessments and FEMA reporting procedures.

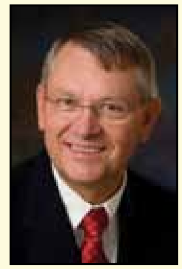
KEPCo Staff worked safely with no lost time or recordable accidents.

KSI Engineering Staff assess ice storm damage

KEPCo Member Cooperatives Trustees, Alternates and Managers

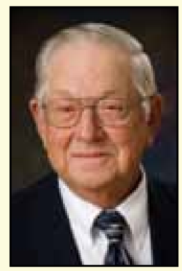

Joseph Seiwert

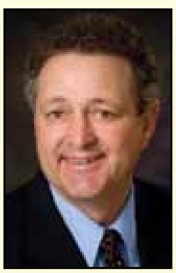
Ark Valley Electric Cooperative Assn., Inc.
PO Box 1246, Hutchinson, KS 67504
620-662-6661
Trustee Rep. -- Joseph Seiwert
Alternate Trustee Rep. -- Bob Hall
Manager -- Bob Hall


Bob Hall

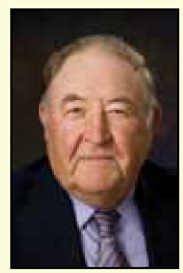

Ken Maginley

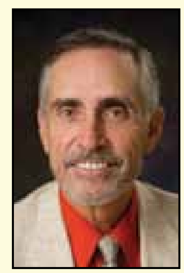
Bluestem Electric Cooperative, Inc.
PO Box 5, Wamego, KS 66547 785-456-2212
PO Box 513, Clay Center, KS 67432 785-632-3111
Trustee Rep. -- Kenneth J. Maginley
Alternate Trustee Rep. -- Robert M. Ohlde
Manager -- Kenneth J. Maginley

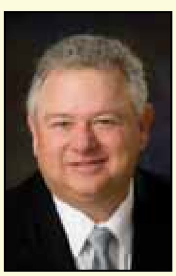

Bob Ohlde


Kevin Compton

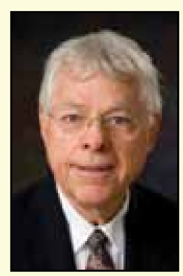
Brown-Atchison Electric Cooperative Assn., Inc.
PO Box 230, Horton, KS 66439 785-486-2117
Trustee Rep. -- Kevin D. Compton
Alternate Trustee Rep. -- Dale Bodenhausen
Manager -- Rodney V. Gerdes

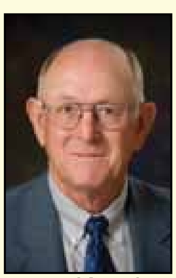

Dale Bodenhausen


Rod Gerdes

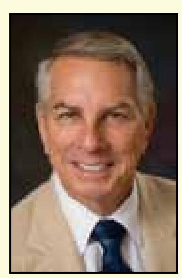

Dale Short

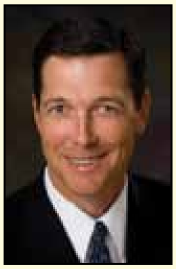
Butler Rural Electric Cooperative Assn., Inc.
PO Box 1242, El Dorado, KS 67042 316-321-9600
Trustee Rep. -- Dale Short
Alternate Trustee Rep. -- Richard Pearson
Manager -- Dale Short


Richard Pearson

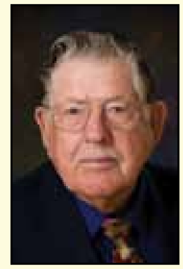

Dwane Kessinger

Caney Valley Electric Cooperative Assn., Inc.
PO Box 308, Cedar Vale, KS 67024 620-758-2262
Trustee Rep. -- Dwane Kessinger
Alternate Trustee Rep. -- 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 Rep. -- Clifford Friesen
Manager -- Kirk A. Thompson


Cliff Friesen

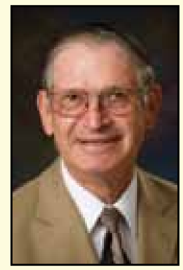

Harlow Haney

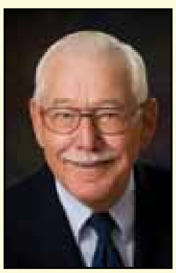
DS&O Rural Electric Cooperative Assn., Inc.
PO Box 286, Solomon, KS 67480 785-655-2011
Trustee Rep. -- Harlow L. Haney
Alternate Trustee Rep. -- Donald E. Hellwig
Manager -- Donald E. Hellwig


Don Hellwig

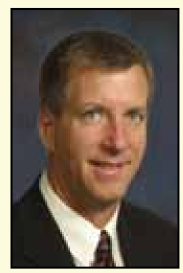

Bob Reece

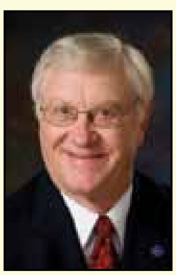
Flint Hills Rural Electric Cooperative Assn., Inc.
PO Box B, Council Grove, KS 66846 620-767-5144
Trustee Rep. -- Robert E. Reece
Alternate Trustee Rep. -- Gus H. Hamm
Manager -- Robert E. Reece


Gus Hamm

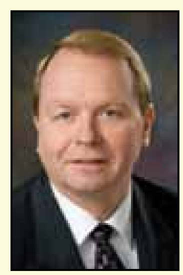

Dennis Peckman

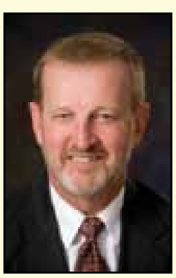
Heartland Rural Electric Cooperative, Inc.
PO Box 40, Girard, KS 66743 620-724-8251
Trustee Rep. -- Dennis Peckman
Alternate Trustee Rep. -- Dale Coomes
Manager -- Dale Coomes


Dale Coomes

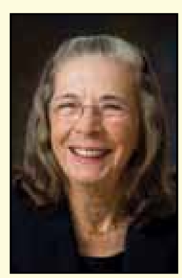

Larry Stevens

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

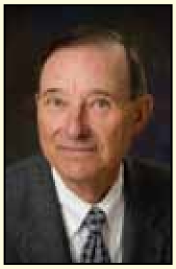

Steven Foss


Scott Whittington

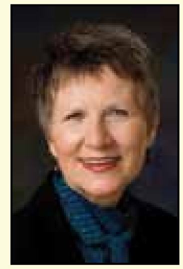
Lyon-Coffey Electric Cooperative, Inc.
PO Box 229, Burlington, KS 66839 620-364-2116
Trustee Rep. -- Scott Whittington
Alternate Trustee Rep. -- Donna Williams
Manager -- Scott Whittington

