SHELBY ENERGY COOPERATIVE, INC.
AND SUBSIDIARY
KENTUCKY 30

CONSOLIDATED FINANCIAL REPORT

December 31, 2022

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Shelby Energy Cooperative, Inc. and Subsidiary
Shelbyville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Shelby Energy Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 Shelby Energy Cooperative, Inc. and Subsidiary as of December 31, 2022 and 2021, 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 Shelby Energy Cooperative, Inc. 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 Shelby Energy Cooperative, Inc. 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.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

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 consolidated 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 Shelby Energy Cooperative, Inc. 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 Shelby Energy Cooperative, Inc. 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 March 22, 2023, on our consideration of Shelby Energy Cooperative, Inc. 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 Shelby Energy Cooperative, Inc. 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 Shelby Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 22, 2023

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

ASSETS	2022	2021
Utility Plant, at original cost:		
In service	$ 117,521,475	$ 111,004,457
Under construction	3,129,765	1,749,923
	120,651,240	112,754,380
Less accumulated depreciation	27,769,145	25,338,608
	92,882,095	87,415,772
Investments:		
Note receivable, less current portion	103,481	- -
Associated organizations	30,891,127	29,965,415
Goodwill	368,414	368,414
Total investments	31,363,022	30,333,829
Current Assets:		
Cash and cash equivalents	2,204,375	2,694,073
Accounts receivable, less allowance for 2022 of $323,899 and 2021 of $367,508	6,670,434	4,604,774
Current portion of note receivable	68,590	- -
Unbilled revenue	254,314	- -
Material and supplies, at average cost	1,550,962	795,151
Prepayments and other current assets	371,881	368,945
Total current assets	11,120,556	8,462,943
Deferred Debits	2,046,818	1,961,420
Total assets	$ 137,412,491	$ 128,173,964
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Patronage capital and retained earnings	$ 50,445,775	$ 47,968,046
Other equities	4,757,615	4,524,614
Accumulated other comprehensive income	267,622	282,490
Total members' equities	55,471,012	52,775,150
Long-Term Liabilities:		
Long-term debt, less current portion	66,886,748	64,245,727
Accumulated postretirement benefits	1,271,975	1,377,720
Total long-term liabilities	68,158,723	65,623,447
Current Liabilities:		
Current portion of long-term debt	2,713,936	2,639,182
Accounts payable	4,795,139	4,261,323
Short-term borrowings	3,367,005	- -
Consumer deposits	1,593,912	1,679,202
Accrued expenses	818,904	693,942
Total current liabilities	13,288,896	9,273,649
Consumer Advances for Construction	493,860	501,718
Total members' equities and liabilities	$ 137,412,491	$ 128,173,964

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

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues	$ 59,105,100	$ 49,720,766
Operating Expenses		
Cost of power and propane	43,376,634	34,654,645
Distribution - operations	2,936,421	2,874,004
Distribution - maintenance	2,939,839	2,333,609
Consumer accounts	753,110	660,511
Customer service and information	358,126	353,701
Administrative and general	1,229,787	1,147,199
Depreciation, excluding $222,007 in 2022 and $195,651 in 2021 charged to clearing accounts	4,096,317	3,976,592
Taxes, other than income	59,776	65,888
Interest on long-term debt	2,134,628	2,044,854
Other interest	23,555	23,124
Other deductions	56,429	9,666
Total cost of electric and propane service	57,964,622	48,143,793
Operating Margins	1,140,478	1,576,973
Nonoperating Margins (Deficit)		
Interest income	56,514	38,105
Unrelated business income tax	(140,676)	(105,094)
Gain on sale of equipment	82,021	55,493
Other nonoperating margins	237	1,715
PPP loan forgiveness	- -	927,488
	(1,904)	917,707
Patronage Capital Credits		
Generation and transmission	1,395,150	382,897
Other associated organizations	173,825	169,172
	1,568,975	552,069
Net Margins	2,707,549	3,046,749
Other Comprehensive Income		
Postretirement benefits (expense)	(14,868)	(24,220)
Net Margins and Comprehensive Income	$ 2,692,681	$ 3,022,529

