Kenergy Corp.

Audited Financial Statements
For the years ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S 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, 2017 and 2016, and the statements of revenue and expenses, changes in members' equity, and cash flows for the years then ended, 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.

Auditor's 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*, issued by the Comptroller General of the United States. 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, 2017 and 2016, and the changes in members' equity and its cash flows for the years 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 28, 2018, on our consideration of Kenergy Corp.'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 effectiveness of Kenergy Corp.'s 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.

Alexander Thompson Arnold, PLLC

Owensboro, Kentucky
March 28, 2018

Kenergy Corp.
Balance Sheets
As of December 31, 2017 and 2016

ASSETS	2017	2016
Utility Plant, Net	$ 204,889,542	205,143,417
Investments	6,491,943	6,351,424
Current Assets:		
Cash and Cash Equivalents	3,507,049	1,119,556
Accounts Receivable, Less Allowance For Doubtful Accounts: 2017 $364,084 and 2016 $340,119		
Billed	22,041,106	22,446,503
Unbilled	9,664,475	17,595,465
Materials and Supplies	1,760,882	1,757,537
Other Current Assets	860,180	757,642
Total Current Assets	37,833,692	43,676,703
Other Assets	3,826,994	4,211,886
Total Assets	$ 253,042,171	259,383,430
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 231,865	231,570
Patronage Capital	66,083,415	68,540,787
Other	9,147,862	9,266,927
Total Members' Equity	75,463,142	78,039,284
Long-Term Debt, Net of Current Portion	127,449,859	128,916,865
Current Liabilities:		
Accounts Payable	26,118,629	27,916,940
Consumer Deposits	5,343,067	5,953,421
Current Maturities of Long-Term Debt	8,047,037	8,058,667
Notes Payable	6,000,000	6,100,000
Other Current and Accrued Liabilities	2,253,836	1,586,313
Total Current Liabilities	47,762,569	49,615,341
Other Noncurrent Liabilities	167,646	212,687
Deferred Credits	2,198,955	2,599,253
Total Members' Equity and Liabilities	$ 253,042,171	259,383,430

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

Kenergy Corp.
Statements of Revenue and Expenses
For the years ended December 31, 2017 and 2016

	2017	2016
Operating Revenue	$ 362,809,760	343,453,116
Operating Expenses		
Cost of Power	323,824,938	302,773,678
Distribution Operation	4,468,519	4,227,982
Distribution Maintenance	8,389,317	8,290,451
Customer Accounts	3,496,616	3,817,353
Consumer Service and Information	324,201	262,297
Administrative and General	4,152,556	4,191,126
Depreciation	12,692,991	12,040,020
Taxes	626,923	742,917
Other Deductions	57,753	217,552
Total Operating Expenses	358,033,814	336,563,376
Operating Margin Before Interest Expense	4,775,946	6,889,740
Interest on Long-Term Debt	5,107,672	5,099,153
Other Interest Expense	201,182	106,306
Total Interest Expense	5,308,854	5,205,459
Operating Margin	(532,908)	1,684,281
Non-operating Margin		
Investment Income	2,164,535	2,064,694
Other Income (Expense)	35,908	(6,513)
Net Margin Before Operating Margins Assigned by Associated Organizations	1,667,535	3,742,462
Operating Margin Assigned by Associated Organizations	234,285	195,428
Net Margin	$ 1,901,820	3,937,890

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, 2017 and 2016

	Memberships	Patronage Capital	Other	Total
Balance, January 1, 2016	$ 230,610	$ 68,944,905	$ 8,191,695	$ 77,367,210
Increase in Membership Fees	960	-	-	960
Net Margin	-	3,937,890	-	3,937,890
Patronage Capital Retired	-	(4,342,008)	-	(4,342,008)
Retired Capital Credits - Gain	-	-	1,075,232	1,075,232
Balance, December 31, 2016	$ 231,570	$ 68,540,787	$ 9,266,927	$ 78,039,284
Increase in Membership Fees	295	-	-	295
Net Margin	-	1,901,820	-	1,901,820
Patronage Capital Retired	-	(4,359,192)	-	(4,359,192)
Retired Capital Credits - Gain	-	-	(119,065)	(119,065)
Balance, December 31, 2017	$ 231,865	$ 66,083,415	$ 9,147,862	$ 75,463,142

