SYNERGY

Annual Report 2018

Mid-Kansas
ELECTRIC COMPANY, INC
neighbors serving neighbors

Lane-Scott
Electric Cooperative
A Touchstone Energy® Cooperative

Prairie Land
Electric Cooperative, Inc.
A Touchstone Energy® Cooperative

SouthernPioneer
ELECTRIC COMPANY
A Not-For-Profit Utility

The Victory
Electric Cooperative Assoc., Inc.
A Touchstone Energy® Cooperative

Western Cooperative Electric
A Touchstone Energy® Cooperative

Wheatland Electric
Delivering Energy for Life
A Touchstone Energy® Cooperative

MID-KANSAS PROFILE

Mid-Kansas Electric Company, Inc., headquartered in Hays, Kansas, is a cooperatively operated generation and transmission company that provides wholesale services to its six Members, who serve Kansans in 33 counties.

The formation of Mid-Kansas was a proactive solution to giving its Members additional access to wholesale electric services and giving more Kansans the opportunity to be served by the cooperative business model.

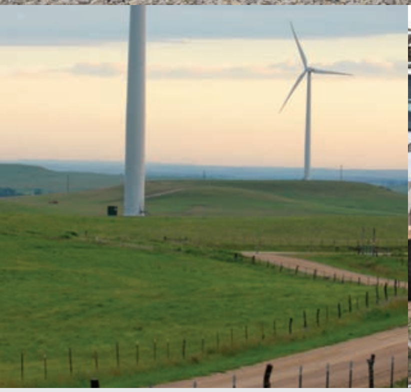
The Mid-Kansas system now includes more than 1,250 miles of transmission line and numerous substations, along with more than 700 megawatts* of generation—comprising natural gas, coal, and wind. The generation portfolio is a combination of owned assets and power purchase agreements.

All decisions and work at Mid-Kansas are driven by the cooperative principles and spirit, as the company strives each day to provide its Members with reliable services at the lowest possible cost. The visionary approach employed during Mid-Kansas' formation has continued, enabling the system to fortify its current assets, build new assets, and stay poised for future opportunities that benefit its Members.

Based on nameplate capability

Mid-Kansas
ELECTRIC COMPANY, INC
neighbors serving neighbors

It's a wrap. After the luncheon celebrating the completion of the 138 kV Harper-to-Milan Transmission Project, elected officials and Mid-Kansas representatives gathered at the Harper Substation on Aug. 23, 2018.




WHAT'S INSIDE

Executive Report and Board 2

Generation and Transmission Facts 3

ICARE2020 Strategic Plan 4

Finance 5

Power Supply and Delivery 6

Transmission Policy and Planning 6

Operations 7

Financial Statements 9

EXECUTIVE REPORT and Board of Directors

STEPHEN EPPERSON
Chairman of Board
Southern Pioneer

STUART LOWRY
President & CEO
Mid-Kansas

Cooperatives were founded on the belief that together we are better, together we can do more than we can accomplish alone. That is especially true of generation and transmission (G&T) utilities based on the cooperative business model, like Mid-Kansas, which was formed by several distribution cooperatives to provide wholesale services at a cost that could not be accomplished individually. The concept of cooperation is not just a business model; it's an ideology that drives all that we do. From the simplest to the most complex projects and decisions, we look for synergies that improve our work and service.

In 2018, these synergies came in many forms. Guided by the Board's strategic goals and decisions, we zeroed-in on ways to expand efficiencies and offer more value to our services. For example, reregistering the generating units at Rubart Station and rebalancing generation resources between Mid-Kansas and its affiliated G&T, Sunflower Electric Power Corporation, will aid in our continued ability to offer reliable service at the lowest possible cost but also ensure long-term utilization of our assets.

Our continued engagement at the Southwest Power Pool (SPP) and focus on least-cost solutions resulted in mitigation of transmission projects, thus avoiding additional transmission costs shouldered by local consumer-members. Development of local planning criteria to ensure buildout of only necessary transmission infrastructure will also aid in providing wholesale transmission services that meet the needs of our Members while managing costs.

The completion of the Harper-to-Milan transmission project also exemplifies the cooperative approach to work at Mid-Kansas. The project took nearly three years to complete and was the result of a broad team effort that included our Members, staff, elected officials and landowners. This high-voltage project will provide immediate and long-term benefits to the local area and the entire region. Other great examples of cooperative synergies included improving physical and cyber asset security, seeking new load, designing flexible rate incentives, and building and maintaining positive relationships. The electric industry is one of continual change, and we understand the need to stay as visionary and responsive as those who founded electric cooperatives decades ago.

Most notably, the Mid-Kansas Board and staff gave great attention to the future of Mid-Kansas and whether it is in the best interest of our Members for Mid-Kansas and Sunflower to merge, as was the original intention when Mid-Kansas was formed in 2005. Since analytics confirmed that a merger will benefit both Mid-Kansas and Sunflower, early steps to accomplish this goal were implemented in 2018.

Yes, working together was the foundation of the rural electric success decades ago. Thankfully, it's a concept that hasn't gone out of style, especially in the way electric co-ops conduct business to accomplish the mission of serving members.

BRUCE MUELLER
Wheatland
Vice Chairman

SHANE LAWS
Victory

CHUCK LOOK
Prairie Land

TOM RUTH
Western

PAUL SEIB, JR.
Lane-Scott

Lt. Gov. Tracey Mann makes remarks during the public announcement of the Johnson Corner Solar Project. Also presenting were Stuart Lowry and Steve Epperson, Mid-Kansas board chairman, along with dignitaries from Lightsource BP and the National Renewables Cooperative Organization. The 20 MW project is expected to be operational in 2020.

MID-KANSAS GENERATION & TRANSMISSION

Great Bend 3 (GB3)
Capability: 82 MW*
Fuel: Natural Gas
Type: Steam
Placed into service: 1963

Fort Dodge 4 (FD4)
Capability: 149 MW*
Fuel: Natural Gas
Type: Steam
Placed into service: 1968

Smoky Hills Wind Farm
Capability: 24 MW*
Fuel: Wind (PPA)
Placed into service: 2008

Cimarron River 1 (CR1)
Capability: 50 MW*
Fuel: Natural Gas
Type: Steam
Placed into service: 1963

Clifton 1 (CL1)
Capability: 85 MW*
Fuel: Natural Gas
Type: Combustion Turbine
Placed into service: 1974

Shooting Star Wind Farm
Capability: 104 MW*
Fuel: Wind (PPA)
Placed into service: 2012

Rubart Station (RTS)
Capability: 110 MW*
Fuel: Natural Gas
Type: RICE
Placed into service: 2014

Jeffrey Energy Center (JEC)
Capability: 173 MW*
Fuel: PRB Coal (PPA)
Type: Steam
Placed into service: 1978

**Based on nameplate capability*

Transmission		
	Miles	Spans
345 kV	30	203
230 kV	192	1,559
138 kV	143	657
115 kV	886	7,854
Total	1,251	10,273

Generation (777 MW)		
Wind	Coal	Nat. Gas
16%	22%	62%

To show appreciation for the public support of the Harper-to-Milan Transmission Project and to celebrate its completion, Mid-Kansas provided a hotdog feed for those in attendance at the Harper County Fair on Aug. 11, 2018.