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

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2022 and 2021

	Patronage Capital							Total
	Assigned	Assignable	Retirements	Unassigned	Total	Other Equities	Accumulated Other Comprehensive Income	Members' Equities
Balance - December 31, 2020	$ 53,866,826	$ 2,024,786	$ (11,035,033)	$ 1,465,110	$ 46,321,689	$ 3,409,197	$ 306,710	$ 50,037,596
Comprehensive income:								
Net margins		3,046,749			3,046,749			3,046,749
Assigned margins	1,675,736	(2,024,786)		349,050	- -			- -
Postretirement benefit obligation								
Amortization							(14,788)	
Adjustment							(9,432)	(24,220)
Total comprehensive income								3,022,529
Refunds of capital credits			(302,119)		(302,119)			(302,119)
Other equities			(1,098,273)		(1,098,273)	1,115,417		17,144
Balance - December 31, 2021	55,542,562	3,046,749	(12,435,425)	1,814,160	47,968,046	4,524,614	282,490	52,775,150
Comprehensive income:								
Net margins		2,707,549			2,707,549			2,707,549
Assigned margins	1,631,975	(3,046,749)		1,414,774	- -			- -
Postretirement benefit obligation								
Amortization							(14,868)	(14,868)
Total comprehensive income								2,692,681
Refunds of capital credits			(104,770)		(104,770)			(104,770)
Other equities			(125,050)		(125,050)	233,001		107,951
Balance - December 31, 2022	$ 57,174,537	$ 2,707,549	$ (12,665,245)	$ 3,228,934	$ 50,445,775	$ 4,757,615	$ 267,622	$ 55,471,012

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

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 2,707,549	$ 3,046,749
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	4,096,317	3,976,592
Charged to clearing accounts	222,007	195,651
Patronage capital credits	(1,568,975)	(552,069)
(Gain) on disposition of plant	(82,021)	(55,493)
Amortization of postretirement actuarial adjustment	(14,868)	(14,788)
PPP loan forgiveness	- -	(927,488)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	(2,065,660)	(37,510)
Unbilled revenue	(254,314)	174,218
Material and supplies	(755,811)	(162,357)
Prepayments	(2,936)	(84,484)
Deferred debits	(85,398)	(1,899,783)
Payables	533,816	879,552
Consumer deposits	(85,290)	93,539
Accrued expenses	124,962	54,926
Consumer advances for construction	(7,858)	(11,662)
Accumulated postretirement benefits	(105,745)	(73,637)
Net cash provided by operating activities	2,655,775	4,601,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(8,950,204)	(7,265,638)
Plant removal costs	(767,601)	(669,530)
Salvage recovered from retired plant	48,762	28,399
Note receivable	(172,071)	- -
Receipts from investments, net	609,680	14,359
Net cash (used in) investing activities	(9,231,434)	(7,892,410)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other equities	233,001	1,115,417
Advances of long-term debt	5,319,000	5,800,000
Short term borrowings	3,367,005	- -
Payments on long-term debt	(2,603,225)	(2,488,794)
Retirement of patronage capital	(229,820)	(1,400,392)
Net cash provided by financing activities	6,085,961	3,026,231
Net (decrease) in cash and cash equivalents	(489,698)	(264,223)
Cash and cash equivalents, beginning of year	2,694,073	2,958,296
Cash and cash equivalents, end of year	$ 2,204,375	$ 2,694,073
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,179,901	$ 2,075,908
Deferred debits in accounts payable	$ 1,365,377	$ 1,362,912

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

Note 1. Significant Accounting Policies

Description of business

Shelby Energy Cooperative, Inc. and Subsidiary (Shelby Energy) maintains its records in accordance with the policies 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 more significant of these policies are as follows:

Principals of consolidation

The consolidated financial statements include the accounts of Shelby Energy and its wholly-owned subsidiary Shelby Propane Plus, LLC (Propane Plus). Shelby Energy owns 100% of the member units of Propane Plus. All significant intercompany accounts and transactions have been eliminated.

