KENERGY CORP.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

KENERGY CORP.
TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kenergy Corp.
Henderson, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Kenergy Corp., which comprise the balance sheets as of December 31, 2022 and 2021, and the related consolidated 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kenergy Corp. as of December 31, 2022 and 2021, and the changes in members' equity, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Financial Statements section of our report. We are required to be independent of Kenergy Corp. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, wither due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate that raise substantial doubt about Kenergy Corp.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud, or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit, in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgement and maintain professional skepticism throughout our audit.
- Identify and assess the risk of misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kenergy Corp.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise a substantial doubt about Kenergy Corp.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and time of the audit, significant audit findings, and certain internal control matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023 on our consideration of Kenergy Corp.'s internal control over financial reporting and our test of its compliance 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kenergy Corp.'s internal control over financial reporting and compliance.

ATA CPAs + Advisors PLLC

Owensboro, Kentucky
March 29, 2023

Kenergy Corp.
Consolidated Balance Sheets
As of December 31, 2022 and 2021

ASSETS	2022	2021
Utility Plant, Net	$ 204,790,872	$ 202,322,912
Investments	6,160,185	6,102,669
Current Assets:		
Cash and Cash Equivalents	9,477,202	9,355,443
Accounts Receivable, Less Allowance For Doubtful Accounts: 2022 $189,560 and 2021 $391,590	32,625,169	27,831,581
Materials and Supplies	9,428,758	2,726,135
Accrued Utility Revenue	13,890,407	9,348,321
Other Current Assets	664,584	627,741
Total Current Assets	66,086,120	49,889,221
Other Assets	1,955,336	2,337,078
Total Assets	$ 278,992,513	$ 260,651,880
MEMBERS' EQUITY AND LIABILITIES		
Members' Equity:		
Memberships	$ 231,750	$ 230,340
Patronage Capital	73,775,336	72,416,704
Other	11,748,228	11,605,531
Total Members' Equity	85,755,314	84,252,575
Long-Term Debt, Net of Current Portion	134,378,862	126,521,096
Current Liabilities:		
Accounts Payable	42,335,239	32,811,791
Consumer Deposits	4,952,411	4,869,276
Current Maturities of Long-Term Debt	6,375,473	6,325,362
Other Current and Accrued Liabilities	2,328,236	2,698,589
Total Current Liabilities	55,991,359	46,705,018
Other Noncurrent Liabilities	39,975	43,720
Deferred Credits	2,827,003	3,129,471
Total Members' Equity and Liabilities	$ 278,992,513	$ 260,651,880

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

Kenergy Corp.
Consolidated Statements of Revenue and Expenses
For the years ended December 31, 2022 and 2021

	2022	2021
Operating Revenue	$ 623,264,772	$ 469,916,349
Operating Expenses		
Cost of Power	578,498,247	426,847,399
Distribution Operation	4,621,428	4,874,769
Distribution Maintenance	13,462,670	11,440,695
Customer Accounts	2,700,833	2,395,843
Consumer Service and Information	156,344	134,284
Administrative and General	4,334,701	4,094,730
Depreciation and Amortization	14,456,228	14,106,396
Taxes	626,365	639,789
Other Deductions	57,223	53,450
Total Operating Expenses	618,914,039	464,587,355
Operating Margin Before Interest Expense	4,350,733	5,328,994
Interest on Long-Term Debt	3,505,100	3,700,866
Other Interest Expense	5,828	5,830
Total Interest Expense	3,510,928	3,706,696
Operating Margin	839,805	1,622,298
Non-operating Margin		
Investment Income	284,650	336,859
Paycheck Protection Program(PPP) loan forgiveness	-	2,824,050
Other Income (Expense)	118,579	17,875
Net Margin Before Operating Margins Assigned by Associated Organizations	1,243,034	4,801,082
Operating Margin Assigned by Associated Organizations	353,717	496,495
Net Margin	$ 1,596,751	$ 5,297,577

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

Kenergy Corp
Consolidated Statements of Changes in Members' Equity
For the years ended December 31, 2022 and 2021

