SHELBY ENERGY COOPERATIVE, INC.
AND SUBSIDIARY
KENTUCKY 30

CONSOLIDATED FINANCIAL REPORT

December 31, 2023

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

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, 2023 and 2022, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelby Energy Cooperative, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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

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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 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 25, 2024, 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 25, 2024

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

ASSETS	2023	2022
Utility Plant, at original cost:		
In service	$ 125,755,343	$ 117,521,475
Under construction	265,253	3,129,765
	126,020,596	120,651,240
Less accumulated depreciation	29,951,864	27,769,145
	96,068,732	92,882,095
Investments:		
Note receivable, less current portion	- -	103,481
Associated organizations	31,820,115	30,891,127
Goodwill, net of amortization	315,783	368,414
Total investments	32,135,898	31,363,022
Current Assets:		
Cash and cash equivalents	4,893,910	2,204,375
Accounts receivable, less allowance for credit losses in 2023 of $319,586 and 2022 of $323,899	6,434,115	6,670,434
Current portion of note receivable	- -	68,590
Unbilled revenue	23,225	254,314
Material and supplies, at average cost	2,184,807	1,550,962
Prepayments and other current assets	365,890	371,881
Total current assets	13,901,947	11,120,556
Deferred Debits	1,544,635	2,046,818
Total assets	$ 143,651,212	$ 137,412,491
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Patronage capital and retained earnings	$ 50,183,750	$ 50,445,775
Other equities	4,964,350	4,757,615
Accumulated other comprehensive income	252,754	267,622
Total members' equities	55,400,854	55,471,012
Long-Term Liabilities:		
Long-term debt, less current portion	71,841,758	66,886,748
Accumulated postretirement benefits	1,188,943	1,271,975
Total long-term liabilities	73,030,701	68,158,723
Current Liabilities:		
Current portion of long-term debt	2,729,463	2,713,936
Accounts payable	4,075,618	4,795,139
Short-term borrowings	3,557,048	3,367,005
Consumer deposits	1,650,945	1,593,912
Accrued expenses	800,947	818,904
Total current liabilities	12,814,021	13,288,896
Consumer Advances for Construction	2,405,636	493,860
Total members' equities and liabilities	$ 143,651,212	$ 137,412,491

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, 2023 and 2022

	2023	2022
Operating Revenues	$ 54,985,945	$ 59,105,100
Operating Expenses		
Cost of power and propane	40,144,322	43,376,634
Distribution - operations	2,997,487	2,936,421
Distribution - maintenance	3,337,071	2,939,839
Consumer accounts	760,521	753,110
Customer service and information	426,253	358,126
Administrative and general	1,112,030	1,229,787
Depreciation, excluding $223,458 in 2023 and $222,007 in 2022 charged to clearing accounts	4,361,881	4,096,317
Amortization of goodwill	52,631	- -
Taxes, other than income	66,446	59,776
Interest on long-term debt	2,375,199	2,134,628
Other interest	207,742	23,555
Other deductions	8,821	56,429
Total cost of electric and propane service	55,850,404	57,964,622
Operating Margins (Deficit)	(864,459)	1,140,478
Nonoperating Margins (Deficit)		
Interest income	216,834	56,514
Unrelated business income tax	(196,828)	(140,676)
Gain on sale of equipment	21,062	82,021
Other nonoperating margins	- -	237
	41,068	(1,904)
Patronage Capital Credits		
Generation and transmission	661,963	1,395,150
Other associated organizations	335,295	173,825
	997,258	1,568,975
Net Margins	173,867	2,707,549
Other Comprehensive Income		
Postretirement benefits (expense)	(14,868)	(14,868)
Net Margins and Comprehensive Income	$ 158,999	$ 2,692,681

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, 2023 and 2022

	Patronage Capital					Other	Accumulated Other Comprehensive	Total Members'
	Assigned	Assignable	Retirements	Unassigned	Total	Equities	Income	Equities
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 of actuarial gain							(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
Comprehensive income:								
Net margins		173,867			173,867			173,867
Assigned margins	1,935,155	(2,707,549)		772,394	- -			- -
Postretirement benefit obligation								
Amortization of actuarial gain							(14,868)	(14,868)
Total comprehensive income								158,999
Refunds of capital credits			(347,857)		(347,857)			(347,857)
Other equities			(88,035)		(88,035)	206,735		118,700
Balance - December 31, 2023	$ 59,109,692	$ 173,867	$ (13,101,137)	$ 4,001,328	$ 50,183,750	$ 4,964,350	$ 252,754	$ 55,400,854

