JACKSON ENERGY COOPERATIVE CORPORATION
AND SUBSIDIARY
KENTUCKY 3

CONSOLIDATED FINANCIAL REPORT

February 29, 2024

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

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 29, 2024 and February 28, 2023, 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 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 29, 2024 and February 28, 2023, 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.

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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 24, 2024, 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 PLC

Louisville, Kentucky
May 24, 2024

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
February 29, 2024 and February 28, 2023

Assets	2024	2023
Utility Plant, at original cost		
In service	$ 317,441,584	$ 304,697,657
Under construction	659,747	1,258,470
	318,101,331	305,956,127
Less accumulated depreciation	123,044,499	118,719,755
	195,056,832	187,236,372
Investments and Other Assets		
Associated organizations	70,455,175	68,842,870
Goodwill, net of amortization	187,297	224,737
Total investments and other assets	70,642,472	69,067,607
Current Assets		
Cash and cash equivalents	5,790,509	13,858,612
Accounts receivable, less allowance for credit losses in 2024 of $164,696 and 2023 of $164,978	17,065,771	16,551,613
Other receivables	1,088,816	713,146
Material and supplies	5,177,367	4,696,906
Prepayments and other current assets	332,176	299,496
Total current assets	29,454,639	36,119,773
Deferred Debits	4,665,818	5,622,317
Total assets	$ 299,819,761	$ 298,046,069
Members' Equities and Liabilities		
Members' Equities		
Memberships and capital	$ 958,420	$ 956,015
Patronage capital and retained earnings	128,132,163	128,623,741
Other equities	4,456,448	4,442,632
Accumulated other comprehensive income	165,136	174,904
Total members' equities	133,712,167	134,197,292
Long-Term Liabilities		
Long-term debt, less current portion	134,695,746	133,835,013
Accumulated postretirement benefits	9,191,908	9,033,679
Total long-term liabilities	143,887,654	142,868,692
Current Liabilities		
Current portion of long-term debt	6,989,207	6,863,311
Accounts payable	9,450,072	9,219,988
Consumer deposits	1,624,907	1,482,845
Accrued expenses	3,429,954	2,733,873
Total current liabilities	21,494,140	20,300,017
Consumer Advances and Others	725,800	680,068
Total members' equities and liabilities	$ 299,819,761	$ 298,046,069

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 29, 2024 and February 28, 2023

	2024	2023
Operating Revenues	$ 132,085,800	$ 131,787,100
Operating Expenses		
Cost of power and propane	88,056,652	89,940,484
Distribution - operations	7,613,082	7,292,172
Distribution - maintenance	11,772,188	9,546,316
Consumer accounts	3,918,763	3,708,490
Customer service and information	595,814	564,627
Administrative and general	4,829,375	4,601,478
Depreciation, excluding $605,281 in 2024 and $473,888 in 2023 charged to clearing accounts	12,065,862	11,527,297
Amortization of goodwill	37,440	37,440
Amortization of deferred property retirements	470,772	470,772
Interest on long-term debt	4,004,763	3,643,268
Other interest	69,171	11,951
Taxes, other than income	257,891	251,896
Other deductions	118,025	125,439
Total cost of service	133,809,798	131,721,630
Operating Margins (Deficit)	(1,723,998)	65,470
Nonoperating Margins		
Interest income	234,553	181,486
Gain on sale of equipment	151,748	34,208
Other nonoperating income	39,024	39,143
Unrelated business income tax	(254,946)	(145,125)
	170,379	109,712
Patronage Capital Credits		
Generation and transmission	1,487,156	3,022,810
Other associated organizations	398,645	275,899
	1,885,801	3,298,709
Net Margins	332,182	3,473,891
Other Comprehensive Income		
Postretirement amortization of net actuarial gain	(9,768)	(19,492)
Postretirement actuarial gain	- -	635,704
	(9,768)	616,212
Net Margins and Comprehensive Income	$ 322,414	$ 4,090,103

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 29, 2024 and February 28, 2023