	Memberships	Patronage Capital	Other	Total
Balance, January 1, 2021	$ 228,360	$ 67,321,161	$ 11,548,614	$ 79,098,135
Increase (Decrease) in Membership Fees	1,980	-	1,954	3,934
Net Margin	-	5,297,577	-	5,297,577
Patronage Capital Retired	-	(202,034)	-	(202,034)
Retired Capital Credits - Gain	-	-	54,963	54,963
Balance, December 31, 2021	$ 230,340	$ 72,416,704	$ 11,605,531	$ 84,252,575
Increase (Decrease) in Membership Fees	1,410	-	7,736	9,146
Net Margin	-	1,596,751	-	1,596,751
Patronage Capital Retired	-	(238,119)	-	(238,119)
Retired Capital Credits - Gain	-	-	134,961	134,961
Balance, December 31, 2022	$ 231,750	$ 73,775,336	$ 11,748,228	$ 85,755,314

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

Kenergy Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Net Margin	$ 1,596,751	$ 5,297,577
Adjustments to Reconcile Net Margin to Net Cash Provided by Operating Activities:		
Depreciation and Amortization Charged to Operations	14,805,734	14,467,229
Noncash Assigned Capital Credits	(277,800)	(378,894)
Changes In:		
Accounts Receivable	(4,793,588)	(5,745,806)
Materials and Supplies	(6,702,623)	(876,254)
Other Current Assets	(4,578,929)	(796,760)
Accounts Payable	9,523,448	6,270,413
Other Current and Accrued Liabilities	(370,353)	663,680
Payroll Protection Program Loan Forgiveness	-	(2,824,050)
Other Items, Net	273,424	567,342
Net Cash Provided by Operating Activities	9,476,064	16,644,477
Cash Flows From Investing Activities:		
Capital Expenditures	(17,482,803)	(13,911,490)
(Increase) Decrease in:		
FEMA Grant for 2009 Ice Storm	-	1,822,917
Other Investment, Excluding Assigned Capital Credits	231,498	204,535
Net Cash Used by Investing Activities	(17,251,305)	(11,884,038)
Cash Flows From Financing Activities:		
Additional Deposits, Net of Refunds	92,281	(404,608)
Proceeds From Long-Term Debt	8,750,000	-
Interest Income Added to Cushion of Credit Balance	(1,956)	(230,116)
Interest Expense Paid From Prior Note Payments	2,404,264	683,056
Principal Payments on Long-Term Debt	(6,733,544)	(5,971,279)
Principal payments paid from prior year note payments	3,489,113	1,223,754
Patronage Capital Retired	(103,158)	(147,071)
Net Cash Provided (Used) by Financing Activities	7,897,000	(4,846,264)
Net Increase (Decrease) in Cash and Cash Equivalents	121,759	(85,825)
Cash and Cash Equivalents, Beginning of Year	9,355,443	9,441,268
Cash and Cash Equivalents, End of Year	$ 9,477,202	$ 9,355,443
Supplemental Disclosure of Cash Flow Information:		
Interest Paid, Net of Amounts Capitalized	$ 4,058,675	$ 3,163,150
Non-Cash Financing Activites:		
Forgiveness of Payroll Protection Program Loan	$ -	$ 2,824,050

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Kenergy Corp. (“Kenergy”) is a nonprofit electric distribution cooperative association which provides electric power to approximately 59,214 residential, commercial and industrial member accounts located in fourteen western Kentucky counties. The consolidated financial statements also include the accounts of Kenect, Inc., a wholly owned subsidiary of Kenergy. (See Note 17). All intercompany transactions and balances have been eliminated.

Variable Interest Entity

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties or (2) the entity has equity investors who cannot make significant decisions about the entity’s operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity, Kenect, Inc. is considered to be a VIE.

A VIE’s primary beneficiary is the entity that has the power to direct the VIE’s significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company’s financial statements. In many cases, it is qualitatively clear based on whether the Company has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Company is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated VIE to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

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 Kenergy expects to be entitled in exchange for those goods or services. Kenergy 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 Kenergy’s financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 2022 and 2021, 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.

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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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's management, on a regular basis, monitors accounts in arrears and estimates the amount determined to be uncollectible. Accounts deemed to be uncollectible are charges against the allowance.