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

Kenergy Corp.
Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Net Margin	$ 1,901,820	$ 3,937,890
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Charged to Operations	13,025,609	12,408,113
Noncash Assigned Capital Credits	(234,285)	(195,428)
Changes In:		
Accounts Receivable	380,455	(3,680,449)
Materials and Supplies	(3,345)	67,557
Other Current Assets	7,828,452	(5,046,866)
Accounts Payable	(1,798,311)	7,470,897
Other Current and Accrued Liabilities	667,523	(36,808)
Other Items, Net	128,906	136,135
Net Cash Provided by Operating Activities	21,896,824	15,061,041
Cash Flows From Investing Activities:		
Capital Expenditures, Net	(12,961,086)	(15,970,722)
(Increase) Decrease in:		
Other Investment, Excluding Assigned Capital Credits	118,708	119,750
Net Cash Used by Investing Activities	(12,842,378)	(15,850,972)
Cash Flows From Financing Activities:		
Additional Deposits, Net of Refunds	(610,059)	373,479
Proceeds From Long-Term Debt	8,000,000	9,000,000
Interest Income Added to Cushion of Credit Balance	(2,055,524)	(1,966,254)
Interest Expense Paid From Prior Note Payments	2,471,815	-
Principal Payments on Long-Term Debt	(7,408,493)	(7,958,472)
Principal Payments Paid From Prior Note Payments	2,313,565	-
Patronage Capital Retired	(4,478,257)	(3,266,776)
Payment-Cushion of Credit	(4,800,000)	-
Proceeds From Short-Term Notes Payable	-	4,300,000
Principal Payments on Short-Term Notes Payable	(100,000)	-
Net Cash Provided by Financing Activities	(6,666,953)	481,977
Net Decrease in Cash and Cash Equivalents	2,387,493	(307,954)
Cash and Cash Equivalents, Beginning of Year	1,119,556	1,427,510
Cash and Cash Equivalents, End of Year	$ 3,507,049	$ 1,119,556
Supplemental Disclosure of Cash Flow Information:		
Interest Paid, Net of Amounts Capitalized	$ 4,666,443	$ 5,400,545

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

Kenergy Corp.
Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Kenergy Corp. (Kenergy) is a nonprofit electric distribution cooperative association which provides electric power to approximately 57,500 residential, commercial and industrial customer accounts 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 December 31, 2017 and 2016 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.

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, 2017 and 2016 consists of the following:

	2017	2016
Distribution Plant	$295,775,403	$285,913,592
General Plant	26,797,133	26,583,273
	322,572,536	312,496,865
Less: Accumulated Depreciation	(118,308,425)	(108,907,333)
Construction in Progress	625,431	1,553,885
Total Utility Plant	$204,889,542	$205,143,417

Depreciation expense for the years ended December 31, 2017 and 2016 was $13,056,173 and $12,594,044, respectively.

Interest capitalized during 2017 and 2016 related to construction of utility plant was $0 and $0, respectively.

NOTE 3 – INVESTMENTS

Generation and Transmission Corporation:

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 is comprised of Kenergy and two other distribution cooperatives.

The following is a summary at December 31, 2017 and 2016 of financial information pertaining to Big Rivers:

	2017	2016
Balance Sheet Data	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 182,744,367	$ 180,843,147
Noncurrent Assets	1,217,003,724	1,196,745,950
Total Assets	$ 1,399,748,091	$ 1,377,589,097
Liabilities:		
Current Liabilities	$ 95,249,707	$ 80,811,461
Noncurrent Liabilities	813,611,151	818,625,282
Total Liabilities	908,860,858	899,436,743
Equity:	$ 490,887,233	$ 478,152,354
Income Statement Data		
Revenues	$ 407,228,876	$ 402,589,682
Operating Margin	$ 8,227,809	$ 8,162,762
Net Margin	$ 12,998,422	$ 12,905,266

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 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, 2010-2017 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, 2017 and 2016 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 $1,995,151 and $2,045,063 at December 31, 2017 and 2016, 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 $828,900 and $749,413 at December 31, 2017 and 2016.

