

SHELBY ENERGY COOPERATIVE, INC.
Shelbyville, Kentucky
Board of Directors' Meeting – November 17, 2016

Regular Meeting The following persons were present at 9:00 a.m. at Shelby Energy's headquarters on November 17, 2016:

Directors:

Ashley Chilton	Chairman
Randy Stevens	Vice Chairman
Roger Taylor, Jr.	Secretary-Treasurer
Wayne Stratton	Director
Diana Arnold	Director
Pat Hargadon	Director

Also Present:

Debra Martin	President & CEO
Mary Federle	Manager, Billing & Customer Service
Lauren Gutermuth	Executive Assistant
Denise Hume	Manager, Accounting & Finance
Jared Routh	Assistant Manager, Accounting & Finance
Candi Waford	Manager, Member Services
Donald Prather	Attorney

Guest:

W. Dudley Shyrock, CPA
Jim Adkins, Consultant

November Board Information Copies of the following were provided to Board Members on November 11, 2016:

1. Expense Statement for Directors and Attorney;
2. Shelby Energy October, 2016 Newsletter;
3. Agenda;
4. September 14, 2016 Minutes;
5. Resolution – 2016 Power Requirements Study;
6. Shelby Energy Cooperative Internal Audit Report;
7. 2017 KREC Surcharge Assessment;
8. 2016 Year-to-Date Expense Reports for Directors and Attorney;
9. Shelby Energy USDA RUS Financial & Statistical Report for September, 2016;
10. Actual v. Budget Report for September, 2016;
11. Overtime Payroll Report Year-to-Date 7-year summary through September, 2016;
12. Exceptions Report for Expenses for September, 2016 Year-to-Date;
13. Cashflow Statement for September, 2016;
14. 12-month Rolling Statement of Operations through September, 2016;
15. Fuel Cost & Environmental Surcharge Report through September, 2016;
16. Check Register for October, 2016;

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17. KPIs – Accounting & Finance, January through September, 2016;
18. Shelby Propane Plus Board Meeting Minutes;
19. Shelby Energy Services 2016 Financial Transactions;
20. Operations Report for October, 2016;
21. Safety Report for October, 2016;
22. KPIs – Operations & Engineering, January through September, 2016;
23. Property Damage Report for January through September, 2016;
24. Engineering Report for October, 2016;
25. Outage Report for October, 2016;
26. Member Services Report for October, 2016;
27. New Member Survey Report for September, 2016;
28. KPIs – Member Services, January through September, 2016;
29. Billing and Customer Service Report for October, 2016;
30. Uncollectible Accounts from August, 2016 Disconnect Dates;
31. Summary of Write-Offs – Prior Years Comparison Summary;
32. Capital Credit Estate Refunds for October, 2016;
33. KPIs – Billing and Customer Service, January through September, 2016;
34. Capital Credits - 2016 Eligible Margins for General Retirement;
35. Board Policy 920 – Medical Insurance for Active Employees Elected, Appointed or Hired Before July 1, 1996;
36. Board Policy 922 – Use of Electronic Communications;
37. Board Policy 923 – Medical Insurance for Active Employees Hired After July 1, 1996;
38. Board Policy 926 – Employee Code of Ethics;
39. Board Policy 930 – Identify Theft Prevention Program;
40. Board Policy 931 – Social Media;
41. 2017 Proposed Departmental Budgets;
42. NRECA 2017 Annual Meeting Voting Delegate Certification;
43. Board Policy 108 – Qualifications, Standards of Conduct and Conflict of Interest Policy for Directors, Officers and Key Employees;
44. KAEC 2016 Annual Meeting Agenda;
45. EKPC November 8, 2016 Board Meeting Agenda;
46. EKPC Financial Review as of September, 2016; and
47. CFC Integrity Fund Balance Report.

- Call To Order** The regular Board meeting was called to order by Chairman Chilton.
- Safety Moment** Routh presented the Safety Moment. He noted the upcoming holiday seasons can be stressful and urged those present to be aware of the distractions that can be caused by those stresses. He urged people to attempt to enjoy the holiday season, reduce stress, and be extra vigilant for slow-moving road traffic, especially in areas of limited visibility.
- Minutes** The minutes of the October 20, 2016 Board of Directors meeting were approved.

