Kenergy Corp.

Audited Financial Statements
For the years ended December 31, 2014 and 2013

CONTENTS

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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, 2014 and 2013, and the statements of revenue and expenses, changes in members' equity, and cash flows for the years ended December 31, 2014 and 2013, 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 auditors' 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, 2014 and 2013, 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 April 6, 2015, 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
April 6, 2015

Kenergy Corp.
Balance Sheets
As of December 31, 2014 and 2013

ASSETS	2014	2013
Utility Plant, Net	$ 196,419,070	$ 194,650,845
Investments	6,160,371	6,021,176
Current Assets:		
Cash and Cash Equivalents	1,800,247	2,692,236
Accounts Receivable, Less Allowance For Doubtful Accounts: 2014 $253,247 and 2013 $220,384		
Billed	23,489,181	34,199,576
Unbilled	13,792,077	14,035,872
Materials and Supplies	1,911,513	2,007,815
Other Current Assets	775,631	722,260
Total Current Assets	41,768,649	53,657,759
Other Assets	1,240,509	1,384,809
Total Assets	$ 245,588,599	$ 255,714,589
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 228,275	$ 235,615
Patronage Capital	70,642,877	69,704,798
Other	6,850,735	5,531,226
Total Members' Equity	77,721,887	75,471,639
Long-Term Debt, Net of Current Portion	127,809,454	124,784,646
Current Liabilities:		
Accounts Payable	24,381,298	35,916,300
Consumer Deposits	4,235,535	4,072,092
Current Maturities of Long-Term Debt	7,377,553	7,401,438
Notes Payable	-	3,600,000
Other Current and Accrued Liabilities	1,396,563	1,964,216
Total Current Liabilities	37,390,949	52,954,046
Other Noncurrent Liabilities	232,714	262,271
Deferred Credits	2,433,595	2,241,987
Total Members' Equity and Liabilities	$ 245,588,599	$ 255,714,589

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

Kenergy Corp.
Statements of Revenue and Expenses
For the years ended December 31, 2014 and 2013

	2014	2013
Operating Revenue:	$ 472,546,305	$ 504,751,233
Operating Expenses:		
Cost of Power	432,874,393	464,332,315
Distribution Operation	4,133,337	4,171,797
Distribution Maintenance	8,749,204	8,633,081
Customer Accounts	3,904,959	3,781,753
Consumer Service and Information	165,792	211,028
Sales	94,012	103,864
Administrative and General	3,999,061	4,168,772
Depreciation	10,419,490	9,950,789
Taxes	594,065	502,490
Other Deductions	80,031	75,835
Total Operating Expenses	465,014,344	495,931,724
Operating Margin Before Interest Expense	7,531,961	8,819,509
Interest on Long-Term Debt	4,677,863	4,831,795
Other Interest Expense	66,338	27,163
Operating Margin	2,787,760	3,960,551
Nonoperating Margin:		
Investment Income	1,972,516	1,896,715
Other Income (Expense)	28,035	51,487
Net Margin Before Operating Margins Assigned by Associated Organizations	4,788,311	5,908,753
Operating Margin Assigned by Associated Organizations	235,209	185,044
Net Margin	$ 5,023,520	$ 6,093,797

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, 2014 and 2013

	Memberships	Patronage Capital	Other	Total
Balance, January 1, 2013	$ 243,200	$ 67,211,031	$ 4,313,931	$ 71,768,162
Increase (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
Increase (Decrease) in Membership Fees	(7,340)	-	-	(7,340)
Net Margin	-	5,023,520	-	5,023,520
Patronage Capital Retired	-	(4,085,441)	-	(4,085,441)
Retired Capital Credits - Gain	-	-	1,319,509	1,319,509
Balance, December 31, 2014	$ 228,275	$ 70,642,877	$ 6,850,735	$ 77,721,887