NOTE 3 – INVESTMENTS (CONTINUED)

A summary of investments for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Patronage Capital Credits		
Investments in CoBank	$ 1,995,151	$ 2,045,063
Investments Federated	828,900	749,412
Other Investments	1,117,046	1,005,560
	3,941,097	3,800,035
Other Assets	21,968	22,511
Capital Term Certificates	2,528,878	2,528,878
	$ 6,491,943	$ 6,351,424

NOTE 4 – LONG-TERM DEBT

Long-Term Debt at December 31st consists of:

	2017	2016
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	$ 1,207,514	$ 1,267,264
Laddered interest rate terms of 1-7 years at an average rate of 1.49% at December 31, 2017	38,036,843	39,934,833
Unapplied note prepayments-5%	(42,622,642)	(40,552,498)
	(3,378,285)	649,599
CoBank in quarterly and monthly installments of varying amounts through 2033:		
Interest rate term fixed to principle maturity:		
3.65% average rate at December 31, 2017	5,489,790	7,366,244
Laddered interest rate terms of 1 to 4 years, average rate of 2.62% at December 31, 2017	7,567,956	8,222,248
	13,057,746	15,588,492

NOTE 4 – LONG-TERM DEBT (CONTINUED)

	2017	2016
Federal Financing Bank in quarterly installments of varying amounts through December 2052		
Interest rate term fixed to maturity:		
Average interest rate of 3.38%	$ 91,029,897	$ 84,565,716
Interest rate term fixed for 7 years		
Average interest rate of 2.38%	6,571,111	6,695,679
Interest rate term of 90 days:		
1.53% rate as of December 31, 2017	2,182,976	2,251,690
	99,783,984	93,513,085
CFC in quarterly installments with a 23-month term, two automatic 23-month term extentions, and a 2.2% interest rate fixed to maturity	266,165	526,549
Level debt service note maturing 2038 3.92% interest rate fixed to maturity	25,767,286	26,697,807
	26,033,451	27,224,356
Total Long-Term Debt	135,496,896	136,975,532
Less Current Maturities	8,047,037	8,058,667
Long-Term Debt, Net of Current Portion	$ 127,449,859	$ 128,916,865

Aggregate maturities of long-term debt at December 31, 2017 are:

	Amounts
2017	$ 8,047,037
2018	7,990,821
2019	7,648,854
2020	7,235,706
2021	6,948,312
Thereafter	97,626,166
	$ 135,496,896

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 $6,000,000 and $6,100,000 outstanding under these agreements at December 31, 2017 and 2016, respectively. The rate at December 31, 2017 was 2.75%.

NOTE 6 – MAJOR CUSTOMER CONCENTRATIONS

Operating revenue for December 31, 2017 and 2016 includes approximately $167.6 million and $157.1 million, respectively, attributable to sales of power to two aluminum smelting customers. Accounts receivable from these customers totaled $10.6 and $12.2 million at December 31, 2017 and 2016, 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 15.3% and 15.5% of Kenergy's operating revenue for 2017 and 2016, 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 $14.4 million and $14.5 million at December 31, 2017 and 2016, respectively.
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), expired 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. Due to the funds expiration, customer bills increased approximately 20%.

NOTE 8 – RETIREMENT PLANS

NRECA Retirement and Security Program

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.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

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 2017 and 2016 represent less than 5 percent of the total contributions made to the RS Plan by all participating employers. Kenergy made contributions of $1,980,330 in 2017 and $1,917,078 in 2016, which equals the amount accrued for pension expense. There have been no significant changes that affect the comparability of 2017 and 2016 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, 2017 and over 80 percent funded on January 1, 2016 based on the PPA funding target and PPA actuarial value of assets on those dates.

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 $296,093 and $296,299 for 2017 and 2016, respectively. Participants vest immediately in their contributions and the contributions of Kenergy.

NOTE 8 – RETIREMENT PLANS (CONTINUED)

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, 2017 and 2016. 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, 2017 and 2016 totaled $906,386 and $903,671 respectively, of which $11,189 and $34,892, 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.

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, 2017 and 2016, 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, 2014 or later remain subject to examination by various taxing authorities.

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:

a) Equity above 30%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 30% of Total Assets; or

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

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 December 31, 2017 and 2016.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been considered and evaluated through March 28, 2018 the date these financial statements were available to be issued.

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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
Kenergy Corp.
Henderson, Kentucky

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 sheets as of December 31, 2017 and 2016, and the related statements of revenue and expense, changes in members' equity, and changes in cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018, 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 accumulating 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.

Alexander Thompson Arnold, PLLC

Alexander Thompson Arnold, PLLC
Owensboro, Kentucky
March 28, 2018

Alexander Thompson Arnold PLLC
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INDEPENDENT AUDITORS' 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 Board of Directors
Kenergy Corp.
Henderson, Kentucky

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 years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated March 28, 2018.

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 opinion 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.

Alexander Thompson Arnold, PLLC

Alexander Thompson Arnold, PLLC
Owensboro, Kentucky
March 28, 2018