

**FARMERS RURAL ELECTRIC  
COOPERATIVE CORPORATION AND SUBSIDIARY  
GLASGOW, KENTUCKY**

**REPORT ON AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION**

**For the Years Ended  
December 31, 2020 and 2019**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Farmers Rural Electric Cooperative Corporation and Subsidiary which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenue, comprehensive income, patronage capital and memberships, and cash flows, for the years then ended and related notes to the consolidated financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Farmers Energy Propane Plus, a wholly owned subsidiary, for the year ended December 31, 2019 which statements represent 1.95% and 5.12% respectively of the assets and revenues of the consolidated financial statements for the year ended December 31, 2019. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Farmers Energy Propane Plus, is based solely on the report of the other auditor. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinions**

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Farmers Rural Electric Cooperative Corporation and Subsidiary as of December 31, 2020 and 2019, 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.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise Farmers Rural Electric Cooperative Corporation and Subsidiary's basic financial statements. The consolidating balance sheets and consolidating statements of revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The consolidating balance sheets and consolidating statements of revenue and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules I – IV, which insofar as it relates to Farmers Energy Propane Plus is based on the report of other auditors for the year ended December 31, 2019, and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021 on our consideration of the Cooperative'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 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 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 Farmers Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

*Campbell, Myers, and Rattledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

March 16, 2021

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
BALANCE SHEETS  
December 31, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,226,132	\$ 710,849
Accounts and notes receivable, less allowance for doubtful accounts of \$163,203 in 2020 and \$87,378 in 2019	4,350,153	4,249,080
Materials and supplies, at average cost	1,099,782	1,129,761
Prepaid expenses	<u>283,259</u>	<u>263,230</u>
Total current assets	<u>6,959,326</u>	<u>6,352,920</u>
Other assets and investments:		
Cash - Special funds	-	3,828
Goodwill, net of amortization	458,052	458,052
Investments in subsidiary companies	21,271	27,006
Investment in associated organizations	33,650,887	32,887,878
Deferred charges	1,258,341	1,428,831
Note receivable - economic development project	2,259,204	444,400
Economic development project investment	<u>-</u>	<u>2,000,000</u>
Total other assets	<u>37,647,755</u>	<u>37,249,995</u>
Utility plant in service	109,145,014	105,362,359
Construction work in progress	<u>373,049</u>	<u>579,706</u>
	109,518,063	105,942,065
Less accumulated depreciation	<u>(34,269,122)</u>	<u>(32,145,815)</u>
Utility plant, net	<u>75,248,941</u>	<u>73,796,250</u>
Total assets	<u>\$ 119,856,022</u>	<u>\$ 117,399,165</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
BALANCE SHEETS, CONCLUDED  
December 31, 2020 and 2019

LIABILITIES AND MEMBERS' EQUITIES

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable	\$ 4,650,108	\$ 4,313,522
Accrued expenses	1,397,647	1,563,811
Customer deposits	984,274	929,866
Notes payable	2,900,000	4,150,000
Current portion of long-term debt	<u>2,631,274</u>	<u>2,413,940</u>
Total current liabilities	<u>12,563,303</u>	<u>13,371,139</u>
Long-term liabilities:		
Long-term debt less current maturities	<u>55,881,506</u>	<u>54,528,560</u>
Total long-term liabilities	<u>55,881,506</u>	<u>54,528,560</u>
Noncurrent liabilities:		
Regulatory liability	-	3,828
Post retirement benefit obligations	910,891	941,081
Customer advances for construction	<u>285,612</u>	<u>320,165</u>
Total noncurrent liabilities	<u>1,196,503</u>	<u>1,265,074</u>
Members' equities:		
Memberships	569,825	561,420
Patronage capital	47,917,795	46,089,546
Accumulated other comprehensive income	(493,288)	(568,883)
Other equities	<u>2,220,378</u>	<u>2,152,309</u>
Total members' equities	<u>50,214,710</u>	<u>48,234,392</u>
Total liabilities and equity	<u>\$ 119,856,022</u>	<u>\$ 117,399,165</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
STATEMENTS OF REVENUE

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenue	\$ <u>48,751,231</u>	\$ <u>52,529,780</u>
Operating expenses:		
Cost of purchases	32,205,835	36,169,516
Distribution - operations	1,473,933	1,387,030
Distribution - maintenance	3,595,052	3,676,315
Consumer accounts	1,235,174	1,143,704
Customer services and informational expense	100,451	93,959
Administrative and general	3,117,178	3,114,536
Depreciation	3,644,785	3,510,282
Taxes	<u>821,866</u>	<u>789,414</u>
Total operating expenses	<u>46,194,274</u>	<u>49,884,756</u>
Operating margins	2,556,957	2,645,024
Interest on long-term debt to RUS and CFC	<u>1,712,580</u>	<u>2,049,358</u>
Operating margins after fixed charges	844,377	595,666
G & T and other capital credits	<u>1,324,409</u>	<u>2,003,038</u>
Net operating margins	<u>2,168,786</u>	<u>2,598,704</u>
Nonoperating margins:		
Interest income, net of expenses of \$113,577 in 2020 and \$196,959 in 2019	12,686	152,982
Other net nonoperating income (loss)	<u>(338)</u>	<u>(32,789)</u>
	<u>12,348</u>	<u>120,193</u>
Net margins	<u>\$ 2,181,134</u>	<u>\$ 2,718,897</u>

The accompanying notes are an integral  
part of the financial statements.



FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
STATEMENTS OF COMPREHENSIVE INCOME  
For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net margins	\$ 2,181,134	\$ 2,718,897
Defined benefit pension plans:		
Net gain (loss) during period	47,151	19,471
Amortization of net gain (loss)	18,400	23,844
Amortization of transition obligation	<u>10,044</u>	<u>10,044</u>
Other comprehensive income (loss)	75,595	53,359
Total comprehensive income	<u>\$ 2,256,729</u>	<u>\$ 2,772,256</u>

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part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 STATEMENTS OF PATRONAGE CAPITAL AND MEMBERSHIPS  
 For the years ended December 31, 2020 and 2019

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total
Balances, January 1, 2019	\$ 555,005	\$ 44,006,245	\$ (622,242)	\$ 2,018,444	\$ 45,957,452
Increase in memberships, net of terminations	6,415	-	-	-	6,415
Net margins for the year ended December 31, 2019	-	2,718,897	-	-	2,718,897
Retirement of patronage capital of estates of deceased members and adjustments	-	(60,009)	-	133,865	73,856
Other comprehensive income	-	-	53,359	-	53,359
Distributions of patronage capital	-	(575,587)	-	-	(575,587)
Balances, December 31, 2019	\$ 561,420	\$ 46,089,546	\$ (568,883)	\$ 2,152,309	\$ 48,234,392
Increase in memberships, net of terminations	8,405	-	-	-	8,405
Net margins for the year ended December 31, 2020	-	2,181,134	-	-	2,181,134
Retirement of patronage capital of estates of deceased members and adjustments	-	-	-	68,069	68,069
Other comprehensive income	-	-	75,595	-	75,595
Distributions of patronage capital	-	(352,885)	-	-	(352,885)
Balances, December 31, 2020	<u>\$ 569,825</u>	<u>\$ 47,917,795</u>	<u>\$ (493,288)</u>	<u>\$ 2,220,378</u>	<u>\$ 50,214,710</u>

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net margins	\$ 2,181,134	\$ 2,718,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,644,785	3,510,282
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(101,073)	465,707
(Increase) decrease in inventory	29,979	(111,678)
(Increase) decrease in prepaid expenses	(20,029)	(36,122)
(Increase) decrease in deferred charges	170,490	176,063
Increase (decrease) in accounts payable	336,586	(269,313)
Increase (decrease) in customer deposits	54,408	89,365
Increase (decrease) in accrued expenses	(166,164)	44,924
Increase (decrease) in customer advances for construction	<u>(34,553)</u>	<u>(7,372)</u>
Net cash provided (used) by operating activities	<u>6,095,563</u>	<u>6,580,753</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(4,470,611)	(6,191,919)
Plant removal costs	(709,193)	(822,477)
Salvage recovered from retirement of plant	85,860	96,863
Investments in subsidiary companies	5,735	1,147
(Increase) decrease in other receivable	(1,814,804)	111,120
(Increase) decrease in economic development project	2,000,000	(2,000,000)
(Increase) decrease in investments in associated organizations and other investments	<u>(763,009)</u>	<u>(1,749,893)</u>
Net cash provided (used) by investing activities	<u>(5,666,022)</u>	<u>(10,555,159)</u>

The accompanying notes are an integral part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 STATEMENTS OF CASH FLOWS, CONCLUDED  
 For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Memberships issued	\$ 8,405	\$ 6,415
Distributions of patronage capital	(352,885)	(635,596)
Retired capital credits - gain	68,069	133,865
Increase (decrease) in noncurrent liabilities	(34,018)	(16,165)
Other debt increase (decrease)	911,572	1,785,947
Advance principal payments unapplied (increase) decrease	2,654,024	3,381,634
Principal payments to CFC	(639,529)	(631,521)
Principal payments to FFB	(4,283,724)	(4,628,820)
Loan advancements from RUS/FFB/CFC	3,000,000	4,500,000
Principal payments on short term debt	(10,456,726)	(15,105,684)
Borrowings from short term debt	<u>9,206,726</u>	<u>14,605,683</u>
 Net cash provided (used) by financing activities	 <u>81,914</u>	 <u>3,395,758</u>
 Increase (decrease) in cash and cash equivalents	 511,455	 (578,648)
 Cash and cash equivalents at beginning of year	 <u>714,677</u>	 <u>1,293,325</u>
 Cash and cash equivalents at end of year	 <u>\$ 1,226,132</u>	 <u>\$ 714,677</u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 29,022	\$ 56,454
Interest	\$ 1,712,580	\$ 2,049,358

The accompanying notes are an integral  
part of the financial statements.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of Farmers Rural Electric Cooperative Corporation and its 100% owned subsidiary, Farmers Energy Propane Plus. During 2018, Farmers Energy Services Corporation was dissolved. As a result of the dissolution, Farmers Energy Propane Plus, LLC, formerly a wholly owned subsidiary of Farmers Energy Service Corporation is now directly owned by Farmers Rural Electric Cooperative Corporation. All material intercompany transactions have been eliminated in consolidation.

General:

The Cooperative maintains its records in accordance with policies prescribed or permitted by Kentucky Public Service Commission and United States Department of Agriculture, Rural Utilities Service, which conform in all material respects with generally accepted accounting principles.

Nature of Business:

Farmers Rural Electric Cooperative Corporation provides electric service in an eight-county area of south-central Kentucky. The Cooperative grants credit to customers, substantially all of whom are local residents and commercial businesses.

Utility Plant:

Utility plant is stated substantially at original cost, net of contributions, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead cost. 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 utility plant. The cost of units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. When property is sold, a gain or loss is reflected in income. The major classifications of electric plant in service at December 31, 2020 and 2019 were:

	<u>2020</u>	<u>2019</u>
Distribution Plant	\$ 93,833,343	\$ 90,487,453
General Plant	10,199,957	9,962,645
Other Production Plant	1,502,071	1,502,071
Intangible Plant	<u>3,625</u>	<u>3,625</u>
Electric Plant	105,538,996	101,955,794
Propane Plant	<u>3,606,018</u>	<u>3,406,565</u>
Total Utility Plant	<u>\$ 109,145,014</u>	<u>\$ 105,362,359</u>

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Materials and Supplies:

Materials and supplies inventories are stated at the lower of cost or net realizable value using the average cost method.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued:

Depreciation:

Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method. Distribution plant depreciation is based on a composite rate of three and twenty-four hundredths percent (3.24%) per annum.

