KANSAS ELECTRIC POWER COOPERATIVE, INC.

Annual Report 2010

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KEPCo Staff

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

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

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

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

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

Laura Armstrong .... Administrative Assistant

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

Terry Deutscher .... EMS/SCADA System Specialist

Carol Gardner .... Operations Analyst

Shawn Geil .... Director of Information Systems

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

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 120,000 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 was granted a limited certificate of convenience and authority by the Kansas Corporation Commission in 1980 to act as a G&T public utility. KEPCo's power supply resources consist of: 70 MW of owned generation from the Wolf Creek Generating Station; 30 MW of owned generation from the Iatan 2 Generating Unit; the 20 MW Sharpe Generating Station located in Coffey County; hydropower purchases of an equivalent 100 MW from the Southwestern Power Administration, and 14 MW from the Western Area Power Administration; plus partial requirement power purchases from regional utilities.

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

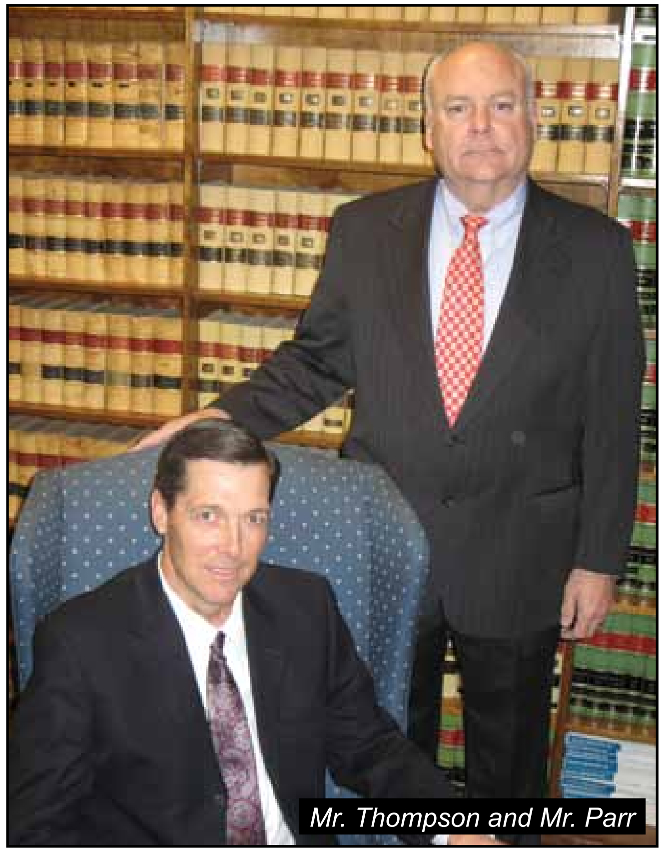
A Touchstone Energy® Cooperative

2010 Message

from

Kirk Thompson
KEPCo President

Stephen E. Parr
Executive Vice President
& Chief Executive Officer



Mr. Thompson and Mr. Parr

After 18 months of a stutter-step recovery, the economy seems to be gathering steam. Many companies that survived the recession are lean and profitable, and there's a good chance they'll begin hiring again in 2011. However, to sustain the recovery, economic growth must occur. Energy is the ultimate enabler of growth. Industrial expansion throughout the past two centuries has in every instance been based on increased energy consumption. More specifically, industrialism has been inextricably tied to the availability and consumption of low cost energy from fossil fuels. Electricity and fossil fuels are integral to economic development and trade and underpin agriculture, industry, transportation, and commercial enterprises. Though energy is not sufficient on its own to achieve economic growth, it is a necessary prerequisite. Economic growth that creates jobs and enhances incomes relies on the expanded use of energy.

However, the Environmental Protection Agency (EPA) has introduced a myriad of new regulations targeted at reducing greenhouse gas (GHG) emissions, primarily carbon dioxide, which may very well derail any chance of a sustained economic recovery. The regulations have been coined "the EPA train wreck," and it could ruin your budget. The phrase is shorthand for the maze of regulations the EPA wants to impose on coal-fired power plants over the next five years. It's a long, expensive list. The regulations will force many coal-fired power plants to either be retrofitted with equipment that reduces GHG or be retired. The regulations will require utilities to incur billions and billions of dollars in costs, in which those costs are in turn, passed on to the end consumer.

Ultimately, the new EPA regulations will force consumers to pay more for energy as well as for all other goods and services. The increased regulations and subsequent high energy prices throw a monkey wrench into the production side of the economy. Contrary to claims of an economic boost from "green investment" and "green collar" job creation, more EPA regulation will reduce economic growth, GDP, and employment opportunities. Furthermore, because the economic effect of the proposed regulations will resemble the economic effect of an energy tax, the increase in costs creates a correspondingly large loss of jobs and income.

Generally, the greater and more effective the investment, the greater the increase in future income.

Since income, as measured by GDP, drops as a result of new regulation, it is clear that more capital is destroyed than created. Those who say we must not utilize our least expensive fuel sources are putting small and hypothetical risks ahead of better understood costs and benefits. While the other economic powers in the world, notably China and India, are ignoring GHG issues and strengthening their economies, the U.S. is moving to do just the opposite. Congress should block EPA from issuing short-sighted and poorly thought out greenhouse gas regulations for power plants and energy-related industries. Only new technology will allow us to grow our economy, while managing emissions.

If there is a bright side to an impending train wreck, it is that KEPCo's exposure to the new EPA regulations will be considerably less when compared to other utilities. KEPCo's partial ownership of the Wolf Creek Nuclear Generating Station and the federal hydropower allocations KEPCo receives account for over 50 percent of KEPCo's energy mix. The generation facilities that produce this energy are not subject to GHG regulations from the EPA, since the facilities do not have any GHG emissions. As the utility industry begins to operate under the new regulations, KEPCo's diverse energy mix will save its Members millions of dollars in avoided GHG regulation costs.

2010-11 KEPCo Executive Committee (seated): Dwane Kessinger; Kenneth Maginley; Larry Stevens; (standing) Stephen Parr, Executive Vice President & CEO; Kirk Thompson, President; Scott Whittington, Vice President; Dale Short, Secretary; and Kevin Compton, Treasurer.

KEPCo is pleased to report that construction of Iatan 2 was completed in the third quarter of the year and became commercially operation on December 31st. KEPCo owns a 30 MW share of Iatan 2, which will provide KEPCo's Members with approximately 12 percent of their energy requirements. Final construction costs were less than $2,600 per kW, making Iatan 2 a very economical new resource. Iatan 2 is a highly efficient, super-critical, coal-fired plant that utilizes state-of-the-art emission control systems which exceed the EPA's new regulations, thus mitigating additional costs associated with the new regulations.

KEPCo's decision to participate in Iatan 2 was its first investment in base load generation in 30 years, when KEPCo invested in Wolf Creek. Adequate base load generation is essential for all utilities and Iatan 2 is an investment that will not only serve our current Member-Owners, but future ones as well. A modest increase in rates was implemented in 2010 in order to recover the costs associated with the construction of Iatan 2. KEPCo partnered with the National Rural Utilities Cooperative Finance Corporation (CFC) to provide its long-term financing needs for this project. Through this partnership, KEPCo successfully managed Iatan 2 loan funds and maximized savings through reduced interest payments during the period of construction.

Continued on page 12

2010 KEPCo Highlights

Construction of the Iatan Unit 2 project was completed and placed into commercial operation. KEPCo owns a 30 MW or 3.53% share of the unit which will provide approximately 12% of KEPCo's energy needs.

View of Iatan 2

KEPCo obtained long-term, firm Network Integrated Transmission Service from the Southwest Power Pool for Member's load in the Mid-Kansas Electric Company area. This will allow the greatest flexibility to best utilize our generation resources to reliably and economically serve our Member load.