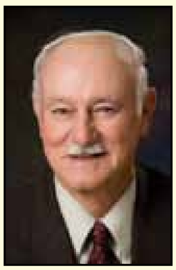

Donna Williams

KEPCo Member Cooperatives Trustees, Alternates and Managers

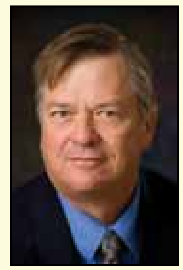

Gordon Coulter

Ninnescah Electric Cooperative Assn., Inc.
PO Box 967, Pratt, KS 67124   620-672-5538
Trustee Rep. -- Gordon Coulter
Alternate Trustee Rep. -- Carla A. Bickel
Manager -- Carla A. Bickel


Carla Bickel

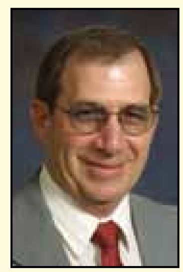

Gilbert Berland

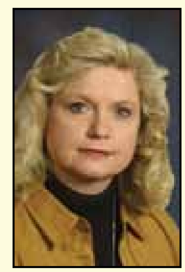
Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
Trustee Rep. -- Gilbert Berland
Alternate Trustee Rep. -- Allan J. Miller
Manager -- Allan J. Miller

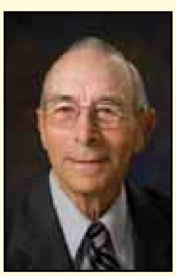

Allan Miller


Dennis Duft

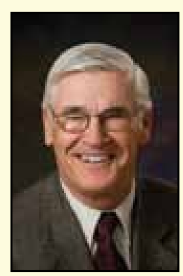
Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736 620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee Rep. -- Tom Ayers
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft

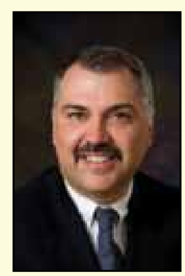

Tom Ayers

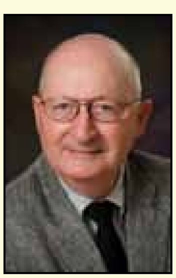

Leah Tindle


Melroy Kopsa

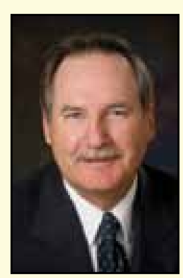
Rolling Hills Electric Cooperative, Inc.
PO Box 307, Mankato, KS 66956 785-378-3151
District Offices, Belleville 785-527-2251
Ellsworth 785-472-4021
Trustee Rep. -- Melroy Kopsa
Alternate Trustee Rep. -- Leon Eck
Manager -- Douglas J. Jackson


Leon Eck


Doug Jackson

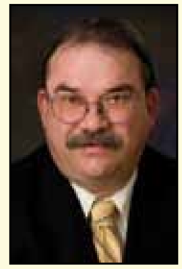

Donald Metzen

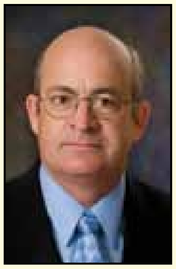
Sedgwick County Electric Cooperative Assn., Inc.
PO Box 220, Cheney, KS 67025 316-542-3131
Trustee Rep. -- Donald Metzen
Alternate Trustee Rep. -- Alan L. Henning
Manager -- Alan L. Henning


Alan Henning


Charles Riggs

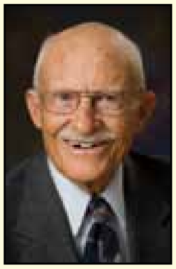
Sumner-Cowley Electric Cooperative, Inc.
PO Box 220, Wellington, KS 67152 620-326-3356
Trustee Rep. -- Charles Riggs
Alternate Trustee Rep. -- Cletas Rains
Manager -- Cletas Rains


Cletas Rains

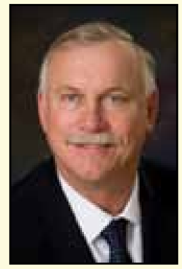

Bryan Coover

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

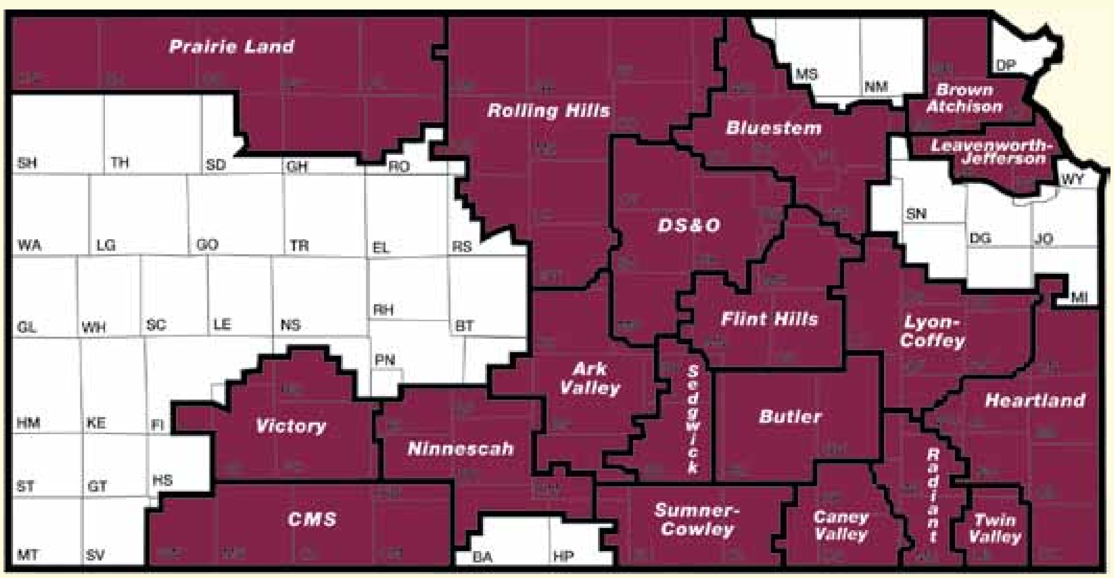

Ron Holsteen


Marvin Hampton

Victory Electric Cooperative Assn., Inc.
PO Box 1335, Dodge City, KS 67801 620-227-2139
Trustee Rep. -- Marvin Hampton
Alternate Trustee Rep. -- Terry Janson
Manager -- Terry Janson

