KENERGY CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

KENERGY CORP.
CONTENTS

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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, 2020 and 2019, 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 audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenergy Corp. as of December 31, 2020 and 2019, 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 24, 2021 with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 24, 2021

Kenergy Corp.
Balance Sheets
As of December 31, 2020 and 2019

ASSETS	2020	2019
Utility Plant, Net	$ 204,270,679	$ 204,881,907
Investments	6,089,552	6,617,892
Current Assets:		
Cash and Cash Equivalents	9,441,268	3,523,599
Accounts Receivable, Less Allowance For Doubtful Accounts: 2020 $607,374 and 2019 $316,245	22,085,775	20,482,857
Materials and Supplies	1,849,881	1,766,550
Accrued Utility Revenue	8,709,741	7,962,168
Other Current Assets	469,561	467,627
Total Current Assets	42,556,226	34,202,801
Other Assets	2,718,871	3,056,915
Total Assets	$ 255,635,328	$ 248,759,515
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 228,360	$ 224,785
Patronage Capital	67,321,161	65,670,913
Other	11,548,614	11,385,774
Total Members' Equity	79,098,135	77,281,472
Long-Term Debt, Net of Current Portion	133,355,552	128,933,216
Current Liabilities:		
Accounts Payable	26,541,378	25,160,341
Consumer Deposits	5,277,819	5,422,693
Current Maturities of Long-Term Debt	6,609,540	7,375,231
Other Current and Accrued Liabilities	2,034,909	1,770,404
Total Current Liabilities	40,463,646	39,728,669
Other Noncurrent Liabilities	77,032	82,979
Deferred Credits	2,640,963	2,733,179
Total Members' Equity and Liabilities	$ 255,635,328	$ 248,759,515

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

Kenergy Corp.
Statements of Revenue and Expenses
For the years ended December 31, 2020 and 2019

	2020	2019
Operating Revenue	$ 357,966,779	$ 393,029,574
Operating Expenses		
Cost of Power	316,981,619	352,421,358
Distribution Operation	4,514,807	4,213,017
Distribution Maintenance	9,579,601	8,591,985
Customer Accounts	3,278,330	3,392,505
Consumer Service and Information	216,292	313,631
Administrative and General	3,931,357	3,959,547
Depreciation and Amortization	13,751,032	13,441,792
Taxes	666,002	624,155
Other Deductions	52,301	67,669
Total Operating Expenses	352,971,341	387,025,659
Operating Margin Before Interest Expense	4,995,438	6,003,915
Interest on Long-Term Debt	4,340,462	5,168,629
Other Interest Expense	99,843	133,074
Total Interest Expense	4,440,305	5,301,703
Operating Margin	555,133	702,212
Non-operating Margin		
Investment Income	1,043,746	1,948,916
Other Income (Expense)	(27,798)	(50,725)
Net Margin Before Operating Margins Assigned by Associated Organizations	1,571,081	2,600,403
Operating Margin Assigned by Associated Organizations	258,668	196,308
Net Margin	$ 1,829,749	$ 2,796,711

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, 2020 and 2019

	Memberships	Patronage Capital	Other	Total
Balance, January 1, 2019	$ 223,215	$ 66,889,565	$ 10,188,097	$ 77,300,877
Increase (Decrease) in Membership Fees	1,570	-	-	1,570
Net Margin	-	2,796,711	-	2,796,711
Patronage Capital Retired	-	(4,015,363)	-	(4,015,363)
Retired Capital Credits - (Loss)	-	-	1,197,677	1,197,677
Balance, December 31, 2019	$ 224,785	$ 65,670,913	$ 11,385,774	$ 77,281,472
Increase (Decrease) in Membership Fees	3,575	-	-	3,575
Net Margin	-	1,829,749	-	1,829,749
Patronage Capital Retired	-	(179,501)	-	(179,501)
Retired Capital Credits - Gain	-	-	162,840	162,840
Balance, December 31, 2020	$ 228,360	$ 67,321,161	$ 11,548,614	$ 79,098,135