	Memberships and Capital	Patronage Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
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					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	956,015	128,623,741	4,442,632	174,904	134,197,292
Comprehensive income:					
Net margins		332,182			332,182
Postretirement benefit obligation					
Amortization of actuarial gain				(9,768)	(9,768)
Total comprehensive income					312,646
Refunds of capital credits		(823,760)			(823,760)
Memberships, net	2,405				2,405
Other equities			13,816		13,816
Balance - February 29, 2024	$ 958,420	$128,132,163	$ 4,456,448	$ 165,136	$133,712,167

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 29, 2024 and February 28, 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 332,182	$ 3,473,891
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	12,065,862	11,527,297
Charged to clearing accounts	605,281	473,888
Amortization of goodwill	37,440	37,440
Amortization of deferred property retirements	470,772	470,772
Amortization of postretirement actuarial gain	(9,768)	(19,492)
Postretirement actuarial adjustment	- -	635,704
Patronage capital credits	(2,081,231)	(3,295,813)
Gain on disposition of general plant	(151,748)	(34,208)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts and other receivables, net	(889,828)	7,051,997
Material and supplies	(480,461)	(992,522)
Prepayments and other current assets	(32,680)	(85,768)
Deferred debits	485,727	485,727
Accounts payable	230,084	(297,134)
Consumer deposits	142,062	206,753
Accrued expenses	696,081	(232,195)
Accumulated postretirement benefits	158,229	(477,790)
Consumer advances and others	45,732	(3,587)
Net cash provided by operating activities	11,623,736	18,924,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(18,599,277)	(17,968,333)
Plant removal costs	(1,791,865)	(1,428,847)
Salvage recovered from plant retirements	51,287	38,553
Other investments, net	468,926	2,337,223
Net cash (used in) investing activities	(19,870,929)	(17,021,404)
CASH FLOWS FROM FINANCING ACTIVITIES		
Memberships, capital and other equities	16,221	25,155
Retirement of patronage capital	(823,760)	(964,271)
Additional long-term borrowings	8,000,000	14,100,000
Payments on long-term debt	(7,013,371)	(6,595,826)
Net cash provided by financing activities	179,090	6,565,058
Net increase (decrease) in cash and cash equivalents	(8,068,103)	8,468,614
Cash and cash equivalents, beginning of year	13,858,612	5,389,998
Cash and cash equivalents, end of year	$ 5,790,509	$ 13,858,612
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 4,004,584	$ 3,435,698
Cash payments for income taxes	$ 254,946	$ 145,125

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, 2023 and 2022. There were no events through February 29, 2024 and February 28, 2023 that had a material affect 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.

Propane Plus's fixed assets consist primarily of propane tanks located on customers' premises, bulk tanks, trucks used for delivery, 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 February 29, 2024 and February 28, 2023:

	2024	2023
Electric Plant		
Distribution plant	$ 282,427,012	$ 270,184,536
General plant	24,899,493	24,874,673
	307,326,505	295,059,209
Plant under construction	659,747	1,258,470
	307,986,252	296,317,679
Less accumulated depreciation	118,460,254	114,431,126
Net electric plant	189,525,998	181,886,553
Propane Plant		
Propane tanks on customer premises	4,394,156	3,844,713
Bulk tanks	1,337,114	1,344,301
Delivery and other trucks	2,219,626	2,261,854
Land and buildings	1,715,903	1,718,132
Office and other equipment	448,280	469,448
	10,115,079	9,638,448
Less accumulated depreciation	4,584,245	4,288,629
Net propane plant	5,530,834	5,349,819
Net utility plant	$ 195,056,832	$ 187,236,372

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 29, 2024 and February 28, 2023. 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.

Goodwill

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. Amortization expense related to goodwill totaled $37,440 for the years ended February 29, 2024 and February 28, 2023. Accumulated amortization totaled $176,096 and $138,656 for the years ended February 29, 2024 and February 28, 2023, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Goodwill (continued)

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, 2024 and 2023, 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 29, 2024 and February 28, 2023, 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 and allowance for credit losses

Jackson Energy operates in the electric services and propane distribution industries, and its accounts receivable are primarily derived from the sales of electric energy and propane. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of February 29, 2024, February 28, 2023 and 2022 was $17,065,771, $16,551,613, and $19,016,965, respectively.