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 173,867	$ 2,707,549
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	4,361,881	4,096,317
Charged to clearing accounts	223,458	222,007
Amortization of goodwill	52,631	- -
Gain on disposition of plant	(21,062)	(82,021)
Amortization of postretirement actuarial adjustment	(14,868)	(14,868)
Patronage capital credits	(997,258)	(1,568,975)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	236,319	(2,065,660)
Unbilled revenue	231,089	(254,314)
Material and supplies	(633,845)	(755,811)
Prepayments	5,991	(2,936)
Deferred debits	502,183	(85,398)
Payables	(719,521)	533,816
Consumer deposits	57,033	(85,290)
Accrued expenses	(17,957)	124,962
Consumer advances for construction	1,911,776	(7,858)
Accumulated postretirement benefits	(83,032)	(105,745)
Net cash provided by operating activities	5,268,685	2,655,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(6,693,397)	(8,950,204)
Plant removal costs	(1,121,351)	(767,601)
Salvage recovered from retired plant	8,755	48,762
Note receivable	172,071	(172,071)
Receipts from investments, net	123,349	609,680
Net cash (used in) investing activities	(7,510,573)	(9,231,434)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other equities	206,735	233,001
Advances of long-term debt	7,700,000	5,319,000
Short term borrowings	190,043	3,367,005
Payments on long-term debt	(2,729,463)	(2,603,225)
Retirement of patronage capital	(435,892)	(229,820)
Net cash provided by financing activities	4,931,423	6,085,961
Net increase (decrease) in cash and cash equivalents	2,689,535	(489,698)
Cash and cash equivalents, beginning of year	2,204,375	2,694,073
Cash and cash equivalents, end of year	$ 4,893,910	$ 2,204,375
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,530,191	$ 2,179,901
Deferred debits in accounts payable	$ 798,244	$ 1,365,377

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

NOTES TO CONSOLIDATED FINANCIAL 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, 2023 and 2022:

	2023	2022
Distribution plant	$ 116,332,481	$ 108,749,708
General plant	5,222,366	4,953,353
Subtotal electric plant	121,554,847	113,703,061
Propane tanks on customer premises	1,807,029	1,665,610
Bulk tanks	587,909	587,909
Delivery and other trucks	1,148,990	908,327
Land and buildings	487,121	487,121
Office and other equipment	169,447	169,447
Subtotal propane plant	4,200,496	3,818,414
Utility plant, at original cost	$ 125,755,343	$ 117,521,475

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 3.53% 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, $395,661, was recorded as goodwill. Amortization expense related to goodwill totaled $52,631 for the year ended December 31, 2023. Accumulated amortization totaled $79,878 and $27,247 for the years ended December 31, 2023 and 2022, respectively.

Propane Plus tests goodwill for impairment when a triggering event occurs that indicates the fair value of the entity may be below its carrying value. As of December 31, 2023 and 2022, management does not believe an impairment exists.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and 2022, 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 and allowance for credit losses

Shelby 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 December 31, 2023, 2022, and 2021 was $6,434,115, $6,670,434, and $4,604,774, respectively.

Shelby 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 Shelby 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 Shelby Energy.

Shelby 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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Note receivable

Propane Plus had an unsecured note receivable with Farmers Energy Propane Plus LLC which was payable over a 36-month period, carried a variable interest rate of 3.25% as of December 31, 2022, and was scheduled to mature on August 27, 2025. The note had a principal balance of $172,071 as of December 31, 2022. The note was paid in full during the current year.

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.

Taxes

Shelby Energy and Propane Plus are required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on six percent of gross sales from non-residential consumers, a three 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 $30,272 and $19,323 for the years ended December 31, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

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 recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Shelby Energy did not recognize any interest or penalties during the years ended December 31, 2023 and 2022.

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. Significant Accounting Policies (Continued)

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 pronouncements

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 Shelby Energy's exposure to credit risk and the measurement of credit losses. Shelby Energy's financial assets subject to the guidance include trade accounts receivable.

Additionally, Shelby Energy adopted FASB ASC 350 which expanded the alternative for the accounting for goodwill for private companies to not-for-profit entities, such as Shelby Energy. As a result, Shelby Energy began to amortize goodwill in 2023 on a straight-line basis over 10 years and made an election to test goodwill for impairment at the entity level.

Shelby Energy adopted these standards effective January 1, 2023. The impact of the adoptions was not material to the consolidated financial statements and primarily resulted in the recording of goodwill amortization and enhanced disclosures.