Business activity

Shelby Energy provides distribution electric service to residential, business, and commercial consumers in 10 counties in central Kentucky. Propane Plus sells propane and related accessories to residential and commercial customers in central Kentucky. Shelby Energy provides overall business oversight 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Utility plant (continued)

The major classifications of utility plant in service consist of the following as of December 31, 2022 and 2021:

	2022	2021
Distribution plant	$ 108,749,708	$ 102,818,876
General plant	4,953,353	4,818,219
Subtotal electric plant	113,703,061	107,637,095
Propane tanks on customer premises	1,665,610	1,238,896
Bulk tanks	587,909	587,909
Delivery and other trucks	908,327	903,458
Land and buildings	487,121	487,121
Office and other equipment	169,447	149,978
Subtotal propane plant	3,818,414	3,367,362
Utility plant, at original cost	$ 117,521,475	$ 111,004,457

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of 3.52% per annum. General plant rates are as follows:

Structures and improvements	2.50%
Transportation equipment	10.50 - 20.00%
Other general plant	5.00 - 14.00%

Propane Plus's depreciation is computed using the straight-line method over the useful lives of its assets.

Goodwill

Goodwill was recorded in connection with the purchase of the remaining 50% interest of Propane Plus from an unrelated party on June 30, 2000. The excess of the payment price over the value of assets acquired has been recorded as goodwill. 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 December 31, 2022 and 2021, management does not believe an impairment exists.

Note 1. Significant Accounting Policies (Continued)

Cash and cash equivalents

Shelby Energy considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. Shelby Energy maintains cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2022 and 2021, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. Deposits in excess of the FDIC limit are 100% secured with collateral at the financial institution.

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. Shelby 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

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

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.

Note receivable

Propane Plus has an unsecured note receivable with Farmers Energy Propane Plus LLC which is payable over a 36-month period, carries a variable interest rate of 3.25% as of December 31, 2022, and matures on August 27, 2025. The note had a principal balance of $172,071 as of December 31, 2022.

Deferred debits

Regulatory requirements authorized by the PSC allow the electric supplier to impose a fuel adjustment surcharge upon the Cooperative. In turn, the Cooperative is required to pass on the fuel surcharge to the consumer. Due to regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the PSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, the Cooperative is required to pass on this environmental cost recovery mechanism to the consumer.

Note 1. Significant Accounting Policies (Continued)

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.

Shelby Energy adopted the standard effective January 1, 2022, and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption), with certain practical expedients available.

The standard did not have a material impact on the consolidated financial statements.

Taxes

Shelby Energy and Propane Plus are required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Shelby Energy's policy is to exclude taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

Shelby Energy is one of 16 members of East Kentucky Power Cooperative (East Kentucky). Under a wholesale power agreement, Shelby 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 Shelby Energy that are passed on to consumers using a methodology prescribed by the PSC.

Advertising

Shelby Energy and Shelby Propane expense advertising costs as incurred. Advertising expense totaled $19,323 and $21,380 for the years ended December 31, 2022 and 2021, respectively.

Comprehensive income

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Risk management

Shelby Energy and Propane Plus are 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

Shelby 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.

Income tax status

Shelby 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 Shelby Energy's tax-exempt purpose is subject to taxation as unrelated business income. Shelby Energy is responsible for reporting unrelated business income associated with its wholly owned subsidiary Propane Plus, a limited liability company.

Shelby Energy's accounting policy provides that a tax expense/benefit 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. Shelby Energy has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Shelby 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.

Management services

Propane Plus is one of 4 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Revenue Recognition

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 December 31, 2023.

Shelby 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 March 22, 2023, the date the consolidated financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Shelby Energy is engaged in the distribution and sale of electricity to residential and commercial customers in 10 counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Shelby 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 Shelby 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 15 days of the date of the bill. Revenue for pole attachments are invoiced at the end of the year. The performance obligation is satisfied ratably over the time of the contract. These amounts are recorded as a receivable at the time of invoicing.

Propane Plus is primarily engaged in the sale of propane to residential and commercial customers in central 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

Shelby Energy recognizes unbilled electric revenue as a result of customers' bills being generated throughout the month rather than at the end of the month. Unbilled revenues for the month are calculated by taking the difference between the billing register and the estimated sales based on the kilowatt hours of electricity purchased less an estimated amount of line loss based on the prior 12 months. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings are generated. This method of revenue recognition presents fairly, Shelby Energy's transfer of electricity to customers as the amount recognized is based on actual and estimated 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

Shelby Energy and Propane Plus customers generally have no minimum purchase commitments. Shelby 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 December 31, 2022 and 2021.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows Shelby Energy and Propane Plus revenues from contracts with customers disaggregated by customer class, for the years ended December 31:

	2022	2021
Residential	$ 32,640,629	$ 28,242,894
Large Industrial	11,861,228	9,377,911
Commercial	9,560,788	8,303,477
Public Lights	63,152	63,008
Other	1,345,090	809,892
Propane	3,634,213	2,923,584
Total	$ 59,105,100	$ 49,720,766

Contract assets and liabilities

Contract assets include unbilled revenues, fuel adjustment surcharges, and environmental cost recovery mechanisms. Contract liabilities include consumer deposits. The balances in contract assets and liabilities were as follows as of December 31:

	2022	2021	2020
Contract assets	$ 2,301,132	1,961,420	$ 174,218
Contract liabilities	$ 1,593,912	$ 1,679,202	$ 1,585,663

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	2022	2021
East Kentucky, patronage capital	$ 28,591,053	$ 27,805,885
CFC CTCs	590,508	592,627
CFC patronage capital	406,169	387,972
CFC member capital securities	50,000	50,000
Other associated organizations	1,159,665	1,021,493
Economic development loans	93,732	107,438
Total	$ 30,891,127	$ 29,965,415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations (Continued)

Shelby 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 2025 to 2080. Shelby Energy purchased $25,000 of CFC member capital securities in April 2014 and $25,000 of CFC member capital securities in November 2020. The securities bear interest at 5.00% and mature 30 years from the issue date and are callable by CFC, in whole or in part, at any time after ten years from the issue date at 100 percent of the principal amount to be redeemed together with accrued and unpaid interest to the redemption date.

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, Shelby Energy may distribute the difference between 25.00% and the payments made to such estates. Shelby Energy's members' equity at December 31, 2022 and 2021 was 40.37% and 41.25% of total assets, respectively.

Note 5. Long-Term Debt

All assets of Shelby Energy, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2052. As of December 31, 2022 and 2021, there was zero and $5,319,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

Long-term debt consists of the following as of December 31:

	2022	2021
RUS, 2.00% to 4.50% fixed rate notes	$ 1,175,459	$ 1,275,381
FFB, 1.13% to 4.79%	54,264,873	50,532,975
CFC:		
3.65% to 6.65% fixed rate notes	1,371,722	1,533,572
Refinanced RUS loans, 3.45% to 5.05% fixed rate notes	12,788,630	13,542,981
	69,600,684	66,884,909
Less current portion	2,713,936	2,639,182
Long-term portion	$ 66,886,748	$ 64,245,727

Note 5. Long-Term Debt (Continued)

As of December 31, 2022, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2023	$ 2,713,936
2024	2,789,926
2025	2,868,044
2026	2,948,349
2027	3,030,903
Thereafter	55,249,526
	$ 69,600,684

In 2022 Shelby Energy received a treasury rate loan commitment from RUS in the amount of $30,000,000. These proceeds will be used for future plant additions.

Note 6. Short-Term Borrowings

Shelby Energy has two short-term lines of credit of $3,000,000 each available from CFC, with variable interest rates of 5.55% and 5.75%. Advances against the lines of credit were $3,000,000 and $367,005, respectively, as of December 31, 2022. There were no advances against either line of credit as of December 31, 2021, and they both mature in December 2023. In January 2022, Shelby Energy obtained a non-revolving line of credit from CFC for $3,500,000, with a variable interest rate of 5.75%. There were no advances against this line of credit as of December 31, 2022. This line of credit matures in November 2023 and its only use is for the construction work plan. Additionally, in February 2023, Propane Plus obtained a line of credit from CoBank for $250,000. This line of credit matures in November 2023.

Note 7. Pension Plans

All eligible employees of Shelby 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. Eligible employees include employees hired prior to September 2, 2009. Non-eligible employees are those hired after September 2, 2009. 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.

Shelby Energy's contributions to the RS Plan in 2022 and 2021 represent less than 5.00% of the total contributions made to the plan by all participating employers. Shelby Energy made contributions to the plan of $146,441 in 2022 and $140,789 in 2021. There have been no significant changes that affect the comparability of 2022 and 2021. Employees hired after September 2, 2009 can only participate in the NRECA 401(k) plan. Employer contributions to the 401(k) plan amounted to $250,409 for 2022 and $191,239 for 2021.