ICARE2020

2018 was the third year of the company's five-year strategic plan to ensure that work, projects, and service focused on the priorities of the Members and the Board's vision for Mid-Kansas. The plan—known as ICARE2020, which stands for Innovative Concepts Achieve Real Excellence—is based on four strategic perspectives: People and Culture, Internal Processes, Finance, and Members & Stakeholders. ICARE2020 encompasses company-wide objectives developed around financial and operational efficiencies, reliability, and strong collaboration with Members and stakeholders.

Progress was made in several areas, such as efforts to mitigate unnecessary transmission costs, collaborate among internal and external working groups, and establish optimal equity. A survey was developed and disseminated to attain both internal and external feedback on ways to improve collaboration on projects and other

interactions. In November, the first Members' Conference for Members' boards of directors and staff gave those in attendance the opportunity to learn more about ICARE2020, including the accomplishments and challenges ahead.

One of the strategic objectives is to realize financial synergies from the merger of Mid-Kansas and its affiliate G&T, Sunflower Electric Power Corporation. In early August, Mid-Kansas and Sunflower jointly submitted regulatory filings to the Kansas Corporation Commission (KCC) for the merger of Mid-Kansas into Sunflower in early 2020.

Although the two systems have been jointly planned and operated since 2007, the merger will allow for an even greater level of integration. Merging will remove duplicate regulatory and operational forms and reports, and the combined, larger utility will be able to access lower cost debt and better absorb fluctuating load that occurs due to industry and economic pressures. The KCC approved the merger of Mid-Kansas into Sunflower on March 28, 2019. Pending additional regulatory approvals, the effective date of the merger is expected to be January 1, 2020.

Staff reviewed and adjusted strategic objectives, supporting initiatives, and measures to help Mid-Kansas reach the Board's vision for the company by 2020. Six original objectives that accomplished the desired changes were incorporated in daily work.

The Board and staff also considered how the industry landscape has changed since the launch of ICARE2020 in 2015 and applied the current landscape to several speculative future scenarios. The Board then identified several opportunities for strategic changes and improvements, with the rates/rate design strategy and the cost/risk management strategy ranking as the most important areas of strategic improvement.

Having a strong and dynamic strategic plan proactively positions Mid-Kansas to respond to both challenges and opportunities in ways that continue to benefit its Members and the thousands of Kansans they serve.

FINANCE

ICARE2020 continues to produce financial benefits. Success in mitigating increases in costs is reflected in power supply rate decreases. In 2018, Mid-Kansas experienced the full-year impact of the base rate decrease implemented in October 2017, and power supply base rates remained unchanged from the rates set in October 2017. The power supply rate decrease, however, was more than offset by a 2.8% increase in transmission costs and a 2.9% increase in energy costs. As a result, average member rates increased 2.5% in 2018 over 2017.

Net Margin increased to $8.9 million in 2018 from $5.9 million in 2017. The Mid-Kansas equity position grew to $69 million in 2018 from $60 million in 2017. Equity, as a percentage of total assets, also grew to 13.5% in 2018 from 11.6% in 2017. Member MWh sales increased approximately 5% in 2018 over 2017, primarily due to the growth of industrial loads.

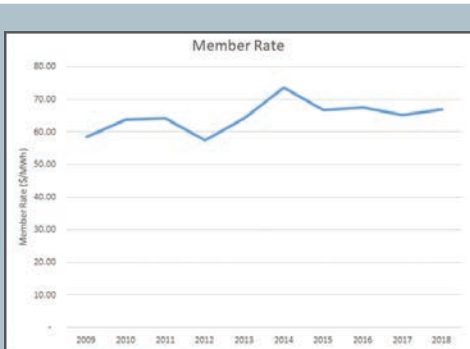
Renewable energy continued to have a significant impact, with wind generation facilities injecting approximately 5.5 million MWh of energy into the Mid-Kansas transmission system. In comparison, Mid-Kansas' Members consumed only 2.2 million MWh. Mid-Kansas directly purchased approximately 509,000 MWh of wind energy, representing 23% of the energy consumed by its Members during the year.

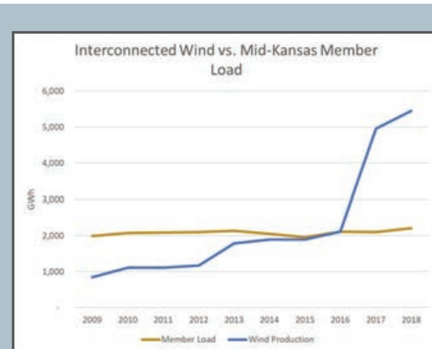
Mid-Kansas participates in and purchases energy from the Southwest Power Pool's (SPP) Integrated Marketplace. In 2018, nearly 34% of all energy produced in SPP came from zero-carbon emission sources, including wind, hydro, solar, and nuclear. On April 30, 2018, SPP hit a new record of 63.96% for wind penetration.

POWER SUPPLY AND DELIVERY

Efforts to retain existing load and add new load is a significant, continuing strategic initiative associated with ICARE2020. In 2018, these efforts resulted in substantial retail industrial load growth despite ongoing external pressures, such as low commodity prices.

In addition to building retail load, Mid-Kansas also focused on retaining and expanding its wholesale power supply customers. The SPP Integrated Marketplace continued to provide benefits to Mid-Kansas, although the average cost of market energy to serve the Mid-Kansas load in 2018 increased from 2017.





As market prices increase, the hedge value of Mid-Kansas' generating resources is realized. The overall value of Mid-Kansas' resource portfolio as a hedge against the price of energy was illustrated by the fact that Mid-Kansas' energy cost adjustment (ECA) only increased by $1.88/MWh from 2017 to 2018, despite a $4.22/MWh increase in the average market cost of energy.

The Power Purchase Agreement (PPA) associated with output from the Jeffrey Energy Center, a coal-fired resource owned by Westar, Inc., expired on January 3, 2019. In order to maintain diversity in the Mid-Kansas portfolio, Mid-Kansas and Sunflower arranged a resource rebalance that assigns 127 MW of Sunflower's Holcomb coal-fired resource to Mid-Kansas in exchange for 105 MW of Mid-Kansas' Fort Dodge 4 gas-fired resource being assigned to Sunflower. The transaction allows both utilities to maintain a more balanced mix between gas and coal while maintaining an appropriate reserve margin for each company.

In February of 2018, Mid-Kansas executed agreements with Lightsource BP for energy from a new solar farm that will be constructed near Johnson City, Kansas. The 20 MW facility will be significantly larger than any other solar facility currently operating in the state. With commercial operation planned to commence in 2020, this resource will provide a fixed-price, on-peak renewable energy resource to further add to the diversity of the Mid-Kansas generation resource portfolio.

TRANSMISSION POLICY AND PLANNING

Transmission infrastructure impacts the affordability and reliability of Mid-Kansas' services, so Mid-Kansas' Members included several transmission planning and policy initiatives in the five-year strategic vision. Mid-Kansas also continued to actively engage in stakeholder activities at the SPP, the regional transmission organization to which Mid-Kansas belongs, to advocate for policies and processes that balance cost and service reliability along with fair cost-recovery mechanisms.