The following depreciation rates for the components of the general plant were in effect as of December 31, 2020 and 2019:

Structures and Improvements	2.5%
Office Furniture and Fixtures	20.0%
Transportation and Communication Equipment	14.0%
Power-Operated Equipment	12.0%
Office Equipment and Computers	20.0%
Telephone Equipment	14.0%
Other General Plant	6.0%

Depreciation expense for the years ended December 31, 2020 and 2019 was \$3,644,785 and \$3,510,282 respectively.

Cost Recovery:

Regulatory requirements authorized by the Kentucky Public Service Commission 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 the regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the Kentucky Public Service Commission 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.

The Cooperative has implemented the Accounting Standards Codification (ASC) No. 980, Accounting for the Effects of Certain Types of Regulation, in the recording of the described regulatory deferred debits. Similarly, in accordance with RUS Bulletin 1767B-1, section 1767.13(d)(3), the deferral of these regulatory items is recorded without the need for prior written approval of RUS.

The amount recorded on the financial statements for the (over) under recovery of the fuel adjustment surcharge was \$(78,795) at December 31, 2020, and \$(204,598) at December 31, 2019. The amount of the (over) under recovery of the environmental cost recovery mechanism at December 31, 2020 and 2019 was \$106,849 and \$52,720, respectively.

Accounts Receivable:

Accounts receivable consists of uncollected amounts due from customers for the sales of electric energy, which are not received by the Cooperative at year-end, billed and unbilled. Based on management's evaluation of uncollected accounts receivable at the end of each year, bad debts are provided for on the allowance method.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Concluded:

Note Receivable – Economic Development Project:

The Cooperative has an interest free note receivable from the City of Glasgow, Kentucky in the amount of \$333,280 at December 31, 2020 and \$444,400 at December 31, 2019. Monthly installments of \$9,260 are due the first day of each month beginning January 1, 2017 and continuing until the principal sum has been paid in full.

In 2019, the Cooperative received a Rural Economic Development loan in the amount of \$2,000,000 without interest for disbursement to the TJ Samson Community Hospital for construction of the Hospice Home. As of December 31, 2020, all funds had been disbursed to the Hospital. The balance of the note receivable from TJ Samson at December 31, 2020 was \$1,925,924. Monthly installments of \$18,519 are due from TJ Samson on the first day of each month beginning September 1, 2020 and continuing until the principal sum has been paid in full.

Income Tax Status:

The Cooperative is exempt from federal and state income taxes under Code Section 501(c)(12) because more than 85% of its revenue is received from members. The Cooperative is responsible for reporting unrelated business income associated with its wholly owned subsidiary Farmers Energy Propane Plus, a limited liability company. For the years ended December 31, 2020 and 2019 income tax expense was \$27,555 and \$26,287 respectively. Farmers Energy Propane Plus uses the same depreciation for book and taxes, therefore, deferred taxes are considered immaterial and are not recorded.

Investment in Subsidiary Companies:

This balance represents the Cooperative's investments in affiliates, together with other Cooperatives, for the purpose of providing other energy services and products. These investments are accounted for using the equity method.

Subsequent Events:

Management has evaluated subsequent events through March 16, 2021 the date which the financial statements were available to be issued. On February 3, 2021, the Cooperative's Small Business Administration Paycheck Protection Program loan funds in the amount of \$1,096,768 were forgiven. On March 8, 2021 the Cooperative received loan funds in the amount of \$1.5 million from FFB maturing June 30, 2021 at an interest rate of .053%.

Reclassifications

Certain amounts in the 2019 financial statements were reclassified to conform to the 2020 presentation.

2. Investments in Associated Organizations:

Investments in associated organizations as of December 31, 2020 and 2019 are listed as follows:

	<u>2020</u>	<u>2019</u>
East Kentucky Power Cooperative, Inc.	\$ 31,685,841	\$ 30,942,519
National Rural Utilities Cooperative Finance Corp.	791,903	823,154
Other	1,173,143	1,122,205
Total	<u>\$ 33,650,887</u>	<u>\$ 32,887,878</u>

The Cooperative records patronage capital assigned by associated organizations in the year in which assignments are received. Investments in National Rural Cooperative Finance Corporation consist of a membership fee and capital term certificates which are also valued by patronage capital assigned in the year in which assignments are received.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Cash and Cash Equivalents:

All deposits in various financial institutions are covered by FDIC or through the insured cash sweep service. Included in total deposits are special funds of \$0 at December 31, 2020 and \$3,828 at December 31, 2019 which were set aside to pay the regulatory liability.

4. Related Party Transactions:

The Cooperative is a member of the National Rural Utilities Cooperative Finance Corporation, which furnishes a portion of the Cooperative's financing.

The Cooperative is a member of East Kentucky Power Cooperative which is a generation and transmission cooperative. The Cooperative has entered into an agreement with East Kentucky Power Cooperative to supply substantially all of the Cooperative's future power needs. Under its wholesale power agreement, the Cooperative has agreed to purchase the majority of its electric power and energy requirements from East Kentucky Power Cooperative until January 2051. Changes in rates are refunded to or recovered from the Cooperative's customers through a cost of power adjustment.

The Cooperative leases to its wholly owned subsidiary, Farmers Energy Propane Plus, the land where its facilities are located on an annual basis. Total rental income under this lease for the years ended December 31, 2020 and 2019 was \$18,624 and \$18,624 respectively.

5. Long-Term Debt:

All assets, except motor vehicles are pledged as collateral for the long-term debt to the United States of America and National Rural Utilities Cooperative Finance Corporation under a joint mortgage agreement.