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Internal Audits Shyroek discussed the following four internal audit reports:

Healthcare Benefits:

Shelby Energy participates in the Kentucky Rural Electric Cooperative Employee Medical Plan composed of a number of electric cooperatives that are part of the East Kentucky Power Cooperative Group. This plan is self-funded; in other words, the monthly premiums from various participating utilities are pooled to cover the basic medical benefits with reinsurance purchased to cover major medical costs. Shyroek noted premium increases from 2010 through 2016 have risen less than 2% per year. Shelby Energy's health insurance plan has therefore effectively controlled its premium costs to numbers well below the overall market. For instance, Affordable Care Act insurers have been warning that premium increases could be 25% or more for next year alone.

In summary, Shyroek commented training employees in the specialized electric distribution industry is expensive. Shelby Energy must have a strong benefit package that is competitive with nearby investor-owned utilities and other cooperatives to prevent them from using Shelby Energy as a training ground and hiring Shelby Energy's employees away with their rich benefit packages. Shelby Energy offers its employees a competitive healthcare benefit plan in order to compete with nearby electric utilities and has done an excellent job of controlling the cost of that benefit.

Cellular Telephones:

The next internal audit focused on managing the appropriate use of cellular telephones during business hours in an efficient and equitable manner, with an eye towards safety, particularly while operating a motor vehicle.

Shelby Energy supplies a few employees with cellular telephones and data packages. Other employees are supplied I-Pad data packages on an as-needed basis. A number of employees are reimbursed for business use of their personal cell phones.

Shelby Energy has effectively managed the cost of its cellular telephones. Its current provider for company-purchased telephones and data packages is Verizon. The cost of this Verizon service for September, 2016 is \$215.67 less per month than the cost of a different provider in October, 2010.

Company-supplied cellular telephones and data packages are restricted for business use only. Employees are prohibited from using laptops or any other hand-held electronic devices while driving a company vehicle or while driving a personal vehicle for business use. Personal use of personal cell phones is restricted during business hours to breaks or lunch periods.

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Shyrock concluded that reimbursing employees for business use of their personal cell phones makes sense. He urged Shelby Energy to continue keeping up-to-date on changes in electronic communication device technology.

Accounts Receivable:

The accounts receivable internal audit focused on procedures in place that reflect proper internal accounting controls resulting in an effective overall management of accounts receivable.

Shyrock noted the target range set by the Kentucky Public Service Commission for written-off customer bills is 0.5% to 0.8% of a utility's electric revenue. Shelby Energy's write-off rates have consistently beat this range in the past several years. The write-off rate of electric revenue in 2013 was 0.23% , in 2014 it was 0.26%, in 2015 it was 0.13% and in the 2016 year-to-date is 0.07%.

Shyrock stated Shelby Energy is doing a very effective job managing its accounts receivable and he could not suggest any improvements.

Travel and Related Expenses:

Shyrock's final internal audit consisted of a review and assessment of Shelby Energy's policy and procedures for travel and related expenses.

Shelby Energy reimburses employees for most actual expenses incurred by them while involved in official duties or in attendance at authorized meetings. Exceptions include mileage, which is reimbursed at the standard IRS business rate, and meal reimbursement, which is governed by the US Government reimbursement rates determined by zip code for out-of-state travel. There is a separate Kentucky in-state meal rate that does not vary by zip code. Shyrock believes meal reimbursement in this manner is a good idea because it frees up supervisors from carefully examining meal receipts. Their time can instead be utilized in a more productive manner. It also eliminates potential arguments and abuses. Spousal expenses are not reimbursed. Mileage reimbursement for out-of-state trips cannot exceed the cost of a coach-class airline ticket by the most direct route if plane service is available. Under no condition are personal expenses to be charged directly to Shelby Energy.

All of the expense reimbursements reviewed by Shyrock were correctly calculated and consistent with Shelby Energy's policy. From his perspective, the tone at the top has been established and employees therefore understand and comply with the policy. Approvals at two levels appear to be functioning properly. Shelby Energy is therefore doing a good job managing reimbursements for travel and related costs.

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Executive Session The Board, Shyrock, and Prather entered into executive session serving as the audit committee. After discussion concluded, upon motion duly seconded, the Board emerged from executive session. After emerging from executive session, no action was taken, and Shyrock then departed the meeting.

Executive Session The Board, Martin, Prather, and Adkins entered into another executive session. After discussion concluded, upon motion duly seconded, the Board emerged from executive session. After emerging from executive session, upon motion duly seconded, Adkins was directed to design the upcoming rate adjustment to be phased in over three years, with 60% of the adjustment the first year, 20% of the adjustment the second year, and 20% of the adjustment the third year.

