Kenergy Corp.

Audited Financial Statements
For the years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kenergy Corp.
Henderson, Kentucky

We have audited the accompanying financial statements of Kenergy Corp., which comprise the balance sheets as of December 31, 2013 and 2012, and the statements of revenues and expenses, changes in members' equity, and cash flows for the years ended December 31, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Kenergy Corp. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, on our consideration of Kenergy's internal control over financial reporting and our tests of 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 the audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Myriad CPA Group, LLC

Myriad CPA Group, LLC
Henderson, Kentucky
March 14, 2014

Kenergy Corp.
Balance Sheets
As of December 31, 2013 and 2012

ASSETS	2013	2012
Utility Plant, Net	$ 194,650,845	$ 189,351,232
Investments	6,021,176	5,981,362
Current Assets:		
Cash and Cash Equivalents	2,692,236	1,255,838
Accounts Receivable, Less Allowance For Doubtful Accounts: 2013, $220,384 and 2012, $185,500		
Billed	34,199,576	40,506,588
Unbilled	14,035,872	10,466,860
Materials and Supplies	2,007,815	2,012,229
Other Current Assets	722,260	645,958
Total Current Assets	53,657,759	54,887,473
Other Assets	1,384,809	78,919
Total Assets	$ 255,714,589	$ 250,298,986
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 235,615	$ 243,200
Patronage Capital	69,704,798	67,211,031
Other	5,531,226	4,313,931
Total Members' Equity	75,471,639	71,768,162
Long-Term Debt, Net of Current Portion	124,784,646	123,930,340
Current Liabilities:		
Accounts Payable	35,916,300	39,694,285
Consumer Deposits	4,072,092	3,901,250
Notes Payable	3,600,000	-
Current Maturities of Long-Term Debt	7,401,438	6,539,064
Other Current and Accrued Liabilities	1,964,216	1,879,153
Total Current Liabilities	52,954,046	52,013,752
Other Noncurrent Liabilities	262,271	267,846
Deferred Credits	2,241,987	2,318,886
Total Members' Equity and Liabilities	$ 255,714,589	$ 250,298,986

The accompanying notes are an integral part of the financial statements.

Kenergy Corp.
Statements of Revenue and Expenses
For the years ended December 31, 2013 and 2012

	2013	2012
Operating Revenue	$ 504,751,233	$ 494,665,250
Operating Expenses:		
Cost of Power	464,332,315	456,369,581
Distribution Operation	4,171,797	3,742,460
Distribution Maintenance	8,633,081	8,578,244
Customer Accounts	3,781,753	3,324,162
Consumer Service and Information	211,028	213,405
Sales	103,864	95,336
Administrative and General	4,168,772	3,511,314
Depreciation	9,950,789	9,639,043
Taxes	502,490	418,415
Other Deductions	75,835	65,216
Total Operating Expenses	495,931,724	485,957,176
Operating Margin Before Interest Expense	8,819,509	8,708,074
Interest on Long-Term Debt	4,831,795	5,089,130
Other Interest Expense	27,163	181,457
Operating Margin	3,960,551	3,437,487
Nonoperating Margin:		
Investment Income	1,896,715	1,155,097
Other Income (Expense)	51,487	40,511
Net Margin Before Margins Assigned by Associated Organizations	5,908,753	4,633,095
Operating Margin Assigned by Associated Organizations	185,044	117,280
Net Margin	$ 6,093,797	$ 4,750,375

The accompanying notes are an integral part of the financial statements.

