SHELBY ENERGY COOPERATIVE, INC.
AND SUBSIDIARY
KENTUCKY 30

CONSOLIDATED FINANCIAL REPORT

December 31, 2025

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

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, 2025 and 2024, 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, 2025 and 2024, 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 19, 2026, 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 19, 2026

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2025 and 2024

ASSETS	2025	2024
Utility Plant, at original cost:		
In service	$ 134,362,764	$ 132,872,704
Under construction	2,858,456	240,080
	137,221,220	133,112,784
Less accumulated depreciation	31,041,766	32,028,568
	106,179,454	101,084,216
Investments:		
Associated organizations	34,285,920	32,616,569
Goodwill, net of amortization	- -	263,152
Total investments	34,285,920	32,879,721
Current Assets:		
Cash and cash equivalents	4,928,567	4,854,142
Accounts receivable, less allowance for credit losses in 2025 of $92,362 and 2024 of $214,167	5,361,525	6,234,364
Unbilled revenue	74,964	56,128
Other receivables	3,482,194	576,263
Material and supplies, at average cost	1,301,747	2,141,430
Prepayments and other current assets	248,094	419,188
Total current assets	15,397,091	14,281,515
Deferred Debits	71,675	121,501
Total assets	$ 155,934,140	$ 148,366,953
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Patronage capital and retained earnings	$ 55,374,042	$ 51,494,900
Other equities	5,240,611	5,054,959
Accumulated other comprehensive income	372,930	392,663
Total members' equities	60,987,583	56,942,522
Long-Term Liabilities:		
Long-term debt, less current portion	78,831,443	74,208,210
Finance lease obligation, less current portion	273,456	163,589
Accumulated postretirement benefits	851,923	950,253
Total long-term liabilities	79,956,822	75,322,052
Current Liabilities:		
Current portion of long-term debt	3,313,190	3,018,768
Current portion of finance lease obligation	88,332	41,615
Accounts payable	5,233,014	4,789,678
Short-term borrowings	904,700	2,871,478
Consumer deposits	1,635,531	1,713,394
Accrued expenses	1,008,539	818,440
Total current liabilities	12,183,306	13,253,373
Deferred Credits	2,806,429	2,849,006
Total members' equities and liabilities	$ 155,934,140	$ 148,366,953

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, 2025 and 2024

	2025	2024
Operating Revenues	$ 62,113,700	$ 57,765,598
Operating Expenses		
Cost of power and propane	43,093,796	40,990,741
Distribution - operations	3,058,159	3,095,527
Distribution - maintenance	3,675,158	3,655,988
Consumer accounts	876,951	854,063
Customer service and information	429,150	389,496
Administrative and general	1,284,078	1,217,877
Depreciation, excluding $237,621 in 2025 and $232,225 in 2024 charged to clearing accounts	4,843,393	4,671,830
Amortization of goodwill	39,473	52,631
Taxes, other than income	72,989	69,011
Interest on long-term debt	2,754,829	2,655,750
Other interest	115,621	115,303
Other deductions	6,170	6,561
Total cost of electric and propane service	60,249,767	57,774,778
Operating Margins (Deficits)	1,863,933	(9,180)
Nonoperating Margins		
Interest income	205,622	255,380
Unrelated business income tax	(256,473)	(93,770)
Gain on sale of property and equipment	16,568	718,885
Gain on sale of subsidiary	568,899	- -
	534,616	880,495
Patronage Capital Credits		
Generation and transmission	1,477,135	253,249
Other associated organizations	386,019	306,698
	1,863,154	559,947
Net Margins	4,261,703	1,431,262
Other Comprehensive Income		
Postretirement benefits actuarial net gain	- -	154,777
Postretirement benefits (expense)	(19,733)	(14,868)
	(19,733)	139,909
Net Margins and Comprehensive Income	$ 4,241,970	$ 1,571,171

