Kenergy Corp.

Audited Financial Statements
For the years ended December 31, 2015 and 2014

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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, 2015 and 2014, and the statements of revenue and expenses, changes in members' equity, and cash flows for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, and the changes in members' equity 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 15, 2016, 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
Owensboro, Kentucky
March 15, 2016

Kenergy Corp.
Balance Sheets
As of December 31, 2015 and 2014

ASSETS	2015	2014
Utility Plant, Net	$ 203,105,989	$ 196,419,070
Investments	6,275,613	6,160,371
Current Assets:		
Cash and Cash Equivalents	1,427,510	1,800,247
Accounts Receivable, Less Allowance For Doubtful Accounts: 2015 $405,592 and 2014 $253,247		
Billed	18,791,650	23,489,181
Unbilled	12,505,584	13,792,077
Materials and Supplies	1,825,094	1,911,513
Other Current Assets	800,657	775,631
Total Current Assets	35,350,495	41,768,649
Other Assets	2,776,308	1,240,509
Total Assets	$ 247,508,405	$ 245,588,599
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 230,610	$ 228,275
Patronage Capital	68,944,905	70,642,877
Other	8,191,695	6,850,735
Total Members' Equity	77,367,210	77,721,887
Long-Term Debt, Net of Current Portion	129,842,203	127,809,454
Current Liabilities:		
Accounts Payable	20,446,043	24,381,298
Consumer Deposits	5,580,902	4,235,535
Current Maturities of Long-Term Debt	8,083,518	7,377,553
Notes Payable	1,800,000	-
Other Current and Accrued Liabilities	1,623,121	1,396,563
Total Current Liabilities	37,533,584	37,390,949
Other Noncurrent Liabilities	220,578	232,714
Deferred Credits	2,544,830	2,433,595
Total Members' Equity and Liabilities	$ 247,508,405	$ 245,588,599

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

Kenergy Corp.

Statements of Revenue and Expenses

For the years ended December 31, 2015 and 2014

	2015	2014
Operating Revenue	$ 373,443,149	$ 472,546,305
Operating Expenses		
Cost of Power	334,236,486	432,874,393
Distribution Operation	4,027,648	4,133,337
Distribution Maintenance	8,537,782	8,749,204
Customer Accounts	4,479,746	3,904,959
Consumer Service and Information	292,940	165,792
Sales	0	94,012
Administrative and General	4,484,055	3,999,061
Depreciation	11,034,637	10,419,490
Taxes	735,695	594,065
Other Deductions	104,671	80,031
Total Operating Expenses	367,933,660	465,014,344
Operating Margin Before Interest Expense	5,509,489	7,531,961
Interest on Long-Term Debt	5,010,656	4,677,863
Other Interest Expense	32,536	66,338
Operating Margin	466,297	2,787,760
Nonoperating Margin		
Investment Income	1,996,129	1,972,516
Other Income (Expense)	27,714	28,035
Net Margin Before Operating Margins Assigned by Associated Organizations	2,490,140	4,788,311
Operating Margin Assigned by Associated Organizations	210,498	235,209
Net Margin	$ 2,700,638	$ 5,023,520

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, 2015 and 2014

	Memberships	Patronage Capital	Other	Total
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
Increase (Decrease) in Membership Fees	2,335	-	-	2,335
Net Margin	-	2,700,638	-	2,700,638
Patronage Capital Retired	-	(4,398,610)	-	(4,398,610)
Retired Capital Credits - Gain	-	-	1,340,960	1,340,960
Balance, December 31, 2015	$ 230,610	$ 68,944,905	$ 8,191,695	$ 77,367,210