Federal tax policies have incented rapid additions of wind generation throughout the multi-state SPP footprint, resulting in the buildout of more transmission for the export of this wind energy. In 2018, the combined Mid-Kansas and Sunflower systems had more than 2,300 MW of interconnected wind generators, compared to their combined system peak load of just over 1,100 MW. To accommodate growing wind generation within the system built for export to other utilities, SPP issued orders to construct several sub-300 kV transmission lines in the Mid-Kansas and Sunflower systems, burdening local customers with most of the costs associated with these projects.

In response, Mid-Kansas engaged in more than a dozen SPP committees to participate in transmission planning processes, advocate for modernization of transmission cost allocation for facilities lower than 300 kV, and develop policies to ensure that electric consumers have a voice at SPP. In fact, Mid-Kansas has incorporated specific initiatives within the ICARE2020 program to set targets and measure its participation in SPP processes.

Mid-Kansas completed the Harper-to-Milan project to support growing transmission demands in the region. Located in Kingman, Harper and Sumner counties, the three-year, $65 million project included approximately 77 miles of new and rebuilt transmission lines incorporating T2 conductor and monopole steel structures. The project eliminated one weak interconnection with Westar's transmission system and constructed two strong ties at Westar's Viola Substation. Most importantly, the project was completed safely, on budget, and ahead of schedule.

OPERATIONS

In striving for a culture of compliance, also an ICARE2020 initiative, Mid-Kansas sponsored its third annual safety "rodeo" in August. During the three-day event, Mid-Kansas conducted mandatory annual refresher training for pole-top rescue certifications, forklift and crane certifications, CPR certifications, and similar refresher training. Safety contractors and company staff inventoried and updated all vehicle safety kits to replace all out-dated kit materials and verify that all fire extinguishers were in good working order.

The highlight of the event was a two-day educational conference during which Mid-Kansas had subject matter experts speak on a broad range of topics. Mid-Kansas' environmental subject matter experts covered topics such as the avian protection plan, notification and record requirements in the event of an oil spill, and proper disposal and record requirements for certain contaminated materials. Local medical personnel presented on topics such as back and joint health, proper stretching and exercise techniques, and ergonomics. Mid-Kansas also hired outside speakers to address topics such as grounding concepts and techniques, Department of Transportation rules and record keeping requirements, and the latest tools and equipment for hot work. Mid-Kansas has expanded the safety program each year and plans on incorporating the company's generation group in the 2019 safety rodeo.

Operating effectively in the SPP Integrated Market requires constant evaluation and adjustment. One example is Mid-Kansas' Rubart Station reciprocating engine generators. These twelve units were initially registered in the SPP Integrated Market in a manner to allow direct comparison of individual unit registration and a hybrid registration approach grouping multiple units together as a "synthetic" larger unit. Six units were registered independently, and six units were registered as a single block and considered a "synthetic" larger unit. The original intent was to achieve an operating hour spread between individual units and to simplify market interactions based on feedback from other SPP members operating similar assets.

This approach allowed Mid-Kansas to directly compare actual market behavior between these two philosophies and showed actual engine starts, average run times, and market settlements between the two approaches. The resulting data showed the "synthetic" unit was not recovering startup costs as completely as the individual units and showed the average engine starts and run hours were not significantly different between the two philosophies. Therefore, Mid-Kansas reregistered these assets to eliminate the "synthetic" unit, resulting in twelve, individually registered units within the market. Mid-Kansas has continued to work within SPP processes to develop formal market mechanisms to quantify and compensate dispatchable generating resources, including advocating for a reactive power market.

David Debes, structural design engineer and project supervisor, Clarence Suppes, senior manager of transmission engineering, and Rep. Joe Seiwert (R-Pretty Prairie) visit after the Harper-to-Milan Project celebration.

KPMG LLP
Suite 1100
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

The Board of Directors
Mid-Kansas Electric Company, Inc.:

We have audited the accompanying consolidated financial statements of Mid-Kansas Electric Company, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations – comprehensive income, members' equity, and cash flows for the years then ended, and related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mid-Kansas Electric Company, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Kansas City, Missouri
April 4, 2019

MID-KANSAS ELECTRIC COMPANY, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

Assets	2018	2017
Utility plant, at cost:		
In service	$ 558,291,943	483,021,014
Less accumulated depreciation	(86,425,958)	(72,042,528)
	471,865,985	410,978,486
Construction work in progress	2,834,824	56,387,056
Total utility plant, net	474,700,809	467,365,542
Investments and other assets:		
Investment in Federated Rural Electric Insurance Exchange	563,614	565,154
Other investments	324,215	219,976
Escrowed funds	342,317	338,446
Total investments	1,230,146	1,123,576
Current assets:		
Cash and cash equivalents	3,425,945	4,199,760
Accounts receivable:		
Members	11,694,863	10,258,891
Affiliate	—	700,313
Other	5,600,608	5,080,737
Total accounts receivable	17,295,471	16,039,941
Materials and supplies inventory	3,011,737	3,047,017
Prepayments and other current assets	372,750	362,325
Regulatory assets, current	2,554,800	10,190,210
Deferred charges	14,332	932,324
Total current assets	26,675,035	34,771,577
Other long-term assets:		
Regulatory assets	9,636,141	13,953,973
Total assets	$ 512,242,131	517,214,668

MID-KANSAS ELECTRIC COMPANY, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

Capitalization and Liabilities	2018	2017
Capitalization:		
Members equity:		
Donated capital	$ 3,752,000	3,752,000
Accumulated surplus	63,668,668	54,754,555
Accumulated other comprehensive gain	2,043,424	1,848,377
Total member and patron equity	69,464,092	60,354,932
Long-term obligations, less current maturities	350,642,492	364,094,258
Less unamortized debt issuance costs	(2,259,283)	(2,359,937)
Long-term debt, less unamortized debt issuance costs	348,383,209	361,734,321
Total capitalization	417,847,301	422,089,253
Current liabilities:		
Current maturities of long-term obligations	13,451,766	13,174,823
Accounts payable	11,256,915	15,200,753
Accounts payable-affiliates	4,636,985	3,381,919
Interest payable	1,733,130	1,903,517
Accrued taxes other than income taxes	2,787,843	2,701,161
Short-term notes payable	45,000,000	35,000,000
Regulatory liabilities, current	5,719,603	5,895,432
Other current liabilities	98,121	549,791
Total current liabilities	84,684,363	77,807,396
Other long-term liabilities:		
Regulatory liabilities	1,450,535	8,702,684
Other long-term liabilities	8,259,932	8,615,335
Total other long-term liabilities	9,710,467	17,318,019
Total capitalization and liabilities	$ 512,242,131	517,214,668

See accompanying notes to consolidated financial statements.