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 80.00% funded at January 1, 2022 and 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 Retirement Security (RS) Plan (a defined benefit multiemployer pension 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. During the year ended December 31, 2013 Shelby Energy made the prepayment contribution.

Propane Plus has a profit-sharing plan of 14.00% of net profits before the pension amount, where managers receive 5.00%, assistant managers receive 1.50%, employees receive 5.00%, and the chief operating officer receives the remaining 2.50%. The pension contribution for 2022 was $16,523 and 2021 was $18,177.

Note 8. Postretirement Benefits

Shelby Energy sponsors a noncontributory defined benefit plan that provides medical insurance coverage to retired employees hired prior to July 1, 1996. Employees hired after July 1, 1996 are not eligible to participate. The plan calls for benefits to be paid at retirement based primarily upon years of service with Shelby Energy. For measurement purposes, an annual rate of increase of 6.00% in 2021, then decreasing by .25% per year until 4.00% 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% in 2022 and 2021. There have been no significant changes that affect the comparability of 2022 and 2021.

Note 8. Postretirement Benefits (Continued)

The funded status of the plan was as follows as of December 31, 2022 and 2021:

	2022	2021
Projected benefit obligation	$ (1,271,975)	$ (1,377,720)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (1,271,975)	$ (1,377,720)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31, 2022 and 2021:

	2022	2021
Benefit obligation at beginning of year	$ 1,377,720	$ 1,451,357
Actuarial adjustment	- -	9,352
Components of net periodic benefit cost:		
Service cost	6,045	2,772
Interest cost	46,370	49,643
Net periodic benefit cost	52,415	52,415
Benefits paid	(158,160)	(135,404)
Benefit obligation at end of year	$ 1,271,975	$ 1,377,720
Amounts recognized in the balance sheet consists of:		
Accumulated Postretirement Benefits	$ 1,271,975	$ 1,377,720
Amounts included in other comprehensive income:		
Unrecognized actuarial gain	$ 267,622	$ 282,490
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 1,348,000	
Net periodic benefit cost	$ 56,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2023 - $150,000; 2024 - $112,000; 2025 - $92,000; 2026 - $87,000; 2027 - $92,000.

Note 9. Commitments

Shelby Energy has various 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 Shelby Energy, its President and CEO, and another employee are on the boards of directors of various associated organizations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Labor Force

Approximately 35.00% of Shelby Energy's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved with the International Brotherhood of Electric Workers (IBEW) for the period of September 2021 through September 2024 between Shelby Energy and the International Brotherhood of Electric Workers (IBEW).

Note 12. Environmental Contingency

Shelby 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 Shelby 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 Shelby Energy's financial position or its future cash flows.

Note 13. Contingencies

Shelby 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 consolidated financial statements.

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Shelby Energy Cooperative, Inc. and Subsidiary
Shelbyville, Kentucky

We have audited the consolidated financial statements of Shelby Energy Cooperative, Inc. and Subsidiary as of and for the years ended December 31, 2022 and 2021, and our report thereon dated March 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 22 and 23 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
March 22, 2023