Kenergy Corp.
Statements of Changes in Members' Equity
For the years ended December 31, 2013 and 2012

	Memberships	Patronage Capital	Other	Total
Balance, December 31, 2011	$ 244,890	$ 64,844,361	$ 3,875,548	$ 68,964,799
Increase in Membership Fees	(1,690)	-	-	(1,690)
Net Margin	-	4,750,375	-	4,750,375
Patronage Capital Retired	-	(2,383,705)	-	(2,383,705)
Retired Capital Credits - Gain	-	-	438,383	438,383
Balance, December 31, 2012	$ 243,200	$ 67,211,031	$ 4,313,931	$ 71,768,162
Decrease in Membership Fees	(7,585)	-	-	(7,585)
Net Margin	-	6,093,797	-	6,093,797
Patronage Capital Retired	-	(3,600,030)	-	(3,600,030)
Retired Capital Credits - Gain	-	-	1,217,295	1,217,295
Balance, December 31, 2013	$ 235,615	$ 69,704,798	$ 5,531,226	$ 75,471,639

The accompanying notes are an integral part of the financial statements.

Kenergy Corp.
Statements of Cash Flows
For the years ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities:		
Net Margin	$ 6,093,797	$ 4,750,375
Adjustments to Reconcile Net Margin to Net Cash		
Provided by Operating Activities:		
Depreciation Charged to Operations	10,319,412	10,011,018
Noncash Assigned Capital Credits	(142,953)	(117,280)
(Increase) Decrease in:		
Accounts Receivable	6,142,591	(2,719,137)
Materials and Supplies	4,415	727,746
Other Current Assets	(3,645,314)	14,679
Accounts Payable	(3,777,985)	2,149,162
Other Current and Accrued Liabilities	3,685,063	72,999
Other Items, Net	(780,893)	(153,418)
Net Cash Provided by Operating Activities	17,898,133	14,736,144
Cash Flows From Investing Activities:		
Capital Expenditures, Net	(16,225,897)	(16,656,365)
(Increase) Decrease in:		
FEMA Receivable	164,419	1,636,366
Other Investment, Excluding		
Assigned Capital Credits	(8,570)	13,572
Net Cash Used in Investing Activities	(16,070,048)	(15,006,427)
Cash Flows From Financing Activities:		
Additional Deposits, Net of Refunds	163,257	(985,556)
Additional Long-Term Debt	24,394,196	13,622,000
Interest Income Added to Cushion of Credit Balance	(1,795,852)	(1,056,000)
Interest Expense Paid From Prior Note Payments	834,193	1,496,522
Reduction of Long-Term Debt	(6,950,311)	(5,900,275)
Principal Payments Paid From Prior Note Payments	845,565	993,123
Patronage Capital Retired	(2,382,735)	(1,945,322)
Payment-Cushion of Credit	(15,500,000)	(5,567,000)
Net Cash Used by Financing Activities	(391,687)	657,492
Net Increase in Cash and Cash Equivalents	1,436,398	387,209
Cash and Cash Equivalents, Beginning of Year	1,255,838	868,629
Cash and Cash Equivalents, End of Year	$ 2,692,236	$ 1,255,838
Supplemental Disclosure of Cash Flow Information:		
Interest Paid, Net of Amounts Capitalized	$ 5,095,063	$ 5,455,368

The accompanying notes are an integral part of the financial statements.

Kenergy Corp.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

Kenergy is a nonprofit electric distribution cooperative association which provides electric power to approximately 55,805 residential, commercial and industrial customers located in fourteen western Kentucky counties.

Basis of Accounting:

The accounting policies of Kenergy reflect those prescribed by the United States Department of Agriculture Rural Utilities Service (RUS) and the Kentucky Public Service Commission (KPSC), which conform with accounting principles generally accepted in the United States of America in all material respects.

Revenues:

Revenues are accrued when services are rendered based on rates authorized by the KPSC.

Utility Plant:

Utility plant is stated at original cost, net of contributions, which is the cost when first dedicated to public service. Kenergy capitalizes supervisory and overhead costs applicable to construction projects.

Maintenance and repairs of property units and renewals of minor items of property are charged to maintenance expense accounts. The costs of replacing complete property units are charged to utility plant accounts and the original cost of distribution plant property units retired and cost of removal, net of salvage value, are charged to accumulated depreciation.