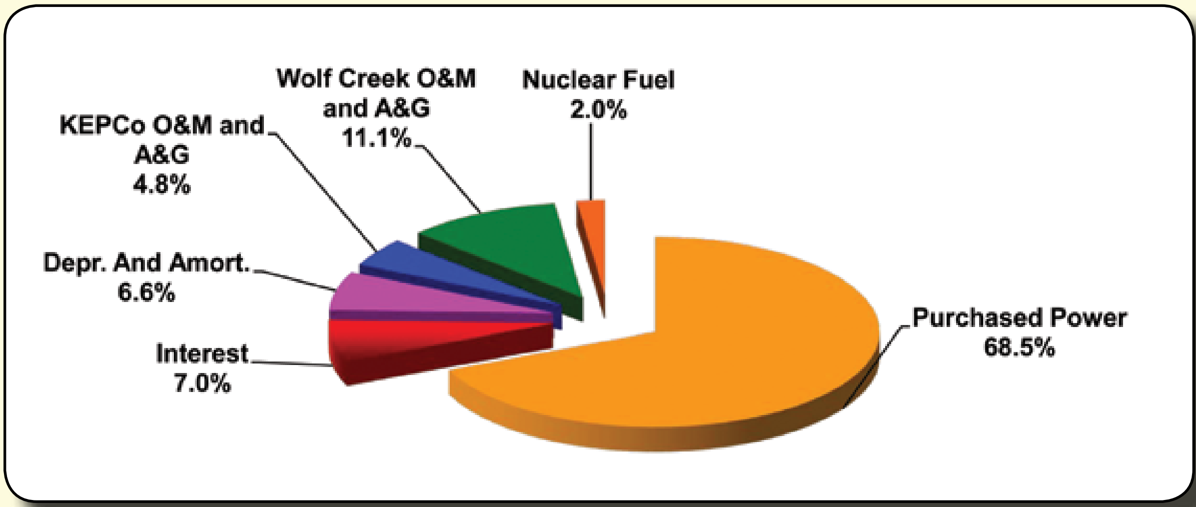

Terry Janson

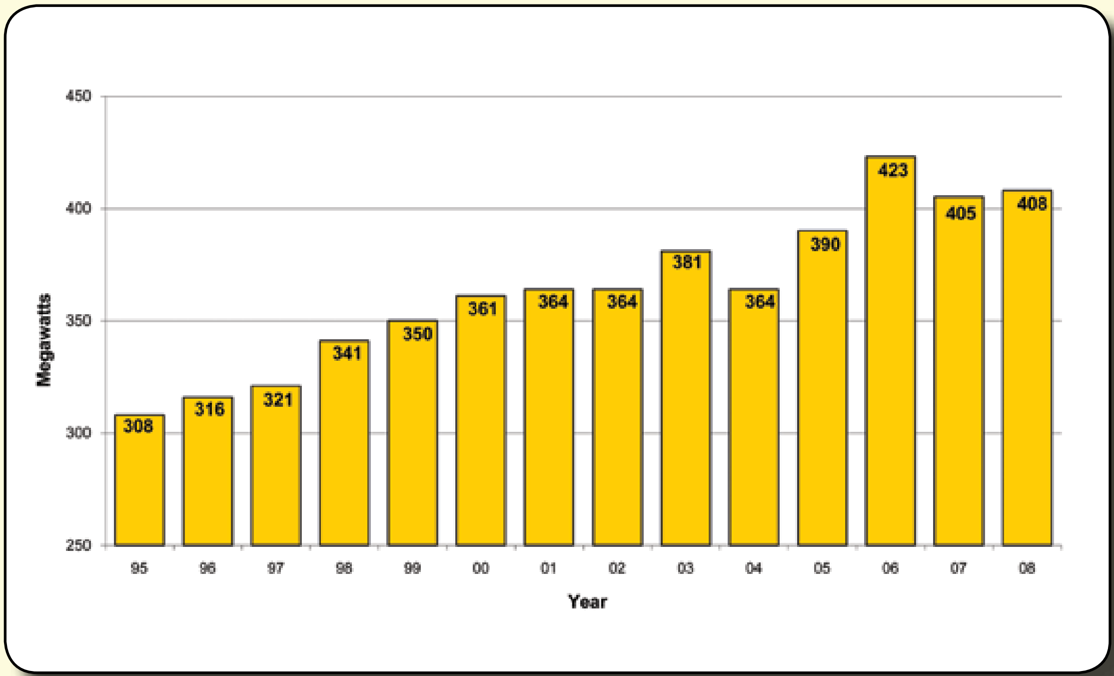
KEPCo Member Area Map



Operating Statistics

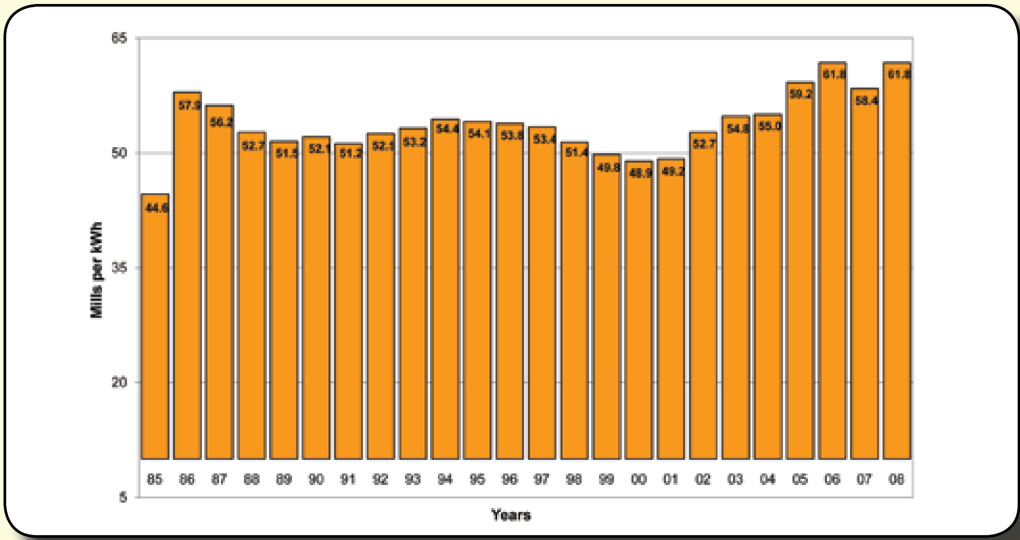
Operating Expenses



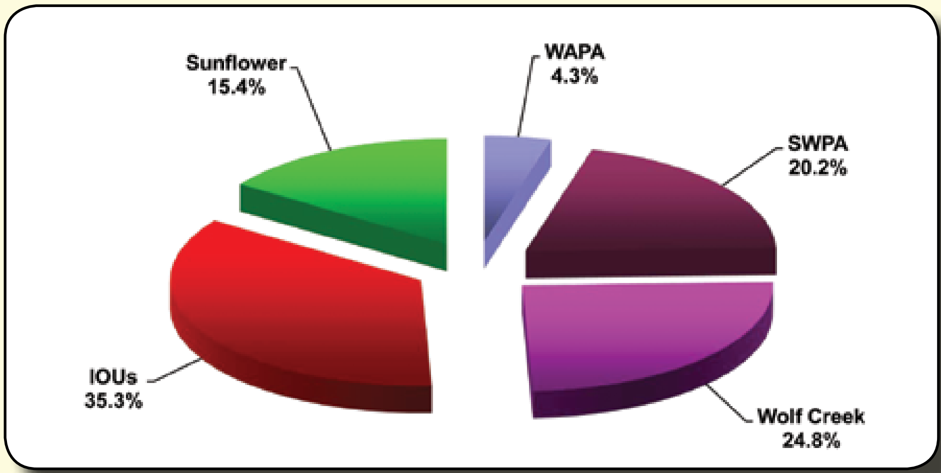


Peak Demand

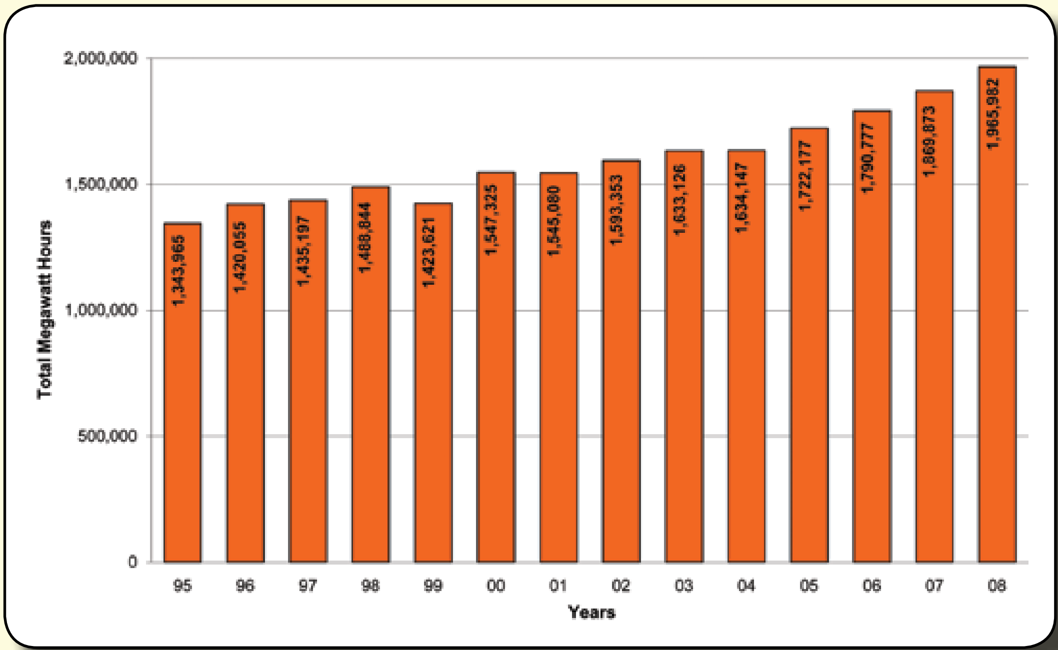
Rates



Sources of Energy



Energy Sales



2008 Message

Continued from page 3

MW. KEPCo's load management program is critical in controlling peak demand. Implemented in 1990, KEPCo's load management program has saved its Membership millions of dollars since inception. This year was another successful year in that KEPCo was able to shed 30 MW of peak load, which saved its Members approximately $1.78 million.

In late December 2007, the state of Kansas experienced a devastating ice storm, affecting sixteen of KEPCo's nineteen Member Cooperatives and causing $300 million in damage. KSI Engineering (KSI), a wholly-owned subsidiary of KEPCo, assisted the affected cooperatives by assessing the damage to their facilities and preparing an engineering study that recommended appropriate repairs and/or replacements. As a result of difficulties in obtaining FEMA funding for the recommended permanent repairs, KSI's efforts transitioned to working with other stakeholders to educate FEMA on the extent of the damage, its impact on the electrical facilities, and developing a method to determine when electrical conductor is no longer suitable for continued service. KSI is confident these efforts will result in a national FEMA policy statement with regard to conductor repair/replacement as well as a revision to the FEMA project worksheets for the electric cooperatives affected by this disaster that is consistent with KSI's original repair/replacement recommendations.

The state of new base load generation in Kansas remains clouded. In mid-December, the Kansas Department of Health and Environment's decision to deny the issuance of an air permit to Sunflower Electric Power Corporation for the expansion of their Holcomb facility with two additional coal-fired generating units was upheld in an administrative appeal. Depending upon the outcome of potential judicial and legislative recourse, and the position the new administration in Washington, D.C. takes on coal-fired facilities, the future of new coal-fired generation in Kansas remains uncertain.