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2022

Assets	Shelby Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 113,703,061	$ 3,818,414	$ - -	$ 117,521,475
Under construction	3,129,765	- -	- -	3,129,765
	116,832,826	3,818,414	- -	120,651,240
Less accumulated depreciation	25,664,907	2,104,238	- -	27,769,145
	91,167,919	1,714,176	- -	92,882,095
Investments:				
Note receivable, less current portion	- -	103,481	- -	103,481
Associated organizations	30,891,127	- -	- -	30,891,127
Goodwill	- -	368,414	- -	368,414
Investment in Subsidiary	3,834,837	- -	(3,834,837)	- -
Total investments	34,725,964	471,895	(3,834,837)	31,363,022
Current Assets:				
Cash and cash equivalents	1,236,852	967,523	- -	2,204,375
Accounts receivable, less allowance for Energy of $307,899 and Propane of $16,000	6,198,433	472,001	- -	6,670,434
Current portion of note receivable	- -	68,590	- -	68,590
Unbilled revenue	254,314	- -	- -	254,314
Material and supplies, at average cost	1,278,288	272,674	- -	1,550,962
Prepayments and other current assets	315,560	56,321	- -	371,881
Total current assets	9,283,447	1,837,109	- -	11,120,556
Deferred Debits	2,046,818	- -	- -	2,046,818
Total assets	$ 137,224,148	$ 4,023,180	$ (3,834,837)	$ 137,412,491
Members' Equities and Liabilities				
Members' Equities:				
Capital investment	$ - -	$ 487,677	$ (487,677)	$ - -
Patronage capital and retained earnings	50,445,775	3,347,160	(3,347,160)	50,445,775
Other equities	4,757,615	- -	- -	4,757,615
Accumulated other comprehensive income	267,622	- -	- -	267,622
Total members' equities	55,471,012	3,834,837	(3,834,837)	55,471,012
Long-Term Liabilities:				
Long-term debt, less current portion	66,886,748	- -	- -	66,886,748
Accumulated postretirement benefits	1,271,975	- -	- -	1,271,975
Total long-term liabilities	68,158,723	- -	- -	68,158,723
Current Liabilities:				
Current portion of long-term debt	2,713,936	- -	- -	2,713,936
Accounts payable	4,795,139	- -	- -	4,795,139
Short-term borrowings	3,367,005	- -	- -	3,367,005
Consumer deposits	1,542,165	51,747	- -	1,593,912
Accrued expenses	682,308	136,596	- -	818,904
Total current liabilities	13,100,553	188,343	- -	13,288,896
Consumer Advances for Construction	493,860	- -	- -	493,860
Total members' equities and liabilities	$ 137,224,148	$ 4,023,180	$ (3,834,837)	$ 137,412,491

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2022

	Shelby Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 55,470,887	$ 3,634,213	$ - -	$ 59,105,100
Operating Expenses				
Cost of power and propane	41,971,379	1,405,255	- -	43,376,634
Distribution - operations	2,121,113	815,308	- -	2,936,421
Distribution - maintenance	2,939,839	- -	- -	2,939,839
Consumer accounts	544,325	208,785	- -	753,110
Customer service and information	358,126	- -	- -	358,126
Administrative and general	990,815	238,972	- -	1,229,787
Depreciation, excluding $222,007 charged to clearing accounts	3,919,633	176,684	- -	4,096,317
Taxes, other than income	44,865	14,911	- -	59,776
Interest on long-term debt	2,134,628	- -	- -	2,134,628
Other interest	23,555	- -	- -	23,555
Other deductions	56,429	- -	- -	56,429
Total cost of service	55,104,707	2,859,915	- -	57,964,622
Operating Margins	366,180	774,298	- -	1,140,478
Nonoperating Margins (Deficit)				
Interest income	51,665	4,849	- -	56,514
Unrelated business income tax	(140,676)	- -	- -	(140,676)
Gain on sale of equipment	46,795	35,226	- -	82,021
Other nonoperating margins	237	- -	- -	237
Earnings from subsidiary	814,373	- -	(814,373)	- -
	772,394	40,075	(814,373)	(1,904)
Patronage Capital Credits				
Generation and transmission	1,395,150	- -	- -	1,395,150
Other associated organizations	173,825	- -	- -	173,825
	1,568,975	- -	- -	1,568,975
Net Margins	2,707,549	814,373	(814,373)	2,707,549
Other Comprehensive Income				
Postretirement benefits (expense)	(14,868)	- -	- -	(14,868)
Net Margins and Comprehensive Income	$ 2,692,681	$ 814,373	$ (814,373)	$ 2,692,681

JNM

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
Shelby Energy Cooperative, Inc. and Subsidiary
Shelbyville, 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 Shelby Energy Cooperative, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of December 31, 2022 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 March 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) to determine the 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.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 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
Shelby Energy Cooperative, Inc. and Subsidiary
Shelbyville, 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 Shelby Energy Cooperative, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheet as of December 31, 2022, 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 March 22, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated March 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;

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

- 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:

Environmental surcharge	$ 1,095,167
Fuel adjustment surcharge	951,651
	$ 2,046,818

The deferred credits are as follows:

Consumer advances for construction	$ 493,860

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

	Investment
Beginning balance	$ 3,405,139
Net income	814,373
Distributions	(384,675)
Ending balance	$ 3,834,837

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
March 22, 2023