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, 2025 and 2024

	Patronage Capital					Other	Accumulated Other Comprehensive	Total Members'
	Assigned	Assignable	Retirements	Unassigned	Total	Equities	Income	Equities
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
Comprehensive income:								
Net margins		1,431,262			1,431,262			1,431,262
Assigned margins	661,963	(173,867)		(488,096)	- -			- -
Postretirement benefit obligation								
Actuarial net gain							154,777	154,777
Amortization of actuarial gain							(14,868)	(14,868)
Total comprehensive income								1,571,171
Refunds of capital credits			(50,351)		(50,351)			(50,351)
Other equities			(69,761)		(69,761)	90,609		20,848
Balance - December 31, 2024	59,771,655	1,431,262	(13,221,249)	3,513,232	51,494,900	5,054,959	392,663	56,942,522
Comprehensive income:								
Net margins		4,261,703			4,261,703			4,261,703
Assigned margins	253,249	(1,431,262)		1,178,013	- -			- -
Postretirement benefit obligation								
Amortization of actuarial gain							(19,733)	(19,733)
Total comprehensive income								4,241,970
Refunds of capital credits			(298,847)		(298,847)			(298,847)
Other equities			(83,714)		(83,714)	185,652		101,938
Balance - December 31, 2025	$ 60,024,904	$ 4,261,703	$ (13,603,810)	$ 4,691,245	$ 55,374,042	$ 5,240,611	$ 372,930	$ 60,987,583

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, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 4,261,703	$ 1,431,262
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	4,843,393	4,671,830
Charged to clearing accounts	237,621	232,225
Amortization of finance lease ROU asset	84,772	26,810
Amortization of goodwill	39,473	52,631
Gain on disposition of property and equipment	(16,568)	(718,885)
Gain from the sale of subsidiary	(568,899)	- -
Amortization of postretirement actuarial adjustment	(19,733)	(14,868)
Postretirement actuarial adjustment	- -	154,777
Patronage capital credits	(1,863,154)	(559,947)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	872,839	(648,882)
Unbilled revenue	(18,836)	(32,903)
Other receivables	(2,905,931)	272,370
Material and supplies	839,683	43,377
Prepayments	171,094	(53,298)
Deferred debits	49,826	1,423,134
Payables	443,336	714,060
Consumer deposits	(77,863)	62,449
Accrued expenses	190,099	17,493
Deferred credits	(42,577)	443,370
Accumulated postretirement benefits	(98,330)	(238,690)
Net cash provided by operating activities	6,421,948	7,278,315
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(11,498,165)	(8,727,427)
Plant removal costs	(782,478)	(1,072,584)
Salvage recovered from retired plant	7,673	1,757
Proceeds from the sale of property and equipment	2,663	754,236
Proceeds from the sale of subsidiary	2,450,000	- -
Receipts (purchase) from investments, net	794,216	(194,912)
Net cash (used in) investing activities	(9,026,092)	(9,238,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Other equities	185,652	90,609
Advances of long-term debt	8,000,000	5,500,000
Short term borrowings	(1,966,778)	(685,570)
Payments on long-term debt	(3,082,345)	(2,844,243)
Principal payments on the finance lease obligation	(75,400)	(19,837)
Retirement of patronage capital	(382,561)	(120,112)
Net cash provided by financing activities	2,678,568	1,920,847
Net increase (decrease) in cash and cash equivalents	74,425	(39,768)
Cash and cash equivalents, beginning of year	4,854,142	4,893,910
Cash and cash equivalents, end of year	$ 4,928,567	$ 4,854,142
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,888,941	$ 2,754,976
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Utility plant obtained through finance leases	$ 231,984	$ 225,041

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

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

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 sold the member units of Propane Plus in September 2025 (see Note 5). 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 sold propane and related accessories to residential and commercial customers in central Kentucky. Shelby Energy provided overall business oversight to Propane Plus (see Note 5).