Unbilled Revenue

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

FASB ASC 842 Leases

Kenergy implemented FASB ASC 842 *Leases* during the year ended December 31, 2022. The implementation of this new standard had no material impact on the financial statements.

NOTE 2 – UTILITY PLANT

Utility plant as of December 31, 2022 and 2021 consisted of the following:

	2022	2021
Distribution Plant	$343,375,010	$333,168,171
General Plant	27,535,205	27,070,116
	370,910,215	360,238,287
Less: Accumulated Depreciation	(169,414,176)	(158,312,601)
Construction in Progress:		
Non utility plant-Fiber	2,141,489	-
Utility plant	1,153,344	397,226
Total Utility Plant	$204,790,872	$202,322,912

Depreciation expensed for the years ended December 31, 2022 and 2021 was $14,574,847 and $14,236,342 respectively. These amounts include depreciation of transportation equipment charged to operating accounts.

Interest capitalized during 2022 and 2021 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 8). The membership of Big Rivers is comprised of Kenergy and two other distribution cooperatives.

NOTE 3 – INVESTMENTS, CONTINUED

The following is a summary as of December 31, 2022 and December 31, 2021 of financial information pertaining to Big Rivers:

	2022	2021
Balance Sheet Data	UNAUDITED	AUDITED
Assets:		
Current Assets	$ 164,090,000	$ 118,962,000
Noncurrent Assets	1,425,637,000	1,306,063,000
Total Assets	$ 1,589,727,000	$ 1,425,025,000
Liabilities:		
Current Liabilities	$ 252,335,000	$ 171,818,000
Noncurrent Liabilities	861,725,000	792,981,000
Total Liabilities	1,114,060,000	964,799,000
Equity:	$ 475,667,000	$ 460,226,000
Income Statement Data		
Revenues	$ 490,348,000	$ 393,144,000
Operating Margin	$ 10,317,000	$ (89,468,000)
Net Margin	$ 14,027,000	$ (75,396,000)

In 2021, Big Rivers' net margin loss of $75,396,000 includes a one-time, non-cash amortization expense of $84,945,000 related to the utilization of its equity headroom to reduce the Smelter Load Mitigation regulatory assets as approved on June 25,2020 by the KPSC in Case No. 2020-00064. Excluding the non-recurring expense, Big Rivers' net margins would have been $9,549,000.

In years in which Big Rivers earns in excess of a 1.30 TIER, excluding the utilization of equity headroom mentioned above, 40% of the excess net margin is returned to Big Rivers' members over the following year through a monthly bill credit. The remaining 60% of the excess net margin reduces Big Rivers' regulatory assets. Prior to accruing the excess TIER amounts in 2022 and 2021 and the equity headroom amount in 2021, Big Rivers' net margin was $43.3 million in 2022 and $54.1 in 2021.

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 2010-2021 due to tax losses in those years.

NOTE 3 – INVESTMENTS, CONTINUED

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 12 - 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, 2022 totaled $2,072,573 and 2021 totaled $2,072,573. The CTC's mature in varying amounts from 2025 to 2080 and bear interest at 3% and 5% per year.

Investment in CoBank, an international cooperative bank, is a required investment, which is carried at cost and totaled $1,362,041 and $1,527,831 at December 31, 2022 and 2021, 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 $1,144,685 and $1,043,664 as of December 31, 2022 and 2021,

Kenergy is also a member of other cooperatives from which it purchases materials, supplies and services. These entities allocate their net margins to its members as patronage dividends. Kenergy carries these investments at cost. The value of these investments were $1,556,280 and $1,434,439, as of December 31, 2022 and 2021.

	2022	2021
Patronage Capital Credits		
Investments in CoBank	$ 1,362,041	$ 1,527,831
Investments Federated	1,144,685	1,043,664
Other Investments	1,556,280	1,434,439
	4,063,006	4,005,934
Other Assets	24,606	24,162
Capital Term Certificates	2,072,573	2,072,573
	$ 6,160,185	$ 6,102,669

NOTE 4 – INVENTORIES

Inventories consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Materials and Supplies-Electric	$ 3,751,594	$ 2,704,281
Materials and Supplies-Fiber	5,652,292	-
Fuel	24,872	21,854
	$ 9,428,758	$ 2,726,135