Before closing, the Board of Trustees deserves a special thank you for their vision and hard work during the past year. In addition, it has been a very challenging year for KEPCo staff who have done a remarkable job meeting the special project demands of 2008 while accomplishing the more familiar responsibilities necessary to run a utility.

KEPCo's long standing commitment to its Member Cooperatives and the communities they serve provides a solid foundation for meeting future challenges. The utility industry is in an era where energy decisions will be dictated more by environmental policy than by an integrated energy policy. Environmental regulation and the emphasis being placed upon renewable resources will shape the industry's generation and fuel choices in coming decades. Environmental regulation and subsequent standards will result in additional capital investment by the industry. KEPCo vows to work diligently to ensure that any climate change policy includes a well-considered strategy for electric-generating utilities and provides KEPCo as low a cost of carbon compliance possible.

Kenneth J. Maginley

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Independent Accountants' Report

Board of Trustees
Kansas Electric Power Cooperative, Inc.
Topeka, Kansas

We have audited the accompanying consolidated balance sheets of Kansas Electric Power Cooperative, Inc. (KEPCo) as of December 31, 2008 and 2007, and the related consolidated statements of margin, patronage capital and cash flows for the years then ended. These financial statements are the responsibility of KEPCo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained in *Note 3*, certain depreciation and amortization methods have been used in the preparation of the 2008 and 2007 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 financial statements of the aforementioned departure are explained in *Note 3*.

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 above present fairly, in all material respects, the financial position of Kansas Electric Power Cooperative, Inc., as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 12*, in 2008 KEPCo changed its method for accounting for fair value measurement in accordance with Statement of Financial Accounting Standards No. 157.