Cooperative Services Routh presented the Cooperative Services report for October. Premium income for the self-funded medical plan in which Shelby Energy participates is currently exceeding the amount of claims paid. The KAEC sample Cyber Security Plan is being edited for use by Shelby Energy. He presented the Director, CEO, and Attorney expenses for the quarter ending September, 2016.

Office Building Renovation Routh reported the new offices are all finished and occupied. The new backup generator is in operation and is being tested weekly. The outside steps leading to the Board meeting room are being finished.

Accounting & Finance Report Hume presented the Accounting & Finance report for September. Shelby Energy's modified TIER for September was 0.752, and its OTIER was 0.726 both below the RUS requirement of 1.10. Shelby Energy had 40.45% of its assets in equity and its current ratio was 1.16. Its Power Cost to Revenue Ratio was 76.03%. Shelby Energy's rolling 12-month average line loss was 3.49%, its rolling TIER was 1.93, and its rolling OTIER was 0.52. Shelby Energy had negative margins during the month of \$88,590.

The environmental surcharge and fuel cost adjustments are in an over-recovery stage.

Year-to-date overtime payroll is down from last year.

KPIs - Accounting & Finance Hume reported the Accounting & Finance Key Performance Indexes (KPIs) for January through September. Shelby Energy's TIER of 0.92 and OTIER of 0.726, which respectively measure the ability to earn total margins versus electric-operation-only margins sufficient to cover interest on long-term debt, are both below the targets of 1.25 and 1.10, respectively. The DSC and MDSC ratios are not measured until the end of the year. Shelby Energy's equity ratio, which measures the portion of plant and other assets financed by member equity, was 40%, which is within the target range of 30%-40%. The current ratio, which measures cash flow stability and short-term solvency, was 1.16, which is within the target range of 1-2.

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Shelby Propane Plus Report Hume presented the Shelby Propane Plus report for October. Shelby Propane Plus had negative net income of \$4,399 for October, down over \$11,000 from the positive net income of \$6,823 earned in September, 2015. Net income year-to-date is \$67,372, down \$104,000 from \$172,232 as of this same time last year. The reduced net income figures this year are due primarily to warmer weather.

Operations Report Martin presented the Operations reports for October. Right-of-way crews have cleared a total of 316 miles as of the end of October, up sharply from 2015, and cutting is still ongoing. Spray crews have sprayed 464 miles of right-of-way and are finished for the year.

Safety Report Martin presented the Safety report for October. Sarah Newton is Shelby Energy's new Safety Coordinator. There were 11 inspections of Shelby Energy and its contractor crews, with no violations being discovered. One hundred nineteen inspections have occurred thus far in 2016 with only 3 minor findings.

Shelby Energy construction crews had worked 34,417 hours since June 1, 2016, Elliott construction crews had worked 211,434 hours since September 1, 2008, and Phillips Tree Service crews had worked 65,184 hours since September 22, 2013, and Wright's Tree Service had worked 54,880 hours since July 6, 2015, all without a lost-time accident.

KPIs - Operations & Engineering Martin presented the Operations & Engineering KPIs for January through September. The first KPI category of safety consists of the incident rate and DART rate which cannot be calculated until the end of the year. In the second category of reliability, the unplanned outages, planned outages, and average outage time are all down from the same time frame in 2015, with only the total number of members affected up slightly. The final category of productivity is still showing a return trip percentage exceeding the goal of 20%. Management is still working to reduce this percentage.

Quarterly Property Damage Report Martin presented the Property Damage report for January through September, consisting of a total of ten (10) claims. The majority were to repair yard or driveway damage caused by the heavy trucks.

Engineering Report Martin gave the Engineering report for October. Shelby Energy added 169 new members from January through October. The monthly and annual CAIDI were within the target range, while the monthly and annual SAIDI exceeded the target range.

Outage Report Martin gave the Outage report for October. One outage on October 31 which was caused by a squirrel affected more than 500 members for approximately one and one-half hours. The leading cause of outages in October were vehicle and machinery collisions. People were out working and hitting guy wires. The second leading cause was in the small animal category, and the third leading cause was lightning.