NOTE 5 – LONG-TERM DEBT

Long-Term Debt as of December 31, 2022 and 2021 consists of:

	2022	2021
First mortgage notes payable to:		
RUS in quarterly and monthly installments of varying amounts through 2032		
Interest rate term fixed to principle maturity:		
1.96% notes	$ 1,025,984	$ 568,328
Laddered interest rate terms of 1-7 years at an average rate of 1.33% at December 31, 2022	27,194,163	29,706,466
Unapplied note prepayments-0.09%	-	(5,891,421)
	28,220,147	24,383,373
CoBank in quarterly and monthly installments of varying amounts through 2026:		
Interest rate term fixed to principle maturity:		
6.06% average rate at December 31, 2022	1,371,652	591,460
Laddered interest rate terms of 1 to 4 years, average rate of 4.43% at December 31, 2022	2,661,303	4,234,635
	4,032,955	4,826,095
Federal Financing Bank in quarterly installments of varying amounts through December 2054		
Interest rate term fixed to maturity:		
Average interest rate of 2.74%	82,197,162	76,008,617
Interest rate term fixed for 3 years		
Average interest rate of 2.38%	5,643,826	5,873,443
	87,840,988	81,882,060

NOTE 5 – LONG-TERM DEBT, CONTINUED

	2022	2021
CFC in quarterly installments with a Level debt service note maturing 2038 4.10% interest rate fixed to maturity	20,660,245	21,754,930
	20,660,245	21,754,930
Total Long-Term Debt	140,754,335	132,846,458
Less Current Maturities	6,375,473	6,325,362
Long-Term Debt, Net of Current Portion	$ 134,378,862	$ 126,521,096

Aggregate annual maturities of long-term debt at December 31, 2022 are as follows:

	Amounts
2022	$ 6,375,473
2023	6,577,421
2024	6,641,895
2025	6,705,982
2026	6,623,205
Thereafter	107,830,359
	$ 140,754,335

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 6 – 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 as of December 31, 2022 and 2021, respectively. The rate as of December 31, 2022 was 6.05%.

NOTE 7 – MAJOR CUSTOMER CONCENTRATION

Operating revenue for 2022 and 2021 includes approximately $399.4 million and $286.0 million, respectively, attributable to sales of power to two aluminum smelting companies. Accounts receivable from these customers totaled $19.0 and $18.0 million as of December 31, 2022 and 2021 respectively.

Operating revenue also includes sales of power to five other large industrial customers totaling approximately 10.1% and 10.4% of Kenergy's operating revenue for 2022 and 2021, respectively.

NOTE 8– 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 $17.9 million and $12.3 million at December 31, 2022 and 2021 respectively. Beginning January 1, 2015, Kenergy purchases its power requirements for the two smelters from EDF Trading North America, LLC.

Effective June 24, 2021, Kenergy received an annual increase in revenues of $3.8 million from the Kentucky Public Service Commission.

NOTE 9 – 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.

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.

Kenergy contributions to the RS Plan in 2022 and 2021 represent less than 5 percent of the total contributions made to the RS Plan by all participating employers. Kenergy made contributions of $2,319,605 in 2022 and $2,291,480 in 2021, which equals the amount accrued for pension expense. There have been no significant changes that affect the comparability of 2022 and 2021 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, 2022 and over 80 percent funded on January 1, 2021 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.

NOTE 9 – RETIREMENT PLANS, CONTINUED

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 2022 and 2021, respectively. Participants vest immediately in their contributions and the contributions of Kenergy.

Deferred Compensation Plan

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

NOTE 10 – FINANCIAL 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 11- 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, 2022 and 2021 totaled $962,367 and $1,006,354 respectively, of which $59,640 and $59,616, respectively, was included in accounts receivable. These amounts do not include the cost of computer programming, safety training and postage provided but not quantified.

NOTE 12 – INCOME TAX STATUS

Kenergy is exempt from federal and state income taxes under section 501(c) (12) of the Internal Revenue Code and, accordingly, the accompanying financial statements include no provision for such taxes. When applying the 85 percent test of IRC 501(c)(12), Kenergy excludes the Big Rivers 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, 2022 and 2021, and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

NOTE 13 – LIMITATIONS ON DISTRIBUTIONS

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

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

NOTE 14 – LEASE AGREEMENTS

Kenergy entered into a leasing arrangement with its wholly owned subsidiary, Kenect, Inc. on August 23, 2022, allowing Kenect, Inc. exclusive rights and privilege to use the fiber network, including fiber strands constructed or to be constructed in the future.