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

Kenergy Corp.
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Net Margin	$ 5,023,520	$ 6,093,797
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:		
Depreciation Charged to Operations	10,774,393	10,319,412
Noncash Assigned Capital Credits	(168,026)	(142,953)
(Increase) Decrease in:		
Accounts Receivable	10,710,397	6,142,591
Materials and Supplies	96,301	4,415
Other Current Assets	243,795	(3,645,314)
Accounts Payable	(11,535,002)	(3,777,985)
Other Current and Accrued Liabilities	(567,653)	85,063
Other Items, Net	175,609	(780,893)
Net Cash Provided (Used) by Operating Activities	14,753,334	14,298,133
Cash Flows From Investing Activities:		
Capital Expenditures, Net	(12,464,651)	(16,225,897)
(Increase) Decrease in:		
FEMA Receivable	-	164,419
Other Investment, Excluding Assigned Capital Credits	(37,043)	(8,570)
Net Cash Provided (Used) by Investing Activities	(12,501,694)	(16,070,048)
Cash Flows From Financing Activities:		
Additional Deposits, Net of Refunds	156,103	163,257
Proceeds From Long-Term Debt	8,000,000	24,394,196
Interest Income Added to Cushion of Credit Balance	(1,875,024)	(1,795,852)
Interest Expense Paid From Prior Note Payments	2,301,305	834,193
Principal Payments on Long-Term Debt	(7,100,596)	(6,950,311)
Principal Payments Paid From Prior Note Payments	2,740,515	845,565
Patronage Capital Retired	(2,765,932)	(2,382,735)
Payment-Cushion of Credit	(1,000,000)	(15,500,000)
Proceeds From Short-Term Notes Payable	-	3,600,000
Principal Payments on Short-Term Notes Payable	(3,600,000)	-
Net Cash Provided (Used) by Financing Activities	(3,143,629)	3,208,313
Net Increase (Decrease) in Cash and Cash Equivalents	(891,989)	1,436,398
Cash and Cash Equivalents, Beginning of Year	2,692,236	1,255,838
Cash and Cash Equivalents, End of Year	$ 1,800,247	$ 2,692,236
Supplemental Disclosure of Cash Flow Information:		
Interest Paid, Net of Amounts Capitalized	$ 4,938,479	$ 5,095,063

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

Kenergy Corp.
Notes to the Financial Statements
December 31, 2014 and 2013

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business:

Kenergy is a nonprofit electric distribution cooperative association which provides electric power to approximately 56,158 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 2014 and 2013 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.

Investments in Associated Organizations

Investments in associated organizations include patronage capital, capital term certificates, and other investments. Patronage capital investments are stated at cost plus undistributed allocated equities from other cooperatives. Capital term certificates and other investments are carried at cost which approximates market.

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, 2014 and 2013 consists of the following:

	2014	2013
Distribution Plant	$262,342,709	$252,914,368
General Plant	25,495,459	25,172,901
	287,838,168	278,087,269
Less: Accumulated Depreciation	(92,346,385)	(84,581,055)
Construction in Progress	927,287	1,144,631
Total Utility Plant	$196,419,070	$194,650,845

Depreciation expense for the years ended December 31, 2014 and 2013 was $11,062,959 and $10,639,727, respectively.

Interest capitalized during 2014 and 2013 related to construction of utility plant was $0 and $0, respectively.

NOTE 2 – UTILITY PLANT (CONTINUED)

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, 2014, the FEMA receivable was approximately $1,864,371. Kenergy expects to receive the remaining reimbursement during 2015.

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, and EDF Trading North America, LLC, beginning January 1, 2015 (For the two smelter loads, see Note 6). The membership of Big Rivers Electric Corporation is comprised of Kenergy and two other distribution cooperatives.

