

**JACKSON ENERGY COOPERATIVE CORPORATION
AND SUBSIDIARY
KENTUCKY 3**

CONSOLIDATED FINANCIAL REPORT

February 28, 2023

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary, which comprise the consolidated balance sheets as of February 28, 2023 and 2022, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jackson Energy Cooperative Corporation and Subsidiary as of February 28, 2023 and 2022, and the results of their operations and their 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 and the standards applicable to financial audits contained in *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 Audit of the Financial Statements section of our report. We are required to be independent of the Jackson Energy Cooperative Corporation and Subsidiary and to meet our other ethical responsibilities, in accordance with the 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 opinion.

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 consolidated financial statements that are free from material misstatement, whether 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 the Jackson Energy Cooperative Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated 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 generally accepted auditing standards 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 judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material 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 the Jackson Energy Cooperative Corporation and Subsidiary'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Jackson Energy Cooperative Corporation and Subsidiary'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 timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2023, on our consideration of Jackson Energy Cooperative Corporation and Subsidiary's internal control over financial reporting and on our tests 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 the Jackson Energy Cooperative Corporation and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Jackson Energy Cooperative Corporation and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
May 22, 2023

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

February 28, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Utility Plant, at original cost		
In service	\$ 304,697,657	\$ 290,899,494
Under construction	1,258,470	792,354
	<u>305,956,127</u>	<u>291,691,848</u>
Less accumulated depreciation	118,719,755	111,847,126
	<u>187,236,372</u>	<u>179,844,722</u>
 Investments and Other Assets		
Associated organizations	68,842,870	67,884,280
Goodwill, net of amortization	224,737	262,177
Total investments and other assets	<u>69,067,607</u>	<u>68,146,457</u>
 Current Assets		
Cash and cash equivalents	13,858,612	5,389,998
Accounts receivable, less allowance for 2023 of \$164,978 and 2022 of \$164,735	16,551,613	19,016,965
Other receivables	713,146	5,299,791
Material and supplies	4,696,906	3,704,384
Prepayments and other current assets	299,496	213,728
Total current assets	<u>36,119,773</u>	<u>33,624,866</u>
 Deferred Debits	<u>5,622,317</u>	<u>6,578,816</u>
Total assets	<u>\$ 298,046,069</u>	<u>\$ 288,194,861</u>
<u>Members' Equities and Liabilities</u>		
 Members' Equities		
Memberships and capital	\$ 956,015	\$ 946,930
Patronage capital and retained earnings	128,623,741	126,114,121
Other equities	4,442,632	4,426,562
Accumulated other comprehensive income (loss)	174,904	(441,308)
Total members' equities	<u>134,197,292</u>	<u>131,046,305</u>
 Long-Term Liabilities		
Long-term debt, less current portion	133,835,013	126,782,441
Accumulated postretirement benefits	9,033,679	9,511,469
Total long-term liabilities	<u>142,868,692</u>	<u>136,293,910</u>
 Current Liabilities		
Current portion of long-term debt	6,863,311	6,411,709
Accounts payable	9,219,988	9,517,122
Consumer deposits	1,482,845	1,276,092
Accrued expenses	2,733,873	2,966,068
Total current liabilities	<u>20,300,017</u>	<u>20,170,991</u>
 Consumer Advances and Others	<u>680,068</u>	<u>683,655</u>
Total members' equities and liabilities	<u>\$ 298,046,069</u>	<u>\$ 288,194,861</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME

Years Ended February 28, 2023 and 2022

	2023	2022
Operating Revenues	\$ 131,787,100	\$ 118,428,332
Operating Expenses		
Cost of power and propane	89,940,484	75,810,806
Distribution - operations	7,292,172	6,315,516
Distribution - maintenance	9,546,316	9,488,961
Consumer accounts	3,708,490	3,528,111
Customer service and information	564,627	475,599
Administrative and general	4,601,478	4,512,197
Depreciation, excluding \$473,888 in 2023 and \$472,426 in 2022 charged to clearing accounts	11,527,297	11,283,807
Amortization of goodwill	37,440	-
Amortization of deferred property retirements	470,772	470,772
Interest on long-term debt	3,643,268	3,387,333
Other interest	11,951	1,486
Taxes, other than income	251,896	240,887
Other deductions	125,439	148,247
Total cost of service	131,721,630	115,663,722
Operating Margins	65,470	2,764,610
Nonoperating Margins		
Interest income	181,486	75,954
Gain on sale of equipment	34,208	56,273
Other nonoperating income	39,143	6,370
Unrelated business income tax	(145,125)	(81,676)
	109,712	56,921
Patronage Capital Credits		
Generation and transmission	3,022,810	872,493
Other associated organizations	275,899	223,763
	3,298,709	1,096,256
Net Margins	3,473,891	3,917,787
Other Comprehensive Income		
Postretirement amortization of net actuarial (gain) loss	(19,492)	48,576
Postretirement actuarial gain	635,704	-
	616,212	48,576
Total Comprehensive Income	\$ 4,090,103	\$ 3,966,363

The Notes to Consolidated Financial Statements are an integral part of these statements.

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended February 28, 2023 and 2022

	Memberships and Capital	Patronage Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - February 28, 2021	\$ 936,025	\$123,031,630	\$ 4,426,432	\$ (489,884)	\$127,904,203
Comprehensive income:					
Net margins		3,917,787			3,917,787
Postretirement benefit obligation					
Amortization of actuarial loss				48,576	48,576
Total comprehensive income				<u>48,576</u>	3,966,363
Refunds of capital credits		(835,296)			(835,296)
Memberships, net	10,905				10,905
Other equities			130		130
Balance - February 28, 2022	946,930	126,114,121	4,426,562	(441,308)	131,046,305
Comprehensive income:					
Net margins		3,473,891			3,473,891
Postretirement benefit obligation					
Amortization of actuarial gain				(19,492)	
Adjustment				635,704	616,212
Total comprehensive income				<u>616,212</u>	4,090,103
Refunds of capital credits		(964,271)			(964,271)
Memberships, net	9,085				9,085
Other equities			16,070		16,070
Balance - February 28, 2023	<u>\$ 956,015</u>	<u>\$128,623,741</u>	<u>\$ 4,442,632</u>	<u>\$ 174,904</u>	<u>\$134,197,292</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended February 28, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 3,473,891	\$ 3,917,787
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	11,527,297	11,283,807
Charged to clearing accounts	473,888	472,426
Amortization of goodwill	37,440	-
Amortization of deferred property retirements	470,772	470,772
Amortization of postretirement actuarial (gain) loss	(19,492)	48,576
Postretirement actuarial adjustment	635,704	-
Patronage capital credits	(3,295,813)	(1,096,256)
(Gain) on disposition of general plant	(52,173)	(56,273)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	7,051,997	(8,183,189)
Material and supplies	(992,522)	(918,331)
Prepayments and other current assets	(85,768)	(4,398)
Deferred debits	485,727	485,727
Accounts payable	(297,134)	857,286
Consumer deposits	206,753	170,072
Accrued expenses	(232,195)	63,066
Accumulated postretirement benefits	(477,790)	226,048
Consumer advances and others	(3,587)	(520,560)
Net cash provided by operating activities	18,906,995	7,216,560
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(17,950,368)	(13,705,821)
Plant removal costs	(1,428,847)	(1,293,505)
Salvage recovered from plant retirements	38,553	118,491
Other investments, net	2,337,223	2,584,940
Net cash (used in) investing activities	(17,003,439)	(12,295,895)
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships, capital and other equities	25,155	11,035
Retirement of patronage capital	(964,271)	(835,296)
Additional long-term borrowings	14,100,000	15,340,000
Payments on long-term debt	(6,595,826)	(9,318,728)
Short-term repayments	-	(2,000,000)
Net cash provided by financing activities	6,565,058	3,197,011
Net increase (decrease) in cash and cash equivalents	8,468,614	(1,882,324)
Cash and cash equivalents, beginning of year	5,389,998	7,272,322
Cash and cash equivalents, end of year	\$ 13,858,612	\$ 5,389,998
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	\$ 3,435,698	\$ 3,428,128
Cash payments for income taxes	145,125	81,676

The Notes to Consolidated Financial Statements are an integral part of these statements.