MID-KANSAS ELECTRIC COMPANY, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations – Comprehensive Income

Years ended December 31, 2018 and 2017

		2018	2017
Operating revenue:			
Member sales	$	147,355,366	136,879,218
Nonmember power sales		12,617,792	12,437,108
Affiliate power sales		3,202,738	2,590,197
Other operating revenue		53,910,576	35,336,727
Total operating revenue		217,086,472	187,243,250
Operating expenses:			
Operations:			
Production and other power supply, net		116,550,861	109,804,662
Transmission		35,975,179	25,324,645
Maintenance:			
Production		5,080,880	4,840,665
Transmission		4,158,905	3,504,514
Administrative and general		13,325,544	11,924,112
Depreciation and amortization		15,609,223	11,969,686
Total operating expenses		190,700,592	167,368,284
Electric operating margin		26,385,880	19,874,966
Interest expense, less amounts capitalized during construction of $394,941 and $847,614 in 2018 and 2017, respectively		(17,725,104)	(16,433,137)
Other income (expense), net		(48,081)	2,258,148
Operating margins		8,612,695	5,699,977
Nonoperating margins:			
Investment income		69,952	34,102
Other, net		231,466	181,246
Total nonoperating margins		301,418	215,348
Net margins		8,914,113	5,915,325
Other comprehensive gain – postretirement benefit plan and pension		195,047	223,656
Total comprehensive income	$	9,109,160	6,138,981

See accompanying notes to consolidated financial statements.

MID-KANSAS ELECTRIC COMPANY, INC.
AND SUBSIDIARIES

Consolidated Statements of Members Equity

Years ended December 31, 2018 and 2017

		Donated capital	Accumulated surplus	Accumulated other comprehensive gain	Total
Balance, December 31, 2016	$	3,752,000	48,839,230	1,624,721	54,215,951
Comprehensive income:					
Net margins		—	5,915,325	—	5,915,325
Other comprehensive gain postretirement benefit plan and pension		—	—	223,656	223,656
Balance, December 31, 2017		3,752,000	54,754,555	1,848,377	60,354,932
Comprehensive income:					
Net margins		—	8,914,113	—	8,914,113
Other comprehensive gain postretirement benefit plan and pension		—	—	195,047	195,047
Balance, December 31, 2018	$	3,752,000	63,668,668	2,043,424	69,464,092

See accompanying notes to consolidated financial statements.

MID-KANSAS ELECTRIC COMPANY, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net margins	$ 8,914,113	5,915,325
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	15,609,223	11,969,686
Amortization of regulatory assets	4,323,518	384,270
Amortization of regulatory liabilities	(5,895,432)	(11,753,497)
Amortization of debt issuance costs	100,654	124,405
Patronage credits earned from investments	(102,699)	(114,098)
Asset retirement obligation accretion	368,655	364,308
Changes in assets and liabilities:		
Accounts receivable	(2,315,699)	508,090
Materials and supplies inventories	839,740	1,226,438
Prepayments	(10,425)	41,278
Regulatory assets	7,599,261	(2,706,805)
Accounts payable	1,186,262	643,161
Interest payable	(170,387)	408,536
Accrued taxes other than income taxes	86,682	113,896
Other current liabilities	(451,670)	445,470
Due to/from affiliate	1,955,379	(3,204,021)
Regulatory liabilities	(1,532,546)	13,040,101
Other long-term liabilities	(529,011)	223,656
Net cash provided by operating activities	29,975,618	17,630,199
Cash flows from investing activities:		
Utility plant expenditures	(25,910,049)	(58,761,327)
Proceeds from development costs	1,774,809	2,254,752
Payments for development costs	(3,435,499)	(1,830,339)
Net cash used in investing activities	(27,570,739)	(58,336,914)
Cash flows from financing activities:		
Principal payments on long-term obligations	(13,174,823)	(11,013,269)
Principal payments on short-term obligations	(10,000,000)	(60,000,000)
Proceeds from short-term obligations	20,000,000	35,000,000
Proceeds from long-term obligations	—	75,000,000
Net cash provided by (used in) financing activities	(3,174,823)	38,986,731
Net decrease in cash and cash equivalents	(769,944)	(1,719,984)
Cash, cash equivalents, and restricted cash, beginning of year	4,538,206	6,258,190
Cash, cash equivalents, and restricted cash, end of year	$ 3,768,262	4,538,206

Supplemental information:

Mid-Kansas paid $18,290,432 and $16,872,216 in cash for interest during 2018 and 2017, respectively. Mid-Kansas had capital expenditures within payables of $133,339 and $4,922,204 at December 31, 2018 and 2017, respectively. Mid-Kansas had development costs within accounts payable of $14,317 and $259,845 at December 31, 2018 and 2017, respectively. Mid-Kansas capitalized $793,543 and $259,845 of materials and supplies inventory to total utility plant, net during 2018 and 2017, respectively.

See accompanying notes to consolidated financial statements.

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

(a) Nature of Operations

Mid-Kansas Electric Company, Inc. (Mid-Kansas or the Company) is an electric generation and transmission corporation. Mid-Kansas provides electric power to its five distribution cooperatives and one corporation (collectively, Members), serving customers in western and central Kansas counties. The Members also own Sunflower Electric Power Corporation (Sunflower). Sunflower is a generation and transmission service provider that provides management services to Mid-Kansas. The six Members are: Lane-Scott Electric Cooperative, Inc. (Lane-Scott); Southern Pioneer Electric Company (Southern Pioneer); Prairie Land Electric Cooperative, Inc. (Prairie Land); The Victory Electric Cooperative Association, Inc. (Victory); Western Cooperative Electric Association, Inc. (Western); and Wheatland Electric Cooperative, Inc. (Wheatland). Power supply rates to Mid-Kansas' Members are subject to approval by the board of directors. Transmission rates are subject to review and approval by state and federal regulatory agencies. In accordance with this regulation, Mid-Kansas has applied the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*.

Mid-Kansas has no employees, but has entered into a service and operation agreement with Sunflower under which Sunflower operates and manages the generation and transmission assets. Mid-Kansas reimburses Sunflower for the time spent operating the assets, including benefits and any other direct costs that relate to Mid-Kansas operations and a portion of the administration and general operating costs of Sunflower. See further information in note 3.

(b) The Financial Reporting Entity

On March 11, 2017, Mid-Kansas Electric Company, LLC converted from a limited liability company to a corporation and legally changed its name to Mid-Kansas Electric Company, Inc. Mid-Kansas has one wholly owned subsidiary, Konza Transmission Company, LLC (Konza). Konza was formed to bid and build transmission projects designated as competitive upgrades by the Southwest Power Pool (SPP).

The accompanying consolidated financial statements include the consolidated transactions of Mid-Kansas Electric Company, Inc., and its one wholly owned subsidiary collectively titled and referred to herein as Mid-Kansas Electric Company, Inc. and Subsidiaries, or Mid-Kansas. Intercompany balances and transactions have been eliminated in consolidation.

(c) Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The Company has evaluated subsequent events through April 4, 2019 (the issuance date of this report) for inclusion in this report.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of operating revenue, expenses, and other items during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of utility plant, recoverability of deferred tax assets, asset retirement obligations, and key inputs to actuarial calculations of postretirement obligations. Actual results could differ significantly from those estimates.

(e) Fair Value Measurements

The Company has adopted standards for fair value measurements of financial assets and liabilities that establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(f) Utility Plant

Utility plant is stated at cost, and expenditures for replacement of property units are recorded as utility plant. The cost of units retired in the normal course of business, including cost of removal, net of any salvage value, is charged to accumulated depreciation. The cost of maintenance and repairs, including renewals of minor items, is charged to operating expenses as incurred.