Jackson Energy uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts using a pooled basis approach where similar characteristics exist (See Note 3). The allowance estimate is derived from a review of Jackson Energy's historical losses based on the aging of receivables. The estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by Jackson Energy.

Jackson Energy writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses.

Materials and supplies

Jackson 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Taxes

Jackson Energy is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on six percent of gross sales from non-residential consumers, and a three 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 $82,214 and $97,646 for the years ended February 29, 2024 and February 28, 2023, respectively.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

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.

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.

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 recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Jackson Energy did not recognize any interest or penalties during the years ended February 29, 2024 and February 28, 2023.

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.

Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net margins. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing Jackson Energy's exposure to credit risk and the measurement of credit losses. Jackson Energy's financial assets subject to the guidance include accounts receivable.

Jackson Energy adopted the standard effective March 1, 2023. The impact of the adoption was not material to the consolidated financial statements and primarily resulted in new and enhanced disclosures.

Subsequent events

Management has evaluated subsequent events through May 24, 2024, 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 29, 2024 and February 28, 2023.

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 29 and February 28:

	2024	2023
Residential	$ 85,707,247	$ 89,148,711
Large commercial	22,201,703	17,942,232
Small commercial	8,761,738	8,989,936
Public lights	4,040,778	4,200,540
Other	3,560,680	3,345,832
Propane	7,813,654	8,159,849
Total	$ 132,085,800	$ 131,787,100

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 29, 2024	February 28, 2023	February 28, 2022
Contract assets			
Unbilled pole attachments	$ 93,590	$ 89,688	$ 182,856
Contract liabilities			
Prepaid pole attachments	$ 212,027	$ 221,813	$ 231,598
Consumer deposits	1,624,907	1,482,845	1,276,092
	$ 1,836,934	$ 1,704,658	$ 1,507,690

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows:

	2024	2023
Beginning balance	$ 164,978	$ 164,735
Provision for credit losses	109,004	119,843
Write-offs	(131,816)	(143,425)
Recoveries	22,530	23,825
Ending balance	$ 164,696	$ 164,978

Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of February 29 and February 28:

	2024	2023
East Kentucky, patronage capital	$ 64,710,258	$ 63,223,101
CFC CTCs	1,547,622	1,552,961
CFC patronage capital	1,291,108	1,332,185
United Utility Supply	1,318,339	1,156,882
Federated Insurance	573,969	552,807
National Information Solutions Cooperative	300,339	297,706
Kentucky Association of Electric Cooperatives	345,730	254,682
Other associated organizations	71,514	65,139
Economic development loans	296,296	407,407
Total	$ 70,455,175	$ 68,842,870

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 2025 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 5. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by the patrons 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 29, 2024 and February 28, 2023 was 44.60% and 45.03% of total assets, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. 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 2058. Long-term debt consists of the following as of February 29 and February 28:

	2024	2023
Jackson Energy		
RUS, cushion of credit	$ (119,011)	$ (113,910)
RUS, 5.45% variable rate note	8,000,000	- -
FFB, 0.62% to 4.51% fixed rate notes	111,823,302	116,164,164
Economic Development, USDA, no interest	823,296	934,407
CoBank, 3.47% fixed rate note	16,351,774	18,031,095
CFC, 6.30% to 6.70% fixed rate notes	4,311,577	4,928,365
	141,190,938	139,944,121
Less current portion	6,961,606	6,748,057
	134,229,332	133,196,064
Propane Plus		
Cumberland Valley National Bank		
3.75% to 4.25% fixed rate notes	494,015	582,132
Clark Energy Propane Plus, LLC, 3.25% fixed rate note	- -	172,071
	494,015	754,203
Less current portion	27,601	115,254
	466,414	638,949
Total long-term portion	$ 134,695,746	$ 133,835,013

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 29, 2024 there was $34,000,000 of RUS funds unadvanced and as of February 28, 2023 there were zero FFB funds unadvanced. 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 was paid in full during the current year.

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.