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

Kenergy Corp.
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Net Margin	$ 2,700,638	$ 5,023,520
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:		
Depreciation Charged to Operations	11,416,211	10,774,393
Noncash Assigned Capital Credits	(210,498)	(168,026)
(Increase) Decrease in:		
Accounts Receivable	3,944,009	10,710,397
Materials and Supplies	86,419	96,301
Other Current Assets	1,261,467	243,795
Accounts Payable	(3,935,255)	(11,535,002)
Other Current and Accrued Liabilities	226,558	(567,653)
Other Items, Net	157,805	175,609
Net Cash Provided (Used) by Operating Activities	15,647,354	14,753,334
Cash Flows From Investing Activities:		
Capital Expenditures, Net	(18,942,784)	(12,464,651)
(Increase) Decrease in:		
Other Investment, Excluding Assigned Capital Credits	32,816	(37,043)
Net Cash Provided (Used) by Investing Activities	(18,909,968)	(12,501,694)
Cash Flows From Financing Activities:		
Additional Deposits, Net of Refunds	1,347,702	156,103
Proceeds From Long-Term Debt	11,000,000	8,000,000
Interest Income Added to Cushion of Credit Balance	(1,897,589)	(1,875,024)
Interest Expense Paid From Prior Note Payments	322,185	2,301,305
Principal Payments on Long-Term Debt	(7,051,539)	(7,100,596)
Principal Payments Paid From Prior Note Payments	426,768	2,740,515
Patronage Capital Retired	(3,057,650)	(2,765,932)
Payment-Cushion of Credit	-	(1,000,000)
Proceeds From Short-Term Notes Payable	1,800,000	-
Principal Payments on Short-Term Notes Payable	-	(3,600,000)
Net Cash Provided (Used) by Financing Activities	2,889,877	(3,143,629)
Net Increase (Decrease) in Cash and Cash Equivalents	(372,737)	(891,989)
Cash and Cash Equivalents, Beginning of Year	1,800,247	2,692,236
Cash and Cash Equivalents, End of Year	$ 1,427,510	$ 1,800,247
Supplemental Disclosure of Cash Flow Information:		
Interest Paid, Net of Amounts Capitalized	$ 5,107,200	$ 4,938,479

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

Kenergy Corp.
Notes to the Financial Statements

<u>NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

<u>Nature of Business</u>

Kenergy is a nonprofit electric distribution cooperative association which provides electric power to approximately 56,663 residential, commercial and industrial customer accounts located in fourteen western Kentucky counties.

<u>Basis of Accounting</u>

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.

<u>Revenues</u>

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

<u>Utility Plant</u>

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.

<u>Depreciation</u>

Depreciation is provided on the basis of the estimated useful lives of assets at straight-line rates, which for 2015 and 2014 were as follows:

Distribution Plant	1.90% to 7.50%
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.

<u>Investments</u>

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.

Kenergy Corp.
Notes to the Financial Statements

<u>NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)</u>

<u>Cash and Cash Equivalents</u>

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.

<u>Investments in Associated Organizations</u>

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.

<u>Materials and Supplies</u>

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

<u>Use of Estimates</u>

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.

<u>NOTE 2 – UTILITY PLANT</u>

Utility plant at December 31, 2015 and 2014 consists of the following:

	2015	**2014**
Distribution Plant	$277,713,974	$262,342,709
General Plant	26,322,030	25,495,459
	304,036,004	287,838,168
Less: Accumulated Depreciation	(101,581,960)	(92,346,385)
Construction in Progress	651,945	927,287
Total Utility Plant	$203,105,989	$196,419,070

Depreciation expense for the years ended December 31, 2015 and 2014 was $11,733,687 and $11,062,959, respectively.

Interest capitalized during 2015 and 2014 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. The remaining $1,864,371 FEMA receivable was written off for accounting purposes in December 2015. Kenergy will continue to pursue the remaining reimbursement.

On December 12, 2015 Kenergy's Horse Fork substation experienced an explosion which destroyed most of the equipment within the substation. Kenergy expects reimbursement at full replacement cost for the damage based on the insurance policy covering the assets. An entry was made in December 2015 to retire the destroyed assets and to record the estimated replacement cost of $1,111,321 as a receivable from Federated, Kenergy's insurance carrier.

NOTE 3 – INVESTMENTS

Generation and Transmission Corporation:

As discussed in preceding notes, Kenergy purchases electric power from Big Rivers, 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 is comprised of Kenergy and two other distribution cooperatives.