Sharpe Generating Station successfully completed a required Southwest Power Pool capacity accreditation demonstration test. The station generated 20.2 MW.

Sharpe Generating Station

KEPCo completed its Long-Range Financial Forecast and conducted a rate study for the Board of Trustees, which recognizes the addition of the Iatan 2 project in KEPCo's power supply.

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

KEPCo continues to actively engage in developing transmission policy at the Southwest Power Pool through participation on key committees such as the Board of Directors/Members Committee, the Corporate Governance Committee, the Markets and Operation Policy Committee, the Strategic Planning Committee, the Regional Tariff Working Group and the Transmission Working Group.

KEPCo, along with other preference power customers, worked with the Western Area Power Administration to develop a program to recognize the environmental attributes of electricity generated from hydroelectric units and transfer the attributes to the customers purchasing the electricity through Renewable Energy Credits (REC's.)

KEPCo continues to fund and assist Members in the promotion of an energy efficiency electric water heater and heating/cooling system rebate program. Since inception, KEPCo has issued over 6,500 heating/cooling rebates and over 15,500 water heater rebates.

KEPCo Staff continues to work diligently with KEC and Sunflower on legislative issues in Kansas and in Washington, D.C. Staff testified on several bills in 2010 and tracked numerous pieces of legislation. In Washington, D.C., Staff participated in the NRECA Legislative Conference.

NRECA Legislative Conference

KSI completed damage assessments and engineering reports directly resulting in FEMA funding totaling over $35 million for 3 KSI clients (Bluestem, Rolling Hills and Nemaha-Marshall) to permanently repair the damage associated with the severe winter storm of November 2009.

KSI Engineering Staff

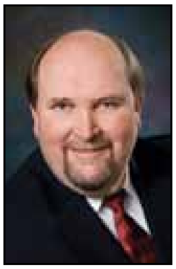
KSI worked with the KEC, Kansas Department of Emergency Management (KDEM) and FEMA to determine what level of environmental review is required for "improved projects" associated with FEMA disasters.

KSI assisted Rolling Hills, Flint Hills, and Bluestem with the development and submittal of applications to FEMA for more than $7 million in mitigation funds to make proactive improvements to their distribution facilities to reduce the likelihood of future damage due to severe ice storms.

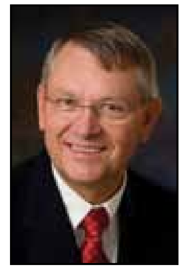
Staff continued to assist Members in deploying Automated Meter Reading (AMR) by assisting in designing the data communications methods and allowing Members to add their equipment to KEPCo's existing communications system.

KEPCo completed 2010 without a lost-time accident.

KEPCo Member Cooperatives Trustees, Alternates and Managers

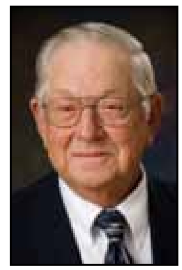

Joseph Seiwert

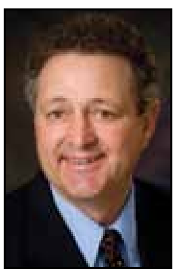
Ark Valley Electric Cooperative Assn., Inc.
PO Box 1246, Hutchinson, KS 67504
620-662-6661
Trustee Rep. -- Joseph Seiwert
Alternate Trustee Rep. -- Bob Hall
Manager -- Bob Hall


Bob Hall

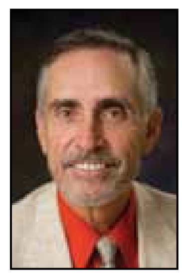

Kenneth Maginley

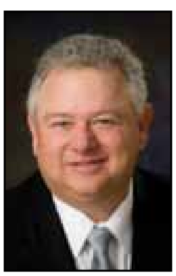
Bluestem Electric Cooperative, Inc.
PO Box 5, Wamego, KS 66547 785-456-2212
PO Box 513, Clay Center, KS 67432 785-632-3111
Trustee Rep. -- Kenneth J. Maginley
Alternate Trustee Rep. -- Robert M. Ohlde
Manager -- Kenneth J. Maginley


Bob Ohlde

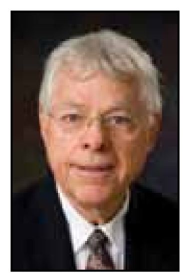

Kevin Compton

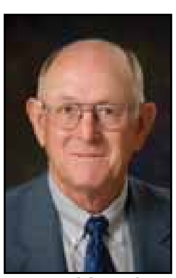
Brown-Atchison Electric Cooperative Assn., Inc.
PO Box 230, Horton, KS 66439 785-486-2117
Trustee Rep. -- Kevin D. Compton
Alternate Trustee Rep. -- Rodney V. Gerdes
Manager -- Rodney V. Gerdes


Rod Gerdes

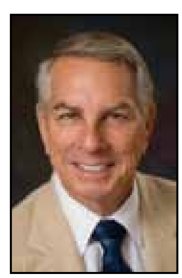

Dale Short

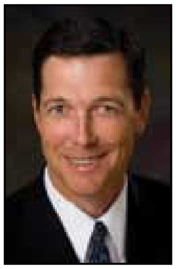
Butler Rural Electric Cooperative Assn., Inc.
PO Box 1242, El Dorado, KS 67042 316-321-9600
Trustee Rep. -- Dale Short
Alternate Trustee Rep. -- Richard Pearson
Manager -- Dale Short


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

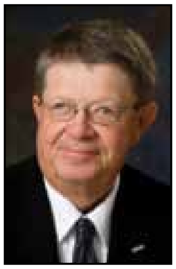


Kirk Thompson

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 Electric Cooperative, Inc.

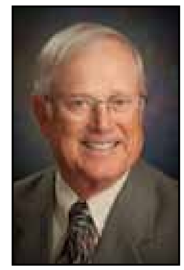
PO Box 286, Solomon, KS 67480 785-655-2011
Trustee Rep. -- Harlow L. Haney
Alternate Trustee Rep. -- Donald E. Hellwig
Manager -- Donald E. Hellwig

Don Hellwig

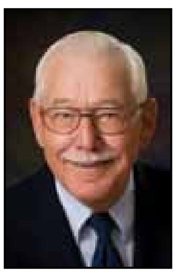
Bob Reece

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. -- Graeme Glaser
Manager -- Robert E. Reece



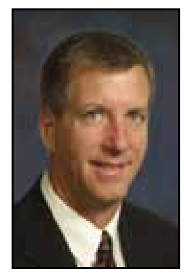
Graeme Glaser



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

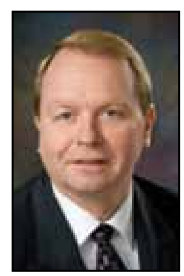


Dale Coomes

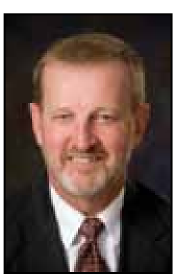
Larry Stevens

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



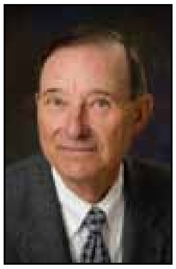
Scott Whittington

Lyon-Coffey Electric Cooperative, Inc.