Long-term debt at December 31, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Due United States of America:		
5.49% - 5.62% Mortgage Notes-FFB	\$ -	\$ 304,700
4.35% - 4.93% Mortgage Notes-FFB	10,531,319	13,363,748
1.80% - 4.45% Mortgage Notes-FFB	13,227,114	13,712,601
.081% - 2.82% Mortgage Notes-FFB	15,592,989	16,053,193
.081% - 2.98% Mortgage Notes-FFB	11,227,034	8,427,938
0% Rural Economic Development Loan	<u>2,259,204</u>	<u>2,444,400</u>
Total due United States of America	52,837,660	54,306,580
Due National Rural Utilities Cooperative Finance Corporation:		
3.3 - 4.4% First Mortgage Notes	4,507,368	5,146,897
Other debt	<u>1,096,768</u>	<u>-</u>
Advance payments unapplied to long term debt	<u>(96,012)</u>	<u>(2,750,036)</u>
Total	58,345,784	56,703,441
Less current maturities	<u>(2,593,335)</u>	<u>(2,370,826)</u>
Farmers Rural Electric Cooperative Corporation	<u>\$ 55,752,449</u>	<u>\$ 54,332,615</u>
Due East Kentucky Power Cooperative 2.75%	\$ 166,996	\$ 239,059
Less current maturities	<u>(37,939)</u>	<u>(43,114)</u>
Farmers Energy Propane Plus	<u>\$ 129,057</u>	<u>\$ 195,945</u>
Total all companies	\$ 58,512,780	\$ 56,942,500
Less current maturities	<u>(2,631,274)</u>	<u>(2,413,940)</u>
Total long term consolidated debt	<u>\$ 55,881,506</u>	<u>\$ 54,528,560</u>



FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-Term Debt, Concluded:

In 2000, the Cooperative received approval from the Federal Financing Bank – Rural Utilities Service for loan funds in amount of \$5,053,000. These loans were for a period of thirty-four years. As of December 31, 2020 these loan funds were paid in full.

In 2003, the Cooperative received approval from the Federal Financing Bank – Rural Utilities Service for loan funds in the amount of \$18,228,000. These loans are for a period of thirty-four years, payable quarterly, and currently bearing interest rates from 4.353% - 4.929%. All funds were advanced to the Cooperative.

In 2008, the Cooperative received approval from the Federal Financing Bank-Rural Utilities Service for loan funds in the amount of \$17,402,000. These loans are for a period of thirty-four years, payable quarterly, and currently bearing interest rates from 1.804% - 4.449%. All funds were advanced to the Cooperative.

In 2013, the Cooperative received approval from the Federal Financing Bank-Rural Utilities Service for loan funds in the amount of \$17,582,000. These loans are for a period of thirty-four years, payable quarterly, and currently bearing interest rates from .081% - 2.816%. All funds were advanced to the Cooperative.

In 2017, the Cooperative received approval from the Federal Financing Bank-Rural Utilities Service for loan funds in the amount of \$19,951,000. These loans are for a period of thirty-four years, payable quarterly, and currently bearing interest rates from .081% - 2.98%. As of December 31, 2020, \$11,500,000 had been advanced to the Cooperative.

In 2014, the Cooperative received a US Department of Agriculture Rural Economic Development Loan in the amount of \$1,000,000 without interest. Monthly installments of \$9,260 are due the last day of the month beginning January 31, 2015 and continuing until the principal sum has been paid in full.

In 2019, the Cooperative received a US Department of Agriculture Rural Economic Development Loan in the amount of \$2,000,000 without interest. Monthly installments of \$18,519 are due the last day of the month beginning September 30, 2020 and continuing until the principal sum has been paid in full.

In 2015, Farmers Energy Services Corporation (FESC) received approval from East Kentucky Power Cooperative Corporation for a loan in the amount of \$496,817. This loan is for 10 years and is payable monthly at an interest rate of 2.75%. Farmers Energy Propane Plus, LLC, a wholly owned subsidiary of Farmers Rural Electric Cooperative Corporation, absorbed the debt of FESC upon its dissolution.

The maturities of long-term debt for each of the five years succeeding the balance sheet are as follows:

2021	\$	2,631,274
2022		2,693,798
2023		3,070,526
2024		2,910,379
2025		2,749,776
2026-2030		13,438,513
2031-2035		11,667,545
2036-2040		10,056,317
2041-2045		4,421,154
2046-2050		3,289,143
2051-2052		1,584,355
Total	\$	<u>58,512,780</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Short-term Debt:

The Cooperative has available a line of credit for short-term loans of up to \$5,000,000 with National Rural Utilities Cooperative Finance Corporation extending to May 10, 2022. The maximum interest rate is to be the prevailing bank prime rate published in the "money rates" column of The Wall Street Journal plus one percent (1%) per annum. At December 31, 2020, the balance of the line-of-credit was \$0 and the balance at December 31, 2019 was \$150,000.

The Cooperative has available a line of credit for short-term loans of up to \$5,000,000 with CoBank extending to August 31, 2021. Interest is payable monthly as a variable rate of interest established by the lender on the first business day of each week. At December 31, 2020, the balance of the line of credit was \$2,900,000 and at December 31, 2019 the balance was \$4,000,000.

7. Deferred Charges:

The following is a summary of amounts recorded as deferred charges approved by RUS per 1773.33(h) as of December 31, 2020 and 2019 which have been approved in writing by RUS:

<u>Deferred Debits:</u>	<u>2020</u>	<u>2019</u>
Transportation Expense	\$ 2,876	\$ (1,154)
GIS-Field Inventory Cost	305,596	339,868
Long Range Plans	-	9,868
ESRI and EDP costs	76,933	82,608
Pension Plan Prepayment	<u>872,936</u>	<u>997,641</u>
	<u>\$ 1,258,341</u>	<u>\$ 1,428,831</u>
 <u>Deferred Credits:</u>		
Customer Advances for Construction	<u>\$ 285,612</u>	<u>\$ 320,165</u>
	<u>\$ 285,612</u>	<u>\$ 320,165</u>

8. Return of 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 members' equities to be less than thirty percent (30%) 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 twenty-five percent (25%) of net margins for the next preceding year, the Cooperative may distribute the difference between twenty-five percent (25%) and the payments made to such estates.