Subsequent events

Management has evaluated subsequent events through March 25, 2024, the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2023	2022
Residential	$ 30,014,815	$ 32,966,932
Large Industrial	11,456,105	11,865,313
Commercial	9,263,596	9,644,909
Public Lights	67,378	63,802
Other	959,924	929,931
Propane	3,224,127	3,634,213
Total	$ 54,985,945	$ 59,105,100

Contract assets and liabilities

Contract assets include unbilled revenues, fuel adjustment surcharges, and environmental cost recovery mechanisms. The fuel adjustment surcharges, and environmental cost recovery mechanisms are included in deferred debits on the consolidated balance sheets. Contract liabilities include consumer deposits. The balances in contract assets and liabilities were as follows as of December 31:

	2023	2022	2021
Contract assets	$ 1,525,000	$ 2,301,132	$ 1,961,420
Contract liabilities	$ 1,650,945	$ 1,593,912	$ 1,679,202

Note 3. Allowance for Credit Losses

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

	2023	2022
Beginning balance	$ 323,899	$ 367,508
Provision for credit losses	26,711	8,707
Write-offs	(50,824)	(57,862)
Recoveries	19,800	5,546
Ending balance	$ 319,586	$ 323,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Investments in Associated Organizations

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

	2023	2022
East Kentucky, patronage capital	$ 29,253,016	$ 28,591,053
CFC CTCs	588,246	590,508
CFC patronage capital	424,364	406,169
CFC member capital securities	50,000	50,000
Other associated organizations	1,424,601	1,159,665
Economic development loans	79,888	93,732
Total	$ 31,820,115	$ 30,891,127

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 5. 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, 2023 and 2022 was 38.57% and 40.37% of total assets, respectively.

Note 6. 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 2057. As of December 31, 2023 and 2022, there was $22,300,000 and zero of RUS loan funds unadvanced, respectively. These funds will be used for future plant additions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

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

	2023	2022
RUS:		
3.84% to 5.44% variable rate notes	$ 7,698,117	$ - -
2.00% to 4.50% fixed rate notes	1,075,245	1,175,459
	8,773,362	1,175,459
FFB:		
3.53% to 3.88% variable rate notes	5,184,031	5,282,291
1.13% to 4.79% fixed rate notes	47,394,368	48,982,582
	52,578,399	54,264,873
CFC:		
3.65% to 6.65% fixed rate notes	1,199,440	1,371,722
Refinanced RUS loans, 3.55% to 5.05% fixed rate notes	12,020,020	12,788,630
	74,571,221	69,600,684
Less current portion	2,729,463	2,713,936
Long-term portion	$ 71,841,758	$ 66,886,748

As of December 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 2,729,463
2025	2,865,936
2026	3,009,233
2027	3,159,695
2028	3,317,679
Thereafter	59,489,215
	$ 74,571,221

Note 7. Short-Term Borrowings

Shelby Energy has two short-term lines of credit of $3,000,000 each available from CFC. The first line of credit had outstanding balances of $557,048 and $367,005 with variable interest rates of 7.25% and 5.75%, as of December 31, 2023 and 2022, respectively. The second line of credit had an outstanding balance of $3,000,000 as of December 31, 2023 and 2022. This line of credit had variable interest rates of 7.05% and 5.55%, as of December 31, 2023 and 2022, respectively. Both lines of credit mature in November 2025. In February 2023, Propane Plus obtained a line of credit from CoBank for $250,000 with a variable interest rate of 7.41% as of December 31, 2023. As of December 31, 2023 there were no advances against this line of credit with a scheduled maturity date of November 2024.

Note 8. 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 2023 and 2022 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 $164,287 in 2023 and $146,441 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022. Employees hired after September 2, 2009 can only participate in the NRECA 401(k) plan. Employer contributions to the 401(k) plan amounted to $281,328 for 2023 and $250,409 for 2022.

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, 2023 and 2022 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Pension Plans (Continued)

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 2023 was $17,039 and 2022 was $16,523.

Note 9. 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 2023 and 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

The funded status of the plan was as follows as of December 31, 2023 and 2022:

	2023	2022
Projected benefit obligation	$ (1,188,943)	$ (1,271,975)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (1,188,943)	$ (1,271,975)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31, 2023 and 2022:

	2023	2022
Benefit obligation at beginning of year	$ 1,271,975	$ 1,377,720
Components of net periodic benefit cost:		
Service cost	6,045	6,045
Interest cost	46,370	46,370
Net periodic benefit cost	52,415	52,415
Benefits paid	(135,447)	(158,160)
Benefit obligation at end of year	$ 1,188,943	$ 1,271,975
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 1,188,943	$ 1,271,975
Amounts included in other comprehensive income:		
Amortization of actuarial gain	$ (14,868)	$ (14,868)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 1,260,000	
Net periodic benefit cost	$ 56,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $112,000; 2025 - $92,000; 2026 - $87,000; 2027 - $92,000; 2028 - $81,000.

Note 10. 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 11. 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.

Note 12. 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. 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 14. 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.