As discussed in *Note 10*, KEPCo adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2007.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 8, 2009, 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* and should be considered in assessing the results of our audit.

BKD LLP

April 8, 2009

Kansas Electric Power Cooperative, Inc.
Consolidated Balance Sheets
December 31, 2008 and 2007

Assets	2008	2007
Utility Plant		
In-service	$ 227,579,661	$ 224,863,485
Less allowance for depreciation	(125,525,931)	(122,771,314)
Net in-service	102,053,730	102,092,171
Construction work in progress	42,752,891	19,671,233
Nuclear fuel (less accumulated amortization of $13,923,600 and $15,025,746 for 2008 and 2007, respectively)	7,832,587	7,573,591
Total utility plant	152,639,208	129,336,995
Restricted Assets		
Investments in the National Rural Utilities Cooperative Finance Corporation	6,897,319	5,466,712
Bond fund reserve	4,321,172	4,348,709
Decommissioning fund	8,212,742	10,185,163
Investments in other associated organizations	176,430	164,072
Total restricted assets	19,607,663	20,164,656
Current Assets		
Cash and cash equivalents	634,108	6,132,774
Member accounts receivable	10,587,979	8,787,049
Materials and supplies inventory	3,245,861	3,123,051
Other assets and prepaid expenses	605,181	593,671
Total current assets	15,073,129	18,636,545
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $12,635,061 and $11,877,898 for 2008 and 2007, respectively)	13,347,860	14,105,023
Wolf Creek deferred plants costs (less accumulated amortization of $21,909,437 and $18,779,517 for 2008 and 2007, respectively)	25,039,356	28,169,276
Wolf Creek decommissioning regulatory asset	7,354,075	4,247,845
Deferred incremental outage costs	3,352,986	1,092,847
Other deferred charges (less accumulated amortization of $7,305,536 and $6,826,077 for 2008 and 2007, respectively)	2,578,448	3,098,957
Unamortized debt issuance costs	619,634	734,861
Other investments	311,587	282,415
Total long-term assets	52,603,946	51,731,224
Total assets	$ 239,923,946	$ 219,869,420

Kansas Electric Power Cooperative, Inc.

Consolidated Balance Sheets

December 31, 2008 and 2007

Liabilities and Patronage Capital	2008	2007
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage capital	27,667,321	22,194,144
Accumulated other comprehensive loss	(5,684,416)	(3,120,448)
Total patronage capital	21,986,105	19,076,896
Long-term Debt	152,657,243	154,387,397
Other Long-term Liabilities		
Wolf Creek decommissioning liability	18,384,841	17,328,228
Wolf Creek pension and post retirement benefit plans	8,066,633	5,409,857
Wolf Creek deferred compensation	749,074	718,868
Arbitrage rebate long-term liability	811,354	660,863
Other deferred credits	16,277	16,643
Total other long-term liabilities	28,028,179	24,134,459
Current Liabilities		
Line of credit	13,178,203	–
Current maturities of long-term debt	13,159,154	11,950,139
Accounts payable	8,914,587	8,292,006
Payroll and payroll-related liabilities	313,735	304,110
Accrued property taxes	1,364,953	1,317,434
Accrued interest payable	321,787	406,979
Total current liabilities	37,252,419	22,270,668
Total patronage capital and liabilities	$ 239,923,946	$ 219,869,420

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Margin

December 31, 2008 and 2007

	2008	2007
Operating Revenues		
Sales of electric energy	$ 121,527,329	$ 109,228,388
Other	89,422	111,383
Total operating revenues	121,616,751	109,339,771
Operating Expenses		
Power purchased	80,023,770	69,728,597
Nuclear fuel	2,296,326	2,745,855
Plant operations	9,338,897	9,289,461
Plant maintenance	3,477,473	3,312,698
Administrative and general	5,413,479	5,367,620
Amortization of deferred charges	4,443,886	4,483,341
Depreciation and decommissioning	4,208,729	4,117,616
Total operating expenses	109,202,560	99,045,188
Net operating revenues	12,414,191	10,294,583
Interest and Other Deductions		
Interest on long-term debt	7,506,538	8,154,765
Amortization of debt issuance costs	115,227	120,542
Other deductions	71,044	115,567
Total interest and other deductions	7,692,809	8,390,874
Operating income	4,721,382	1,903,709
Other Income		
Interest income	634,867	640,660
Other income	116,928	152,288
Total other income	751,795	792,948
Net margin	$ 5,473,177	$ 2,696,657

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Patronage Capital

December 31, 2008 and 2007

	Comprehensive Income	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2006		$ 3,200	$ 19,497,487	$ –	$ 19,500,687
Net margin	$ 2,696,657	–	2,696,657	–	2,696,657
Defined benefit pension plans					
Actuarial loss	–	–	–	(3,031,867)	(3,031,867)
Prior service cost	–	–	–	(22,769)	(22,769)
Transition obligation	–	–	–	(65,812)	(65,812)
Comprehensive income	$ 2,696,657				
Balance, December 31, 2007		3,200	22,194,144	(3,120,448)	19,076,896
Net margin	$ 5,473,177	–		–	–
Allocation of patronage capital		–	5,473,177	–	5,473,177
Defined benefit pension plans					
Net loss arising during year	(2,793,126)	–	–	(2,793,126)	(2,793,126)
Other	(38,764)	–	–	(38,764)	(38,764)
Less: amortization of prior service costs included in net periodic pension costs	267,922	–	–	267,922	267,922
Comprehensive income	$ 2,909,209				
Balance, December 31, 2008		$ 3,200	$ 27,667,321	$ (5,684,416)	$ 21,986,105

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Cash Flows

December 31, 2008 and 2007

	2008	2007
Operating Activities		
Net margin	$ 5,473,177	$ 2,696,657
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation and amortization	3,794,729	3,683,888
Decommissioning	1,056,613	995,762
Amortization of nuclear fuel	1,811,603	2,104,442
Amortization of deferred charges	4,407,592	4,385,787
Amortization of deferred incremental outage costs	3,893,171	2,810,796
Amortization of debt issuance costs	115,227	120,542
Changes in		
Member accounts receivable	(1,800,955)	(765,716)
Materials and supplies	(122,810)	(139,576)
Other assets and prepaid expenses	(40,657)	25,638
Accounts payable	622,581	333,269
Payroll and payroll-related liabilities	9,625	19,449
Accrued property tax	47,519	(2,441)
Accrued interest payable	(85,192)	(169,584)
Restricted assets	27,537	(52,903)
Other long-term liabilities	273,139	545,694
Net cash provided by operating activities	19,482,899	16,591,704
Cash Flows From Investing Activities		
Additions to electric plant	(26,837,946)	(14,730,493)
Additions to nuclear fuel	(2,070,599)	(4,756,258)
Additions to deferred incremental outage costs	(6,153,310)	(368,294)
Investments in decommissioning fund assets	(1,133,809)	(998,246)
Other	(1,442,965)	(2,258,632)
Net cash used in investing activities	(37,638,629)	(23,111,923)
Cash Flows From Financing Activities		
Net borrowing (payment) under line of credit agreement	13,178,203	(3,521,028)
Principle payments on long-term debt	(11,950,139)	(11,162,496)
Proceeds from issuance of long-term debt	11,429,000	24,065,046
Net cash provided by financing activities	12,657,064	9,381,522
Net increase (decrease) in cash and cash equivalents	(5,498,666)	2,861,303
Cash and Cash Equivalents, Beginning of Year	6,132,774	3,271,471
Cash and Cash Equivalents, End of Year	$ 634,108	$ 6,132,774
Supplemental Cash Flows Information		
Cash paid during the year for interest	$ 7,622,812	$ 8,355,648