Capital credit retirements in the amount of \$352,885 and \$575,587 were paid for the years ended December 31, 2020 and 2019, respectively.

9. Other Equities:

At December 31, 2020 and 2019 other equities consisted of retired capital credits – gain, in amounts of \$2,220,378 and \$2,152,309, respectively.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Pension Plan:

Narrative Description

The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer 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.

Plan Information

Farmers Rural Electric Cooperative Corporation contributions to the RS Plan in 2020 and in 2019 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. Farmers Rural Electric Cooperative Corporation made contributions to the RS Plan of \$622,081 in 2020 and \$611,201 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

For 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% funded at January 1, 2020 and over 80% funded at January 1, 2019 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 the plan experience.

Footnote: RS Plan Prepayment Option

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS 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%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, changes in interest rates, asset returns and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15-year period.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Pension Plan, Concluded:

The Cooperative has two separate 401(K) Plans and a 457(b) Plan. The first 401(K) Plan is for those employees hired before January 1, 2012. The terms of the Plan call for an elective contribution from employees of 0.5% - 1.0% or more of their salaries while the Cooperative matches 100% of employees' contributions up to 1.0%. The second 401(K) Plan is for those employees hired on or after January 1, 2012. The Cooperative makes a 6.0% base contribution to this second plan. Also, the terms of the Plan call for an elective contribution from employees of 1.0% - 4.0% or more of their salaries while the Cooperative matches 100% of employees' contributions up to 4.0%. The 457(b) plan is an executive plan that allows for employee contributions with no company match. Total employer contributions for all Plans for 2020 and 2019 were \$118,651 and \$89,957 respectively. Total employee contributions for all Plans for 2020 and 2019 were \$214,967 and \$196,559, respectively.

All full-time employees of Farmers Energy Propane Plus are eligible to participate in a 401(k) and Profit-Sharing Plan. The Company makes a matching contribution of up to 5% annual wages to the plan, total contributions were \$28,830 in 2020 and \$18,356 in 2019.

11. Litigation:

The Cooperative is subject to claims and investigations that arise in the ordinary course of business. One legal investigation is ongoing, and the Cooperative intends to vigorously contest any alleged violations. Management and the Cooperative's legal counsel do not anticipate any material effect on the Cooperative's financial statements as a result of these actions.

12. Provision for Income Taxes:

The Cooperative follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Cooperative has no tax position at December 31, 2020 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Cooperative's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No such interest or penalties were recognized during the periods presented. The Cooperative files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Cooperative is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2017.

13. Uncertainties:

In March 2020, local, US and world governments began encouraging self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel, size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of the reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Farmers Rural Electric Cooperative Corporation, management believes that a material impact on the financial position and future results of operations is reasonably possible.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Postretirement Benefit Plans:

The Cooperative provides certain retired employees with postretirement health care benefits. Employees who elect to retire between the ages of 62 and 65, and who have completed 15 or more years of employment with the Cooperative, may continue medical coverage and dental coverage through the Cooperative until they attain the age of 65 or are eligible for Medicare. At that point, the retired employee shall cease to be eligible for coverage under the Cooperative's medical and dental plans.

The annual measurement date is December 31 for other postretirement benefits. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of the Cooperative's postretirement benefit plan:

	<u>2020</u>	<u>2019</u>
Accumulated Benefit Obligation		
Projected benefit obligation at end of year	\$ 910,891	\$ 941,081
Fair Value of plan assets at end of year	-	-
Unfunded status at end of year	<u>\$ 910,891</u>	<u>\$ 941,081</u>
Amounts recognized in the balance sheet		
Unfunded status	\$ 910,891	\$ 941,081
Current liabilities	-	-
Noncurrent liabilities	<u>\$ 910,891</u>	<u>\$ 941,081</u>
Change in Accumulated Benefit Obligation		
Accumulated post-retirement benefit obligation at beginning of year	\$ 941,081	\$ 945,589
Service cost	669	8,308
Interest cost	29,856	31,856
Actuarial loss (gain)	(47,152)	(19,471)
Amortization of transition obligation	-	-
Amortization of net actuarial loss (gain)	-	-
Disbursements	(13,563)	(25,201)
Accumulated post-retirement benefit obligation at end of year	<u>\$ 910,891</u>	<u>\$ 941,081</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED

14. Postretirement Benefit Plans, Concluded:

Change in plan assets and benefit obligations recognized in other comprehensive income

	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 568,883	\$ 622,242
Net loss (gain)	(47,151)	(19,471)
Amortization of net loss (gain)	(18,400)	(23,844)
Amortization of transition obligation	(10,044)	(10,044)
Total recognized in other comprehensive income	<u>(75,595)</u>	<u>(53,359)</u>
End of year	<u>\$ 493,288</u>	<u>\$ 568,883</u>

Amounts recognized in accumulated other comprehensive income

Net loss (gain)	\$ 392,790	\$ 468,385
Transition obligation	100,498	100,498
	<u>\$ 493,288</u>	<u>\$ 568,883</u>

Net periodic benefit cost

Service cost	\$ 669	\$ 8,308
Interest cost	29,856	31,856
Amortization of transition obligation	10,044	10,044
Amortization of net actuarial gain	18,400	23,844
Net periodic benefit cost	<u>\$ 58,969</u>	<u>\$ 74,052</u>

Amounts in other comprehensive income expected to be realized in 2021

Amortization of net loss (gain)	\$ 14,620
Amortization of transition obligation	10,044
	<u>\$ 24,664</u>

The discount rate used in determining the accumulated postretirement benefit obligation was 4.0% in 2020 and 4.5% in 2019.

The following expected benefit payments from the plan, which reflect anticipated future services, are as follows:

2021	\$14,580
2022	\$15,455
2023	\$16,343
2024	\$17,242
2025	\$18,148

For measurement purposes, a 6.0% annual medical rate increase was used for the first year. The rate is assumed to decline by .25% per year until level at 3% per year.