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Description of business

Jackson Energy Cooperative Corporation and Subsidiary (Jackson Energy) maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform in all material respects with accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Principals of consolidation

The consolidated financial statements include the accounts of Jackson Energy Cooperative Corporation and Jackson Propane Plus, LLC (Propane Plus). Jackson Energy owns 100% of the member units of Propane Plus. All significant intercompany accounts and transactions have been eliminated. Propane Plus uses a calendar year-end for reporting purposes, and the consolidated financial statements include the activity of Propane Plus as of and for the years ended December 31, 2022 and 2021. There were no events through February 28, 2023 and 2022 that had a material effect on the financial position or results of operations of Propane Plus.

Business activity

Jackson Energy provides distribution electric service to residential, business, and commercial consumers in 15 counties in eastern Kentucky. Propane Plus sells propane and related accessories to residential and commercial customers in 23 counties in eastern Kentucky. Jackson Energy provides overall business direction to Propane Plus.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the consolidated financial statements.

Utility plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal net of any salvage value, is charged to accumulated depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Utility plant (continued)

Propane Plus's fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, trucks used for delivery, and office equipment.

The major classifications of utility plant in service consist of the following as of February 28, 2023 and 2022:

	2023	2022
Electric Plant		
Distribution plant	\$ 270,184,536	\$ 258,627,768
General plant	24,874,673	23,928,394
	295,059,209	282,556,162
Plant under construction	1,258,470	792,354
	296,317,679	283,348,516
Less accumulated depreciation	114,431,126	108,018,496
Net electric plant	181,886,553	175,330,020
 Propane Plant		
Propane tanks on customer premises	3,844,713	2,843,295
Bulk tanks	1,344,301	1,205,541
Delivery and other trucks	2,261,854	2,144,440
Land and buildings	1,718,132	1,687,217
Office and other equipment	469,448	462,839
	9,638,448	8,343,332
Less accumulated depreciation	4,288,629	3,828,630
Net propane plant	5,349,819	4,514,702
Net utility plant	\$ 187,236,372	\$ 179,844,722

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates for distribution plant range from 1.44% to 10.00%, with a composite rate of 3.99% for the years ended February 28, 2023 and 2022. General plant rates range from 2.50% to 20.00%. Propane Plus's depreciation is computed using the straight-line method over the useful lives of its assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Goodwill

Adoption of Accounting Pronouncement

Goodwill was recorded in connection with the purchase of 50% of the interest of Propane Plus from an unrelated party on June 30, 2000. The excess of the payment price over the value of assets acquired, \$363,393, was recorded as goodwill. Effective March 1, 2022, Jackson Energy adopted Accounting Standards Codification [ASC] 350, *Intangibles - Goodwill and Other*, which extended the alternative for the accounting for goodwill from private companies to not-for-profit entities, such as Jackson Energy. As a result, Jackson Energy began to amortize goodwill on a straight-line basis over 10 years and made an election to test goodwill for impairment at the entity level. Amortization expense related to goodwill totaled \$37,440 for the year ended February 28, 2023. Accumulated amortization totaled \$138,656 and \$101,216 for the years ended February 28, 2023 and 2022, respectively.

Propane Plus tests goodwill for impairment when a triggering event occurs that indicates the fair value of the entity may be below its carrying value. As of February 28, 2023 and 2022, management does not believe an impairment exists.

Cash and cash equivalents

Jackson Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Jackson Energy maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). As of February 28, 2023 and 2022, the financial institutions reported deposits in excess of the \$250,000 FDIC insured limit several times during the audit period. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Accounts receivable

Accounts receivable consists of amounts due for sales of electric energy and propane. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Jackson Energy and Propane Plus use the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and supplies

Jackson Energy and Propane Plus value materials and supplies at the lower of average cost or net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Propane inventory

Propane Plus purchases all of its propane requirements from unrelated parties through Kentucky Propane Plus, LLC. Propane is delivered to bulk tanks owned by Propane Plus, then delivered to customers on an as needed basis. Propane is valued at the lower of average cost or net realizable value.

Leases

Adoption of Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Jackson Energy adopted the standard effective March 1, 2022. The adoption of this ASU had no material impact on Jackson Energy's financial position or results of operations.