Depreciation:

Depreciation is provided on the basis of the estimated useful lives of assets at straight-line rates, which for 2013 and 2012, were as follows:

Distribution Plant	1.90% to 6.70%
General Plant	2.00% to 20.00%

Kenergy uses the composite method of depreciation for distribution plant and the unit method of depreciation for general plant.

Investments:

As more fully described in the following notes, Kenergy's investment in a generation and transmission corporation is recorded at estimated net realizable value. All other investments of Kenergy are stated at cost, which approximates fair value.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash on hand, money market funds, and investments with an original maturity of three months or less. The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Materials and Supplies:

Materials and supplies inventories are stated at the lower of cost or market using the average cost method.

Use of Estimates:

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – UTILITY PLANT

Utility plant at December 31 consists of the following:

	2013	2012
Distribution Plant	$252,914,368	$243,466,531
General Plant	25,172,901	22,114,611
	278,087,269	265,581,142
Less Accumulated Depreciation	(84,581,055)	(77,387,993)
Construction in Progress	1,144,631	1,158,083
Total Utility Plant	$194,650,845	$189,351,232

Depreciation expense for the years ended December 31, 2013 and 2012 was $10,639,727 and $10,295,589 respectively.

A devastating ice storm occurred on January 26, 2009, resulting in approximately 3,600 poles and 1,100 transformers being replaced. The total storm costs were approximately $32,000,000 with the Federal Emergency Management Agency (FEMA) being requested to reimburse nearly $28,000,000, or 87%. The FEMA reimbursement monies were first applied to dollars expensed, leaving nearly $4,000,000 of capitalized costs. At December 31, 2013 the FEMA receivable was approximately $1,864,371. Kenergy expects to receive the remaining reimbursement during 2014.

NOTE 3 – INVESTMENTS

Generation and Transmission Corporation

As discussed in preceding notes, Kenergy purchases electric power from Big Rivers Electric Corporation, a generation and transmission cooperative association. The membership of Big Rivers Electric Corporation is comprised of Kenergy and two other distribution cooperatives.

The following is a summary at December 31st of financial information pertaining to Big Rivers Electric Corporation:

	2013	2012
Balance Sheet Data:	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 205,979,531	$ 222,429,238
Noncurrent Assets	1,270,665,916	1,324,248,683
Total Assets	1,476,645,447	1,546,677,921
Liabilities:		
Current Liabilities	81,467,224	128,819,261
Noncurrent Liabilities	972,690,263	1,014,976,973
Total Liabilities	1,054,157,487	1,143,796,234
Equity	$ 422,487,960	$ 402,881,687
Income Statement Data:		
Revenues	$ 562,447,258	$ 568,342,236
Operating Margin	4,655,509	10,252,476
Net Margin	$ 8,639,491	$ 11,277,091

Big Rivers Electric Corporation experienced significant operating losses in prior years and had a net equities deficiency of ($154,601,580) as of December 31, 2008.

On July 16, 2009, Big Rivers Electric Corporation completed a transaction referred to as the "unwind" with E.ON US. Under the unwind agreement, Big Rivers Electric Corporation assumed from E.ON US full responsibility for operating three generation facilities and the obligation to provide power to two aluminum smelters through Kenergy Corp. E.ON US provided cash payments, asset transfers and other benefits to Big Rivers Electric Corporation, which resulted in Big Rivers Electric Corporation realizing income of $537,978,261 in 2009. These funds allowed Big Rivers Electric Corporation to reduce its debt by $140,180,652 provide $252,855,791 in rate stabilization funds, and to increase its equity position to $379,391,541 from a deficit of ($154,601,580).

<u>NOTE 3 – INVESTMENTS (CONTINUED)</u>

Under the Big Rivers Electric Corporation Joint Plan of Reorganization in 1998, member cooperatives of Big Rivers Electric Corporation were required to charge down their previously allocated capital credits to zero. After evaluating the key issues related to the unwind, Kenergy has elected to continue valuing the non-cash allocations at zero for financial reporting purposes, a practice which it has followed since 1998 when Big Rivers Electric Corporation emerged from bankruptcy protection. As of December 31, 2009, the non-cash allocations from Big Rivers Electric Corporation to Kenergy represent 69% of the total allocations. Big Rivers Electric Corporation, which allocates margins on the tax basis has not made any allocations for 2010-2013 due to tax losses in those years.