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

Kenergy Corp.
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

		2020		2019
Cash Flows From Operating Activities:				
Net Margin	$	1,829,749	$	2,796,711
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:				
Depreciation and Amortization Charged to Operations		14,148,089		13,814,467
Noncash Assigned Capital Credits		(173,370)		(105,332)
Changes In:				
Accounts Receivable		(1,614,437)		8,054,276
Materials and Supplies		(83,331)		(58,789)
Other Current Assets		(749,507)		807,130
Accounts Payable		1,381,037		(6,663,745)
Other Current and Accrued Liabilities		264,505		272,684
Other Items, Net		141,055		150,687
Net Cash Provided by Operating Activities		15,143,790		19,068,089
Cash Flows From Investing Activities:				
Capital Expenditures, Net		(13,438,036)		(14,473,607)
(Increase) Decrease in:				
Other Investment, Excluding Assigned Capital Credits		713,230		215,470
Net Cash Used by Investing Activities		(12,724,806)		(14,258,137)
Cash Flows From Financing Activities:				
Additional Deposits, Net of Refunds		(134,232)		123,198
Proceeds From Long-Term Debt		10,824,050		8,000,000
Interest Income Added to Cushion of Credit Balance		(871,451)		(1,706,269)
Interest Expense Paid From Prior Note Payments		54,009		729,496
Principal Payments on Long-Term Debt		(7,219,115)		(7,995,971)
Principal payments paid from prior year note payments		869,153		1,014,536
Principal Payments Paid On Long Term Debt-Early Retirement		(17,778,322)		(15,862,215)
Principal Payments Paid From Prior Note Payments-Early Retirement		17,778,322		15,862,215
Patronage Capital Retired		(23,729)		(2,859,416)
Net Cash Used by Financing Activities		3,498,685		(2,694,426)
Net Increase (Decrease) in Cash and Cash Equivalents		5,917,669		2,115,526
Cash and Cash Equivalents, Beginning of Year		3,523,599		1,408,073
Cash and Cash Equivalents, End of Year	$	9,441,268	$	3,523,599
Supplemental Disclosure of Cash Flow Information:				
Interest Paid, Net of Amounts Capitalized	$	4,380,115	$	5,217,608

The accompanying notes are an integral part of 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 58,589 residential, commercial and industrial member 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. (ASC) 606, *Revenue from Contracts with Customers* requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Cooperative expects to be entitled in exchange for those goods or services. The Cooperative adopted the requirements of the new revenue recognition guidance as of January 1 2019, utilizing the cumulative effect transition method. The adoption of the new revenue recognition guidance did not have any material effect on the Cooperative’s financial statements.

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 2020 and 2019, 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.

Material 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.

Accounts Receivable

Accounts receivable are uncollateralized obligations of members which are stated at the amount billed. The carrying amount of accounts receivable is reduced by the allowance for accounts considered to be uncollectible. Kenergy Corp's management, on a regular basis, monitors accounts in arrears and estimates the amount determined to be uncollectible. Accounts deemed to be uncollectible are charged against the allowance.

Unbilled Revenue

Kenergy Corp. records unbilled revenue for the amount of electricity consumed from the last meter reading date to the last day of the year.

NOTE 2 – UTILITY PLANT

Utility plant at December 31st consists of the following:

	2020	2019
Distribution Plant	$324,513,789	$314,524,482
General Plant	26,747,254	26,748,555
	351,261,043	341,273,037
Less: Accumulated Depreciation	(147,328,621)	(137,450,979)
Construction in Progress	338,257	1,059,849
Total Utility Plant	$204,270,679	$204,881,907

Depreciation expensed for the years ended December 31, 2020 and 2019 was $13,917,202 and $13,583,580 respectively. These amounts include depreciation of transportation equipment charged to operating accounts.

Interest capitalized during 2020 and 2019 related to construction of utility plant was $-0- and $-0- respectively.

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 footnote 6). The membership of Big Rivers is comprised of Kenergy and two other distribution cooperatives.