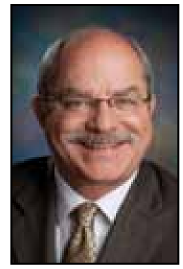
PO Box 229, Burlington, KS 66839 620-364-2116
Trustee Rep. -- Scott Whittington
Alternate Trustee Rep. -- Donna Williams
Manager -- Scott Whittington

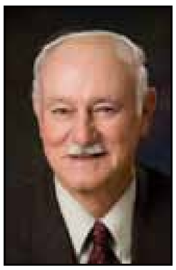
Donna Williams

KEPCo Member Cooperatives Trustees, Alternates and Managers

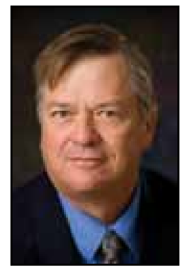

Gordon Coulter

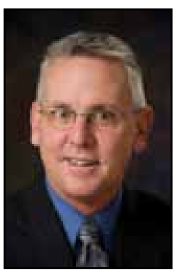
Ninnescah Electric Cooperative Assn., Inc.
PO Box 967, Pratt, KS 67124   620-672-5538
Trustee Rep. -- Gordon Coulter
Alternate Trustee Rep. -- Ed Wiltse
Manager -- Ed Wiltse


Ed Wiltse

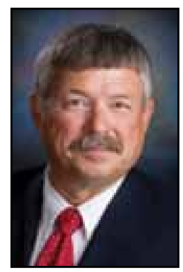

Gilbert Berland

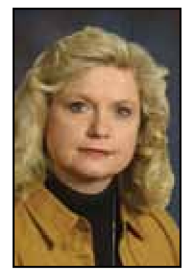
Prairie Land Electric Cooperative, Inc.
PO Box 360, Norton, KS 67654   785-877-3323
District Office, Bird City 785-734-2311
District Office, Concordia 785-243-1750
Trustee Rep. -- Gilbert Berland
Alternate Trustee Rep. -- Allan J. Miller
Manager -- Allan J. Miller

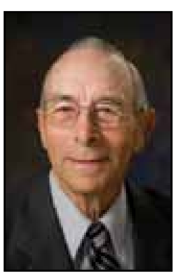

Allan Miller


Dennis Duft

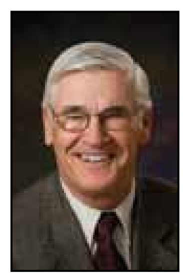
Radiant Electric Cooperative, Inc.
PO Box 390, Fredonia, KS 66736 620-378-2161
Trustee Rep. -- Dennis Duft
Alternate Trustee Rep. -- Don Songer
Administrative Manager -- Leah Tindle
Operations Manager -- Dennis Duft

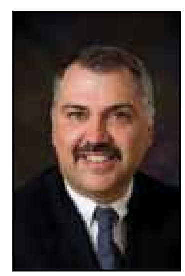

Don Songer

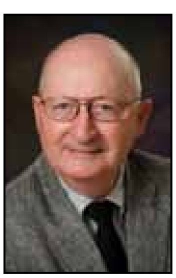

Leah Tindle


Melroy Kopsa

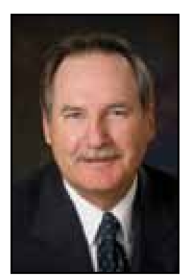
Rolling Hills Electric Cooperative, Inc.
PO Box 307, Mankato, KS 66956 785-378-3151
District Offices, Belleville 785-527-2251
Ellsworth 785-472-4021
Trustee Rep. -- Melroy Kopsa
Alternate Trustee Rep. -- Leon Eck
Manager -- Douglas J. Jackson


Leon Eck


Doug Jackson


Donald Metzen

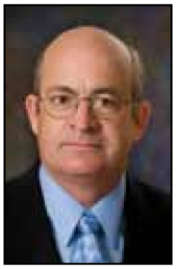
Sedgwick County Electric Cooperative Assn., Inc.
PO Box 220, Cheney, KS 67025 316-542-3131
Trustee Rep. -- Donald Metzen
Alternate Trustee Rep. -- Alan L. Henning
Manager -- Alan L. Henning


Alan Henning


Charles Riggs

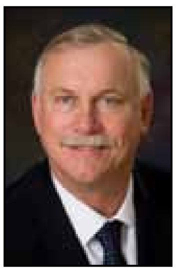
Sumner-Cowley Electric Cooperative, Inc.
PO Box 220, Wellington, KS 67152 620-326-3356
Trustee Rep. -- Charles Riggs
Alternate Trustee Rep. -- Cletas Rains
Manager -- Cletas Rains