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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, 2023 and 2022, and our report thereon dated March 25, 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
March 25, 2024

Certified Public Accountants and Advisors

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SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2023

Assets	Shelby Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 121,554,847	$ 4,200,496	$ - -	$ 125,755,343
Under construction	265,253	- -	- -	265,253
	121,820,100	4,200,496	- -	126,020,596
Less accumulated depreciation	27,683,021	2,268,843	- -	29,951,864
	94,137,079	1,931,653	- -	96,068,732
Investments:				
Associated organizations	31,820,115	- -	- -	31,820,115
Goodwill, net of amortization	- -	315,783	- -	315,783
Investment in Subsidiary	3,801,497	- -	(3,801,497)	- -
Total investments	35,621,612	315,783	(3,801,497)	32,135,898
Current Assets:				
Cash and cash equivalents	3,855,360	1,038,550	- -	4,893,910
Accounts receivable, less allowance for credit losses for Energy of $306,586 and Propane of $13,000	6,088,790	345,325	- -	6,434,115
Unbilled revenue	23,225	- -	- -	23,225
Material and supplies, at average cost	1,941,984	242,823	- -	2,184,807
Prepayments and other current assets	284,636	81,254	- -	365,890
Total current assets	12,193,995	1,707,952	- -	13,901,947
Deferred Debits	1,544,635	- -	- -	1,544,635
Total assets	$ 143,497,321	$ 3,955,388	$ (3,801,497)	$ 143,651,212

Members' Equities and Liabilities	Shelby Energy	Propane Plus	Eliminations	Consolidated
Members' Equities:				
Capital investment	$ - -	$ 487,677	$ (487,677)	$ - -
Patronage capital and retained earnings	50,183,750	3,313,820	(3,313,820)	50,183,750
Other equities	4,964,350	- -	- -	4,964,350
Accumulated other comprehensive income	252,754	- -	- -	252,754
Total members' equities	55,400,854	3,801,497	(3,801,497)	55,400,854
Long-Term Liabilities:				
Long-term debt, less current portion	71,841,758	- -	- -	71,841,758
Accumulated postretirement benefits	1,188,943	- -	- -	1,188,943
Total long-term liabilities	73,030,701	- -	- -	73,030,701
Current Liabilities:				
Current portion of long-term debt	2,729,463	- -	- -	2,729,463
Accounts payable	4,075,618	- -	- -	4,075,618
Short-term borrowings	3,557,048	- -	- -	3,557,048
Consumer deposits	1,593,042	57,903	- -	1,650,945
Accrued expenses	704,959	95,988	- -	800,947
Total current liabilities	12,660,130	153,891	- -	12,814,021
Consumer Advances for Construction	2,405,636	- -	- -	2,405,636
Total members' equities and liabilities	$ 143,497,321	$ 3,955,388	$ (3,801,497)	$ 143,651,212

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2023

	Shelby Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 51,761,818	$ 3,224,127	$ - -	$ 54,985,945
Operating Expenses				
Cost of power and propane	38,959,224	1,185,098	- -	40,144,322
Distribution - operations	2,173,005	824,482	- -	2,997,487
Distribution - maintenance	3,337,071	- -	- -	3,337,071
Consumer accounts	549,387	211,134	- -	760,521
Customer service and information	426,253	- -	- -	426,253
Administrative and general	870,370	241,660	- -	1,112,030
Depreciation, excluding $223,458 charged to clearing accounts	4,177,725	184,156	- -	4,361,881
Amortization of goodwill	- -	52,631	- -	52,631
Taxes, other than income	44,900	21,546	- -	66,446
Interest on long-term debt	2,375,199	- -	- -	2,375,199
Other interest	207,742	- -	- -	207,742
Other deductions	8,821	- -	- -	8,821
Total cost of service	53,129,697	2,720,707	- -	55,850,404
Operating Margins (Deficit)	(1,367,879)	503,420	- -	(864,459)
Nonoperating Margins (Deficit)				
Interest income	180,820	36,014	- -	216,834
Unrelated business income tax	(196,828)	- -	- -	(196,828)
Gain (loss) on sale of equipment	(1,992)	23,054	- -	21,062
Earnings from subsidiary	562,488	- -	(562,488)	- -
	544,488	59,068	(562,488)	41,068
Patronage Capital Credits				
Generation and transmission	661,963	- -	- -	661,963
Other associated organizations	335,295	- -	- -	335,295
	997,258	- -	- -	997,258
Net Margins	173,867	562,488	(562,488)	173,867
Other Comprehensive Income				
Postretirement benefits (expense)	(14,868)	- -	- -	(14,868)
Net Margins and Comprehensive Income	$ 158,999	$ 562,488	$ (562,488)	$ 158,999

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, 2023 and the related consolidated statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 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) 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.

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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 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 25, 2024

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, 2023, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 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;

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- 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	$ 1,049,816
Fuel adjustment surcharge	451,959
PSC rate case expenses	42,860
	$ 1,544,635

The deferred credits are as follows:

Consumer advances for construction	$ 2,405,636

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, 2023:

	Investment
Beginning balance	$ 3,834,837
Net income	562,488
Distributions	(595,828)
Ending balance	$ 3,801,497

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 25, 2024