The following is a summary at December 31, 2020 and December 31, 2019 of financial information pertaining to Big Rivers:

	2020	2019
Balance Sheet Data	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 112,020,000	$ 133,268,000
Noncurrent Assets	1,249,051,000	1,215,945,000
Total Assets	$ 1,361,071,000	$ 1,349,213,000
Liabilities:		
Current Liabilities	$ 70,458,000	$ 65,036,000
Noncurrent Liabilities	759,074,000	761,013,000
Total Liabilities	829,532,000	826,049,000
Equity:	$ 531,539,000	$ 523,164,000
Income Statement Data		
Revenues	$ 328,708,000	$ 378,727,000
Operating Margin	$ 6,003,000	$ 10,980,000
Net Margin	$ 10,195,000	$ 16,715,000

NOTE 3 – INVESTMENTS (CONTINUED)

Big Rivers experienced significant operating losses in prior years and had a net equities deficit 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, 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 emerged from bankruptcy protection. As of December 31, 2009, the non-cash allocations from Big Rivers to Kenergy represent 69% of the total allocations. Big Rivers, which allocates margins on the tax basis, has not made any allocations for 2010-2019 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)

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, 2020 totaled $2,072,573 and 2019 totaled $2,528,878. The CTC's mature in varying amounts from 2020 to 2080 and bear interest at 0%, 3%, and 5% per year.

Investment in CoBank, an international cooperative bank, is a required investment, which is carried at cost and totaled $1,666,254 and $1,847,170 at December 31, 2020 and 2019, 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 $1,001,914 and $964,242 at December 31, 2020 and 2019.

NOTE 3 – INVESTMENTS (CONTINUED)

A summary of investments for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Patronage Capital Credits		
Investments in CoBank	$ 1,666,254	$ 1,847,170
Investments Federated	1,001,914	964,242
Other Investments	1,325,711	1,254,502
	3,993,879	4,065,914
Other Assets	23,100	23,100
Capital Term Certificates	2,072,573	2,528,878
	$ 6,089,552	$ 6,617,892

NOTE 4 – LONG-TERM DEBT

Long-Term Debt at December 31 consists of:

	2020	2019
First mortgage notes payable to:		
RUS in quarterly and monthly installments of varying amounts through 2038		
Interest rate term fixed to principle maturity:		
1.25% notes	$ 636,589	$ 1,080,370
Laddered interest rate terms of 1-6 years at an average rate of 1.61% at December 31, 2020	31,649,955	34,238,375
Unapplied note prepayments-4%	(7,568,116)	(25,398,150)
	24,718,428	9,920,595
CoBank in quarterly and monthly installments of varying amounts through 2033:		
Interest rate term fixed to principle maturity:		
3.89% average rate at December 31, 2020	1,324,684	2,673,569
Laddered interest rate terms of 1 to 5 years, average rate of 2.16% at December 31, 2020	4,755,419	5,299,861
	6,080,103	7,973,430
Federal Financing Bank in quarterly installments of varying amounts through December 2052		
Interest rate term fixed to maturity:		
Average interest rate of 2.62%	$ 77,523,366	$ 88,400,533
Interest rate term fixed for 6 years		
Average interest rate of 2.38%	6,009,212	6,186,346
	83,532,578	94,586,879
CFC in quarterly installments with a Level debt service note maturing 2038		
3.92% interest rate fixed to maturity	22,809,933	23,827,543
	22,809,933	23,827,543
SBA PPP Loan		
5-year Note Maturing July 2, 2025		
1.00% interest rate fixed to maturity	2,824,050	-
	2,824,050	-
Total Long-Term Debt	139,965,092	136,308,447
Less Current Maturities	6,609,540	7,375,231
Long-Term Debt, Net of Current Portion	$ 133,355,552	$ 128,933,216

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Aggregate annual maturities of long-term debt at December 31, 2020 are:

2021	$ 6,609,540
2022	6,285,282
2023	6,340,973
2024	6,520,789
2025	9,468,097
Thereafter	104,740,411
	$ 139,965,092

Substantially all assets are pledged as security for long-term debt issued to the Rural Utilities Service, Federal Financing Bank, CoBank, and the National Rural Utility Cooperative Finance Cooperation (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 $0 outstanding under these agreements at December 31, 2020 and 2019, respectively. The rate at December 31, 2020 was 2.45%.