Kansas Electric Power Cooperative, Inc.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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

Nature of Operations

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

System of Accounts

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

Rates

The KCC has authority to establish KEPCo's electric rates under state law in Kansas. Rates are established to meet the times-interest-earned ratio and debt-service coverage set forth by the RUS. On December 21, 2007, KEPCo filed an application with the KCC requesting a rate increase of approximately $5.4 million and the reestablishment of a demand cost adjustment (DCA). The DCA will give KEPCo the ability to adjust rates annually to reflect changes in purchase power demand costs and to pass these costs along to its member cooperatives. On August 15, 2008, the KCC ordered an agreed-upon rate increase of approximately $5.2 million, including an annual DCA mechanism. The new rates became effective September 1, 2008. KEPCo's rates now include an energy cost adjustment (ECA) mechanism and an annual DCA 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 amounts of KEPCo and its majority-owned subsidiary, KEPCo Services, Inc. Undivided interests in jointly owned generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

Estimates

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

Utility Plant and Depreciation

Utility plant is stated at cost. Cost and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. In 2008 and 2007, the amount of capitalized interest was $627,390 and $529,876, respectively. 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 rate for electric generation plant for the years ended December 31, 2008 and 2007, was 3.17% and 3.07%, 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 to 33 years
Office furniture and fixtures	10 to 20 years
Leasehold improvements	20 years
Transmission equipment	10 years

Nuclear Fuel

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

Decommissioning Fund Assets/Decommissioning Liability

As of December 31, 2008 and 2007, approximately $8.2 million and $10.2 million, respectively, have been collected and are being retained in an interest-bearing trust fund to be used for the physical decommissioning of Wolf Creek Nuclear Generating Station (Wolf Creek). The trustee invests the decommissioning funds primarily in mutual funds, which are carried at fair value. During 2003, the KCC extended the estimated useful life of Wolf Creek to 60 years from the original estimates of 40 years only for the determination of decommissioning costs to be recognized for ratemaking purposes. In 2006, the KCC approved a 2005 decommissioning cost study, which increased the estimate of total decommissioning costs to $517.6 million in 2005 ($31.1 million is KEPCo's share). The study assumes a 4.4% rate of inflation and 7% rate of return.

KEPCo adopted Statement of Financial Accounting Standard (SFAS) No. 143, Accounting for Asset Retirement Obligations, on January 1, 2003. SFAS No. 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized and depreciated over the appropriate period as part of the cost of the related tangible long-lived assets.

SFAS No. 143 required KEPCo to recognize and estimate the liability for its 6% share of the estimated cost to decommission Wolf Creek, based on the present value of the asset retirement obligation KEPCo incurred at the time it was placed into service in 1985. On January 1, 2003, KEPCo initially recognized an asset retirement obligation of $11.7 million; utility plant in-service, net of accumulated depreciation, was increased by $2.9 million; and KEPCo also established a regulatory asset for $3.9 million, which represents the amount of the Wolf Creek asset retirement obligation and accumulated depreciation not yet refunded.

The decommissioning study in 2005 increased the asset retirement obligation by approximately $1.5 million, utility plant in-service, net of accumulated depreciation by $.2 million and the regulatory asset by $1.2 million in 2006.

A reconciliation of the asset retirement obligation for the years ended December 31, 2008 and 2007, is as follows:

	2008	2007
Balance at January 1	$17,328,228	$16,332,466
Accretion	1,056,613	995,762
Balance at December 31	$18,384,841	$17,328,228

Any net margin effects are deferred in the Wolf Creek decommissioning regulatory asset created pursuant to SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, 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 primary of repurchase agreements, money market account and certificates of deposit.

The financial institution holding the Cooperative's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to $250,000. The increase in federally insured limits is currently set to expire December 31, 2009. At December 31, 2008, the Cooperative's interest-bearing cash accounts were covered by FDIC insurance.

The Cooperative's repurchase agreements have collateral pledged by a financial institution, which are securities that are backed by the full faith of the government. The Cooperative's money market account, which is held by a broker, was exposed to credit risk of approximately $58,000 at December 31, 2008.

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 repricing 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 investments on the consolidated balance sheets.

	2008	2007
Cash surrender value of contracts	$ 5,276,957	$ 4,943,704
Borrowings against contracts	(5,276,957)	(4,943,704)
	$ –	$ –

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a rate of 5.45% for the years ended December 31, 2008 and 2007.

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.

Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Cooperative has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, until its fiscal year ending December 31, 2009. The Cooperative has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, Accounting for Income Taxes, and FASB Statement No. 5, Accounting for Contingencies.

Note 2: Factors That Could Affect Future Operating Results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation pursuant to SFAS No. 71, Accounting for the Effect of Certain Types of Regulation, and accordingly has recorded regulatory assets and liabilities related to its generation and transmission operations. In the event KEPCo determines that it no longer meets the criteria of SFAS No. 71, 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 SFAS No. 71 include: (1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs, and (2) a significant change in the manner 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 SFAS No. 71 is appropriate. Any changes that would require KEPCo to discontinue the application of SFAS No. 71 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. The Kansas legislature has not taken any significant action on industry restructuring that would have a direct impact on KEPCo. Management will continue to monitor deregulation initiatives, but does not presently expect any actions that would be unfavorable to KEPCo to be adopted within the next 12 months.

Note 3: Departures From Generally Accepted Accounting Principles

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Note 7, such depreciation and amortization methods constituted phase-in plans that did not meet the requirements of SFAS No. 92, Accounting for Phase-In Plans.

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 Wolf Creek generation plant and disallowed costs over a 15-year period. As more fully described in Note 7, such depreciation and amortization methods constitute phase-in plans that do not meet the requirements of SFAS No. 92. 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 revenues and expenses.