Cletas Rains

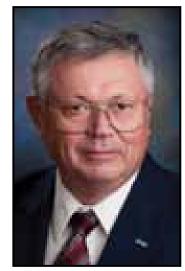

Bryan Coover

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

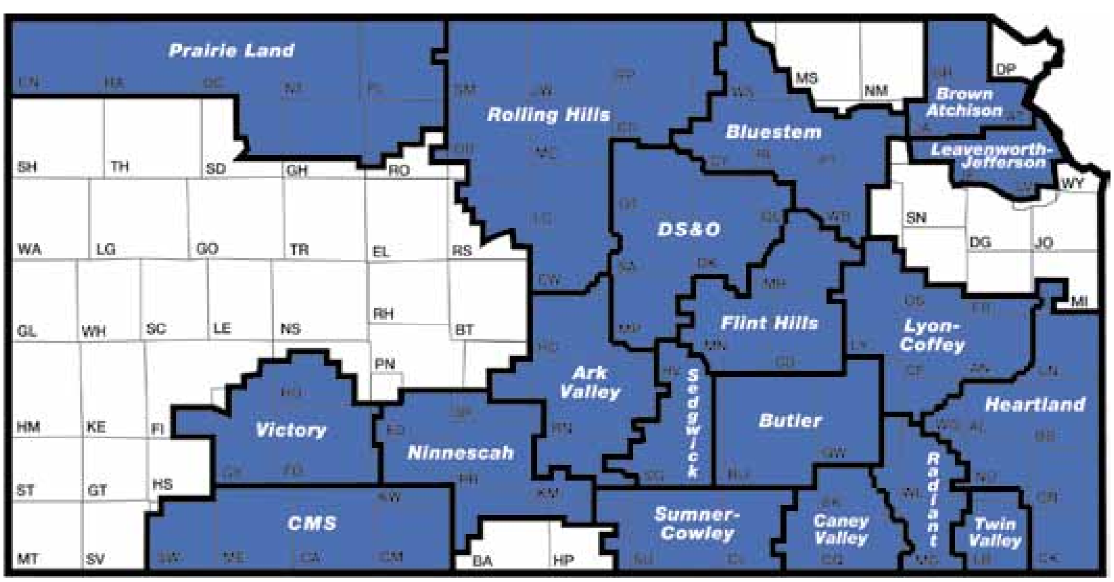

Ron Holsteen


Terry Janson

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

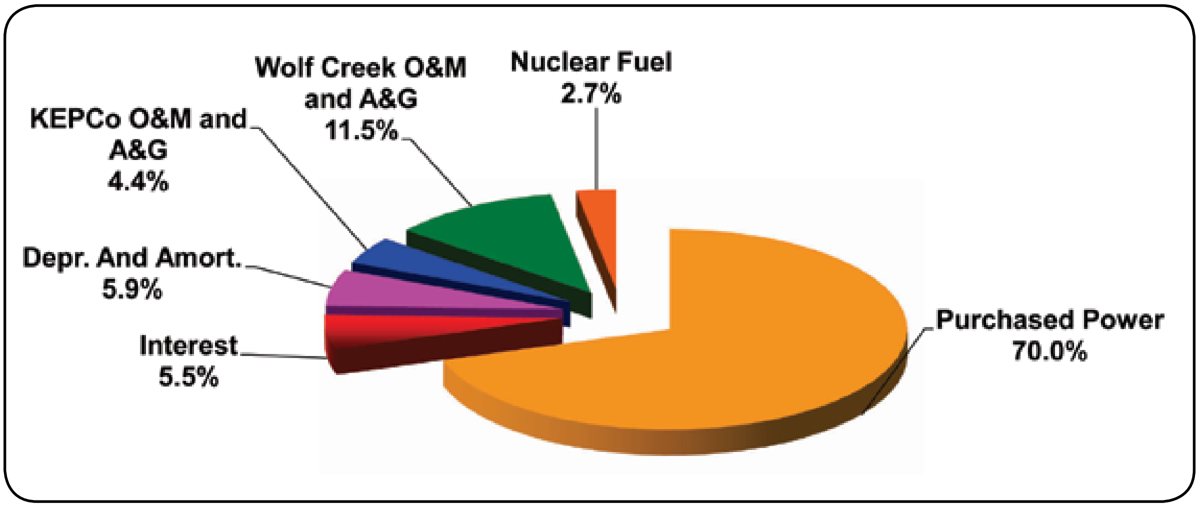

Milam Jones

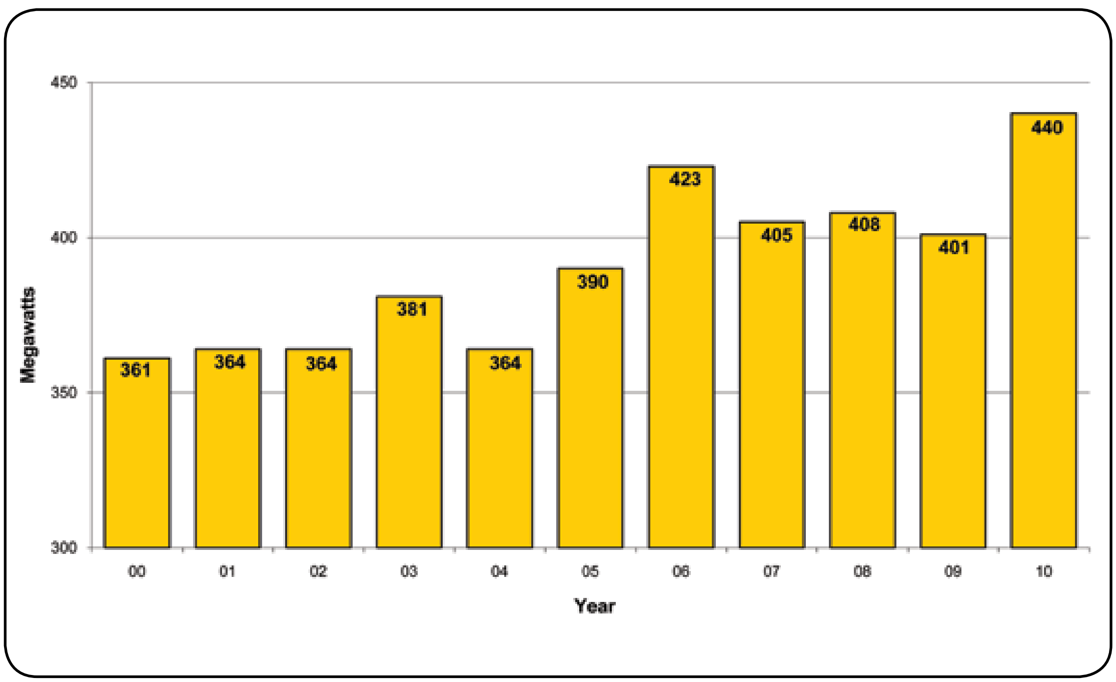
KEPCo Member Area Map



Operating Statistics

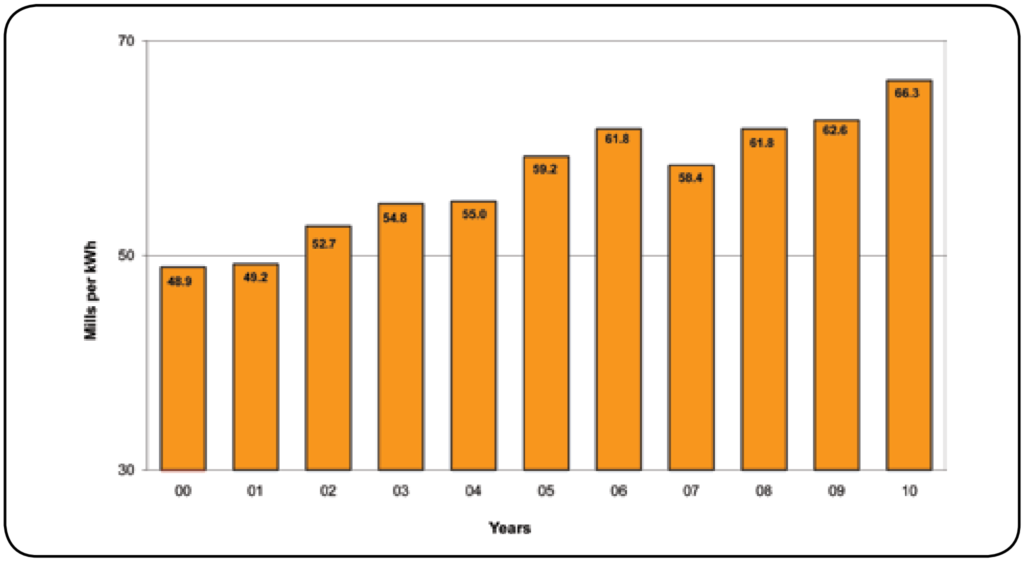
Operating Expenses



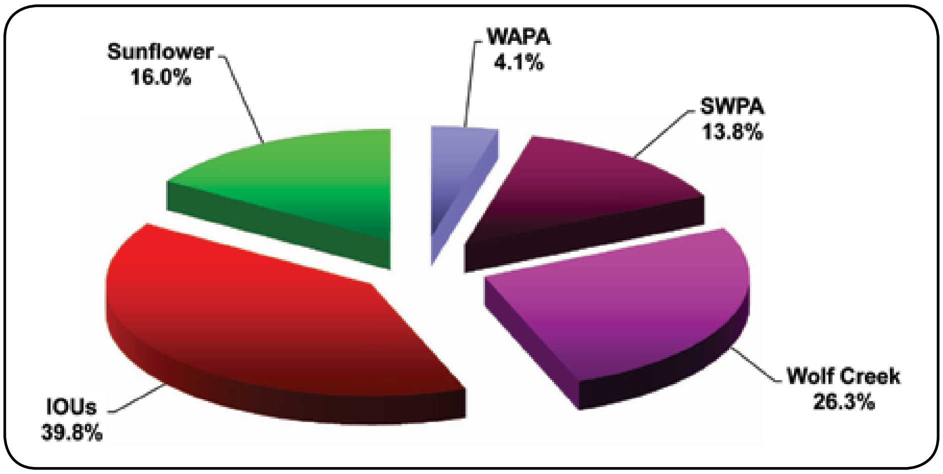


Peak Demand

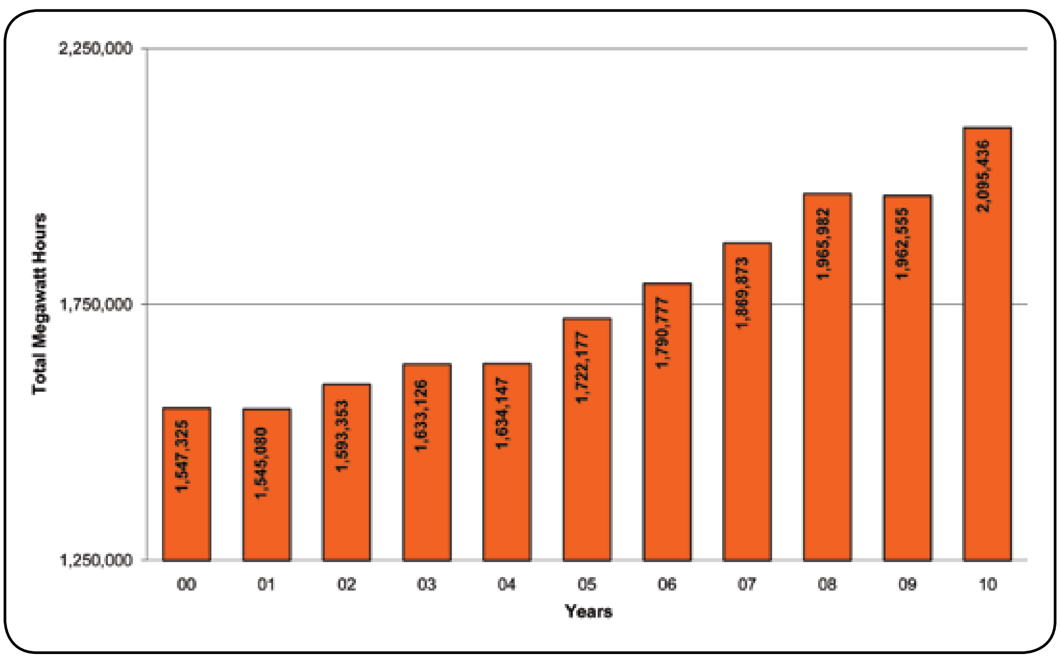
Rates



Sources of Energy



Energy Sales



2010 Message

Continued from page 3

An extraordinarily warm and protracted summer led KEPCo to achieve an all-time record peak demand of 438 MW. This was a 9.2% increase over 2009, with accompanying energy sales of 2.1 million megawatt hours, which also was an increase of 6.8% over 2009, and an all-time record high as well. KEPCo's Demand Side Management program once again played a key role in reducing the financial impact of the record year to KEPCo's Members, by shedding 49.7 MW of demand, resulting in a savings of nearly $4 million to KEPCo's Member Cooperatives.

KEPCo's Energy Efficiency Rebate Program also set record numbers. The continued growth of this program is indicative of the emphasis that our Member Cooperatives have placed on energy efficiency and the receptiveness of employing energy efficiency measures from consumers.

In December, after thirty-one years of dedicated service, Dr. Robert D. Bowser, Vice President of Technical Services, retired from KEPCo. Dr. Bowser was an invaluable asset to KEPCo and was instrumental in many of KEPCo's milestones. Thank you, Bob, for a job well done.

Recognition and thanks needs to be extended to the KEPCo Board of Trustees, KEPCo Members, and KEPCo Staff for their hard work and dedication during the past year. These are challenging times and it is gratifying to have so many willing to work on solutions for the future.

In closing, the United States has seen different trends for new electric generation technologies in the last 50 years; coal in the 1950's to present, nuclear in the 1970s and 1980s, natural gas in the 1990s, and most recently, renewables. A new set of regulatory policies, public interest factors, technology advancements, and economic drivers make the future for new generation potentially very different than recent experience. The biggest challenges will be fashioning climate change policies that protect the environment and electricity customers without damaging the U.S. economy.

Developing and deploying all of the technologies needed to sharply reduce greenhouse gas (GHG) emissions is a long-term proposition, and the price tag will be hefty. Electric companies will need to implement a variety of solutions to get the job done; changes in generation portfolios, transmission system improvements, and 'smart' delivery meters and grids that will involve consumers in the changes. All of these changes must occur while allowing utilities to continue to deliver an affordable and reliable supply of electricity to meet the nation's growing demand for power. A successful and sustainable national energy portfolio can only be achieved through a concerted and coordinated effort among traditional, alternative, and innovative sources while aligning political, regulatory, and financial opportunities and interests. Thankfully, KEPCo has assembled such a resource portfolio through the vision and efforts of its Members. For our nation's economy to restore the millions of jobs needed for economic revitalization, environmental protection and economic growth must be considered together.

Kirk A. Thompson

Stephen E. Parr