Taxes

Jackson Energy is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, and a 3 percent school tax from all counties on most gross sales. Jackson Energy's policy is to exclude taxes from revenues when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

Jackson Energy is one of 16 members of East Kentucky Power Cooperative (East Kentucky). Under a wholesale power agreement, Jackson Energy is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly, during the period in which the energy is consumed, based upon billings from East Kentucky. There are certain surcharges, clauses, and credits that East Kentucky includes to Jackson Energy that are passed on to consumers using a methodology prescribed by the PSC.

Advertising

Jackson Energy and Propane Plus expense advertising costs as incurred. Jackson Energy and Propane Plus advertising expense amounted to \$97,646 and \$99,622 for the years ended February 28, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Deferred property retirement

During 1994, Jackson Energy initiated a Geographic Information System (GIS) project to establish detailed maps of its distribution electric system and provide a database containing detailed information on the facilities and quantities installed. A physical inventory was performed and the difference between the facilities reported on the GIS base map and the accounting records resulted in an adjustment to decrease plant by \$14,535,593, and a reduction in accumulated depreciation of \$2,530,647. This resulted in a net adjustment of \$12,004,946. The PSC required this amount to be amortized over 25.5 years, which results in annual amortization of \$470,772.

Comprehensive income (loss)

Comprehensive income (loss) includes both net margin and other comprehensive income (loss). Other comprehensive income (loss) represents the change in funded status of the accumulated postretirement benefit obligation.

Risk management

Jackson Energy is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Credit risk

Jackson Energy grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers. Jackson Energy carries insurance that covers receivables from some commercial customers.

Income tax status

Jackson Energy qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Jackson Energy's tax-exempt purpose is subject to taxation as unrelated business income. Jackson Energy is responsible for reporting unrelated business income associated with its wholly owned subsidiary Propane Plus, a limited liability company.

Jackson Energy's accounting policy provides that a tax expense/benefits from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Jackson Energy has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Jackson Energy's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Management services

Propane Plus is one of four propane companies that contracts with an individual who manages the day-to-day operations of each propane company and arranges for the purchase of bulk propane. Propane Plus shares the cost equally for the labor, benefits, and other costs of this manager.

Pension accounting

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending February 29, 2024.

Jackson Energy is currently in the process of evaluating the impact of the adoption of this ASU on the consolidated financial statements.

Subsequent events

Management has evaluated subsequent events through May 22, 2023, the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Revenue from contracts

Jackson Energy is engaged in the distribution and sale of electricity to residential and commercial customers in 15 counties in southeastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Jackson Energy satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by Jackson Energy. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 18 days of the date of the bill.

Billings for pole attachments are generally invoiced in the same month as the period of use, except for certain telecommunications providers that are billed annually in arrears every December. The performance obligation is satisfied ratably over the life of the contract. Revenue related to annual billings is accrued monthly as earned. In November 2015, Jackson Energy entered into a 30-year pole attachment agreement with the Commonwealth of Kentucky. Jackson Energy received a prepayment for the estimated total contract fee and recorded the payment as a liability. Revenue related to the contract is recognized monthly over the life of the contract.

Propane Plus is primarily engaged in the sale of propane to residential and commercial customers in eastern Kentucky. Propane Plus has standard prices for regular customers but also enters into contracts with some customers for an agreed-upon fixed price per gallon. Customers request propane as needed, and Propane Plus recognizes revenue at the point in time when the propane is delivered. The amount of revenue recognized is the volume of propane delivered multiplied by the price per gallon. Customers are billed at the point of sale and outstanding amounts are typically due within 30 days of the date of the bill.

Significant judgements

Jackson Energy bills all consumers for electricity used from the first day of the month to the first day of the following month. The amount of revenue recognized each month is equal to the actual customer usage multiplied by the approved tariff rate, plus any additional regulatory charges. This method of revenue recognition presents fairly, Jackson Energy's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC. Propane Plus recognizes revenue at the point when customer orders are delivered, therefore, there are no unbilled or overbilled amounts to recognize.