Kenergy Corp. will continue to record memorandum entries in its patronage capital records to reflect the value of allocations received from Big Rivers Electric Corporation. (Refer to Note 12 - Income Tax Status). See footnote 6 for discussion on the contract termination notices of the two smelters.

<u>Other Investments</u>

The more significant other investments are as follows:

Capital Term Certificates (CTC's) of the National Rural Utilities Cooperative Finance Corporation are carried at cost which approximates market. The investment at December 31, 2013 and 2012 totaled $2,528,878. The CTC's mature in varying amounts from 2020 to 2080 and bear interest at 0%, 3%, and 5% per year.

Investment in CoBank, an international cooperative bank, is a required investment, which is carried at cost and totaled $1,906,615 at December 31, 2013 and 2012, respectively. Under the terms of this Loan Base Capital Plan, Kenergy's investment in CoBank (stock and allocated surplus from CoBank) is required to be 10% of Kenergy's average loan balance due to CoBank for the past five years accumulated through equity issued as a patronage return.

Economic development loans represent interest free loans made to qualifying applicants to promote rural economic development. Kenergy borrows monies from RUS pursuant to the Rural Electrification Act of 1936 and in turn loans these monies to qualifying applicants. The loans are secured by letters of credit, thereby minimizing Kenergy's exposure to loss. Amounts outstanding at December 31, 2013 and 2012, were $151,852 and $262,963, respectively.

	2013	2012
Capital Term Certificates	$ 2,528,878	$ 2,528,878
Investments in CoBank	1,975,918	1,906,615
Economic Development Loans	151,852	262,963
Other Investments	1,364,528	1,282,906
	$ 6,021,176	$ 5,981,362

Kenergy Corp.
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 4 – LONG-TERM DEBT

Long-Term Debt at December 31st consists of:

	2013	2012
First mortgage notes payable to:		
RUS in quarterly and monthly installments of varying amounts through 2038		
Interest rate term fixed to principle maturity:		
4.125% notes	$ 1,432,430	$ 1,483,105
5% notes	1,992,665	2,053,504
Treasury notes- average rate of 4.81% at December 31, 2013	24,885,478	25,336,030
5.125% notes	2,008,077	2,067,819
Laddered interest rate terms of 1-9 years at an average rate of 1.41 % at December 31, 2013	45,637,459	47,466,464
Unapplied note prepayments-5%	(39,604,404)	(23,988,310)
	36,351,705	54,418,612
CoBank in quarterly and monthly installments of varying amounts through 2033:		
Interest rate term fixed to principle maturity 3.45% average rate at December 31, 2013	12,848,046	15,069,604
Laddered interest rate terms of 3 to 6 years, average rate of 2.42% at December 31, 2013	10,419,847	11,014,276
	23,267,893	26,083,880
Rural Economic Development Zero-Interest Loan payable to RUS in monthly installments of varying amounts through May 2016	151,852	262,962
Federal Financing Bank in quarterly installments of varying amounts through December 2045		
Interest rate term fixed to maturity:		
Average interest rate of 3.96%	48,679,446	49,703,950
Interest rate term of 90 days:		
0.19% rate as of December 31, 2013	22,460,900	-
	71,140,346	49,703,950
CFC in quarterly installments with a 23-month term, two automatic 23-month term extentions, and a 2.2% interest rate	1,274,288	-
Total Long-Term Debt	132,186,084	130,469,404
Less Current Maturities	7,401,438	6,539,064
	$ 124,784,646	$ 123,930,340

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Aggregate annual maturities of long-term debt at December 31, 2013 are:

2014	$ 7,401,438
2015	7,441,259
2016	7,454,778
2017	7,546,512
2018	7,518,297
Thereafter	94,823,800
	$ 132,186,084

Substantially, all assets of Kenergy are pledged as collateral on the long-term debt as previously described.