Note 6. Long-Term Debt (Continued)

As of February 29, 2024, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

Principal Payments:		
	2025	$ 6,989,207
	2026	7,355,252
	2027	7,890,856
	2028	7,931,359
	2029	8,027,441
	Thereafter	103,490,838
		$ 141,684,953

Note 7. Short-Term Borrowings

As of February 29, 2024 and February 28, 2023, Jackson Energy had a short-term line of credit of $5,000,000 available from CoBank with variable interest rates of 7.18% and 6.68%, respectively. The CoBank line of credit matures in November 2024. Additionally, Jackson Energy had a short-term line of credit of $10,000,000 available from CFC with variable interest rates of 7.25% and 6.25% as of February 29, 2024 and February 28, 2023, respectively. The CFC line of credit renews on a regular basis throughout the term of the long-term debt (See Note 6). There were no advances against the CoBank or CFC lines of credit as of February 29, 2024 and February 28, 2023.

Note 8. 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 2024 and 2023 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 $2,086,710 in 2024 and $1,909,610 in 2023. There have been no significant changes that affect the comparability of 2024 and 2023. 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 8. 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.

Note 8. 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 2024 and 2023. Jackson Energy contributed $176,292 and $165,710 for the years ended February 29, 2024 and February 28, 2023, 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 29, 2024 and February 28, 2023. The pension contribution amount was $119,753 and $137,106 for the years ended February 29, 2024 and February 28, 2023, respectively.

Note 9. 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% in 2024 and 2023.

The funded status of the plan is as follows:

	2024	2023
Projected benefit obligation	$ (9,191,908)	$ (9,033,679)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (9,191,908)	$ (9,033,679)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended February 29, 2024 and February 28, 2023:

	2024	2023
Benefit obligation at beginning of year	$ 9,033,679	$ 9,511,469
Actuarial adjustment	- -	(635,704)
Components of net periodic benefit cost:		
Service cost	370,110	346,456
Interest cost	296,166	324,540
Net periodic benefit cost	666,276	670,996
Benefits paid	(508,047)	(513,082)
Benefit obligation at end of year	$ 9,191,908	$ 9,033,679

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

Amounts recognized in the consolidated balance sheets consists of:				
Unrecognized actuarial gain	$	165,136	$	174,904
Accumulated postretirement benefits	$	9,191,908	$	9,033,679
Amounts included in other comprehensive income:				
Amortization of actuarial gain	$	(9,768)	$	(19,492)
Actuarial gain	$	- -	$	635,704
Effect of 1% increase in the health care trend:				
Postemployment benefit obligation	$	9,743,400		
Net periodic benefit cost	$	706,250		

Projected retiree benefit payments for the next five years are expected to be as follows: 2025 - $515,200; 2026 - $543,600; 2027 - $573,500; 2028 - $605,000; 2029 - $638,300.

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. 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.

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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 29, 2024 and February 28, 2023, and our report thereon dated May 24, 2024, 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 24, 2024

Certified Public Accountants and Advisors

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JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
February 29, 2024