Performance obligations

Jackson Energy and Propane Plus customers generally have no minimum purchase commitments. Jackson Energy and Propane Plus recognize revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of February 28, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows Jackson Energy's revenues from contracts with customers disaggregated by customer class, for the years ended February 28:

	2023	2022
Residential	\$ 89,148,711	\$ 83,209,524
Large commercial	17,942,232	13,580,774
Small commercial	8,989,936	8,246,220
Public lights	4,200,540	3,809,131
Other	3,345,832	3,007,571
Propane	8,159,849	6,575,112
Total	\$ 131,787,100	\$ 118,428,332

Contract assets and liabilities

Contract assets include unbilled pole attachments and are included in other receivables on the balance sheet. Contract liabilities include consumer deposits and prepaid pole attachments. Prepaid pole attachments are included in consumer advances and others on the balance sheet. Contract assets and liabilities were as follows for the years ended:

	February 28, 2023	February 28, 2022	February 28, 2021
Contract assets			
Unbilled pole attachments	\$ 89,688	\$ 182,856	\$ 171,343
Contract liabilities			
Prepaid pole attachments	\$ 221,813	\$ 231,598	\$ 880,349
Consumer deposits	1,482,845	1,276,092	1,106,020
	\$ 1,704,658	\$ 1,507,690	\$ 1,986,369

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of February 28:

	2023	2022
East Kentucky, patronage capital	\$ 63,223,101	\$ 62,283,444
CFC CTCs	1,552,961	1,561,250
CFC patronage capital	1,332,185	1,357,720
United Utility Supply	1,156,882	1,060,690
Federated Insurance	552,807	503,233
National Information Solutions Cooperative	297,706	299,870
Kentucky Association of Electric Cooperatives	254,682	235,821
Other associated organizations	65,139	48,566
Economic development loans	407,407	533,686
Total	\$ 68,842,870	\$ 67,884,280

Jackson Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest ranging from zero to 5.00% and are scheduled to mature at varying times from 2023 to 2080. The economic development loans are through the United States Department of Agriculture (USDA) at no interest to local businesses and are secured by guarantees from local banks.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25.00% of the net margins for the next preceding year, Jackson Energy may distribute the difference between 25.00% and the payments made to such estates. Jackson Energy's equity as of February 28, 2023 and 2022 was 45.03% and 45.47% of total assets, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Long-Term Debt

All assets of Jackson Energy, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2053. Long-term debt consists of the following as of February 28:

	2023	2022
Jackson Energy		
RUS, cushion of credit	\$ (113,910)	\$ (112,683)
Notes due FFB, 0.62 - 4.51%	116,164,164	106,246,830
Economic Development, USDA, no interest	934,407	1,045,518
Notes due CoBank, 3.47%	18,031,095	19,652,445
Notes due CFC, 6.30 - 6.70%	4,928,365	5,653,779
	139,944,121	132,485,889
Less current portion	6,748,057	6,377,007
	\$ 133,196,064	\$ 126,108,882
Propane Plus		
Cumberland Valley National Bank, 3.75 - 4.25%	\$ 582,132	\$ 708,261
Clark Energy Propane Plus, LLC, 3.25%	172,071	-
	115,254	34,702
Less current portion	638,949	673,559
	\$ 133,835,013	\$ 126,782,441
Total long-term portion	\$ 133,835,013	\$ 126,782,441

The interest rates on a portion of the notes to FFB are subject to repricing at various dates. RUS assesses 12.5 basis points to administer the FFB loans. As of February 28, 2023 and 2022, there was zero and \$13,900,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

The note due to National Bank for Cooperatives (CoBank) is a 15-year note and represents amounts to refinance higher rate RUS loans.

In July 2022, Propane Plus borrowed \$200,000 from Clark Energy Propane Plus, LLC for general operations. The note is payable over 3 years in monthly installments at 3.25% interest.

In November 2021, Propane Plus borrowed \$340,000 from Cumberland Valley National Bank (CVNB) to acquire a building in Lee County. The note is payable over 20 years in monthly installments at 3.75% interest.

Additionally, in December 2019, Propane Plus borrowed \$682,000 from CVNB to acquire land in Floyd County. The note is payable over 20 years in monthly installments at 4.25% interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

As of February 28, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

Principal Payments:	
2024	\$ 6,863,311
2025	7,080,877
2026	7,248,820
2027	7,407,523
2028	7,386,008
Thereafter	104,711,785
	<u>\$ 140,698,324</u>

Note 6. Short-Term Borrowings

As of February 28, 2023 and 2022, Jackson Energy had a short-term line of credit of \$5,000,000 available from CoBank with variable interest rates of 6.68% and 2.64%, respectively. The CoBank line of credit matures in November 2023. Additionally, Jackson Energy had a short-term line of credit of \$10,000,000 available from CFC with variable interest rates of 6.25% and 2.45% as of February 28, 2023 and 2022, respectively. The CFC line of credit renews on a regular basis throughout the term of the long-term debt (See Note 5). There were no advances against the CoBank or CFC lines of credit as of February 28, 2023 and 2022.