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Kansas Electric Power Cooperative, Inc. and subsidiary ("KEPCo") as of December 31, 2010, and the related consolidated statements of margin, patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Kansas Electric Power Cooperative, Inc. as of December 31, 2009 were audited by other auditors whose opinion dated April 12, 2010 on those statements was qualified because of the departure from U.S. generally accepted accounting principles described in the third paragraph.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

As explained in *Note* 3, certain depreciation and amortization methods have been used in the preparation of the 2010 and 2009 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 KEPCo as of December 31 , 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 15, 2011 , 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.

Mayer Hoffman McCann P.C.

Mayer Hoffman McCann P.C.
Topeka, Kansas April 15, 2011

Kansas Electric Power Cooperative, Inc.

Consolidated Balance Sheets

December 31, 2010 and 2009

Assets	2010	2009
Utility Plant		
In-service	$228,496,491	$227,090,041
Less allowances for depreciation	(131,630,749)	(127,860,384)
Net in-service	96,865,742	99,229,657
Construction work in progress	82,847,042	65,624,879
Nuclear fuel (less accumulated amortization of $16,370,363 and $13,928,208 for 2010 and 2009, respectively)	9,691,263	8,293,682
Total utility plant	189,404,047	173,148,218
Restricted Assets		
Investments in the National Utilities Cooperative Finance Corporation	12,262,979	13,674,112
Bond fund reserve	4,405,495	4,411,168
Decommissioning fund	12,362,162	10,571,021
Investments in other associated organizations	210,423	181,191
Total restricted assets	29,241,059	28,837,492
Current Assets		
Cash and cash equivalents	4,349,243	118,631
Member account receivables	12,192,815	11,539,149
Materials and supplies inventory	3,621,852	3,330,502
Other assets and prepaid expenses	502,719	638,516
Total current assets	20,666,629	15,626,798
Other Long-term Assets		
Deferred charges		
Wolf Creek disallowed costs (less accumulated amortization of $14,149,391 and $13,392,227 for 2010 and 2009, respectively)	11,833,530	12,590,694
Wolf Creek deferred plants costs (less accumulated amortization of $28,169,276 and $25,039,356 for 2010 and 2009, respectively)	18,779,517	21,909,438
Wolf Creek decommissioning regulatory asset	765,551	2,897,014
Deferred incremental outage costs	1,619,307	4,585,364
Other deferred charges (less accumulated amortization of $8,284,362 and $7,817,223 for 2010 and 2009, respectively)	1,652,772	2,117,526
Unamortized debt issuance costs	407,673	510,359
Other	606,110	582,800
Total long-term assets	35,664,460	45,193,195
Total assets	$274,976,195	$262,805,703

Kansas Electric Power Cooperative, Inc.

Consolidated Balance Sheets

December 31, 2010 and 2009

Liabilities and Patronage Capital	2010	2009
Patronage Capital		
Memberships	$ 3,200	$ 3,200
Patronage Capital	44,652,230	37,005,611
Accumulated other comprehensive loss	(5,584,452)	(4,968,938)
Total patronage capital	39,070,978	32,039,873
Long-term Debt	178,045,098	178,467,513
Other Long-term Liabilities		
Wolf Creek decommissioning liability	15,356,672	15,761,591
Wolf Creek pension and postretirement benefit plans	8,382,247	7,433,971
Wolf Creek deferred compensation	905,124	826,871
Arbitrage rebate long-term liability	1,119,319	1,049,464
Other deferred credits	26,931	58,155
Total other long-term liabilities	25,790,293	25,130,052
Current Liabilities		
Current maturities of long-term debt	17,506,786	14,191,957
Accounts payable	12,070,924	10,963,824
Payroll and payroll-related liabilities	325,298	291,619
Accrued property taxes	1,400,290	1,387,991
Accrued income taxes	1,937	–
Accrued interest payable	764,591	332,874
Total current liabilities	32,069,826	27,168,265
Total patronage capital and liabilities	$ 274,976,195	$ 262,805,703