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

	2008	2007
Deferred charges	$ 28,509,073	$ 32,072,707
Patronage capital	$ 28,509,073	$ 32,072,707
Net margin	$ (3,563,634)	$ (3,563,634)

Note 4: Wolf Creek Nuclear Operating Corporation

KEPCo owns 6% of Wolf Creek Nuclear Operating Corporation (WCNOC), which is located near Burlington, Kansas. The remainder is owned by the Kansas City Power & Light Company (KCPL) 47% and Kansas Gas & Electric Company (KGE) 47%. KGE is a wholly owned subsidiary of Westar Energy, Inc. KCPL is a wholly owned subsidiary of Great Plains Energy, Inc. KEPCo's undivided interest in WCNOC is consolidated on a pro rata basis. Substantially all of KEPCo's utility plant consists of its pro rata share of WCNOC. 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 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 five years under current regulations.

WCNOC is currently working on a capacity upgrade and received a 20-year operating license extension from the Nuclear Regulatory Commission in 2008.

Note 5: Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2008 and 2007, investments in associated organizations consisted of the following:

	2008	2007
CFC		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Subordinated term certificates	2,205,000	2,205,000
Patronage capital certificates	81,690	40,737
Equity term certificates	4,213,659	2,824,005
	6,897,319	5,466,712
Other	176,430	164,072
	$ 7,073,749	$ 5,630,784

Note 6: Bond Fund Reserve

KEPCo has entered into a bond covenant whereby KEPCo is required to maintain, with a trustee, a bond fund reserve of approximately $4.3 million. This stipulated amount is sufficient to satisfy certain future interest and principal obligations. The amount held in the bond fund reserve is invested by the trustee in tax-exempt municipal securities, pursuant to the restrictions of the indenture agreement, which are carried at amortized cost.

Note 7:Deferred Charges

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 ($13.3 net of accumulated amortization as of December 31, 2008). 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 Statement of Financial Accounting Standard No. 92, Accounting for Phase-In Plans (SFAS No. 92).

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 SFAS No. 92.

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

Wolf Creek Deferred Plant Costs

Effective February 1, 2002, the KCC issued an order permitting recovery in rates of the $46.9 million cumulative difference between historical present worth (sinking fund) depreciation and straight-line depreciation of Wolf Creek generation plant over a 15-year period. Such depreciation practice does not constitute a phase-in plan that meets the requirements of SFAS No. 92. 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, 2008 and 2007.

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

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 coincident with the recognition of the related revenues. Additions to the deferred incremental outage costs were $6.2 million and $.04 million in 2008 and 2007, respectively. The current year amortization of the deferred incremental outage costs was $3.9 million and $2.8 million in 2008 and 2007, respectively.

Other Deferred Charges

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

Note 8: Line of Credit

As of December 31, 2008, KEPCo has a $15,000,000 line of credit outstanding with the CFC. This line of credit expires in March of 2011. There were outstanding borrowings of $13,178,203 at December 31, 2008. There were no funds borrowed against the line of credit at December 31, 2007. The line of credit requires the Cooperative to pay down the balance to zero annually. Interest varies and was 5.00% at December 31, 2008 and 6.40% at December 31, 2007.

Note 9: 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:

	2008	2007
Mortgage notes payable to the FFB at fixed rates varying from 3.617% to 9.206%, payable in quarterly installments through 2020	$ 72,149,927	$ 78,787,354
Mortgage notes payable to the Grantor Trust Series 1997 at a rate of 7:522%, payable semiannually, principal payments commencing in 1999 and continuing annually through 2017	38,040,000	40,840,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (ranging from 0.93% to 1.60% at December 31, 2008) payable annually through 2017	22,500,000	24,700,000
Mortgage notes payable and equity certificate loans to the National Rural Utilities Cooperative Finance Corporation at fixed rates of 5.40% to 6.10%, payable quarterly through 2017. Currently, KEPCo has approximately $58.0 million of funds available to borrow, which mature in 2012	33,126,470	22,010,182
	165,816,397	166,337,536
Less current maturities	13,159,154	11,950,139
	$ 152,657,243	$ 154,387,397

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

2009	$ 13,159,154
2010	14,091,957
2011	15,188,130
2012	45,864,351
2013	17,388,881
Thereafter	60,123,924
	$ 165,816,397

Restrictive covenants require KEPCo to design rates that would enable it to maintain a times-interest-earned ratio of at least one-to-one and debt-service coverage of at least one-to-one, on average, in at least two out of every three 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 RUS. KEPCo was in compliance with such restrictive covenants as of December 31, 2008 and 2007.

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% through the use of an interest rate swap that was assigned by KEPCo to the Series 1997 Trust. The mortgage notes payable are prepayable at any time with no prepayment penalties. However, any termination costs relating to the termination of the assigned interest rate swaps is KEPCo's responsibility. At December 31, 2008, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $17.6 million. This fair value estimate is based on information available at December 31, 2008, 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.

Note 10: Benefit Plans

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

KEPCo participates in the NRECA Retirement and Security Program for its employees. All employees are eligible to participate in this program after one year of service. In the master multi-employer plan, which is available to all members of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employer members. KEPCo's expense under this program was $0.3 million and $0.3 million for the years ended December 31, 2008 and 2007, respectively.

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 $0.1 million to the plan for each of the years ended December 31, 2008 and 2007.

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.

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

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Benefit obligation	$ (12,706,873)	$ (11,469,649)	$ (1,129,978)	$ (1,097,210)
Fair value of plan assets	5,770,218	7,157,002	–	–
	$ (6,936,655)	$ (4,312,647)	$ (1,129,978)	$ (1,097,210)

Amounts recognized in the consolidated balance sheets:

	2008	2007
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	$ 8,066,633	$ 5,409,857

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

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Net loss	$ (5,208,752)	$ (2,692,708)	$ (409,877)	$ (339,159)
Prior service cost	(15,188)	(22,769)	–	–
Transition obligation	(21,168)	(29,030)	(29,731)	(36,782)
	$ (5,245,108)	$ (2,744,507)	$ (439,608)	$ (375,941)

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

	Pension Benefits	
	2008	2007
Projected benefit obligation	$ 12,706,873	$ 11,469,649
Accumulated benefit	$ 9,854,875	$ 8,719,461
Fair value of plan assets	$ 5,770,218	$ 7,157,002

Other significant balances and costs are:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Employer contributions	$ 843,543	$ 717,218	$ 105,411	$ 65,085
Benefits paid	$ 251,427	$ 230,966	$ 150,853	$ 65,085
Benefits cost	$ 791,759	$ 955,522	$ 128,775	$ 150,168

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are approximately $305,000, $6,000 and $7,000, respectively. The estimated net loss and transition obligation for the defined benefit postretirement plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are approximately $30,000 and $7,000, respectively.