Note 7. Pension Plans

All eligible employees of Jackson Energy participate in the NRECA Retirement and 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 a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer 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.

Employees hired prior to December 1, 2013 participate in Cost of Living Allowance (COLA) benefits for contributions made prior to February 2014 and have a contribution rate of 2.00%. All contributions after February 2014 are not covered by COLA. Employees hired after December 1, 2013, do not participate in COLA and have a contribution rate of 1.70%.

Jackson Energy's contributions to the RS Plan in 2023 and 2022 represent less than 5.00% of the total contributions made to the plan by all participating employers. Jackson Energy made contributions to the plan of \$1,909,610 in 2023 and \$1,837,824 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022. During 2012, Jackson Energy purchased COLA benefits for participating employees at a cost of \$2,040,627. This amount is being amortized over 30 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

In 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 85.00% funded at January 1, 2021 and 2020 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 prepayment and reduce future required contributions. The prepayment amount is a cooperative share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25.00%, retroactive to January 1, 2013. The 25.00% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumptions changes, and other factors may have an impact on the differential in billing rates and the 15-year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years, or,
2. Borrow funds sufficient to make the prepayment in a lump sum, with the prepayment of the borrowed amount determined by the loan's amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USoA).

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15.00% of net utility plant if the equity level of the borrower, after considering such unsecured debt, is below 30.00% of its total assets, unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the RS Plan prepayment to be permitted debt and accordingly, it will be excluded from the application of Section 6.13(e). On March 15, 2013, Jackson Energy made a prepayment of \$6,683,300 to the RS Plan. The amount is being amortized over 16 years. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USoA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

All eligible employees of Jackson Energy participate in the NRECA Retirement and Security Program, a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Jackson Energy makes annual contributions to the Program equal to the amounts accrued for pension expense. There have been no significant changes that affect the comparability of 2023 and 2022. Jackson Energy contributed \$165,710 and \$153,203 for the years ended February 28, 2023 and 2022, respectively.

Propane Plus has a profit-sharing plan where employees, managers, and the chief operating officer receive a portion of the net profits. The profit-sharing percentage was 14.00% for the years ended February 28, 2023 and 2022. The pension contribution amount was \$137,106 and \$84,565 for the years ended February 28, 2023 and 2022, respectively.

Note 8. Postretirement Benefits

Jackson Energy sponsors a defined benefit plan that provides medical insurance coverage to retired employees and their dependents. The plan calls for benefits to be paid at retirement based primarily upon years of service with Jackson Energy. Participating retirees after January 4, 2016 are provided with a single coverage plan that does not cover dependents.

For measurement purposes, an annual rate of increase of 5.00% in 2022, then decreasing by .25% per year until 3.0% per year, in the per capita cost of covered healthcare benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 3.50% and 4.50% in 2023 and 2022, respectively.

The funded status of the plan is as follows:

	2023	2022
Projected benefit obligation	\$ (9,033,679)	\$ (9,511,469)
Plan assets at fair value	--	--
Funded status (deficit)	\$ (9,033,679)	\$ (9,511,469)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended February 28, 2023 and 2022:

	2023	2022
Benefit obligation at beginning of year	\$ 9,511,469	\$ 9,285,421
Actuarial adjustment	(635,704)	--
Components of net periodic benefit cost:		
Service cost	346,456	250,426
Interest cost	324,540	422,930
Net periodic benefit cost	670,996	673,356
Benefits paid	(513,082)	(447,308)
Benefit obligation at end of year	\$ 9,033,679	\$ 9,511,469

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Postretirement Benefits (Continued)

Amounts recognized in the balance sheet consists of:

Accumulated Postretirement Benefits	<u>\$ 9,033,679</u>	<u>\$ 9,511,469</u>
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Amounts included in other comprehensive income (loss):

Unrecognized actuarial gain (loss)	<u>\$ 174,904</u>	<u>\$ (441,308)</u>
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Effect of 1% increase in the health care trend:

Postemployment benefit obligation	\$ 9,575,700
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Net periodic benefit cost	\$ 711,300
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Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - \$518,200; 2025 - \$515,200; 2026 - \$543,600; 2027 - \$573,500; 2028 - \$605,000.