A 1% increase in the health care trend rates would have the following effects on the plan:

Postemployment benefit obligation	\$ 966,000
Net periodic benefit cost	\$ 58,600



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, CPA ▪ Matthew G. Nuckols

Independent Auditors' Report  
on Consolidating Information

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

We have audited the consolidated financial statements of Farmers Rural Electric Cooperative Corporation and subsidiary as of and for the year ended December 31, 2020, and our report thereon dated March 16, 2021, which expressed an unmodified opinion on those financial statements appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented in Schedules I – IV is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it 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 consolidating information in Schedules III – IV, which insofar as it relates to Farmers Energy Propane Plus, LLC is based on the report of other auditors for the year ending December 31, 2019, and is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

March 16, 2021

**FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY**  
**SCHEDULE I – CONSOLIDATING BALANCE SHEET**  
December 31, 2020

ASSETS	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
<b>Current assets:</b>				
Cash	\$ 890,296	\$ 335,836	\$ -	\$ 1,226,132
Accounts and notes receivable, less allowance for doubtful accounts of \$163,203 in 2020	4,290,676	59,477	-	4,350,153
Materials and supplies, at average cost	912,971	186,811	-	1,099,782
Prepaid expenses	211,127	72,132	-	283,259
Total current assets	<u>6,305,070</u>	<u>654,256</u>	<u>-</u>	<u>6,959,326</u>
<b>Other assets and investments:</b>				
Cash-special funds	-	-	-	-
Goodwill	-	458,052	-	458,052
Investments in subsidiary companies	2,219,077	-	(2,197,806)	21,271
Investments in associated organizations	33,650,887	-	-	33,650,887
Deferred charges	1,258,341	-	-	1,258,341
Note receivable - economic development project	2,259,204	-	-	2,259,204
	<u>39,387,509</u>	<u>458,052</u>	<u>(2,197,806)</u>	<u>37,647,755</u>
<b>Utility plant, at cost</b>				
Utility plant in service	105,538,996	3,606,018	-	109,145,014
Construction work-in-progress	373,049	-	-	373,049
	<u>105,912,045</u>	<u>3,606,018</u>	<u>-</u>	<u>109,518,063</u>
Less accumulated depreciation and amortization	(31,987,643)	(2,281,479)	-	(34,269,122)
Utility plant, net	<u>73,924,402</u>	<u>1,324,539</u>	<u>-</u>	<u>75,248,941</u>
<b>TOTAL ASSETS</b>	<u>\$ 119,616,981</u>	<u>\$ 2,436,847</u>	<u>\$ (2,197,806)</u>	<u>\$ 119,856,022</u>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 4,641,976	\$ 8,132	\$ -	\$ 4,650,108
Accrued expenses	1,374,020	23,627	-	1,397,647
Customer deposits	943,988	40,286	-	984,274
Notes payable	2,900,000	-	-	2,900,000
Current portion of long-term debt	2,593,335	37,939	-	2,631,274
Total current liabilities	<u>12,453,319</u>	<u>109,984</u>	<u>-</u>	<u>12,563,303</u>
<b>Long-term liabilities</b>				
Long-term debt less current maturities	55,752,449	129,057	-	55,881,506
Total long-term liabilities	<u>55,752,449</u>	<u>129,057</u>	<u>-</u>	<u>55,881,506</u>
<b>Noncurrent liabilities:</b>				
Regulatory liability	-	-	-	-
Post retirement benefit obligations	910,891	-	-	910,891
Customer advances for construction	285,612	-	-	285,612
Total noncurrent liabilities	<u>1,196,503</u>	<u>-</u>	<u>-</u>	<u>1,196,503</u>
<b>Members' equities:</b>				
Memberships	569,825	-	-	569,825
Patronage capital and retained earnings	47,917,795	-	-	47,917,795
Accumulated other comprehensive income	(493,288)	-	-	(493,288)
Other equities	2,220,378	-	-	2,220,378
Minority interests and other equities	-	2,197,806	(2,197,806)	-
Total members' equities	<u>50,214,710</u>	<u>2,197,806</u>	<u>(2,197,806)</u>	<u>50,214,710</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITIES</b>	<u>\$ 119,616,981</u>	<u>\$ 2,436,847</u>	<u>\$ (2,197,806)</u>	<u>\$ 119,856,022</u>



FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
SCHEDULE II – CONSOLIDATING STATEMENT OF REVENUE  
For the Year Ended December 31, 2020

	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Operating revenues	\$ 46,021,541	\$ 2,729,690	\$ -	\$ 48,751,231
Operating expenses:				
Cost of purchases	31,080,231	1,125,604	-	32,205,835
Distribution - operations	1,473,933	-	-	1,473,933
Distribution - maintenance	3,595,052	-	-	3,595,052
Consumer accounts	1,235,174	-	-	1,235,174
Customer services and informational expense	100,451	-	-	100,451
Administrative and general	1,858,346	1,258,832	-	3,117,178
Depreciation	3,445,761	199,024	-	3,644,785
Taxes	812,355	9,511	-	821,866
Total operating expenses	<u>43,601,303</u>	<u>2,592,971</u>	-	<u>46,194,274</u>
Operating margins	\$ 2,420,238	\$ 136,719	\$ -	\$ 2,556,957
Interest on long-term debt to RUS and CFC	<u>1,712,580</u>	<u>-</u>	<u>-</u>	<u>1,712,580</u>
Operating margins after fixed charges	707,658	136,719	-	844,377
G & T and other capital credits	<u>1,324,409</u>	<u>-</u>	<u>-</u>	<u>1,324,409</u>
Net operating margins	<u>\$ 2,032,067</u>	<u>\$ 136,719</u>	<u>\$ -</u>	<u>\$ 2,168,786</u>
Nonoperating margins:				
Interest income, net of interest expense of \$113,577	12,073	613	-	12,686
Other net nonoperating income (loss)	(58,476)	92,895	-	34,419
Income (loss) from equity investments	<u>195,470</u>	<u>-</u>	<u>(230,227)</u>	<u>(34,757)</u>
Total nonoperating margins	<u>149,067</u>	<u>93,508</u>	<u>(230,227)</u>	<u>12,348</u>
Net margins	<u>\$ 2,181,134</u>	<u>\$ 230,227</u>	<u>\$ (230,227)</u>	<u>\$ 2,181,134</u>

**FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY**  
**SCHEDULE IV – CONSOLIDATING BALANCE SHEETS**  
**December 31, 2019**

ASSETS	Farmers Rural Electric Cooperative Corporation, Inc.	<u>Restated</u> Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
<b>Current assets:</b>				
Cash	\$ 511,196	\$ 199,653	\$ -	\$ 710,849
Accounts and notes receivable, less allowance for doubtful accounts of \$87,378 in 2019	4,188,400	60,680	-	4,249,080
Materials and supplies, at average cost	953,146	176,615	-	1,129,761
Prepaid expenses	<u>199,473</u>	<u>63,757</u>	-	<u>263,230</u>
<b>Total current assets</b>	<u><b>5,852,215</b></u>	<u><b>500,705</b></u>	<u><b>-</b></u>	<u><b>6,352,920</b></u>
<b>Other assets and investments:</b>				
Cash-special funds	3,828	-	-	3,828
Goodwill, net of amortization	-	458,052	-	458,052
Investments in subsidiary companies	2,023,607	-	(1,996,601)	27,006
Investments in associated organizations	32,887,878	-	-	32,887,878
Deferred charges	1,428,831	-	-	1,428,831
Note receivable - economic development project	444,400	-	-	444,400
Economic development project investment	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
	<u><b>38,788,544</b></u>	<u><b>458,052</b></u>	<u><b>(1,996,601)</b></u>	<u><b>37,249,995</b></u>
<b>Utility plant, at cost</b>				
Utility plant in service	101,955,794	3,406,565	-	105,362,359
Construction work-in-progress	<u>579,706</u>	<u>-</u>	<u>-</u>	<u>579,706</u>
	102,535,500	3,406,565	-	105,942,065
Less accumulated depreciation	<u>(30,063,051)</u>	<u>(2,082,764)</u>	<u>-</u>	<u>(32,145,815)</u>
<b>Utility plant, net</b>	<u><b>72,472,449</b></u>	<u><b>1,323,801</b></u>	<u><b>-</b></u>	<u><b>73,796,250</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$ 117,113,208</b></u>	<u><b>\$ 2,282,558</b></u>	<u><b>\$ (1,996,601)</b></u>	<u><b>\$ 117,399,165</b></u>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 4,304,444	\$ 9,078	\$ -	\$ 4,313,522
Accrued expenses	1,553,221	10,590	-	1,563,811
Customer deposits	902,636	27,230	-	929,866
Notes payable	4,150,000	-	-	4,150,000
Current portion of long-term debt	<u>2,370,826</u>	<u>43,114</u>	<u>-</u>	<u>2,413,940</u>
<b>Total current liabilities</b>	<u><b>13,281,127</b></u>	<u><b>90,012</b></u>	<u><b>-</b></u>	<u><b>13,371,139</b></u>
<b>Long-term liabilities</b>				
Long-term debt less current maturities	<u>54,332,615</u>	<u>195,945</u>	<u>-</u>	<u>54,528,560</u>
<b>Total long-term liabilities</b>	<u><b>54,332,615</b></u>	<u><b>195,945</b></u>	<u><b>-</b></u>	<u><b>54,528,560</b></u>
<b>Noncurrent liabilities:</b>				
Regulatory liability	3,828	-	-	3,828
Post retirement benefit obligations	941,081	-	-	941,081
Customer advances for construction	<u>320,165</u>	<u>-</u>	<u>-</u>	<u>320,165</u>
<b>Total noncurrent liabilities</b>	<u><b>1,265,074</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>1,265,074</b></u>
<b>Members' equities:</b>				
Memberships	561,420	-	-	561,420
Patronage capital and retained earnings	46,089,546	-	-	46,089,546
Accumulated other comprehensive income	(568,883)	-	-	(568,883)
Other equities	2,152,309	-	-	2,152,309
Minority interest and other equities	<u>-</u>	<u>1,996,601</u>	<u>(1,996,601)</u>	<u>-</u>
<b>Total members' equity</b>	<u><b>48,234,392</b></u>	<u><b>1,996,601</b></u>	<u><b>(1,996,601)</b></u>	<u><b>48,234,392</b></u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u><b>\$ 117,113,208</b></u>	<u><b>\$ 2,282,558</b></u>	<u><b>\$ (1,996,601)</b></u>	<u><b>\$ 117,399,165</b></u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
SCHEDULE IV – CONSOLIDATING STATEMENTS OF REVENUE  
For the Year Ended December 31, 2019

	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Operating revenues	\$ 49,840,516	\$ 2,689,264	\$ -	\$ 52,529,780
Operating expenses:				
Cost of purchases	34,987,459	1,182,057	-	36,169,516
Distribution - operations	1,387,030	-	-	1,387,030
Distribution - maintenance	3,676,315	-	-	3,676,315
Consumer accounts	1,143,704	-	-	1,143,704
Customer services and informational expense	93,959	-	-	93,959
Administrative and general	1,928,309	1,186,227	-	3,114,536
Depreciation	3,307,689	202,593	-	3,510,282
Taxes	774,218	15,196	-	789,414
Total operating expenses	<u>47,298,683</u>	<u>2,586,073</u>	<u>-</u>	<u>49,884,756</u>
Operating margins	\$ 2,541,833	\$ 103,191	\$ -	\$ 2,645,024
Interest on long-term debt to RUS and CFC	<u>2,049,358</u>	<u>-</u>	<u>-</u>	<u>2,049,358</u>
Operating margins after fixed charges	492,475	103,191	-	595,666
G & T and other capital credits	<u>2,003,038</u>	<u>-</u>	<u>-</u>	<u>2,003,038</u>
Net operating margins	<u>\$ 2,495,513</u>	<u>\$ 103,191</u>	<u>\$ -</u>	<u>2,598,704</u>
Nonoperating margins:				
Interest income, net of interest expense of \$196,959	152,096	886	-	152,982
Other net nonoperating income (loss)	1,731	(12,918)	-	(11,187)
Income (loss) from equity investments	69,557	-	(91,159)	(21,602)
	<u>223,384</u>	<u>(12,032)</u>	<u>(91,159)</u>	<u>120,193</u>
Net margins	<u>\$ 2,718,897</u>	<u>\$ 91,159</u>	<u>\$ (91,159)</u>	<u>\$ 2,718,897</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2020