Significant assumptions used to determine benefit obligations include:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.15%	6.15%	6.05%	6.05%
Annual salary increase rate	4.00%	4.00%	N/A	N/A
Expected return on plan assets	8.25%	8.25%	N/A	N/A
Assumed health care cost trend rate	N/A	N/A	8.0% decreasing 0.5% per year to 5.0%	8.0% decreasing 0.5% per year to 5.0%

WCNOC uses an interest yield curve to make judgements pursuant to EITF Topic No. D-36, Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions. The yield curve is constructed based on yields on over 500 high-quality, noncallable corporate bonds with maturities between 0 and 30 years. A theoretical spot rate curve constructed from this yield curve is then used to discount the annual benefit cash flows of WCNOC's pension plan and develop a single-point discount rate matching the plan's payout structure.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned assets classes in the pension plan's investment portfolio. Assumed and 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 allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses from plan assets.

In selecting the discount rate, fixed income security yield rates for corporate high-grade bond yields were considered.

The defined benefit pension plan assets are invested in insurance contracts, corporate bonds, equity securities, United States government securities and short-term investments.

The asset allocation for the defined benefit pension plan at the end of 2008 and 2007, and the target allocation for 2009 by asset category are as follows:

	Target Allocation for 2009	Pension Plan Assets 2008	2007
Asset category			
Equity securities	65%	58%	67%
Debt securities	25%	39%	28%
Real estate	5%	1%	0%
Other	5%	2%	5%
	100%	100%	100%

WCNOC's pension plan investment strategy supports the objective fund, which is to earn the highest possible return on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors and manager style to minimize the risk of large losses. WCNOC delegates investment management to specialists in each asset class and, where appropriate, provides the investment manager with specific guidelines, which include allowable and/or prohibited investment types. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews.

KEPCo estimates cash contributions of approximately $700,000 will be made to the Plans in 2009.

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

	Pension Benefits	Other Benefits
2009	$ 305,700	$ 78,120
2010	329,400	78,720
2011	360,180	78,600
2012	397,380	78,600
2013	443,880	82,260
2014-2017	3,194,340	451,020
	$ 5,030,880	$ 847,320

At December 31, 2007, KEPCo adopted Statement of Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158). FAS 158 required KEPCo to recognize a liability for the unfunded status of the Plans and adjust accumulated other comprehensive income for the transition obligation, prior service cost and net loss that had not yet been recognized as components of net periodic benefit cost at that date. The following table illustrates the incremental effect of applying FAS 158 on individual line items in the balance sheet at December 31, 2007.

	Before	Adjustment	After
Accumulated other comprehensive income (loss)	$ -	$ (3,120,448)	$ (3,120,448)
Total patronage capital	$ 22,197,344	$ (3,120,448)	$ 19,076,896
Wolf Creek pension and postretirement benefit plans long-term liability	$ 2,289,409	$ 3,120,448	$ 5,409,857
Total other long-term liabilities	$ 21,014,011	$ 3,120,448	$ 24,134,459

Note 11: Commitments and Contingencies

Current Economic Environment

The Cooperative considers the current economic conditions when planning for future power supply and liquidity needs. The current instability in the financial markets may have an impact on the Cooperative's members, which may impact the Cooperative's volume of future sales which could have an adverse impact on the Cooperative's future operating results. The current economic climate may also affect the Cooperative's ability to obtain financing.

Given the volatility of the current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the Cooperative's ability to meet debt covenants or maintain sufficient liquidity. Being a regulated entity, the Cooperative expects to be able to recover any economic losses through future rate proceedings.

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 operation 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.

Nuclear Liability and Insurance

Pursuant to the Price-Anderson Act, which was reauthorized through December 31, 2025, by the Energy Policy Act of 2005, KEPCo is required to insure against public liability claims resulting from nuclear incidents to the full limit of public liability, which is currently approximately $12.5 billion. This limit of liability consists of the maximum available commercial insurance of $300 million, and the remaining $12.2 billion is provided through mandatory participation in an industrywide retrospective assessment program. Under this retrospective assessment program, owners are jointly and severally subject to an assessment of up to $117.5 million ($7.1 million–KEPCo's share) at any commercial reactor in the country, payable at no more than $17.5 million ($1.1 million–KEPCo's share) per incident per year, per reactor. This assessment is subject to an inflation adjustment based on the Consumer Price Index and applicable premium taxes. This assessment also applies in excess of the worker radiation claims insurance. The next scheduled inflation adjustment is scheduled for August 2013. In addition, Congress could impose additional revenue-raising measures to pay claims.

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

The owners also carry additional insurance with NEIL to cover costs of replacement power and other extra expenses incurred during a prolonged outage resulting from accidental property damage at Wolf Creek. If significant losses were incurred at any of the nuclear plants insured under the NEIL policies, KEPCo may be subject to retrospective assessments under the current policies of approximately $1.4 million.

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

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, 2008, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $7.3 million for uranium concentrates expiring in 2018, $1.1 million for conversion expiring in 2018, $18.8 million for enrichment expiring at various times through 2025, and $6.5 million for fabrication 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 a contract with Westar Energy, Inc., through May 2010 with minimum purchase commitments of 85 megawatts per year.

KEPCo has provided the Southwest Power Pool a letter of credit to help insure power is available if needed.

Iatan 2 Purchase Commitment

Effective June 2006, KEPCo entered into an agreement, subject to RUS approval, to purchase a 3.53% ownership in a coal fired generation facility. KEPCo's estimated costs for the project were $75 million at December 31, 2008. To date, the Cooperative has paid approximately $40 million under the agreement. Financing is currently being provided by CFC.

Note 12: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, KEPCo adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 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. FAS 157 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 FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Decommissioning	$ 8,212,742	$ 8,212,742	$ –	$ –

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

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 the 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, 2008 and 2007:

	December 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 634,108	$ 634,108	$ 6,132,774	$ 6,132,774
Bond fund reserve	$ 4,321,172	$ 4,578,569	$ 4,348,709	$ 4,531,910
Decommissioning fund	$ 8,212,742	$ 8,212,742	$ 10,185,163	$ 10,185,163
Financial liabilities				
Line of credit	$ 13,178,203	$ 13,178,203	$ –	$ –
Long-term debt	$ 165,816,397	$ 174,124,971	$ 166,337,536	$ 168,908,545

Note 13: Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were adjusted to reflect accounting principles generally accepted in the United Stated of America, total patronage capital would be negative. As noted in the consolidated statements of changes in patronage capital, no patronage capital distributions were made to members in 2008 and 2007.

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