The costs of homogeneous units of property, plant, and equipment are aggregated to form groups of assets that are depreciated on a straight-line basis over the estimated remaining useful life established for each specific asset group. Estimates and assumptions used in establishing the depreciation rates associated with each group are based on management’s best estimate of useful lives considering input from external studies performed by specialists. Generally, changes in depreciation rates are effected through changes in the remaining depreciable lives of the applicable group assets and are recorded prospectively as a change in accounting estimate.

The average annual depreciation rates from the depreciation study dated August 9, 2018, and in effect as of January 1, 2018 were as follows:

	2018	2017
Steam production plant	2.23 %	1.24 %
Other production plant	2.52	2.30
Transmission plant	2.04	1.88
Distribution plant	5.00	2.70
General plant	6.69	5.67

Prior to the implementation of the depreciation study dated August 9, 2018, the Company utilized the December 31, 2010 KCC Depreciation Rate Study, as that was the most current rates to date.

(g) Capitalization of Interest

Interest costs are capitalized as part of the cost of various capital assets under construction. Mid-Kansas used a rate of 3.5% on borrowed funds and a rate of 0.0% on other funds. Interest charged to construction during 2018 and 2017 totaled $0.4 million and $0.8 million, respectively.

(h) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment and purchased intangible assets subject to depreciation and amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, Mid-Kansas first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. For the years ended December 31, 2018 and 2017, no impairments have been incurred.

(i) Investments

Investment in the Federated Rural Electric Insurance Exchange (FREIE) is stated at cost plus Mid-Kansas’ share of patronage capital credits allocated and reduced by distributions received. Mid-Kansas’ ownership percentage in FREIE is less than 20%.

Escrowed funds are carried at cost. As of December 31, 2018 and 2017, escrowed funds consisted of $0.3 million and $0.3 million, respectively, of industrial waste disposal funds held in trust.

(j) Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include cash deposits in banks and short-term investments with original maturities of three months or less.

Restricted cash and cash equivalents include Escrowed funds held in trust.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

		2018	2017
Cash and cash equivalents	$	3,425,945	4,199,760
Restricted cash included in escrowed funds		342,317	338,446
	$	3,768,262	4,538,206

(k) Materials and Supplies Inventories

Materials and supplies inventory is recorded at cost and recognized on an average-cost basis.

(l) Prepayments

Prepayments consist primarily of prepaid insurance, which is expensed ratably over the terms of the underlying policies.

(m) Deferred Charges

Deferred charges consist of preliminary survey and investigation studies.

(n) Member and Patron Equity

All net margins are required to first offset any losses incurred during the current or any prior fiscal year. Remaining net margins, if any, are allocated to Members based on each member's relative percentage revenue contribution to fixed costs and margins. At December 31, 2018 and 2017, accumulated surplus was allocated as follows:

		2018	2017
Lane-Scott	$	678,635	517,017
Southern Pioneer		19,722,956	16,602,382
Prairie Land		10,427,670	9,157,022
Victory		16,337,515	14,043,167
Western		5,716,410	4,916,951
Wheatland		10,785,482	9,518,016
	$	63,668,668	54,754,555

Patronage capital distributions are limited by certain provisions of the indenture. In general, distributions are limited if equity to total capitalization is less than 30%.

(o) Income Taxes

From the Company's inception to March 10, 2017, Mid-Kansas was not subject to federal and state income taxes since it was operating as a limited liability company. On March 11, 2017, Mid-Kansas converted from a limited liability company to a taxable corporation and, as a result, became subject to corporate federal and state income taxes. As a taxable electric cooperative, Mid-Kansas is allowed a tax exclusion for margins allocated as patronage capital. Mid-Kansas utilizes the liability method of accounting for income taxes. Accordingly, changes in deferred tax assets or liabilities result in the establishment of a regulatory asset or liability. A regulatory asset or liability associated with the deferred income taxes generally represents the future increase or decrease in income taxes payable that will be received or settled through future rate revenues. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income from nonpatron sales in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(p) Regulatory Assets and Liabilities

Mid-Kansas has recorded assets and liabilities to reflect the impact of rate regulation. See note 5 for further discussion.

(q) Other Long-Term Liabilities

Other long-term liabilities consist mainly of accrued postretirement benefit obligations, measured at each fiscal year-end, and asset retirement obligations for the estimated costs for legally required removal of certain assets.

Mid-Kansas does not have any active employees; however, Mid-Kansas did acquire obligations of providing various health insurance benefits to former retirees.

The Company records amounts relating to its postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, turnover rates, and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The net periodic costs are recognized over the average remaining life expectancy of the retirees. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

The Company recognizes the unfunded status of the postretirement plan as a liability, and changes in that unfunded status in the year in which the changes occur through other comprehensive gain or loss to the extent those changes are not included in the net periodic cost.

(r) Revenue and Fuel Expense Recognition

Member Sales include amounts for both power and transmission charges to the Company's Members. These sales and related fuel and purchased power expense are recorded at the time electric energy is delivered.

Nonmember power sales include Southwest Power Pool (SPP) Integrated Market sales. SPP Integrated Market sales and purchase transactions are recorded by Mid-Kansas using settlement information provided by SPP. Mid-Kansas records these market sales and purchase transactions on a net hourly position. Mid-Kansas records net sales in a single hour in "Operating revenue – nonmember power sales" and net purchases in a single hour in "Operating expenses – production and other power supply" in its consolidated statements of operations – comprehensive income. Other nonmember power sales and related fuel and purchased power expenses are recorded at the time electric energy is delivered.

Affiliate power sales include power sales to Sunflower. See additional information on power sales to Sunflower described in note 3.

Other operating revenue primarily represents amounts billed to and collected by SPP for transmission services based upon a tariff designed to recover the Company's transmission service costs. SPP transmission service costs incurred by the Company's Members are recognized and included in operating expenses. These transmission service costs are recorded at gross rather than netting them against the transmission charges recorded in other operating revenue. The following shows other operating revenue netted against Member transmission service costs.

		2018	2017
Other operating revenue	$	53,910,576	35,336,727
Less member transmission service costs		(46,563,843)	(24,876,646)
Net other operating revenue	$	7,346,733	10,460,081

(2) New Accounting Pronouncements

Upon issuance of exposure drafts or final pronouncements, Mid-Kansas reviews new accounting literature to determine the relevance, if any, to its business. The following represents a summary of pronouncements that Mid-Kansas has determined relate to its operations:

(a) Revenue from Contracts with Customers

In May 2014, the FASB issued a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The new standard supersedes virtually all present U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards as well as additional disclosures. The new accounting standard is effective for the Company as of January 1, 2019, and Mid-Kansas has determined there will be no material impact on the consolidated financial statements due to the adoption of this guidance.

(b) Lease Accounting

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The ASU is effective for annual periods beginning after December 15, 2019; earlier adoption is permitted. In the consolidated financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Mid-Kansas is currently evaluating the potential impact of the adoption of this guidance on the consolidated financial statement and financial statement disclosures.

(c) Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides specific guidance on the presentation of changes in restricted cash and restricted cash equivalents on the statements of cash flows. Under the new standard, the changes in restricted cash and restricted cash equivalents are required to be disclosed in reconciling the opening and closing balances on the statement of cash flows. As a result, companies will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash, and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet is required. Effective January 1, 2018, Mid-Kansas adopted the ASU and applied the guidance retrospectively. As a result, net cash provided by financing activities for the year ended December 31, 2017, was adjusted to exclude the change in restricted cash and decreased the previously reported balance by $0.2 million.