Kenect, Inc. subsequent to the agreement with Kenergy, entered into a subleasing arrangement on August 29, 2022 with Conexon Connect, LLC for the purpose of leasing a fiber optic network to be constructed within Kenergy's service territory. The sublease grants Conexon Connect, LLC the exclusive right and privilege to us the network, including any fiber strands and any segment later constructed by or on behalf of Kenect, Inc.

The initial term of the sublease is 30 years commencing August 29, 2022. The sublease shall automatically renew for a term of 10 years, unless either party provides notice with 180 days prior to expiration of its intent not to renew the sublease.

Lease payments to be made to Kenect consist of three components:

> <u>Base Access Fee:</u>
>
> The "Base Access Fee" will be determined based on both parties' approval of the income projections. Conexon Connect, LLC will calculate the per mile fee, the service drop fee, and the fiber hut fee for the portion of the network not reserved by Kenergy.
>
> <u>Shared Savings Analysis:</u>
>
> In the event that cost savings measures such as grants, tax abatements, or in-kind services are secured by Kenect, Inc., one-half of these amounts shall be included in the total costs of the fiber network for purposes of calculating the base access fee.
>
> <u>Revenue Share:</u>
>
> Conexon shall pay a fee equal to 10% of Conexon Connect, LLC's gross revenue earned from any of the following services; internet access, telephone, telecommunication services, government subsidy programs, and "backhaul" service.

As of the date of these financial statements, the fees have not yet been determined.

NOTE 15 – 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 2022 and 2021.

NOTE 16 - PAYROLL PROTECTION PROGRAM LOAN FORGIVENESS

Kenergy received forgiveness of a $2.8 million loan during 2021 under the Small Business Administration's Payroll Protection Program authorized by Congress. The amount was recorded in non-operation margins per the direction of the Rural Utilities Service.

NOTE 17 – FORMATION OF WHOLLY OWNED SUBSIDIARY-VARIABLE INTEREST ENTITY

On June 25, 2020, Kenergy formed a wholly owned subsidiary, Kenect, Inc., for the purpose of providing broadband internet service to its members. The Kentucky Public Service Commission gave Kenergy approval to move forward with the broadband project in Case Number 2021-00365. Kenergy will construct and own a smart grid fiber-optic network and Kenect, Inc. will utilize excess capacity on the network to provide broadband service. Kenect, Inc. has contracted with Conexon Connect, LLC to provide retail broadband service to Kenergy's members. In return, Conexon Connect, LLC will pay Kenect, Inc. a base access fee and a percentage of the revenue from broadband sales. Kenect, Inc. will then pay the entire base access fee and revenue share to Kenergy, the asset owner. The revenue and expenses related to broadband are recorded as Nonoperating Margins and the assets are recorded as Non-Utility Plant (Fiber), Net. As of December 21, 2022 Kenergy had $2.1 million in construction and $6.2 million in materials and supplies.

The following table summarizes the carrying amount of the assets and liabilities of Kenect, Inc., net of intercompany balances which have been eliminated, included in the Cooperative's balance sheet as of December 31, 2022 and 2021:

	2022	2021
Cash In Bank	$ 57	$ -

Activity was minimal during the year ended December 31, 2022 for Kenect, Inc.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events have been considered and evaluated through March 29, 2023 the date these financial statements were available to be issued.

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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 consolidated financial statements of Kenergy Corp., as of and for the year ended December 31, 2022, and the related notes to the financial statements and have issued our report thereon dated March 29, 2023.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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.

ATA CPAs + Advisors PLLC

ATA CPAs + Advisors, PLLC
Owensboro, Kentucky
March 29, 2023

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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 consolidated financial statements of Kenergy Corp. which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of revenue and expense, changes in members' equity, and changes in cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2023.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, 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.

ATA CPAs + Advisors PLLC

ATA CPAs + Advisors, PLLC
Owensboro, Kentucky
March 29,2023