The following is a summary at December 31, 2015 and 2014 of financial information pertaining to Big Rivers:

	2015	2014
Balance Sheet Data	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 189,152,261	$ 185,429,027
Noncurrent Assets	1,216,538,512	1,242,070,496
Total Assets	$ 1,405,690,773	$ 1,427,499,523
Liabilities:		
Current Liabilities	$ 84,534,265	$ 68,716,896
Noncurrent Liabilities	856,495,341	906,866,528
Total Liabilities	941,029,606	975,583,424
Equity:	$ 464,661,167	$ 451,916,099
Income Statement Data		
Revenues	$ 445,275,732	$ 505,859,851
Operating Margin	$ 6,623,204	$ 27,768,047
Net Margin	$ 11,216,118	$ 32,667,439

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

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 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 realizing income of $537,978,261 in 2009. These funds allowed Big Rivers 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 Joint Plan of Reorganization in 1998, member cooperatives of Big Rivers 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 to Kenergy represented 69% of the total allocations. Big Rivers, which allocates margins on the tax basis, has not made any allocations for the years ended December 31, 2010-2015 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 (Refer to Note 11 - Income Tax Status. See Note 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, 2015 and 2014 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 $2,085,052 and $2,035,216 at December 31, 2015 and 2014, 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.

Kenergy's primary insurance carrier, Federated Rural Electric Insurance Exchange (Federated), insures electric cooperatives across the nation by offering property, general liability, automobile, crime, umbrella liability, cyber liability, director, officer and manager liability, and workers' compensation coverage. As a member-owned cooperative, Federated allocates its net margins to its members each year as patronage, and Kenergy carries its investment at cost. Kenergy's investment in Federated totaled $698,590 and $598,998 at December 31, 2015 and 2014.

Kenergy Corp.
Notes to the Financial Statements

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

A summary of investments for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Patronage Capital Credits		
Investments in CoBank	$ 2,085,052	$ 2,035,216
Investments Federated	698,590	598,998
Other Investments	910,699	883,286
	3,694,341	3,517,500
Other Assets	52,394	113,993
Capital Term Certificates	2,528,878	2,528,878
Total	$ 6,275,613	$ 6,160,371

Kenergy Corp.
Notes to the Financial Statements

NOTE 4 – LONG-TERM DEBT

Long-Term Debt at December 31st consists of:

	2015	2014
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	$ 1,324,601	$ 1,379,626
5% notes	-	1,928,717
Treasury notes- average rate of		
4.81% at December 31, 2014	-	24,412,827
5.125% notes	-	1,945,202
Laddered interest rate terms of 1-7 years at an average rate of 1.14 % at December 31, 2015	41,852,226	43,758,628
Unapplied note prepayments-5%	(38,586,244)	(37,437,608)
	4,590,583	35,987,392
CoBank in quarterly and monthly installments of varying amounts through 2033:		
Interest rate term fixed to principle maturity:		
3.35% average rate at December 31, 2015	9,289,811	10,920,484
Laddered interest rate terms of 1 to 5 years, average rate of 2.14% at December 31, 2015	8,830,726	9,783,297
	18,120,537	20,703,781
Rural Economic Development Zero-Interest Loan payable to RUS in monthly installments of varying amounts through May 2016	25,463	86,574
Federal Financing Bank in quarterly installments of varying amounts through December 2048		
Interest rate term fixed to maturity:		
Average interest rate of 3.58%	77,410,115	55,615,413
Interest rate term fixed for 10 years		
Average interest rate of 2.38%	6,856,336	-
Interest rate term of 90 days:		
0.34% rate as of December 31, 2015	2,326,530	21,763,357
	86,592,981	77,378,770
CFC in quarterly installments with a 23-month term, two automatic 23-month term extentions, and a 2.2% interest rate fixed to maturity	781,284	1,030,490
Level debt service note maturing 2038 3.92% interest rate fixed to maturity	27,814,873	-
	28,596,157	1,030,490
Total Long-Term Debt	137,925,721	135,187,007
Less Current Maturities	8,083,518	7,377,553
Long-Term Debt, Net of Current Portion	$ 129,842,203	$ 127,809,454

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt at December 31, 2015 are:

2016	$	8,058,055
2017		7,961,630
2018		7,976,614
2019		7,829,406
2020		7,395,078
Thereafter		98,704,938
	$	137,925,721

Substantially all assets are pledged as security for the long-term debt to the Rural Utilities Service, Federal Financing Bank, CoBank, and the National Rural Utility Cooperative Finance Corporation (CFC).

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 $1,800,000 and $0 outstanding under these agreements at December 31, 2015 and 2014, respectively. The rate at December 31, 2015 was 2.53%.