The following is a summary at December 31, 2014 and 2013 of financial information pertaining to Big Rivers Electric Corporation:

	2014	2013
Balance Sheet Data	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 195,029,207	$ 217,808,962
Noncurrent Assets	1,242,070,496	1,258,836,485
Total Assets	$ 1,437,099,703	$ 1,476,645,447
Liabilities:		
Current Liabilities	$ 68,716,896	$ 81,467,224
Noncurrent Liabilities	916,466,708	972,690,263
Total Liabilities	985,183,604	1,054,157,487
Equity:	$ 451,916,099	$ 422,487,960
Income Statement Data		
Revenues	$ 505,859,851	$ 562,447,258
Operating Margin	$ 27,768,047	$ 4,655,509
Net Margin	$ 32,667,439	$ 8,639,491

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.

NOTE 3 – INVESTMENTS (CONTINUED)

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).

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 represented 69% of the total allocations. Big Rivers Electric Corporation, which allocates margins on the tax basis, has not made any allocations for the years ended December 31, 2010-2014 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 11 - Income Tax Status. See footnote 6 for discussion on the contract termination notices of the two smelters.).

Other Investments:

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, 2014 and 2013 totaled $2,528,878. The CTCs 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 $2,035,216 and $1,975,918 at December 31, 2014 and 2013, 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. A summary of investments for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Patronage Capital Credits:		
Co Bank	$ 2,035,216	$ 1,975,918
Federated	598,998	491,234
Other	883,286	846,243
	3,517,500	3,313,395
Other assets	113,993	178,903
Capital Term Certificates	2,528,878	2,528,878
	$ 6,160,371	$ 6,021,176

NOTE 4 – LONG-TERM DEBT

Long-Term Debt at December 31st consists of:

	2014	2013
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	$ 1,379,626	$ 1,432,430
5% notes	1,928,717	1,992,665
Treasury notes- average rate of 4.81% at December 31, 2014	24,412,827	24,885,478
5.125% notes	1,945,202	2,008,077
Laddered interest rate terms of 1-9 years at an average rate of 1.18 % at December 31, 2014	43,758,628	45,637,459
Unapplied note prepayments-5%	(37,437,608)	(39,604,404)
	35,987,392	36,351,705
CoBank in quarterly and monthly installments of varying amounts through 2033:		
Interest rate term fixed to principle maturity:		
3.43% average rate at December 31, 2014	10,920,484	12,848,046
Laddered interest rate terms of 3 to 6 years, average rate of 2.41% at December 31, 2014	9,783,297	10,419,847
	20,703,781	23,267,893
Rural Economic Development Zero-Interest Loan payable to RUS in monthly installments of varying amounts through May 2016	86,574	151,852
Federal Financing Bank in quarterly installments of varying amounts through December 2048		
Interest rate term fixed to maturity:		
Average interest rate of 3.84%	55,615,413	48,679,446
Interest rate term of 90 days:		
0.16% rate as of December 31, 2014	21,763,357	22,460,900
	77,378,770	71,140,346
CFC in quarterly installments with a 23-month term, two automatic 23-month term extentions, and a 2.2% interest rate	1,030,490	1,274,288
Total Long-Term Debt	135,187,007	132,186,084
Less Current Maturities	7,377,553	7,401,438
Long-Term Debt, Net of Current Portion	$ 127,809,454	$ 124,784,646

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Aggregate annual maturities of long-term debt at December 31, 2014 are:

2015	$	7,377,553
2016		7,555,112
2017		7,598,419
2018		7,608,780
2019		7,456,685
Thereafter		97,590,458
	$	135,187,007

Substantially all assets are pledged as security for the long-term debt to the Rural Utilities Service, Federal Financing Bank and CoBank.

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. There was $0 and $3,600,000 outstanding under these agreements at December 31, 2014 and 2013, respectively. The rate at December 31, 2014 was 2.91%.

NOTE 6 – MAJOR CUSTOMER CONCENTRATIONS

Operating revenue for 2014 and 2013 includes approximately $308.9 million and $355.7 million, respectively, attributable to sales of power to two aluminum smelting customers. Accounts receivable from these customers totaled $12.2 and $23.0 million at December 31, 2014 and 2013, 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. On April 25, 2014, the commission issued an order allowing $36 million. 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.