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Margin

December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Sale of electric energy	$ 138,984,507	$ 122,744,598
Operating Expenses		
Power purchased	92,782,931	76,454,594
Nuclear fuel	3,597,201	2,510,652
Plant operations	10,438,661	10,205,308
Plant maintenance	4,484,561	3,688,572
Administrative and general	5,734,067	5,347,850
Amortization of deferred charges	4,354,223	4,398,770
Depreciation and decommissioning	4,400,082	4,353,046
Total operating expenses	125,791,726	106,958,792
Net operating revenues	13,192,781	15,785,806
Interest and Other Deductions		
Interest on long-term debt	6,751,912	7,026,677
Amortization of debt issuance costs	102,685	109,275
Other deductions	71,103	66,090
Total interest and other deductions	6,925,700	7,202,042
Operating income	6,267,081	8,583,764
Other Income/(Expense)		
Interest income	1,035,619	599,470
Other income	358,181	155,056
Income tax	(14,262)	–
Total other income	1,379,538	754,526
Net margin	$ 7,646,619	$ 9,338,290

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Patronage Capital

December 31, 2010 and 2009

	Comprehensive Income (Loss)	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2008		$3,200	$27,667,321	$(5,684,416)	$21,986,105
Net margin	$ 9,338,290		9,338,290	–	9,338,290
Defined benefit pension plans:					
Net gain arising during year	344.884	–	–	344,884	344.884
Other	15,514	–	–	15,514	15,514
Less amortization of prior year service costs included in net periodic pension costs	355,080	–	–	355,080	355,080
Comprehensive income	$10,053,768				
Balance at December 31, 2009		3,200	37,005,611	(4,968,938)	32,039,873
Net margin	$7,646,619	–	7,646,619	–	7,646,619
Defined benefit pension plans:					
Net loss arising during year	(503,640)	–	–	(503,640)	(503,640)
Less amortization of prior year service costs included in net periodic pension costs	(111,874)	–	–	(111,874)	(111,874)
Comprehensive income	$7,031,105				
Balance at December 31, 2010		$3,200	$44,652,230	$(5,584,452)	$39,070,978

Kansas Electric Power Cooperative, Inc.

Consolidated Statements of Cash Flows

December 31, 2010 and 2009

Cash Flow From Operating Activities	2010	2009
Net margin	$ 7,646,619	$ 9,338,290
Adjustments to reconcile net margin to net cash flows from operating activities		
Depreciation and amortization	3,933,791	3,889,826
Decommissioning	1,726,544	1,833,811
Amortization of nuclear fuel	3,072,155	2,013,679
Amortization of deferred charges	4,354,224	4,348,006
Amortization or deferred incremental outage costs	3,946,016	4,099,003
Amortization of debt issuance costs	102,686	109,275
Changes in		
Member accounts receivable	(653,666)	(951,170)
Materials and supplies	(291,350)	(84,641)
Other assets and prepaid expense	135,797	(304,548)
Accounts payable	1,107,100	2,049,237
Payroll and payroll-related liabilities	33,679	(22,116)
Accrued property tax	12,299	23,038
Accrued interest payable	431,717	11,087
Accrued income taxes	1,937	–
Other long-term liabilities	426,336	440,601
Net cash flows from operating activities	25,985,884	26,793,378
Cash Flows From Investing Activities		
Additions to electrical plant	(18,792,039)	(23,937,741)
Additions to nuclear fuel	(4,469,736)	(2,474,774)
Additions to deferred incremental outage costs	(982,345)	(5,331,381)
Investments in decommissioning fund assets	(1,791,141)	(2,358,279)
Investments in National Rural Utilities Cooperative Finance Corporation	1,381,901	(6,781,554)
Investments in bond reserve assets	5,674	(89,996)
Net cash flows from investing activities	(24,647,686)	(40,973,725)
Cash Flows From Financing Activities		
Net borrowing (payment) under line of credit agreement	–	(13,178,203)
Principal payments on long-term debt	(13,709,763)	(13,209,153)
Proceeds from issuance of long-term debt	16,602,177	40,052,226
Net cash flows from financing activities	2,892,414	13,664,870
Net Increase/(Decrease) in cash and cash equivalents	4,230,612	(515,477)
Cash and Cash Equivalents, Beginning of year	118,631	634,108
Cash and Cash Equivalents, End of Year	$ 4,349,243	$ 118,631

(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 - 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 and an annual Demand Cost Adjustment (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 wholly owned subsidiary, KEPCo Services, Inc. Undivided interests in jointly owned generation facilities are consolidated on a pro rata basis. All material intercompany accounts and transactions have been eliminated in consolidation.

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

Utility Plant and Depreciation - Utility plant is stated at cost. Cost and additions to utility plant include contractual work, direct labor, materials and interest on funds used during construction. In 2010 and 2009, the amount of capitalized interest was approximately $3 million and $2.1 million, 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, 2010 and 2009 was 3.39% and 3.27%, 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. The permanent disposal of spent fuel is the responsibility of the Department of Energy (DOE). KEPCo pays one dollar per net megawatt (MWh) of nuclear generation to the DOE for the future disposal service. These disposal costs are charged to nuclear fuel expense.

Decommissioning Fund Assets/Decommissioning Liability - As of December 31, 2010 and 2009, approximately $12.4 million and $10.6 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 rate making purposes. In 2008, Wolf Creek received a 20-year operating license extension from the Nuclear Regulatory Commission. In 2009, the KCC approved a 2008 decommissioning cost study, which decreased the estimate of total decommissioning costs to $593.5 million in 2008 ($35.6 million is KEPCo's share). The study assumes a 3.73% rate of inflation and 6.8% rate of return on decommissioning fund investments.

KEPCo recognizes and estimates 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 Wolf Creek 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 2008 decreased the asset retirement obligation by approximately $4.8 million, utility plant in-service, net of accumulated depreciation by $0.5 million and the regulatory asset by $4.2 million in 2009. No study occurred during 2009 and 2010.

A reconciliation of the asset retirement obligation for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Balance at January 1	$15,761,591	$18,384,841
Accretion	935,112	882,784
Decrease from 2008 study	(1,340,031)	(3,506,034)
Balance at December 31	$15,356,672	$15,761,591

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 account and certificates of deposit.

Effective October 3, 2008, the FDIC's insurance limits increased to $250,000. The increase in federally in sured limits is currently set to expire December 31, 2013. At December 31, 2010, the Cooperative's interest-bearing cash accounts were covered by FDIC insurance.

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

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

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

Unamortized Debt Issuance Costs - Unamortized debt issue costs relate to the issuance of the floating/fixed rate pollution control revenue bonds, mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (CFC) trusts and fees for 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 long-term assets on the consolidated balance sheets.

	2010	2009
Cash surrender value of contracts	$ 5,768,907	$ 5,473,452
Borrowings against contracts	(5,554,114)	(5,236,550)
	$ 214,793	$ 236,902

Borrowings against contracts include a prepaid interest charge. KEPCo pays interest on these borrowings at a rate of 6.84% and 6.84% for the years ended December 31, 2010 and 2009, respectively.

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

Income Taxes - As a tax-exempt cooperative, KEPCo is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code of 1986, as amended. Accordingly, provisions for income taxes have not been reflected in the accompanying consolidated financial statements. KEPCo is no longer subject to federal or state income tax examinations by taxing authorities for years prior to 2007.

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

There has been no interest or penalties recognized neither in the statements of margin nor in the balance sheets related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. Tax years with open statutes of limitations are 2007 and forward.

Reclassifications - Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on net margin.

Subsequent Events - Subsequent events have been evaluated through April 15, 2011, which is the date the financial statements were available to be issued.