(d) Improving Presentation of Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost* (Topic 715). The changes to the standard require employers to report the service cost component in the same line item(s) as other compensation costs, and require the other components of net periodic pension and post-retirement benefit costs to be separately presented in the income statement outside of income from operations. Additionally, only the service cost component may be eligible for capitalization, when applicable. Effective January 1, 2018, Mid-Kansas adopted the ASU and there was no material impact on the consolidated financial statements.

(3) Related Parties

Upon Mid-Kansas completing the utility plant acquisition from Aquila, Inc. on April 1, 2007, Sunflower was contracted by Mid-Kansas to operate the generation and transmission assets of Mid-Kansas. Mid-Kansas does not have any employees.

Mid-Kansas is owned by five distribution cooperatives (Members) that are also owners of Sunflower and one corporation that is a subsidiary of a Sunflower distribution cooperative owner. The Mid-Kansas and Sunflower Members' ownership percentages are different for each entity. Sunflower has no ownership interest in Mid-Kansas. In addition to the relationship between Mid-Kansas' Members and Sunflower's Members, the same individual serves as the Chief Executive Officer of both entities.

Sunflower bills to Mid-Kansas all direct and indirect operating costs as well as a portion of Sunflower's administrative and general costs as agreed upon in the Service and Operation Agreement between Mid-Kansas and Sunflower. These allocation methodologies are reviewed annually, and any changes are approved by the Sunflower and Mid-Kansas boards. In addition to the expense allocation and reimbursement arrangement, Sunflower has been directed by the Mid-Kansas and Sunflower boards to serve as the SPP Integrated Market Participant (MP) on behalf of Mid-Kansas. As the MP, Sunflower purchases and sells Mid-Kansas' generation in the SPP Integrated Marketplace. Sunflower also dispatches the generation resources of Mid-Kansas and Sunflower as directed by SPP. Costs of energy purchased in the SPP Integrated Marketplace by Sunflower on behalf of Mid-Kansas is calculated using Mid-Kansas' energy demand each hour times the Locational Marginal Price for that hour. Proceeds of energy sales in the SPP Integrated Marketplace by Sunflower on behalf of Mid-Kansas are assigned to Mid-Kansas based upon Mid-Kansas' generation source. SPP market costs or proceeds that cannot be specifically assigned to a generation resource are allocated between the two companies on an hourly load ratio share. In 2018 and 2017, Sunflower allocated indirect costs of approximately $19.2 million and $17.7 million, respectively, to Mid-Kansas. In 2018 and 2017, Mid-Kansas sold approximately $3.2 million and $2.6 million of power to Sunflower and purchased approximately $24.4 million and $18.4 million of power from Sunflower, respectively.

In July 2017, Sunflower entered a two-year operating lease with Mid-Kansas for the Rhoades to Phillipsburg transmission line. Sunflower paid Mid-Kansas approximately $1.1 million for 2018 and 2017. Also in July 2017, Sunflower entered a two-year operating lease with Mid-Kansas for the Holcomb to Pioneer Tap transmission line. Sunflower paid Mid-Kansas approximately $0.8 million for 2018 and 2017. In July 2017, Sunflower entered a two-year operating lease with Mid-Kansas for the Mingo transformer and terminal upgrades. Sunflower paid Mid-Kansas approximately $1.1 million and $0.5 million for 2018 and 2017, respectively.

Sunflower's financial interest in Mid-Kansas' operations is limited to the items described above. Mid-Kansas is a separate legal entity and Sunflower does not guarantee any debt of Mid-Kansas.

As of December 31, 2017, Mid-Kansas had accounts receivable from Sunflower of $0.7 million and had no accounts receivable from Sunflower as of December 31, 2018. Additionally, Mid-Kansas owed Sunflower $4.6 million and $3.4 million, respectively.

(4) Utility Plant

Utility plant balances by major class of asset are as follows at December 31, 2018 and 2017

		2018	2017
Steam production plant	$	35,606,526	35,151,843
Other production plant		136,405,204	136,233,046
Transmission plant		330,042,311	257,630,781
Distribution plant		220,714	220,714
General plant		46,115,478	43,989,847
Other plant		439,563	332,636
Acquisition cost		9,462,147	9,462,147
Total in service utility plant		558,291,943	483,021,014
Less accumulated depreciation and amortization (since acquisition)		(86,425,958)	(72,042,528)
Net in service utility plant		471,865,985	410,978,486
Construction work in progress		2,834,824	56,387,056
Total utility plant, net	$	474,700,809	467,365,542

The acquisition cost relates to the cost paid to acquire the utility plant in 2007. It is being depreciated over a 30-year life and recovered in Mid-Kansas' electric rates.

(5) Regulatory Assets and Liabilities

Under the provisions of ASC Topic 980, Mid-Kansas defers certain costs and revenue for recovery through rates in future periods. The consolidated financial statements, therefore, include the effects of rate regulation. The following table details the regulatory assets and liabilities as of December 31, 2018 and 2017:

		2018	2017
Regulatory assets:			
Purchase power	$	86,350	5,286,421
Asset retirement obligations		6,448,604	6,379,029
Clifton major maintenance		2,081,478	2,465,751
Transmission formula rate recovery		3,147,601	9,103,922
Other		426,908	909,060
		12,190,941	24,144,183
Less current portion		(2,554,800)	(10,190,210)
	$	9,636,141	13,953,973
Regulatory liabilities:			
Unearned revenue	$	7,170,138	14,598,116
Less current portion		(5,719,603)	(5,895,432)
	$	1,450,535	8,702,684

(a) Regulatory Assets

These regulatory assets have been recorded in the accompanying consolidated financial statements and are expected to be collected through rates in a future period.

Asset retirement obligations represent the estimated recoverable costs for legally required removal obligations. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows and is recorded in Other long-term liabilities on the consolidated balance sheets. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's remaining useful life. The following table presents the activity for the asset retirement obligations for the years ended December 31, 2018 and 2017:

		2018	2017
Balance at beginning of year	$	6,379,029	5,965,545
Additional obligations incurred		29,316	49,176
Obligations settled or revalued in current period		(328,396)	—
Accretion		368,655	364,308
Balance at end of year	$	6,448,604	6,379,029

In 2012, the Kansas Corporation Commission (KCC) granted Mid-Kansas the authority to accumulate Clifton 1 generation unit outage expenses as a regulatory asset and amortize those expenses through 2024. Amortization of these costs began upon completion of the outage project in September 2012.

In 2018, Mid-Kansas recorded additional transmission formula regulatory assets of $1.2 million. These amounts for SPP transmission related revenue and expenses are based on true-ups in estimated versus actual costs. In June 2019, Mid-Kansas will file the formula rate with adjustments for 2018 actual costs with the Federal Energy Regulatory Commission (FERC). Final determination of the true-up will be determined by FERC.

In 2017, Mid-Kansas recorded a regulatory asset of $3.2 million. These amounts for SPP transmission related revenue and expenses are based on true-ups in estimated versus actual costs. In June 2018, Mid-Kansas filed the formula rate with adjustments for 2017 actual costs and identified and recorded a reduction of the regulatory asset of $3.0 million during 2018.