NOTE 5 – SHORT-TERM BORROWINGS

Kenergy has unsecured line of credit agreements with financial institutions permitting short-term borrowings for general corporate purposes totaling $35,000,000. Rates for such borrowings are variable and based on prevailing market rates. There was $3,600,000 and $0 outstanding under these agreements at December 31, 2013 and 2012, respectively. The rate at December 31, 2013 was 3.03%.

NOTE 6 – MAJOR CUSTOMER CONCENTRATIONS

Operating revenue for 2013 and 2012 includes approximately $355.7 million and $362.1 million, respectively, attributable to sales of power to two aluminum smelting customers. Accounts receivable from these customers totaled $23.0 and $30.3 million at December 31, 2013 and 2012, respectively. On August 20, 2012 and January 31, 2013 the two smelters provided one-year notices of termination of their contracts. Big Rivers Electric Corporation (see footnote 3) filed on January 15, 2013 a $74 million rate increase. On October 29, 2013 the commission issued an order allowing $54 million. On June 28, 2013 Big Rivers filed a second rate increase of $70 million. The second rate increase will be implemented February 1, 2014 subject to refund upon final commission order. These rate increases are necessary to mitigate the loss of revenues from the two smelters as they purchase power on the open market. The loss of these two loads has no material impact on Kenergy's margins as evidenced below:

(All amounts in thousands of dollars, 000's omitted)

2013

	Revenues	Cost of Power	Gross Margin	%
Smelter #1	$ 164,336	$ 164,160	$ 176	0.11%
Smelter #2	191,410	191,114	296	0.15%

2012

	Revenues	Cost of Power	Gross Margin	%
Smelter #1	$ 156,028	$ 155,853	$ 175	0.11%
Smelter #2	206,034	205,812	222	0.11%

Operating revenue also includes sales of power to six other large industrial customers totaling approximately 7.9% and 7.1% of Kenergy's operating revenue for 2013 and 2012, respectively.

NOTE 7 – COST OF POWER

Kenergy presently purchases all of its power and energy requirements from Big Rivers Electric Corporation (Big Rivers) under wholesale power contracts which expire in 2043 for non-smelters and 2023 for the smelters. Accounts payable under Big Rivers contracts were $33.6 and $38.3 million at December 31, 2013 and 2012 respectively.

NOTE 8 – RETIREMENT PLANS

Kenergy has various pension plans covering its employees.

Noncontributory Defined Benefit Pension Plan

Kenergy has a noncontributory defined benefit pension plan covering former Green River Electric Corporation (GREC) employees who were members of the plan on January 1, 1987. Employees with an original date of hire on or after January 1, 1987, are not eligible to join the defined benefit plan. The benefits are based on years of service and the employee’s highest average monthly compensation for three consecutive years of service. Benefit accruals were frozen as of October 31, 2010.

Kenergy amended the defined benefit plan effective January 1, 1987, to offset benefits accruing after January 1, 1987, by the benefits provided by the defined contribution plan discussed below.

Kenergy has adopted FASB ASC 715 "Compensation - Retirement Benefits," which requires that the full funding status of a defined benefit pension plan and other post retirement plans be recognized on the balance sheet as an asset (for over-funded plans) or as a liability (for under-funded plans).

In addition, FASB ASC 715 calls for recognition in other comprehensive income of gains and losses and prior services costs or credits that are not yet included as components of expense.

Finally, FASB ASC 715 requires that the measurement of defined benefit plan assets and obligations be as of the balance sheet date. The cooperative adopted the provisions of this statement effective for the year ended December 31, 2007. Due to the plan freezing at October 31, 2010 and all participants moving into the NRECA retirement and Security program, Kenergy elected to recognize the net actuarial (gain)/loss of $295,000 that would not have been recognized without the plan merger and plan freeze on October 31, 2010. Therefore, the charge against other comprehensive income was reduced to zero at December 31, 2013 and 2012.