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 consisted 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, 2025 and 2024:

	2025	2024
Distribution plant	$ 128,803,246	$ 123,197,328
General plant	5,559,518	5,220,002
Subtotal electric plant	134,362,764	128,417,330
Propane tanks on customer premises	- -	2,037,880
Bulk tanks	- -	587,909
Delivery and other trucks	- -	1,148,990
Land and buildings	- -	487,121
Office and other equipment	- -	193,474
Subtotal propane plant	- -	4,455,374
Utility plant, at original cost	$ 134,362,764	$ 132,872,704

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 3.54% 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 was 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 $39,473 and $52,631 for the years ended December 31, 2025 and 2024. Accumulated amortization totaled zero and $79,878 for the years ended December 31, 2025 and 2024, respectively.

Propane Plus tested goodwill for impairment when a triggering event occurred that indicated that the fair value of the entity may have been below its carrying value. As of December 31, 2024, management did not believe an impairment existed (see Note 5).

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, 2025 and 2024, 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 distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. For the years ended December 31, 2024 and 2023, Shelby Energy also operated in the propane distribution industry and its accounts receivable were primarily derived from the sales of 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, 2025, 2024, and 2023 was $8,843,719, $6,810,627, and $6,434,115, respectively.

Shelby Energy estimates expected credit losses on accounts receivable in accordance with ASC 326, *Financial Instruments – Credit Losses*. Accounts receivable are typically collected within thirty days.

For periods prior to the adoption of ASU 2025-05, Shelby Energy estimated its allowance for credit losses based on historical loss experience, adjusted for current conditions and reasonable and supportable forecasts of future economic factors that were expected to affect the collectability of outstanding receivables. This estimate was prepared on a pooled basis for receivables with similar risk characteristics. Management updated its estimate at each reporting date to reflect any changes in credit risk since initial recognition.

Effective for the year ended December 31, 2025, Shelby Energy early adopted ASU 2025-05, *Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The ASU introduced two optional simplifications for current accounts receivable arising under ASC 606. Shelby Energy elected both:

1. Current conditions practical expedient – Shelby Energy now estimates expected credit losses using historical loss information adjusted for current conditions as of the balance sheet date without developing forward-looking forecasts, and assumes those conditions remain unchanged for the remaining life of the receivable.

2. Subsequent collections accounting policy election – For receivables collected after year-end and before the financial statements are available to be issued, Shelby Energy records no allowance, consistent with the updated guidance. Remaining uncollected receivables are evaluated based on their delinquency status as of the same subsequent collections evaluation date.

These changes were applied prospectively and did not affect prior-period amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Accounts receivable and allowance for credit losses (continued)

Under the updated policy, the allowance for credit losses is derived from Shelby Energy's historical loss rates for receivables with similar risk characteristics, adjusted for current conditions as of year-end. The allowance is further adjusted to remove receivables collected prior to the date the financial statements are available to be issued. Management believes this methodology appropriately reflects expected credit losses under the updated guidance.

Shelby Energy writes off receivables when specific information indicates the customer is experiencing significant financial difficulty and collection is not expected. Any recoveries of amounts previously written off are recognized in the period received.

Materials and supplies

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

Propane inventory

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

Deferred debits and credits

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.

Leases

Shelby Energy leases vehicles and determines if an arrangement is a lease at inception. Finance lease right-of-use (ROU) assets are included in utility plant on the consolidated balance sheets. Finance lease obligations are included in current liabilities and long-term liabilities on the consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

ROU assets represent Shelby Energy's right to use an underlying asset for the lease term and lease liabilities represent Shelby Energy's obligation to make lease payments arising from the lease. When a lease does not provide an implicit rate, Shelby Energy uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

Shelby Energy's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Taxes

Shelby Energy is, and Propane Plus was, 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 2068. 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 expenses, and Propane Plus expensed, advertising costs as incurred. Advertising expense totaled $21,027 and $26,677 for the years ended December 31, 2025 and 2024, respectively.