Assets	Jackson Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost				
In service	$ 307,326,505	$ 10,115,079	$ - -	$ 317,441,584
Under construction	659,747	- -	- -	659,747
	307,986,252	10,115,079	- -	318,101,331
Less accumulated depreciation	118,460,254	4,584,245	- -	123,044,499
	189,525,998	5,530,834	- -	195,056,832
Investments and Other Assets				
Associated organizations	70,455,175	- -	- -	70,455,175
Goodwill, net of amortization	- -	187,297	- -	187,297
Investment in Subsidiary	7,202,818	- -	(7,202,818)	- -
Total investments and other assets	77,657,993	187,297	(7,202,818)	70,642,472
Current Assets				
Cash and cash equivalents	5,007,864	782,645	- -	5,790,509
Accounts receivable, less allowance for credit losses for Energy of $133,696 and Propane of $31,000	16,729,985	335,786	- -	17,065,771
Other receivables	1,088,816	- -	- -	1,088,816
Material and supplies	4,140,114	1,037,253	- -	5,177,367
Prepayments	232,065	100,111	- -	332,176
Total current assets	27,198,844	2,255,795	- -	29,454,639
Deferred Debits	4,665,818	- -	- -	4,665,818
Total assets	$ 299,048,653	$ 7,973,926	$ (7,202,818)	$ 299,819,761
Members' Equities and Liabilities				
Members' Equities				
Memberships and capital	$ 958,420	$ 1,283,717	$ (1,283,717)	$ 958,420
Patronage capital and retained earnings	128,132,164	5,919,100	(5,919,101)	128,132,163
Other equities	4,456,448	- -	- -	4,456,448
Other comprehensive income	165,136	- -	- -	165,136
Total members' equities	133,712,168	7,202,817	(7,202,818)	133,712,167
Long-Term Liabilities				
Long-term debt, less current portion	134,229,332	466,414	- -	134,695,746
Accumulated postretirement benefits	9,191,908	- -	- -	9,191,908
Total long-term liabilities	143,421,240	466,414	- -	143,887,654
Current Liabilities				
Current portion of long-term debt	6,961,606	27,601	- -	6,989,207
Accounts payable	9,325,803	124,269	- -	9,450,072
Consumer deposits	1,624,907	- -	- -	1,624,907
Accrued expenses	3,277,129	152,825	- -	3,429,954
Total current liabilities	21,189,445	304,695	- -	21,494,140
Consumer Advances and Others	725,800	- -	- -	725,800
Total members' equities and liabilities	$ 299,048,653	$ 7,973,926	$ (7,202,818)	$ 299,819,761

JACKSON ENERGY COOPERATIVE CORPORATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended February 29, 2024

	Jackson Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 124,296,470	$ 7,813,654	$ (24,324)	$ 132,085,800
Operating Expenses				
Cost of power and propane	84,849,626	3,207,026	- -	88,056,652
Distribution - operations	5,379,153	2,233,929	- -	7,613,082
Distribution - maintenance	11,772,188	- -	- -	11,772,188
Consumer accounts	3,413,111	505,652	- -	3,918,763
Customer service and information	525,779	70,035	- -	595,814
Administrative and general	4,580,864	275,235	(26,724)	4,829,375
Depreciation, excluding $605,281 charged to clearing accounts	11,551,540	514,322	- -	12,065,862
Amortization of goodwill	- -	37,440	- -	37,440
Amortization of deferred retirements	470,772	- -	- -	470,772
Interest on long-term debt	3,980,687	24,076	- -	4,004,763
Other interest	69,171	- -	- -	69,171
Taxes, other than income	110,053	147,838	- -	257,891
Other deductions	118,025	- -	- -	118,025
Total cost of service	126,820,969	7,015,553	(26,724)	133,809,798
Operating Margins (Deficit)	(2,524,499)	798,101	2,400	(1,723,998)
Nonoperating Margins				
Interest income	216,509	18,044	- -	234,553
Gain on sale of equipment	149,955	1,793	- -	151,748
Other nonoperating income	41,424	- -	(2,400)	39,024
Unrelated business income tax	(254,946)	- -	- -	(254,946)
Earnings from subsidiary	817,938	- -	(817,938)	- -
	970,880	19,837	(820,338)	170,379
Patronage Capital Credits				
Generation and transmission	1,487,156	- -	- -	1,487,156
Other associated organizations	398,645	- -	- -	398,645
	1,885,801	- -	- -	1,885,801
Net Margins	332,182	817,938	(817,938)	332,182
Other Comprehensive Income				
Postretirement amortization of net actuarial gain	(9,768)	- -	- -	(9,768)
Net Margins and Comprehensive Income	$ 322,414	$ 817,938	$ (817,938)	$ 322,414

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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 29, 2024 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 24, 2024.

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.

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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 PLC

Louisville, Kentucky
May 24, 2024

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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 29, 2024, 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 24, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2024, 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;

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- 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	$	1,294,629
Past service pension benefits		1,213,040
Accelerated pension benefit payment		2,158,149
	$	4,665,818

The deferred credits are as follows:

Consumer advances for construction	$	513,773
Joint use attachments paid in advance		212,027
	$	725,800

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, 2023:

	Investment	
Beginning balance	$	6,384,880
Net income		817,938
Ending balance	$	7,202,818

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 24, 2024