(2) Factors That Could Affect Future Operating Results

KEPCo currently applies accounting standards that recognize the economic effects of rate regulation and, accordingly, has recorded regulatory assets and liabilities related to its generation and transmission operations in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*. In the event KEPCo determines that it no longer meets the criteria of ASC 980, the accounting impact could be a noncash charge to operations of an amount that would be material. Criteria that could give rise to the discontinuance of ASC 980 include: 1) increasing competition that restricts KEPCo's ability to establish prices to recover specific costs and 2) a significant change in the manner in which rates are set by regulators from a cost-based regulation to another form of regulation. KEPCo periodically reviews these criteria to ensure the continuing application of ASC 980 is appropriate. Any changes that would require KEPCo to discontinue the application of ASC 980 due to increased competition, regulatory changes or other events may significantly impact the valuation of KEPCo's investment in utility plant, its investment in Wolf Creek and necessitate the write-off of regulatory assets. At this time, the effect of competition and the amount of regulatory assets that could be recovered in such an environment cannot be predicted. The 1992 Energy Policy Act began the process of restructuring the United States electric utility industry by permitting the Federal Energy Regulatory Commission to order electric utilities to allow third parties to sell electric power to wholesale customers over their transmission systems. KEPCo has elected to deregulate its rate making for sales to its members under recent statutory amendments. Subject to the possibility of KCC review, KEPCo's member rates are now set by action of the Board. KEPCo's ability to timely recover its costs is enhanced by this change.

(3) Departures From Generally Accepted Accounting Principles

Effective February 1, 1987, the KCC issued an order to KEPCo requiring the use of present worth (sinking fund) depreciation and amortization. As more fully described in Note 7, such depreciation and amortization methods constituted phase-in plans that did not meet the requirements of ASC 980-340 *Regulated Operation, Other Assets and Deferred Costs*.

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

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

	2010	2009
Deferred charges	$ 21,381,805	$ 24,945,439
Patronage capital	$ 21,381,805	$ 24,945,439
Net margin	$ (3,563,634)	$ (3,563,634)

(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.

(5) Investments in Associated Organizations

Investments in associated organizations are carried at cost. At December 31, 2010 and 2009, investments in associated organizations consisted of the following:

	2010	2009
CFC		
Memberships	$ 1,000	$ 1,000
Capital term certificates	395,970	395,970
Subordinated term certificates	–	2,205,000
Patronage capital certificates	336,346	175,343
Equity term certificates	9,029,663	8,396,799
Member capital certificates	2,500,000	2,500,000
	12,262,979	13,674,112
Other	210,423	181,191
	$ 12,473,402	$ 13,855,303

(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 $4.4 million. This stipulated amount is sufficient to satisfy certain future interest and principal obligations. The amount held in the bond fund reserve is invested by the trustee in tax-exempt municipal securities, pursuant to the restrictions of the indenture agreement, which are carried at amortized cost.

(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 ($11.8 mil lion net of accumulated amortization as of December 31, 2010). A subsequent rate order, effective February 1, 1987, allows KEPCo to recover these disallowed costs and other costs related to the disallowed portion (recorded as deferred charges) for the period from September 3, 1985 through January 31, 1987, over a 27.736-year period starting February 1, 1987. Pursuant to a KCC rate order dated December 30, 1998, the disallowed portion's recovery period was extended to a 30-year period. Through December 31, 2001, KEPCo used the present worth (sinking fund) method to recover the disallowed costs, which enabled it to meet the times-interest-earned ratio and debt service requirements in the KCC rate order dated January 30, 1987. The method used by KEPCo through 2001 constituted a phase-in plan that did not meet the requirements of ASC 980- 340, *Regulated Operations, Other Assets and Deferred Costs*.

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

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

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

Amortization of the Wolf Creek deferred plant costs is included in amortization of deferred charges and amounts to $3.1 million for each of the years ended December 31, 2010 and 2009.

If the deferred plant 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.

Deferred Incremental Outage Costs - In 1991, the KCC issued an order that allowed KEPCo to defer its 6% share of the incremental operating, maintenance and replacement power costs associated with the periodic refueling of Wolf Creek. Such costs are deferred during each refueling outage and are being amortized over the approximate 18-month operating cycle coinciding with the recognition of the related revenues. Additions to the deferred incremental outage costs were $1 million and $5.3 million in 2010 and 2009, respectively. The current year amortization of the deferred incremental outage costs was $3.9 million and $4.1 million in 2010 and 2009, respectively.

Subsequent to year end, Wolf Creek generating facility was temporarily shut down for routine maintenance. Additional costs related to this shut down will be amortized over the next 18 months.

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.

(8) Line of Credit

As of December 31, 2010, KEPCo has a $20.0 million line of credit outstanding with the Cooperative Finance Corporation. There were no funds borrowed against the line of credit at December 31, 2010. The line of credit requires the Cooperative to pay down the balance to zero annually. Interest rates vary and was 4.95% at December 31, 2010, and 4.25% at December 31, 2009. This line of credit expires in March 2011. Subsequent to year end, the line was renewed for an additional three years.

(9) Long-Term Debt

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

	2010	2009
Mortgage notes payable to the FFB at fixed rates varying from 3.22% to 9.21%, payable in quarterly installments through 2043	$59,995,747	$64,822,513
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	31,440,000	34,940,000
Floating/fixed rate pollution control revenue bonds, City of Burlington, Kansas, Pooled Series 1985C, variable interest rate (ranging from 1.05% to 1.75% at December 31, 2010) payable annually through 2017	15,295,000	20,100,000
Mortgage notes payable, equity certificate loans and member capital security notes to the CFC at fixed rates of 3.15% to 7.70%, payable quarterly through 2034.	88,821,137	72,796,957
	195,551,884	192,659,470
Less current maturities	(17,506,786)	(14,191,957)
	$178,045,098	$178,467,513

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

2011	$17,506,786
2012	18,616,573
2013	19,779,209
2014	21,185,046
2015	20,446,842
Thereafter	98,017,428
	$195,551,884

Restrictive covenants require KEPCo to design rates that would enable it to maintain a time-interest earned ratio of at least 1.05 and debt-service coverage ratio of at least 1.0, on average, in the two best years out of the three most recent calendar years. The covenants also prohibit distribution of net patronage capital or margins until, after giving effect to any such distribution, total patronage capital equals or exceeds 20% of total assets, unless such distribution is approved by the Rural Utility Service. KEPCo was in compliance with such restrictive covenants as of December 31, 2010 and 2009.

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 prepayable 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, 2010, the termination obligation associated with the assigned swap agreement to early retire the mortgage notes payable is approximately $6.5 million.

This fair value estimate is based on information available at December 31, 2010, 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.

Subsequent to year end, the notes payable to CFC has been refinanced with various maturity dates through 2032.

(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 multiemployer 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 approximately $0.5 and $0.3 million, respectively, for the years ended December 31, 2010 and 2009.

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 $0.1 million to the plan for each of the years ended December 31, 2010 and 2009.

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

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

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Benefit obligation	$(16,782,407)	$(14,174,710)	$(1,294,885)	$(1,222,057)
Fair value of plan assets	9,713,045	7,980,796	–	–
Net liability	$(7,069,362)	$(6,193,914)	$(1,294,885)	$(1,222,057)

Amounts recognized in the consolidated balance sheets:

	2010	2009
Other long-term liabilities		
Wolf Creek pension and postretirement benefit plans	$8,382,247	$7,433,971

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

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Net Loss	$(5,072,546)	$(4,449,829)	$(484,559)	$(473,458)
Prior service cost	(5,962)	(9,659)	–	–
Transition obligation	(6,653)	(13,910)	(14,732)	(22,082)
	$(5,085,161)	$(4,473,398)	$(499,291)	$(495,540)

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

	Pension Benefits	
	2010	2009
Projected benefit obligation	$16,782,406	$14,174,710
Accumulated benefit obligation	13,619,284	11,509,454
Fair value of plan assets	9,713,045	7,980,796

Other significant balances and costs are:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Employer Contributions	$771,607	$933,171	$62,695	$91,029
Benefits paid	326,338	268,433	133,350	147,024
Benefits cost	1,066,284	983,742	131,771	132,912

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 $468,000, $2,000 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 $36,000 and $7,000, respectively.