Comprehensive income

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

Risk management

Shelby Energy is, and Propane Plus was, 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/was covered through the purchase of commercial insurance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

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 five years.

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.

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 former 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, 2025 and 2024.

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 was one of 4 propane companies that contracted with an individual who managed the day to day operations of each propane company and arranged for the purchase of bulk propane. Propane Plus shared 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.

Reclassifications

Certain reclassifications have been made to the December 31, 2024 consolidated financial statement presentation to correspond to the current year's format. Total members' equities and the increase in net margins are unchanged due to these classifications.

Subsequent events

Management has evaluated subsequent events through March 19, 2026, the date the consolidated financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Shelby Energy is engaged in the distribution and sale of electricity to residential and commercial customers in 10 counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Shelby Energy satisfies their performance obligation upon the delivery of electricity to customers. Revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by Shelby Energy. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 15 days of the date of the bill. Revenue for pole attachments are invoiced at the end of the year. The performance obligation is satisfied ratably over the time of the contract. These amounts are recorded as a receivable at the time of invoicing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Revenue from contracts (continued)

Propane Plus was primarily engaged in the sale of propane to residential and commercial customers in central Kentucky. Propane Plus had standard prices for regular customers but also entered into contracts with some customers for an agreed-upon fixed price per gallon. Customers requested propane as needed, and Propane Plus recognized revenue at the point in time when the propane was delivered. The amount of revenue recognized was the volume of propane delivered multiplied by the price per gallon. Customers were billed at the point of sale and outstanding amounts were 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 recognized revenue at the point when customer orders were delivered, therefore, there were no unbilled or overbilled amounts to recognize.

Performance obligations

Shelby Energy customers generally have no minimum purchase commitments and revenue is recognized as each performance obligation is satisfied. Propane Plus customers generally had no minimum purchase commitments and revenue was recognized as each performance obligation was 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, 2025 and 2024.

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:

	2025	2024
Residential	$ 36,796,919	$ 32,585,522
Large Industrial	11,879,175	11,488,467
Commercial	9,226,796	9,147,667
Public Lights	74,861	71,528
Other	1,015,551	1,075,686
Propane	3,120,398	3,396,728
Total	$ 62,113,700	$ 57,765,598

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

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

	2025	2024	2023
Contract assets	$ 74,964	$ 112,730	$ 1,525,000
Contract liabilities	$ 2,088,445	$ 2,192,019	$ 1,650,945

Note 3. Allowance for Credit Losses

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

	2025	2024
Beginning balance	$ 214,167	$ 319,586
(Benefit) for credit losses	(89,453)	(69,254)
Write-offs	(52,920)	(40,028)
Recoveries	20,568	3,863
Ending balance	$ 92,362	$ 214,167

Note 4. Investments in Associated Organizations

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

	2025	2024
East Kentucky, patronage capital	$ 30,983,400	$ 29,506,265
CFC CTCs	527,200	585,832
CFC patronage capital	421,239	423,311
CFC member capital securities	50,000	50,000
Other associated organizations	1,995,409	1,699,554
Economic development loans	308,672	351,607
Total	$ 34,285,920	$ 32,616,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Investments in Associated Organizations (Continued)

Shelby Energy records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates (CTCs) of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest ranging from zero to 5.00% and are scheduled to mature at varying times from 2027 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. Subsidiary Transactions

The earnings of Propane Plus are eliminated in consolidation and are not included in the consolidated financial statements. The activity of the subsidiary is as follows for the nine months ended September 30, 2025 and the year ended December 31, 2024:

	2025	2024
Beginning balance	$ 4,165,477	$ 3,801,497
Net income	666,939	558,892
Distributions	(618,443)	(194,912)
Ending balance	$ 4,213,973	$ 4,165,477