SPP estimated transmission service proceeds will be adjusted and, accordingly, total transmission formula regulatory assets of $3.1 million will be reduced by $1.9 million and $1.2 million in 2019 and 2020, respectively.

(b) Regulatory Liabilities

Mid-Kansas adopted a formula rate for recovery of transmission costs. The tariff used to bill customers in 2018 for transmission services was calculated using estimated costs in the formula rate. This tariff provision, approved by the KCC, requires the estimated costs of providing transmission service to be adjusted to the actual costs annually. In 2018, Mid-Kansas identified amounts collected on an estimated basis from SPP were $0.2 million more than actual costs. The over collection from SPP also resulted in Mid-Kansas over collecting $1.2 million from its Members. Revenue in 2018 was decreased and a regulatory liability of $1.4 million was recorded for the over collection. In June 2019, Mid-Kansas will file the formula rate with adjustments for actual costs with FERC. Final determination of the amount to be refunded will be determined by FERC.

In 2017, Mid-Kansas identified amounts collected on an estimated basis from SPP were $3.7 million more than actual costs. The over collection from SPP also resulted in Mid-Kansas over collecting $3.2 million from its Members. Revenue in 2017 was decreased and a regulatory liability of $6.9 million was recorded for the over collection. In June 2018, Sunflower filed the formula rate with adjustments for 2017 actual costs and identified and recorded a reduction of the regulatory liability of $5.0 million during 2018.

SPP estimated transmission service proceeds will be adjusted and, accordingly, total transmission formula regulatory liabilities of $6.9 million will be reduced $5.5 million and $1.4 million in 2019 and 2020, respectively.

Also, as part of the adoption of the formula rate for recovery of transmission costs, Mid-Kansas agreed to defer and amortize over a three-year period amounts received for maintenance retainers from ITC Great Plains, Inc (ITC). As a result, Mid-Kansas had $0.2 million of unearned revenue from ITC for maintenance retainers as of December 31, 2018.

(6) Long-Term Debt

The outstanding note balances are as follows as of December 31, 2018 and 2017:

		2018	2017
NCSC Advance bearing interest of 5.95% through 4/1/2020 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037	$	24,762,910	25,495,557
NCSC Advance bearing interest of 4.75% through 4/1/2022 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037		24,544,165	25,372,078
NCSC Advance bearing interest of 4.75% through 1/1/2037 principal and interest due quarterly through January 2037		25,273,117	26,031,528

		2018	2017
NCSC Advance bearing interest of 7.22% through 4/1/2030 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037	$	21,172,563	21,715,889
NCSC Advance bearing interest of 7.22% through 4/1/2030 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037		929,596	953,451
NCSC Advance bearing interest of 7.22% through 4/1/2030 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037		2,982,880	3,059,426
NCSC Advance bearing interest of 7.22% through 4/1/2030 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through January 2037		420,487	431,278
NCSC Advance bearing interest of 5.00% through 1/1/2027 at which time either a fixed or variable rate will be selected, principal and interest due quarterly through October 2031		7,462,319	7,628,640
NCSC Advance bearing interest of 3.99%, principal and interest due quarterly through October 2044		43,697,479	45,378,151
NCSC Advance bearing interest of 3.62%, principal and interest due quarterly through April 2047		71,848,740	74,369,748
Private Placement 2013A Notes, bearing interest of 3.93% through 12/31/2042 with principal due annually each December and interest due semiannually June and December		116,000,002	120,833,335
Private Placement 2013B Notes, bearing interest of 4.13% through 6/30/2043 with principal due annually each June and interest due semiannually June and December		25,000,000	26,000,000
		364,094,258	377,269,081
Less current maturities of long-term obligations		(13,451,766)	(13,174,823)
Long-term obligations, less current maturities	$	350,642,492	364,094,258
Unamortized debt issuance costs:			
NCSC Advances for debt maturing through 2037	$	507,244	535,354
NCSC Advances for debt maturing through 2044		142,864	148,359
Private Placement debt maturing through 2043		1,609,175	1,676,224
	$	2,259,283	2,359,937

Effective April 1, 2018, the third tranche of the acquisition loan note #KS4209000003, the third note in the table above, was repriced for the remaining original term of the note from 7.02% to 4.75%.

In 2011, Mid-Kansas replaced its mortgage with an indenture. The Trustee under the indenture is The Commerce Trust Company. Also in 2011, Mid-Kansas and National Cooperative Services Corporation (NCSC) signed a restated and consolidated loan agreement. This agreement covers both the acquisition loan and the transmission project loan and references the change in the security agreement from a mortgage to the indenture. For all NCSC loan agreements, amounts are due quarterly on January 31, April 30, July 31, and October 31.

Under the indenture, Mid-Kansas is required to achieve a Margins for Interest (MFI) of at least 1.10 times interest charges for the prior fiscal year or for a period of 12 consecutive months during the prior 18-month period. Mid-Kansas is in compliance with MFI requirements as of December 31, 2018.

At December 31, 2018, scheduled maturities of the long-term debt are as follows:

Year ending December 31:		
2019	$	13,451,766
2020		13,645,292
2021		13,850,136
2022		14,066,982
2023		14,296,557
Thereafter		294,783,525
	$	364,094,258

Mid-Kansas has a $100.0 million unsecured facility administered by National Rural Utilities Cooperative Finance Corporation (NRUCFC) that is used to cover construction projects, seasonal cash flow needs, and for letters of credit necessary in the normal operation of the business. Draws on the line of credit are charged at an interest rate based upon the respective LIBOR plus 150 basis points. Cash borrowings outstanding on the unsecured facility totaled $45.0 million and $35.0 million as of December 31, 2018 and 2017, respectively. At December 31, 2018, the Company had $54.3 million available under the unsecured facility, for which the current credit agreement expires on April 26, 2020. Letters of credit drawn on the line of credit are necessary to secure the purchase of natural gas as a boiler fuel for the Mid-Kansas generation fleet, and totaled $0.7 million and $1.0 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, no outstanding amounts were drawn on the letter of credit.

To remain in compliance with the credit agreement, Mid-Kansas must maintain debt service coverage (DSC) of 1.1 as of the last day of the fiscal year. In addition, Mid-Kansas was required to maintain an Equity balance of $45.4 million or greater during 2018. Mid-Kansas is in compliance with the DSC and Equity covenants as of December 31, 2018.