Operating revenue also includes sales of power to six other large industrial customers, totaling approximately 8.6% and 7.9% of Kenergy's operating revenue for 2014 and 2013, respectively.

NOTE 7 – COST OF POWER

Kenergy presently purchases all of its non-smelter power and energy requirements from Big Rivers Electric Corporation (Big Rivers) under wholesale power contracts which expire in 2043. Accounts payable under Big Rivers' contracts were $10.6 and $33.6 million at December 31, 2014 and 2013, respectively. Beginning January 1, 2015, Kenergy purchases its power requirements for the two smelters from EDF Trading North America, LLC.

NOTE 8 – RETIREMENT PLANS

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 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 former GREC plan were transferred to NRECA on January 7, 2014. In May 2014, Kenergy paid NRECA $651,370 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 $1,820,919 and $958,520 for 2014 and 2013, 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 this plan.

The Cooperatives contribution to the plan in 2014 and 2013 represented less than 5% of total contributions made to the plan by all participating employers.

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 $301,323 and $140,744 for 2014 and 2013, 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 9 – 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 9 – FINANCIAL INSTRUMENTS – FAIR VALUES (CONTINUED)

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, 2014 and 2013. 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 10 – RELATED PARTY TRANSACTIONS

In previous years, Big Rivers provided billing, safety training, and other services to its three distribution cooperative members for which it was not reimbursed, and Big Rivers reimbursed 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 during the years ended December 31, 2014 and 2013 totaled $1,040,534 and $1,000,438, respectively, of which $57,539 and $429,795, 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 11 – 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. The Cooperative has evaluated its tax positions and determined that it has no uncertain tax positions as of December 31, 2014 and 2013. The Cooperative is no longer subject to federal tax examinations by the tax authorities for years before 2011.

NOTE 12 – 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 13 – 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 2014 and 2013.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been considered and evaluated through April 6, 2015 the date these financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Audit Committee of Kenergy Corp.
Henderson, Kentucky

Ladies and Gentlemen:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kenergy Corp., as of and for the year ended December 31, 2014, and the related notes to the financial statements and have issued our report thereon dated April 06, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kenergy Corp.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kenergy Corp.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Kenergy Corp.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kenergy Corp.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Myriad CPA Group, LLC

Myriad CPA Group, LLC
Henderson, Kentucky
April 06, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
and Management of Kenergy Corp.
Henderson, Kentucky

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kenergy Corp., which comprise the balance sheet as of December 31, 2014 and 2013, and the related statements of revenue and expense, changes in members' equity, changes in cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2015, on our consideration of Kenergy Corp.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Kenergy Corp. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers,* § 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Kenergy Corp.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Kenergy Corp.'s accounting and records to indicate that Kenergy Corp. did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulated and recording labor, material, and overhead costs, and distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of the plant;

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- Maintain adequate control over materials and supplies;

- Prepare accurate and timely Financial and Operating Reports;

- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Myriad CPA Group, LLC

Myriad CPA Group, LLC
Henderson, Kentucky
April 6, 2015

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To the Audit Committee of Kenergy Corp.
Henderson, Kentucky

Ladies and Gentlemen:

We have audited the financial statements of Kenergy Corp. for the year ended December 31, 2014, and have issued our report thereon dated April 06, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated November 14, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

You are responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kenergy Corp. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on your knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Your estimate of the unbilled revenue is based on estimated electrical consumption per billing cycle multiplied by the applicable rate. We evaluated the key factors and assumptions used by management in developing the unbilled revenue estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 06, 2015.

This information is intended solely for the use of the Audit Committee, Board of Directors, and management of Kenergy Corp. and is not intended to be, and should not be, used by anyone other than these specified parties.

Myriad CPA Group, LLC

Myriad CPA Group, LLC
Henderson, Kentucky
April 06, 2015