NOTE 6 – MAJOR CUSTOMER CONCENTRATIONS

Operating revenue for 2015 and 2014 includes approximately $208.0 million and $308.9 million, respectively, attributable to sales of power to two aluminum smelting customers. Accounts receivable from these customers totaled $7.2 and $12.2 million at December 31, 2015 and 2014, respectively. On August 20, 2012 and January 31, 2013 the two smelters provided one-year notices of termination of their contracts. On January 15, 2013, Big Rivers Electric Corp. (see Note 3) filed for a $74 million rate increase in case no. 2012-00535. On October 29, 2013 the KPSC issued an order allowing $54 million. On June 28, 2013 Big Rivers filed for a second rate increase of $70 million in case no. 2013-00199. On April 25, 2014 the KPSC issued an order allowing $36 million. Annual depreciation on the Coleman station of $6,192,660 and the Wilson station of $20,175,771 is being recorded as a deferred asset rather than as an expense. It is the KPSC's intent that the amount recorded as a deferred asset will be considered for amortization at some future point in time if and when the facilities are needed to serve customers, are sold, or are permanently closed. 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 11.6% and 8.6% of Kenergy's operating revenue for 2015 and 2014, respectively.

NOTE 7 – COST OF POWER & RATE MATTERS

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 $11.8 million and $10.6 million at December 31, 2015 and 2014, respectively.

<u>NOTE 7 – COST OF POWER & RATE MATTERS (CONTINUED)</u>

Beginning January 1, 2015, Kenergy purchases its power requirements for the two smelters from EDF Trading North America, LLC.

The reserve fund credits, which were established as a part of the "Unwind" transaction (see note 3), are scheduled to expire during the first quarter of 2016 for business customers and during the fourth quarter of 2016 for residential, school, church and farm customers. These credits offset Big Rivers' second smelter rate increase of $36 million (see note 6), and portions of Big Rivers' fuel and environmental cost. When the funds expire, customer bills will increase approximately 20%.

During 2015, Kenergy filed an application with the KPSC requesting an increase in base rates of $2,563,807, which represents a 1.93% increase in total annual revenues excluding direct served industrials. The KPSC established Case No 2015-00312 and issued a procedural schedule to fully investigate the reasonableness of the proposed rates. The KPSC may approve an amount other than what Kenergy has requested. If approved, Kenergy expects the new rates to be effective May 2016.

<u>NOTE 8 – RETIREMENT PLANS</u>

<u>NRECA Retirement and Security Program</u>

All eligible employees of Kenergy participate in the National Rural Electric Cooperative Association (NRECA) sponsored Retirement Security Plan (RS Plan), a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employee Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

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 contributions to the RS Plan in 2015 and 2014 represent less than 5 percent of the total contributions made to the RS Plan by all participating employers. Kenergy made contributions of $1,885,703 in 2015 and $1,820,919 in 2014, which equals the amount accrued for pension expense. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2015 and over 80 percent funded on January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to the January 1st of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period. 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.

Retirement Savings Plan

The Retirement Savings Plan is available to all eligible Kenergy employees. 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 $293,625 and $301,323 for 2015 and 2014, 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.

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, 2015 and 2014. 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.

<u>NOTE 10 – RELATED PARTY TRANSACTIONS</u>

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, 2015 and 2014 totaled $1,048,299 and $1,040,534 respectively, of which $137,081 and $57,539, respectively, was included in accounts receivable. These amounts do not include the cost of computer programming, safety training and postage provided but not quantified.

<u>NOTE 11 – INCOME TAX STATUS</u>

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.

ASC 740-10, *Income Taxes*, provides guidance for reporting uncertainty in income taxes. Kenergy has performed an evaluation of uncertain tax position for the years ended December 31, 2015, 2014, 2013, and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. Income tax returns for the years ended December 31, 2012 or later remain subject to subject to examination by various taxing authorities.

<u>NOTE 12 – LIMITATIONS ON DISTRIBUTIONS</u>

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.

<u>NOTE 13 – RISK MANAGEMENT</u>

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 2015 and 2014.

<u>NOTE 14 – SUBSEQUENT EVENTS</u>

Subsequent events have been considered and evaluated through March 15, 2016 the date these financial statements were available to be issued.