NOTE 6 – MAJOR CUSTOMER CONCENTRATION

Operating revenue for 2020 and 2019 includes approximately $178.6 million and $196.7 million, respectively, attributable to sales of power to two aluminum smelting customers. Accounts receivable from these customers totaled $11.4 and $9.5 million at December 31, 2020 and 2019, respectively.

Operating revenue also includes sales of power to five other large industrial customers totaling approximately 13.3% and 14.4% of Kenergy's operating revenue for 2020 and 2019, 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 $13.0 million and $13.0 million at December 31, 2020 and 2019 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 Plan

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 2020 and 2019 represent less than 5 percent of the total contributions made to the RS Plan by all participating employers. Kenergy made contributions of $2,284,018 in 2020 and $2,191,777 in 2019, which equals the amount accrued for pension expense. There have been no significant changes that affect the comparability of 2020 and 2019 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, 2020 and over 80 percent funded on January 1, 2019 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 matched the contributions of each participant, up to 3% of the participant’s base compensation until January 1, 2019. Kenergy contributed $-0- and $-0- for 2020 and 2019, 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 INSTRUMENT – 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. During 2019 Kenergy enrolled in an Insured Cash Sweep program that sweeps cash deposits in excess of the FDIC limit to other banks so all of the cash enrolled in the program is FDIC insured. 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, 2020 and 2019 totaled $987,814 and $850,197 respectively, of which $115,809 and $73,960, 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 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 positions for the years ended December 31, 2020 and 2019, and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

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

NOTE 12 – LIMITATIONS ON DISTRIBUTIONS (CONTINUED)

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 2020 and 2019.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been considered and evaluated through March 24, 2021 the date these financial statements were available to be issued.

A. Paycheck Protection Program (PPP) Loan Forgiveness

On March 4, 2021, Kenergy Corp. received notification from CoBank that its application for PPP forgiveness amount of $2,824,050, had been forwarded to the Small Business Administration for its approval. A determination of forgiveness is expected to be received within 90 days of March 4, 2021.

B. Subsidiary-Kenect, Inc.

On June 25, 2020, the Cooperative formed a wholly owned subsidiary, Kenect, Inc., for the purpose of providing broadband internet services to its members. Kenect, Inc. has not recorded any transactions to date. Pending legislation, if passed, may allow for an opportunity for Kenect, Inc to be utilized by Kenergy Corp. to move forward with its broadband subsidiary.

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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, 2020, 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 24, 2021.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, 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 24, 2021

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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 years ended December 31, 2020 and 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 27, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is 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 2020. We noted no transactions entered into by Kenergy Corp. 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.

We noted no transactions entered into by Kenergy Corp. 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 prepared by management and are based on management's 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 estimates affecting Kenergy Corp.'s financial statements were:

> Your estimate of the allowance of uncollectible accounts is based on delinquent accounts receivable as of December 31, 2020. We evaluated the key factors and assumptions used by management in developing the allowance of uncollectible accounts estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Your estimate of the power revenue and power cost and related receivable and payable for the Century Hawesville and Sebree smelters as of December 31, 2020 was based on management's knowledge of electrical rates and anticipated consumption of the Century Hawesville and Sebree smelters. We evaluated the key factors and assumptions used by management in developing the allowance of uncollectible accounts estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> 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 dealing with management in performing and completing our audit. We appreciate the assistance provided to us by Steve Thompson, Travis Siewert, Janice Taul and their staff.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no 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 March 24, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Kenergy Corp.'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Kenergy Corp.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as auditor.

Restriction on Use

This information is intended solely for the use of audit committee and the 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.

Very truly yours,

Alexander Thompson Arnold PLLC

Alexander Thompson Arnold, PLLC
Owensboro, Kentucky
March 24, 2021

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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, 2020, and the related notes to the financial statements and have issued our report thereon dated March 24, 2021.

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) as a basis for designing 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 statements. 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 24, 2021