Net pension cost (income) for 2013 and 2012 included the components:

	2013	2012
Service Cost	$ -	$ -
Interest Cost on Project Benefit Obligation	70,000	70,000
Expected Return on Plan Assets	(41,000)	(41,000)
Net Amortization and Deferral	-	-
Settlement/Curtailment	-	-
Net Actuarial (gain) loss booked	774,000	176,000
Pension Cost (income)	$ 803,000	$ 205,000

<u>NOTE 8 – RETIREMENT PLANS (CONTINUED)</u>

The following table sets forth the plan's funded status and the amount recognized in Kenergy's balance sheet at December 31st:

Noncontributory Defined Benefit Plan	2013	2012
Accumulated Benefit Obligation:		
Vested	$ -	$ 1,615,000
Projected Benefit Obligation	-	1,615,000
Plan Assets at Fair Value	-	1,640,000
Deficiency of Plan Assets Over Projected Benefit Obligation	-	25,000
Unrecognized Net Loss	-	-
Net Amount Recognized	-	25,000
Amounts Recognized Consist of:		
Prepaid Benefit Cost	-	-
Accrued Pension Liability	-	25,000
Intangible Asset	-	-
Accumulated Other Comprehensive Income	-	-
Net Amount Recognized	$ -	$ 25,000

In determining the actuarial present value of the projected benefit obligation, the weighted average discount rate used was 4.25% ended December 31, 2012. The expected long-term rate of return on assets was 2.50% for the periods ended December 31 2012. Employer contributions totaled $574,000 and for the years ended December 31, 2012, while there were no employee contributions. Settlements totaled $29,000 for the years ended December 31, 2012. Actual distributions totaled $258,000 for the years ended December 31, 2012.

All assets were moved to interest bearing accounts with the expected return on plan assets at 2.50%. The plan assets were transferred to NRECA on January 7, 2014, after which this plan was terminated and all future benefit accruals and benefit payments of and to the participants will occur under the NRECA plan.

<u>Savings and Retirement Plan</u>

Effective January 1, 1987, Kenergy adopted a defined contribution savings and retirement plan. This plan was available to all former GREC employees and all newly hired employees of Green River from 1987 to July 1, 1999 and all Kenergy new employees on or after July 1, 1999, excluding temporary employees, with six months of service, who work at least 1,000 hours during each twelve-month period following their date of employment. Effective October 31, 2010, the former GREC participants were moved to the NRECA retirement plan and are not longer eligible for this plan. Under this plan, Kenergy contributes 6% of each employee's annual compensation. In addition, Kenergy will provide matching contributions equal to 50% of each employee's contribution; however, Kenergy's matching contribution will not exceed 5% of each employee's compensation. Employer

NOTE 8 – RETIREMENT PLANS (CONTINUED)

contributions under this plan totaled $487,433 and $461,594 for the years ended December 31, 2013 and 2012 respectively. Effective January 1, 2014 all participants in the Savings and Retirement Pan were transferred to the NRECA Retirement and Security Program.

NRECA Retirement and Security Program

All eligible employees of the former Henderson Union Cooperative Corporation (HUEC) participate in the NRECA Retirement and Security Program (Program), a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. Effective October 31, 2010, all employees in the former GREC plan (see footnote 8a) were transferred to this NRECA plan. A payment of $690,000 to NRECA was made during 2011 in exchange for NRECA to assume future responsibility for benefit payments earned through October 31, 2010 of certain highly compensated employees. The plan assets of the form GREC plan were transferred to NRECA on January 7, 2014. Kenergy will also pay NRECA approximately $700,000 for the difference between plan assets and the benefit obligation that occurred between October 31, 2010 and January 1, 2014. Kenergy makes annual contributions to the Program equal to the amounts accrued for pension expense. Non-SERP contributions were $958,520 and $1,038,981 for 2013 and 2012, respectively. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer.