Significant assumptions used to determine benefit obligations include:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Discount rate	5.45%	6.05%	4.90%	5.05%
Annual salary increase rate	4.00%	4.00%	N/A	N/A
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Assumed health care cost trend rate	N/A	N/A	8% decreasing 0.4% per year to 5.0%	8% decreasing 0.5% per year to 5.0%

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

WCNOC uses an interest yield curve to make judgments. 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 asset 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 experienced 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.

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 2010 and 2009 and the target allocation for 2011 by asset category are as follows:

	Target Allocation for	Pension Plan Assets	
	2011	2010	2009
Asset category			
Equity securities	65%	66%	65%
Debt securities	25%	23%	24%
Real estate	5%	4%	4%
Other	5%	7%	7%
	100%	100%	100%

WCNOC's pension plan investment strategy supports the objective of the 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.

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

The fair values of WCNOC's pension plan assets at December 31, 2010, by asset category are as follows:

		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)
Cash equivalents	$ 97,905	$ 62	$ 97,843	$ –
Equity securities				
U.S. companies	4,020,249	4,020,250	–	–
International companies	2,378,678	1,153,492	1,225,186	–
Debt securities				
Core bonds	1,807,169	–	1,807,169	–
High-yield bonds	423,722	423,722	–	–
Commodities	581,895	–	581,895	–
Real estate	403,427	–	–	403,427
Total	$ 9,713,045	$ 5,597,525	$ 3,712,093	$ 403,427

The following table provides a reconciliation of KEPCo's 6% share of Wolf Creek's pension plan assets measured at fair value using significant Level 3 inputs for the year ended December 31, 2010.

Fair value measurements using significant unobservable inputs (Level 3):

	Real Estate Securities
Balance at January 1, 2010	$ 308,426
Actual return on plan assets	
Relating to assets still held at the reporting date	50,148
Relating to assets sold during the year	(299)
Purchases, sales and settlements	45,152
Balance at December 31, 2010	$ 403,427

WCNOC does not utilize a separate investment trust for the purpose of funding other postretirement benefits as it does for its pension plan. Prohibited investments include investments in the equity or debt securities of the companies that collectively own Wolf Creek or companies that control such companies, which includes KEPCo and KGE securities. Wolf Creek has also established restrictions for certain classes of plan assets, including that international equity securities should not exceed 25% of total plan assets, no more than 5% of the market value of the plan assets should be invested in the common stock of one corporation and the equity investment in any one corporation should not exceed 1% of its outstanding common stock.

The investments in both international and domestic equity securities include investments in large-, mid- and small-cap companies, private equity funds and investment funds with underlying investments similar to those previously mentioned. The investments in debt securities 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.

KEPCo estimates cash contributions of approximately $0.9 million will be made to the Plans in 2011.

Estimated future benefit payments as of December 31, 2010, for the Plans, which reflect expected future services, are as follows:

	Pension Benefits	Other Benefits
2011	$ 382,200	$ 87,840
2012	436,020	89,580
2013	499,740	93,540
2014	572,460	95,100
2015	658,020	97,380
2016-2020	4,970,640	532,080
	$ 7,519,080	$ 995,520

(11) Commitments and Contingencies

Current Economic Environment - KEPCo 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. Currently under state statutes, the Cooperative's rate making is deregulated and, therefore, expects to be able to recover any economic losses through future rates.

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

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

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 $375 million, and the remaining $12.225 billion is provided through mandatory participation in an industry wide retrospective assessment program. Under this retrospective assessment program, owners are jointly and severally subject to an assessment of up to $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 $1.6 million.

Although KEPCo maintains various insurance policies to provide coverage for potential losses and liabilities resulting from an accident or an extended outage, KEPCo's insurance may not be adequate to cover the costs that could result from a catastrophic accident or extended outage at Wolf Creek. Any substantial losses not covered by insurance, to the extent not recoverable 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, 2010, KEPCo's share of WCNOC's nuclear fuel commitments was approximately $5.8 million for uranium concentrates expiring in 2016, $0.9 million for conversion expiring in 2016, $14.9 million for enrichment expiring at various times through 2024 and $5.7 million for fabrication through 2026.

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 December 2045. 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 $77 million at December 31, 2010. To date, the Cooperative has paid approximately $74 million under the agreement. Financing is currently being provided by CFC. Subsequent to year end, the plant was placed in service as of January 1, 2011.

(12) Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2010:

		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 fund	$ 12,362,162	$ 12,362,162	$ –	$ –

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 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, 2010 and 2009:

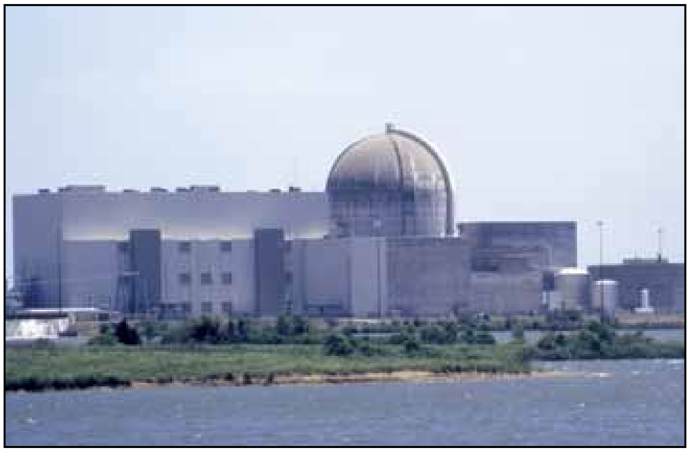
	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 4,349,243	$ 4,349,243	$ 118,631	$ 118,631
Bond fund reserve	4,405,495	4,595,268	4,411,168	4,688,924
Decommissioning fund	$ 12,362,162	$ 12,362,162	$ 10,571,021	$ 10,571,021
Financial liabilities				
Long-term debt	$ 195,551,884	$ 200,387,026	$ 192,659,470	$ 195,696,622

(13) Patronage Capital

In accordance with KEPCo's bylaws, KEPCo's current margins are to be allocated to members. KEPCo's current policy is to allocate to the members based on revenues collected from the members as a percentage of total revenues. If KEPCo's consolidated financial statements were adjusted to reflect accounting principles generally accepted in the United Stated of America, total patronage capital would be substantially less. As noted in the consolidated statements of changes in patronage capital, no patronage capital distributions were made to members in 2010 and 2009.

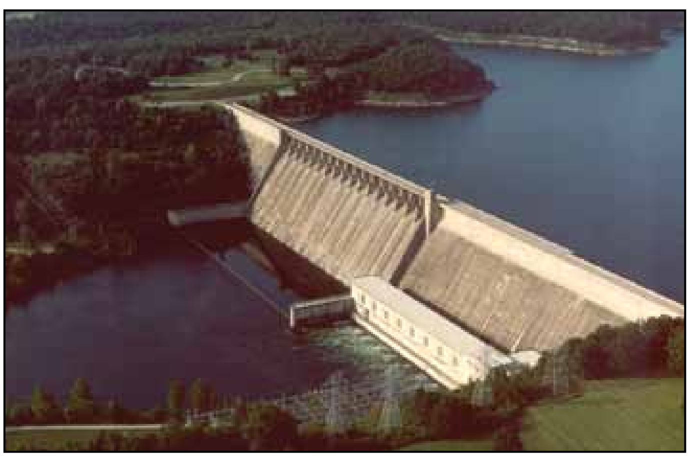
KEPCo Generation Resources

KEPCo power resources include the generation facilities pictured below, as well as long term power supply agreements with investor-owned utilities.



Wolf Creek Nuclear Generating Station
Nuclear Base Load
Came On-Line in October, 1985
70 MW (6% Ownership)

Iatan 2
Coal-Fired Base Load
Became Operational in December, 2010
30 MW (3.5% Ownership)



Participation in Federal Hydro Electric Power Projects
Southwest Power Administration, 100 MW Peaking
Western Area Power Administration, 14 MW

Sharp Generation Station
Diesel Peaking
In Service, June, 2002
20 MW

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