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<i>Other Programs</i>				
<u>United States Department of Agriculture</u>				
Rural Economic Development Loans and Grants	10.854	-	\$ 1,763,487	<u>\$ 1,763,487</u>
<i>Total United States Department of Agriculture</i>				<u>\$ 1,763,487</u>
<i>Total Other Programs</i>				<u>\$ 1,763,487</u>
<i>Total Expenditures of Federal Awards</i>				<u>\$ 1,763,487</u>

See accompanying notes to schedule of expenditures of federal awards.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Farmers Rural Electric Cooperative Corporation under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cooperative it is not intended to and does not present the financial position, results of operations or cash flows of Farmers Rural Electric Cooperative Corporation.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Farmers Rural Electric Cooperative Corporation has elected not to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended December 31, 2020

I. SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with

GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                           Yes      X   No
- Significant deficiencies identified that are not considered to be material weaknesses?                           Yes      X   None reported
- Noncompliance material to financial statements noted?                           Yes      X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?                           Yes      X   No
- Significant deficiencies identified that are not considered to be material weaknesses?                           Yes      X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?                           Yes      X   No

Dollar threshold used to distinguish Between type A and type B programs:                    \$750,000

Auditee qualified as low-risk auditee?                           Yes      X   No

**Identification of Major Programs:**

Federal Grantor/Program Title	CFDA Number
<b>United States Department of Agriculture Direct Programs</b> Rural Economic Development Loans and Grants	10.854

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2020

II. FINANCIAL STATEMENT FINDINGS

None reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

IV. NONCOMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

None reported.

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY  
SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ending December 31, 2020

No prior year audit findings.





INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE

Farmers Rural Electric Cooperative Corporation  
Glasgow, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Farmers Rural Electric Cooperative Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Farmers Rural Electric Cooperative Corporation's major federal programs for the year ended December 31, 2020. Farmers Rural Electric Cooperative Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Farmers Rural Electric Cooperative Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Farmers Rural Electric Cooperative Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Farmers Rural Electric Cooperative Corporation's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, Farmers Rural Electric Cooperative Corporation, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

## **Report on Internal Control over Compliance**

Management of Farmers Rural Electric Cooperative Corporation, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Farmers Rural Electric Cooperative Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Farmers Rural Electric Cooperative Corporation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Campbell, Myers and Ratledge, PLLC*

Glasgow, Kentucky

March 16, 2021



INDEPENDENT AUDITORS' 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*

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, 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 Farmers Rural Electric Cooperative Corporation and subsidiary, which comprise the balance sheets as of December 31, 2020 and 2019 and the related statements of revenue, comprehensive income, patronage capital and memberships, and cash flows for the years then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated March 16, 2021. The financial statements of the subsidiary, Farmers Energy Propane Plus, LLC were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Farmers Energy Propane Plus, LLC

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Farmers Rural Electric Cooperative 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Farmers Rural Electric Cooperative Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Farmers Rural Electric Cooperative 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 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 may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Farmers Rural Electric Cooperative Corporation's 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 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.

*Campbell, Myers, & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

March 16, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS  
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS  
FOR ELECTRIC BORROWERS

Board of Directors  
Farmers Rural Electric  
Cooperative Corporation  
Glasgow, Kentucky

Independent Auditor's Report

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 financial statements of Farmers Rural Electric Cooperative Corporation and subsidiary (FRECC), which comprise the balance sheets as of December 31, 2020 and 2019 and the related statements of revenue, comprehensive income, patronage capital and memberships, and cash flows for the years ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of FRECC'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 have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that FRECC 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*, S1773.33, 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 FRECC'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 FRECC's accounting and records to indicate that FRECC 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 materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the 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; and

Comply with the requirements for the detailed schedule of investments. A detailed schedule of investments is as follows:

During 2018, Farmers Energy Service Corporation, a wholly owned subsidiary of Farmers Rural Electric Cooperative Corporation, was dissolved. As a result of that dissolution, Farmers Energy Propane Plus, LLC, formerly a wholly owned subsidiary of Farmers Energy Service Corporation is now directly owned by Farmers Rural Electric Cooperative Corporation. The subsidiary is a limited liability company which sells propane gas. The Cooperative accounts for the investment on the equity basis.

Investment in Subsidiary Company:		
Original Investment Cost - 1997	\$	225,000
Investment Advances/Withdrawals:		
12/31/1998		120,000
12/31/1999		135,000
12/31/2000		225,000
12/31/2001		75,000
12/31/2018		(73,823)
12/31/2019		(23,640)
12/31/2020		(29,022)
		<u>428,515</u>
Undistributed (Losses) Earnings:		
Prior Years' Earnings	\$	889,404
12/31/2016		154,924
12/31/2017		27,098
12/31/2018		151,479
12/31/2019		91,159
12/31/2020		230,227
Total Undistributed (Losses) Earnings:		1,544,291
Original Investment and Investment Activities:		<u>653,515</u>
Book Value 12/31/20	\$	<u>2,197,806</u>

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

*Campbell, Myers & Rutledge, PLLC*

Glasgow, Kentucky

March 16, 2021