Note 9. Commitments

Jackson Energy has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Related Party Transactions

Several of the Directors of Jackson Energy, its President and CEO, and another employee are on the boards of directors of various associated organizations.

Note 11. Environmental Contingency

Jackson Energy from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Jackson Energy to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Jackson Energy's financial position or its future cash flows.

Note 12. Contingencies

Jackson Energy, on occasion, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial consolidated statements.



Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, Kentucky

We have audited the consolidated financial statements of Jackson Energy Cooperative Corporation and Subsidiary as of and for the year ended February 28, 2023 and 2022, and our report thereon dated May 22, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
May 22, 2023

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

**CONSOLIDATING BALANCE SHEET
February 28, 2023**

<u>Assets</u>	<u>Jackson Energy</u>	<u>Propane Plus</u>	<u>Eliminations</u>	<u>Consolidated</u>
Utility Plant, at original cost				
In service	\$ 295,059,209	\$ 9,638,448	\$ --	\$ 304,697,657
Under construction	1,258,470	--	--	1,258,470
	<u>296,317,679</u>	<u>9,638,448</u>	<u>--</u>	<u>305,956,127</u>
Less accumulated depreciation	114,431,126	4,288,629	--	118,719,755
	<u>181,886,553</u>	<u>5,349,819</u>	<u>--</u>	<u>187,236,372</u>
Investments and Other Assets				
Associated organizations	68,842,870	--	--	68,842,870
Goodwill, net of amortization	--	224,737	--	224,737
Investment in Subsidiary	6,384,880	--	(6,384,880)	--
Total investments and other assets	<u>75,227,750</u>	<u>224,737</u>	<u>(6,384,880)</u>	<u>69,067,607</u>
Current Assets				
Cash and cash equivalents	13,220,204	638,408	--	13,858,612
Accounts receivable, less allowance for Energy of \$131,778 and Propane of \$33,200	15,978,629	572,984	--	16,551,613
Other receivables	713,146	--	--	713,146
Material and supplies	3,846,797	850,109	--	4,696,906
Prepayments	225,573	73,923	--	299,496
Total current assets	<u>33,984,349</u>	<u>2,135,424</u>	<u>--</u>	<u>36,119,773</u>
Deferred Debits	5,622,317	--	--	5,622,317
	<u>5,622,317</u>	<u>--</u>	<u>--</u>	<u>5,622,317</u>
Total assets	<u>\$ 296,720,969</u>	<u>\$ 7,709,980</u>	<u>\$ (6,384,880)</u>	<u>\$ 298,046,069</u>
<u>Members' Equities and Liabilities</u>				
Members' Equities				
Memberships and capital	\$ 956,015	\$ 1,283,717	\$ (1,283,717)	\$ 956,015
Patronage capital and retained earnings	128,623,741	5,101,163	(5,101,163)	128,623,741
Other equities	4,442,632	--	--	4,442,632
Other comprehensive income	174,904	--	--	174,904
Total members' equities	<u>134,197,292</u>	<u>6,384,880</u>	<u>(6,384,880)</u>	<u>134,197,292</u>
Long-Term Liabilities				
Long-term debt, less current portion	133,196,064	638,949	--	133,835,013
Accumulated postretirement benefits	9,033,679	--	--	9,033,679
Total long-term liabilities	<u>142,229,743</u>	<u>638,949</u>	<u>--</u>	<u>142,868,692</u>
Current Liabilities				
Current portion of long-term debt	6,748,057	115,254	--	6,863,311
Accounts payable	8,813,898	406,090	--	9,219,988
Consumer deposits	1,482,845	--	--	1,482,845
Accrued expenses	2,569,066	164,807	--	2,733,873
Total current liabilities	<u>19,613,866</u>	<u>686,151</u>	<u>--</u>	<u>20,300,017</u>
Consumer Advances and Others	680,068	--	--	680,068
	<u>680,068</u>	<u>--</u>	<u>--</u>	<u>680,068</u>
Total members' equities and liabilities	<u>\$ 296,720,969</u>	<u>\$ 7,709,980</u>	<u>\$ (6,384,880)</u>	<u>\$ 298,046,069</u>