On September 30, 2025, Shelby Energy sold its wholly-owned subsidiary, Propane Plus, for $4,900,000. Proceeds of $2,450,000 were received at closing with the remaining balance received in January 2026. Assets and liabilities of Propane Plus on the date of sale were as follows:

Current assets	$ 1,825,155
Non-current assets	2,509,749
Total assets	4,334,904
Current liabilities	120,931
Non-current liabilities	- -
Total liabilities	120,931
Net assets sold	$ 4,213,973

Note 5. Subsidiary Transactions (Continued)

The following schedule summarizes the activity related to the sale of the subsidiary:

Proceeds from sale	$ 4,900,000
Less:	
Transaction costs	(117,128)
Net assets sold	(4,213,973)
Gain on sale of subsidiary	$ 568,899

The gain from the sale of the subsidiary is included in the consolidated statements of revenue and comprehensive income as nonoperating margins.

Note 6. Leases

Shelby Energy has finance leases for vehicles. The leases have remaining lease terms of 4 years to 5 years. As of December 31, 2025 and 2024, the net ROU assets included with utility plant on the consolidated balance sheets were $377,067 and $219,990, respectively.

The components of lease expense were as follows for the year ended December 31:

	2025	2024
Finance lease cost		
ROU assets amortization	$ 84,772	$ 26,810
Interest expense	22,118	8,007
Total lease cost, net	$ 106,890	$ 34,817

Other information related to leases was as follows for the years ended December 31:

	2025	2024
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 21,371	$ 6,916
Financing cash flows from finance leases	$ 75,400	$ 19,837
ROU assets obtained in exchange for lease obligations		
Finance leases	$ 231,984	$ 225,041
Weighted average remaining lease term		
Finance leases	3.83 years	4.42 years
Weighted average discount rate		
Finance leases	6.09%	6.37%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Leases (Continued)

Future undiscounted lease payments for finance leases with initial terms of one year or more as of December 31, 2025, were as follows:

2026	$ 107,938
2027	107,938
2028	107,938
2029	76,727
2030	5,745
	406,286
Less imputed interest	(44,498)
Net lease liabilities	$ 361,788

Note 7. 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, 2025 and 2024 was 39.11% and 38.38% of total assets, respectively.

Note 8. 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, 2025 and 2024, there was $8,800,000 and $16,800,000 of RUS loan funds unadvanced, respectively. These funds will be used for future plant additions.

Note 8. Long-Term Debt (Continued)

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

	2025	2024
RUS:		
2.50% to 4.69% variable rate notes	$ 21,447,894	$ 13,745,566
3.00% to 4.50% fixed rate notes	356,926	400,189
	21,804,820	14,145,755
FFB:		
3.72% to 3.88% variable rate notes	4,976,699	5,081,592
1.13% to 4.79% fixed rate notes	44,068,279	45,753,460
	49,044,978	50,835,052
CFC:		
3.65% to 6.65% fixed rate notes	852,323	1,016,037
Refinanced RUS loans, 3.60% to 5.05% fixed rate notes	10,442,512	11,230,134
	82,144,633	77,226,978
Less current portion	3,313,190	3,018,768
Long-term portion	$ 78,831,443	$ 74,208,210

As of December 31, 2025, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2026	$ 3,313,190
2027	3,478,850
2028	3,652,792
2029	3,835,432
2030	4,027,203
Thereafter	63,837,167
	$ 82,144,633

Note 9. 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 an outstanding balance of zero, variable interest rates of 5.75% and 6.50%, as of December 31, 2025 and 2024, respectively. The second line of credit had outstanding balances of $904,700 and $2,871,478 as of December 31, 2025 and 2024, respectively. This line of credit had variable interest rates of 5.75% and 6.30%, as of December 31, 2025 and 2024, respectively. Both lines of credit mature in October 2027. Propane Plus had a line of credit from CoBank for $250,000 with a variable interest rate of 6.39% (see Note 5).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. 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 2025 and 2024 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 $188,594 in 2025 and $180,499 in 2024. There have been no significant changes that affect the comparability of 2025 and 2024. Employees hired after September 2, 2009 can only participate in the NRECA 401(k) plan. Employer contributions to the 401(k) plan amounted to $355,558 for 2025 and $329,736 for 2024.