(7) Income Taxes

From the Company's inception to March 10, 2017, Mid-Kansas was not subject to federal and state income taxes since it was operating as a limited liability company taxed as a partnership. On March 11, 2017, Mid-Kansas converted from a limited liability company taxed as a partnership to a taxable corporation and, as a result, became subject to corporate federal and state income taxes. As a taxable electric cooperative, Mid-Kansas is allowed a tax exclusion for margins allocated as patronage capital. Mid-Kansas utilizes the liability method of accounting for income taxes. Changes in deferred tax assets or liabilities result in the establishment of a regulatory asset or liability. A regulatory asset or liability associated with the deferred income taxes generally represents the future increase or decrease in income taxes payable that will be received or settled through future rate revenues. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. The tax effects of temporary differences that give rise to significant portion of the deferred tax assets and liabilities at December 31, 2018 and 2017 are presented below:

		2018	2017
Deferred tax assets:			
Regulatory liabilities	$	54,310	27,355
Accrued expenses		187,216	196,668
Post retirement		38,874	53,980
Net operating loss carryforwards		904,667	439,967
Total gross deferred tax assets		1,185,067	717,970
Deferred tax liabilities:			
Property and equipment, principally due to differences in depreciation		1,258,861	1,231,892
Other assets		22,990	5,162
Other liabilities		1,337	1,410
Total gross deferred tax liabilities		1,283,188	1,238,464
Net deferred tax	$	(98,121)	(520,494)

Deferred taxes are provided for temporary income tax differences associated with utility operations with an offsetting amount recorded as a regulatory asset as such amounts are expected to be recovered through rates charged to Members at such time as the board, in its capacity as regulator, deems appropriate. The income tax expense is deferred and reflected as an increase in the regulatory asset established for deferred income tax expense. The regulatory asset account for deferred income tax expense at December 31, 2018 and 2017, was $98,121 and $520,494, respectively.

On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changed U.S. tax law including a reduction of the corporate tax rate from 35% to 21%. As a result, the Company valued its net deferred tax liability as of December 31, 2018 and 2017, using the newly effective rate to reflect the rate that will be in effect in the years the net liability is expected to be realized.

As of December 31, 2018, Mid-Kansas had approximately $3.6 million of net operating loss carryforwards for regular tax purposes that, if not utilized, begin to expire from 2037 through 2038.

The authoritative guidance for income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Mid-Kansas may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized. There are no unrecognized tax benefits to be accrued or disclosed, and thus, no interest and penalties to accrue thereon.

(8) Postretirement Benefit Obligations

Mid-Kansas does not have any active employees; however, in connection with the 2007 purchase of utility plant assets, Mid-Kansas acquired obligations to provide various health insurance benefits to former retirees.

Retirees may elect health insurance benefits upon payment of the required premiums. Mid-Kansas has two classes of retirees covered in the health insurance program. The first class is individuals and spouses who receive health insurance benefits that have a varying period and direct subsidy based on a former plan they participated in. The period can range from five years to a lifetime and the direct subsidies can range from 5% to 100%. Subsidies not at 100% will decrease over time and reach zero in 2018. The second class of retirees receives their benefit based upon a prior class action lawsuit against a predecessor company. Mid-Kansas pays 100% of the actual health and life insurance costs for the second class of retirees.

There are no plan assets of the postretirement plan. The Company recognizes the accumulated postretirement benefit obligation of the postretirement plan as a liability on its consolidated balance sheets with a measurement date as of December 31 of each fiscal year. The following table sets forth the plan's benefit obligations recognized in the consolidated balance sheets and related benefit cost at December 31, 2018 and 2017:

		Postretirement benefits December 31	
		2018	**2017**
Change in accumulated postretirement benefit obligation:			
Accumulated postretirement benefit obligation, beginning of year	$	1,882,712	2,339,725
Interest cost		50,798	66,997
Actuarial loss		(415,519)	(421,786)
Net benefits paid		(71,438)	(102,224)
Accumulated postretirement benefit obligation, end of year	$	1,446,553	1,882,712
Funded status:			
Accumulated postretirement benefit obligation	$	(1,446,553)	(1,882,712)
Plan assets		—	—
Net liability recognized	$	(1,446,553)	(1,882,712)
Net periodic postretirement benefit cost:			
Interest cost	$	50,798	66,997
Amortization of prior service cost		123,126	123,126
Recognized net actuarial gain		(343,598)	(321,256)
Total net periodic benefit cost	$	(169,674)	(131,133)
Amounts recognized in the consolidated balance sheets consist of:			
Current liability	$	224,872	257,389
Noncurrent liability		1,221,681	1,625,323
Accumulated other comprehensive income		2,043,424	1,848,377

An actuarial gain of $0.4 million was incurred during 2018 increasing the accumulated other comprehensive income. The net overall gain was largely due to the increase in the discount rate and lower retiree costs than expected.

The net actuarial loss (income) and prior service cost (credit) for the postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $0.4 million and $0.1 million, respectively. Weighted average discount rates used to determine benefit obligations and net periodic postretirement benefit cost for 2018 and 2017 were as follows:

	2018	2017
Benefit obligation	3.59 %	3.06 %
Benefit cost	2.89	3.13

For measurement purposes at December 31, 2018, a 6.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2019. The rate was assumed to decrease gradually to 4.5% for 2024 and remain at that level thereafter. A flat trend of 5% is assumed for the costs of “class action” retirees whose benefits are funded through a Retiree Health Reimbursement Account. If the annual rate increased (decreased) by 1% age point, the effect would be $0.1/$(0.1) million.

The following table summarizes benefits paid during 2018 and 2017:

		2018	2017
Gross benefits paid	$	119,938	169,122
Retiree contributions		(48,500)	(66,898)
Net benefits paid	$	71,438	102,224

The benefits expected to be paid, net of retiree contributions, from the postretirement benefit plan are as follows:

Year ending December 31:		
2019	$	224,900
2020		208,800
2021		190,800
2022		171,700
2023		152,600
Five years ending 2028		504,200
	$	1,453,000

The expected benefits are based on the same assumptions used to measure the Company’s benefit obligation at December 31.

(9) Commitments and Contingencies

Mid-Kansas has commitments to provide power to its Members through 2052. Likewise, the Members are committed to purchase all of their power requirements from Mid-Kansas through the same period. Mid-Kansas is a party to a number of other electricity contracts that expire in various future years.

Mid-Kansas has a commitment to purchase the outputs from two wind farms. Mid-Kansas does not have fixed cost obligations and pays only for the energy produced. These purchases are set at a contracted price for 15 and 20 years from inception of the contract. Mid-Kansas purchased wind power at a cost of $16.1 million and $17.0 million in 2018 and 2017, respectively.

During 2018 and 2017, Mid-Kansas incurred construction costs of $0.2 million and $0.9 million, respectively, to replace assets damaged in natural disasters. In 2018 and 2017, Mid-Kansas did not receive state and federal proceeds.

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Mid-Kansas is a defendant in litigation matters and a party to various claims arising from its normal activities. In management's opinion, based on advice from legal counsel, these actions will not result in a material adverse effect on the financial position, results of operations, or liquidity of Mid-Kansas.

(10) Subsequent Events

Sunflower and Mid-Kansas filed a joint application with the KCC requesting a commission order approving a merger of the two companies. On March 28, 2019, the KCC ordered the approval of the merger in which Mid-Kansas will merge into Sunflower, and Sunflower will remain as the surviving entity. See KCC Docket No. 19-SEPE-054-MER for more details concerning the application and order. Merger of the companies will be effective no earlier than December 31, 2019.

The Company has evaluated subsequent events from the balance sheet date through April 4, 2019, the date at which the consolidated financial statements were available to be issued. Aside from the merger approval above, the Company has determined that there are no other items to disclose.




Mid-Kansas
ELECTRIC COMPANY, INC
neighbors serving neighbors

PO Box 980
Hays, KS 67601
800-354-3638
www.midkansaselectric.net