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended February 28, 2023

	<u>Jackson Energy</u>	<u>Propane Plus</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues	\$ 123,627,251	\$ 8,186,477	\$ (26,628)	\$ 131,787,100
Operating Expenses				
Cost of purchases	86,143,211	3,797,273	--	89,940,484
Distribution - operations	5,270,423	2,021,749	--	7,292,172
Distribution - maintenance	9,546,316	--	--	9,546,316
Consumer accounts	3,250,865	457,625	--	3,708,490
Customer service and information	501,244	63,383	--	564,627
Administrative and general	4,381,013	249,093	(28,628)	4,601,478
Depreciation, excluding \$473,888 charged to clearing accounts	11,059,580	467,717	--	11,527,297
Amortization of goodwill	--	37,440	--	37,440
Amortization of deferred retirements	470,772	--	--	470,772
Interest on long-term debt	3,615,730	27,538	--	3,643,268
Other interest	11,951	--	--	11,951
Taxes, other than income	112,493	139,403	--	251,896
Other deductions	125,439	--	--	125,439
Total cost of service	<u>124,489,037</u>	<u>7,261,221</u>	<u>(28,628)</u>	<u>131,721,630</u>
Operating Margins (Deficits)	<u>(861,786)</u>	<u>925,256</u>	<u>2,000</u>	<u>65,470</u>
Nonoperating Margins				
Interest income	181,154	332	--	181,486
Gain on sale of equipment	17,910	16,298	--	34,208
Other nonoperating income (loss)	41,143	--	(2,000)	39,143
Unrelated business income tax	(145,125)	--	--	(145,125)
Earnings from subsidiary	941,886	--	(941,886)	--
	<u>1,036,968</u>	<u>16,630</u>	<u>(943,886)</u>	<u>109,712</u>
Patronage Capital Credits				
Generation and transmission	3,022,810	--	--	3,022,810
Other associated organizations	275,899	--	--	275,899
	<u>3,298,709</u>	<u>--</u>	<u>--</u>	<u>3,298,709</u>
Net Margins	3,473,891	941,886	(941,886)	3,473,891
Other comprehensive Income				
Postretirement amortization of net actuarial gain	(19,492)	--	--	(19,492)
Postretirement actuarial gain	635,704	--	--	635,704
Total Comprehensive Income	<u>\$ 4,090,103</u>	<u>\$ 941,886</u>	<u>\$ (941,886)</u>	<u>\$ 4,090,103</u>



Jones, Nale & Mattingly PLC

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

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, 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 Jackson Energy Cooperative Corporation and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of February 28, 2023 and the related consolidated statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated May 22, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated 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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free of 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 consolidated 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.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
May 22, 2023



Jones, Nale & Mattingly PLC

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

To the Board of Directors
Jackson Energy Cooperative Corporation and Subsidiary
McKee, 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 Jackson Energy Cooperative Corporation and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of February 28, 2023, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 22, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2023, on our consideration of the Corporation's internal control over financial reporting and on our tests 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 and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation 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 and Grantees*, §1773.33, 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 the Corporation'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 the Corporation's accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the 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 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 material 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 consolidated 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, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, which are listed below.

The deferred debits are as follows:

Deferred property retirements	\$ 1,765,401
Past service pension benefits	1,281,061
Accelerated pension benefit payment	2,575,855
	<u>\$ 5,622,317</u>

The deferred credits are as follows:

Consumer advances for construction	\$ 458,255
Joint use attachments paid in advance	221,813
	<u>\$ 680,068</u>

Jackson Energy is a 100% owner of a subsidiary, Jackson Propane Plus, LLC, which is engaged in the distribution sales of propane gas in and around the areas in which Jackson Energy provides electric service. The activity of the subsidiary is as follows for the year ended December 31, 2022:

	<u>Investment</u>	<u>Profits</u>
Beginning balance	\$ 2,526,836	\$ 2,916,158
Net income	-	941,886
Ending balance	<u>\$ 2,526,836</u>	<u>\$ 3,858,044</u>

The purpose of this report is solely to communicate, in connection with the audit of the consolidated financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
May 22, 2023