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- Member Services Report** Waford presented the Member Services report for October. Member participation in the Energy Star appliance rebate programs continues to be strong, especially in the clothes washer, dishwasher, and refrigerator categories. Fifty-six members have had Simple Savers switches installed thus far this year.
- New Member Survey** Waford presented the New Member Survey report for September. Ninety-six percent of the new members who returned the survey in September were either satisfied or very satisfied with their experience.
- KPIs – Member Services** Waford presented the Member Services KPIs for January through September. One thousand ninety-seven compact florescent light bulbs have been distributed thus far this year.
- Billing and Customer Service Report** Federle presented the Billing and Customer Service report for October. A total of 3,638 members were participating in the bank draft program at the end of October. Five hundred ninety-three members were enrolled in the prepaid billing account program at the end of October.
- General Capital Credit Update** Federle advised the Directors that the amount of capital credits disbursed to the members in the general retirement for 2016 will be \$467,736.63. Some will be by bill credits. Those members receiving larger refunds will be by checks mailed December 2, 2016.
- Write-Offs** Federle reported there were uncollectible accounts totaling \$2,384.89 from August disconnect dates. The year-to-date write-offs of \$28,178, were down significantly from the October, 2015 year-to-date total of \$51,768, and the 2014 year-to-date total of \$99,313. The net write-offs of accounts receivable through September has been outstanding. The gross amount of write-offs was \$24,636. \$19,643 of former write-offs were collected this year through September, and another \$20,508 were collected from capital credits that were scheduled to be paid to delinquent members. This resulted in a net recovery of previously written off accounts receivable through the end of September of \$15,515.
- After discussion concluded, upon motion duly seconded, the \$2,384.89 August disconnect dates uncollectible accounts were written off for accounting purposes.
- Capital Credits** Federle reported \$9,703.51 in capital credits were paid to 15 estates during October.
- KPIs – Billing & Customer Service** Federle presented the Billing & Customer Service KPIs for January through September. There have been only two member concerns reported to PSC, well within the target range of 0-5 members. The 11.74% increase in members paying their monthly bills through the automatic bank draft service was well above the increase target range of 2.5-3%. Shelby Energy has written off 0.06% of its electric revenue thus far this year, much better than the 0.5-0.8% write-off target range.

Board Policy Approval Martin presented for consideration and approval the following board policies, which have been reviewed by legal counsel:

Board Policy 920 – Medical Insurance for Active Employees Elected, Appointed or Hired Before July 1, 1996;
Board Policy 922 – Use of Electronic Communications;
Board Policy 923 – Medical Insurance for Active Employees Hired After July 1, 1996;
Board Policy 926 – Employee Code of Ethics;
Board Policy 930 – Identify Theft Prevention Program;
Board Policy 931 – Social Media

After discussion concluded, the above policies were approved.

2017 Departmental Budgets The staff presented management’s recommended budgets for calendar year 2017. After discussion concluded, upon motion duly seconded, the recommended 2017 departmental budgets were approved.

2017 NRECA Annual Meeting Voting Delegates Chilton appointed Stratton to serve as Shelby Energy’s voting delegate for the Cooperative Finance Corporation annual meeting at the 2017 NRECA annual meeting, with Martin to serve as alternate. He also appointed Martin as Shelby Energy’s voting delegate for Federated Insurance, with Stratton to serve as the alternate; Stratton to serve as Shelby Energy’s voting delegate for the National Rural Electric Cooperative Association annual meeting, with Martin to serve as the alternate; and Martin to serve as Shelby Energy’s voting delegate for the National Rural Telecommunications Cooperative, with Stratton to serve as alternate.

Confidentiality Agreement – Conflict of Interest Statement All Directors and the Attorney executed copies of Shelby Energy’s Confidentiality Agreement and its Conflict of Interest Statement.

Executive Session The Board entered into executive session with Martin and Prather present. After emerging from executive session, no action was taken.

KAEC Director Report Stevens presented the KAEC Director report for October. KAEC has had positive year-to-date margins through the end of October of \$1,395,400.

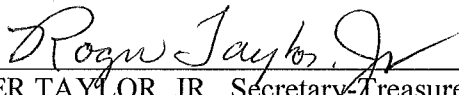
EKPC Director Report Martin presented the EKPC Director report for October. EKPC is projecting year-end margins of approximately \$50 million for 2016.

President & CEO's Report Martin presented the President & CEO's report for October.

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There being no further business, the meeting was adjourned. The next regular Board meeting will be held on December 16, 2016 at 9:00 a.m.



ROGER TAYLOR, JR., Secretary-Treasurer

Approved:



ASHLEY CHILTON, Chairman