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, 2025 and 2024 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.

Propane Plus had 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 2025 was $113,019 and 2024 was $105,029.

Note 11. 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 2025, 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 4.50% in 2025 and 2024. There have been no significant changes that affect the comparability of 2025 and 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Postretirement Benefits (Continued)

The funded status of the plan was as follows as of December 31, 2025 and 2024:

	2025	2024
Projected benefit obligation	$ (851,923)	$ (950,253)
Plan assets at fair value	- -	- -
Funded status (deficit)	$ (851,923)	$ (950,253)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31, 2025 and 2024:

	2025	2024
Benefit obligation at beginning of year	$ 950,253	$ 1,188,943
Components of net periodic benefit cost:		
Service cost	12,993	14,979
Interest cost	31,538	37,436
Net periodic benefit cost	44,531	52,415
Actuarial gain	- -	(154,777)
Benefits paid	(142,861)	(136,328)
Benefit obligation at end of year	$ 851,923	$ 950,253
Amounts recognized in the consolidated balance sheets consists of:		
Unrecognized actuarial gain	$ 372,930	$ 392,663
Accumulated postretirement benefits	$ 851,923	$ 950,253
Amounts included in other comprehensive income:		
Actuarial gain	$ - -	$ 154,777
Amortization of actuarial gain	$ (19,733)	$ (14,868)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 912,000	
Net periodic benefit cost	$ 47,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2026 - $129,100; 2027 - $124,900; 2028 - $103,100; 2029 - $101,000; 2030 - $96,500.

Note 12. Related Party Transactions

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Labor Force

Approximately 40.00% of Shelby Energy's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved with the International Brotherhood of Electric Workers (IBEW) for the period of September 2024 through October 2029 between Shelby Energy and the International Brotherhood of Electric Workers (IBEW).

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.

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Shelby Energy Cooperative, Inc. and Subsidiary as of and for the years ended December 31, 2025 and 2024, and our report thereon dated March 19, 2026, 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 page 25 and 26, and the schedule of deferred debits and deferred credits shown on page 27, are presented for purposes of additional analysis and are 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 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 financial statements or to the 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 19, 2026

Certified Public Accountants and Advisors

401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2025

Assets	Shelby Energy	Propane Plus	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 134,362,764	$ - -	$ - -	$ 134,362,764
Under construction	2,858,456	- -	- -	2,858,456
	137,221,220		- -	137,221,220
Less accumulated depreciation	31,041,766	- -	- -	31,041,766
	106,179,454	- -	- -	106,179,454
Investments in associated organizations	34,285,920	- -	- -	34,285,920
Current Assets:				
Cash and cash equivalents	4,928,567	- -	- -	4,928,567
Accounts receivable, less allowance for credit losses of $92,362	5,361,525	- -	- -	5,361,525
Unbilled revenue	74,964	- -	- -	74,964
Other receivables	3,482,194	- -	- -	3,482,194
Material and supplies, at average cost	1,301,747	- -	- -	1,301,747
Prepayments and other current assets	248,094	- -	- -	248,094
Total current assets	15,397,091		- -	15,397,091
Deferred Debits	71,675	- -	- -	71,675
Total assets	$ 155,934,140	$ -	$ -	$ 155,934,140
Members' Equities and Liabilities				
Members' Equities:				
Patronage capital and retained earnings	$ 55,374,042	$ - -	$ - -	$ 55,374,042
Other equities	5,240,611	- -	- -	5,240,611
Accumulated other comprehensive income	372,930	- -	- -	372,930
Total members' equities	60,987,583	-	-	60,987,583
Long-Term Liabilities:				
Long-term debt, less current portion	78,831,443	- -	- -	78,831,443
Finance lease obligation, less current portion	273,456	- -	- -	273,456
Accumulated postretirement benefits	851,923	- -	- -	851,923
Total long-term liabilities	79,956,822	- -	- -	79,956,822
Current Liabilities:				
Current portion of long-term debt	3,313,190	- -	- -	3,313,190
Current portion of finance lease obligation	88,332	- -	- -	88,332
Accounts payable	5,233,014	- -	- -	5,233,014
Short-term borrowings	904,700	- -	- -	904,700
Consumer deposits	1,635,531	- -	- -	1,635,531
Accrued expenses	1,008,539	- -	- -	1,008,539
Total current liabilities	12,183,306		- -	12,183,306
Deferred Credits	2,806,429	- -	- -	2,806,429
Total members' equities and liabilities	$ 155,934,140	$ - -	$ - -	$ 155,934,140