On April 30, 2013, Kenergy made a prepayment of $1,394,196 into the program, which will be included in pension expense over ten years and will serve to offset future pension expense and contribution requirements. Effective January 1, 2014 all participants of the Savings and Retirement Plan were transferred to the plan.
As of December 31, 2013, this prepaid expense was $1,255,000 and included in other assets.

Retirement Savings Plan

The Retirement Savings Plan is available for all eligible former HUEC employees and former GREC employees effective January 1, 2011. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Kenergy will match the contributions of each participant, up to 3% of the participant's base compensation. Kenergy contributed $140,744 and $144,059 for 2013 and 2012, respectively. Participants vest immediately in their contributions and the contributions of Kenergy.

Deferred Compensation Plan

The Kenergy Corp. 457(b) Deferred Compensation Plan allows designated senior management personnel the opportunity to make salary deferral contributions into a retirement plan once they reach the IRS limit on voluntary contributions into their 401(k) plan.

NOTE 10 – FINANCIAL INSTRUMENTS – FAIR VALUES

FASB ASC 820 "Fair Value Measurement," requires Kenergy to disclose estimated fair values of its financial instruments. Fair value estimates, methods, and assumptions are set forth below for Kenergy's financial instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, and other current liabilities approximate fair value because of the short-term maturity of those instruments.

In management's opinion, the carrying value of long-term debt also approximates fair value.

NOTE 10 – FINANCIAL INSTRUMENTS – FAIR VALUES

Kenergy's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable. Kenergy had cash deposits in a financial institution in excess of the amount insured by the Federal Depository Insurance Corporation (FDIC) at December 31, 2013 and 2012. The risk is managed by maintaining all deposits in high quality institutions. Kenergy routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

NOTE 11 – RELATED PARTY TRANSACTIONS

Big Rivers Electric Corporation provides billing, safety training, and other services to its three distribution cooperative members for which it is not reimbursed. Big Rivers Electric Corporation reimburses its members for economic development costs. In 2013, Big Rivers began reimbursing Kenergy for certain billing and IT services which were previously incurred by Big Rivers. Services requested for reimbursement from Big Rivers Electric Corporation during the years ended December 31, 2013 and 2012 totaled $1,000,438 and $237,789, respectively, of which $429,795 and $211,813, respectively, was included in accounts receivable. These amounts do not include the cost of computer programming, safety training and postage provided but not quantified.

NOTE 12 – INCOME TAX STATUS

Kenergy is exempt from federal and state income taxes under section 501(c)(12) of the Internal Revenue Code and, accordingly, the accompanying financial statements include no provision for such taxes. When applying the 85 percent test of IRC 501(c)(12), Kenergy excludes the Big Rivers Electric Corporation non-cash allocations from gross income.

NOTE 13 – LIMITATIONS ON DISTRIBUTIONS

Without the prior written approval of RUS, Kenergy shall not in any calendar year make any Distributions (exclusive of any Distributions to the estates of decreased natural patrons) to its members, stockholders or consumers except as follows:

If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 20% of its Total Assets and the aggregate of all Distributions made during that calendar year when added to such Distribution shall be less than or equal to 25% of the prior year's margins.

If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than 30% of its Total Assets; or Provided however, that in no event shall Kenergy make any Distributions if there is unpaid, when due, any installment of principal of (premium, if any) or interest on any of its payment obligations secured by the mortgage, if the borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's current and accrued assets would be less than its current and accrued liabilities.

NOTE 14 – RISK MANAGEMENT

Kenergy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets: errors and omissions; injuries to employees; and natural disasters. Kenergy carries commercial insurance for all risks of loss, including workers' compensation, general liability and property loss insurance. As is customary in the utility industry, Utility Plant is not insured with the exception of substations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2013 and 2012.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been considered and evaluated through March 14, 2014, the date these financial statements were available to be issued.