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2025

	Shelby Energy	Propane Plus	Eliminations	Consolidated
Operating Revenues	$ 58,993,302	$ 3,120,398	$ - -	$ 62,113,700
Operating Expenses				
Cost of power and propane	42,058,353	1,035,443	- -	43,093,796
Distribution - operations	2,265,238	792,921	- -	3,058,159
Distribution - maintenance	3,675,158	- -	- -	3,675,158
Consumer accounts	673,899	203,052	- -	876,951
Customer service and information	429,150	- -	- -	429,150
Administrative and general	1,051,668	232,410	- -	1,284,078
Depreciation, excluding $237,621 charged to clearing accounts	4,668,601	174,792	- -	4,843,393
Amortization of goodwill	- -	39,473	- -	39,473
Taxes, other than income	54,989	18,000	- -	72,989
Interest on long-term debt	2,754,829	- -	- -	2,754,829
Other interest	115,621	- -	- -	115,621
Other deductions	6,170	- -	- -	6,170
Total cost of service	57,753,676	2,496,091	- -	60,249,767
Operating Margins	1,239,626	624,307	- -	1,863,933
Nonoperating Margins				
Interest income	176,895	28,727	- -	205,622
Unrelated business income tax	(256,473)	- -	- -	(256,473)
Gain on sale of property and equipment	2,663	13,905	- -	16,568
Gain on sale of subsidiary	568,899	- -	- -	568,899
Earnings from subsidiary	666,939	- -	(666,939)	- -
	1,158,923	42,632	(666,939)	534,616
Patronage Capital Credits				
Generation and transmission	1,477,135	- -	- -	1,477,135
Other associated organizations	386,019	- -	- -	386,019
	1,863,154	- -	- -	1,863,154
Net Margins	4,261,703	666,939	(666,939)	4,261,703
Other Comprehensive Income				
Postretirement benefits (expense)	(19,733)	- -	- -	(19,733)
	(19,733)	- -	- -	(19,733)
Net Margins and Comprehensive Income	$ 4,241,970	$ 666,939	$ (666,939)	$ 4,241,970

SHELBY ENERGY COOPERATIVE, INC. AND SUBSIDIARY

SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS
December 31, 2025 and 2024

	2025	2024	RUS Approval
Deferred Debits			
Environmental surcharge	$ - -	$ 56,601	§1767, account #186
PSC rate case expenses	71,675	64,901	§1767, account #186
Total deferred debits	$ 71,675	$ 121,502	
Deferred Credits			
Consumer advances for construction	$ 2,353,515	$ 2,370,381	§1767, account #252
Fuel adjustment surcharge	316,863	478,625	§1767, account #253
Environmental surcharge	136,051	- -	§1767, account #254
Total deferred credits	$ 2,806,429	$ 2,849,006	

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, 2025 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 19, 2026.

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 Corporation's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Certified Public Accountants and Advisors

401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from 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 statement. 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 19, 2026