

**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, 2022 and 2021**

C O N T E N T S

	<u>Pages</u>
Independent Auditors' Report	1 - 3
Consolidated Financial Statements:	
Balance Sheets	4 - 5
Statements of Revenue	6
Statements of Comprehensive Income	7
Statements of Patronage Capital and Memberships	8
Statements of Cash Flows	9 - 10
Notes to Consolidated Financial Statements	11 - 21
Supplementary Information:	
Independent Auditors' Report on Consolidating Information	22
Schedule I - 2022 Consolidating Balance Sheet	23
Schedule II - 2022 Consolidating Statement of Revenue	24
Schedule III - 2021 Consolidating Balance Sheet	25
Schedule IV - 2021 Consolidating Statement of Revenue	26
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 <i>Government Auditing Standards</i>	27 - 28
Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers	29 - 30



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Farmers Rural Electric
Cooperative Corporation
Glasgow, Kentucky

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021, 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.

In our opinion, 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, 2022 and 2021, 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 Opinions

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. 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 Farmers Rural Electric Cooperative Corporation and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Farmers Rural Electric Cooperative Corporation and Subsidiary's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 opinions. 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Farmers Rural Electric Cooperative Corporation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Farmers Rural Electric Cooperative Corporation'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 identified during the audit.

Supplementary 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. 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 basic financial statements. The 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 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 February 20, 2023 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 Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 20, 2023

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
BALANCE SHEETS
December 31, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 1,350,180	\$ 1,242,328
Accounts and notes receivable, less allowance for doubtful accounts of \$83,651 in 2022 and \$99,423 in 2021	7,229,444	5,917,489
Materials and supplies, at average cost	1,620,998	1,334,488
Prepaid expenses	<u>316,045</u>	<u>303,181</u>
Total current assets	<u>10,516,667</u>	<u>8,797,486</u>
Other assets and investments:		
Goodwill, net of amortization	412,247	458,052
Investments in subsidiary companies	72,835	13,846
Investment in associated organizations	34,728,113	34,202,809
Deferred charges	990,626	1,080,205
Note receivable - economic development project	<u>1,592,508</u>	<u>1,925,856</u>
Total other assets	<u>37,796,329</u>	<u>37,680,768</u>
Utility plant in service	118,931,813	112,918,765
Construction work in progress	<u>277,847</u>	<u>966,367</u>
	119,209,660	113,885,132
Less accumulated depreciation	<u>(38,007,417)</u>	<u>(36,385,388)</u>
Utility plant, net	<u>81,202,243</u>	<u>77,499,744</u>
Total assets	<u>\$ 129,515,239</u>	<u>\$ 123,977,998</u>

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

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
BALANCE SHEETS, CONCLUDED
December 31, 2022 and 2021

LIABILITIES AND MEMBERS' EQUITIES

	<u>2022</u>	<u>2021</u>
Current liabilities:		
Accounts payable	\$ 5,692,761	\$ 4,798,948
Accrued expenses	1,420,905	1,379,640
Customer deposits	1,312,862	1,201,275
Notes payable	-	1,750,000
Current portion of long-term debt	<u>3,186,944</u>	<u>2,916,342</u>
Total current liabilities	<u>11,613,472</u>	<u>12,046,205</u>
Long-term liabilities:		
Long-term debt less current maturities	<u>62,347,738</u>	<u>58,283,848</u>
Total long-term liabilities	<u>62,347,738</u>	<u>58,283,848</u>
Noncurrent liabilities:		
Post retirement benefit obligations	823,543	844,835
Customer advances for construction	<u>355,083</u>	<u>319,931</u>
Total noncurrent liabilities	<u>1,178,626</u>	<u>1,164,766</u>
Members' equities:		
Memberships	584,700	575,795
Patronage capital	51,750,329	50,026,995
Accumulated other comprehensive income	(372,053)	(406,063)
Other equities	<u>2,412,427</u>	<u>2,286,452</u>
Total members' equities	<u>54,375,403</u>	<u>52,483,179</u>
Total liabilities and equity	<u>\$ 129,515,239</u>	<u>\$ 123,977,998</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenue	\$ <u>65,698,470</u>	\$ <u>55,665,505</u>
Operating expenses:		
Cost of purchases	48,113,103	38,299,526
Distribution - operations	1,762,215	1,484,043
Distribution - maintenance	3,383,090	3,914,956
Consumer accounts	1,377,839	1,254,674
Customer services and informational expense	117,260	99,163
Administrative and general	3,680,503	3,319,907
Depreciation and amortization	3,969,882	3,731,072
Taxes	<u>887,880</u>	<u>908,834</u>
Total operating expenses	<u>63,291,772</u>	<u>53,012,175</u>
Operating margins	2,406,698	2,653,330
Interest on long-term debt to RUS and CFC	<u>1,803,265</u>	<u>1,555,037</u>
Operating margins after fixed charges	603,433	1,098,293
G & T and other capital credits	<u>1,680,606</u>	<u>586,621</u>
Net operating margins	<u>2,284,039</u>	<u>1,684,914</u>
Nonoperating margins:		
Interest income, net of expenses of \$38,836 in 2022 and \$63,581 in 2021	21,240	(22,166)
Other net nonoperating income (loss)	<u>(23,673)</u>	<u>872,150</u>
	<u>(2,433)</u>	<u>849,984</u>
Net margins	<u>\$ 2,281,606</u>	<u>\$ 2,534,898</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net margins	\$ 2,281,606	\$ 2,534,898
Defined benefit pension plans:		
Net gain (loss) during period	13,707	62,561
Amortization of net gain (loss)	20,303	14,620
Amortization of transition obligation	<u>-</u>	<u>10,044</u>
Other comprehensive income (loss)	34,010	87,225
Total comprehensive income	<u>\$ 2,315,616</u>	<u>\$ 2,622,123</u>

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

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
 STATEMENTS OF PATRONAGE CAPITAL AND MEMBERSHIPS
 For the years ended December 31, 2022 and 2021

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total
Balances, January 1, 2021	\$ 569,825	\$ 47,917,795	\$ (493,288)	\$ 2,220,378	\$ 50,214,710
Increase in memberships, net of terminations	5,970	-	-	-	5,970
Net margins for the year ended December 31, 2021	-	2,534,898	-	-	2,534,898
Retirement of patronage capital of estates of deceased members and adjustments	-	-	-	66,074	66,074
Other comprehensive income	-	-	87,225	-	87,225
Distributions of patronage capital	-	(425,698)	-	-	(425,698)
Balances, December 31, 2021	\$ 575,795	\$ 50,026,995	\$ (406,063)	\$ 2,286,452	\$ 52,483,179
Increase in memberships, net of terminations	8,905	-	-	-	8,905
Net margins for the year ended December 31, 2022	-	2,281,606	-	-	2,281,606
Retirement of patronage capital of estates of deceased members and adjustments	-	-	-	125,975	125,975
Other comprehensive income	-	-	34,010	-	34,010
Distributions of patronage capital	-	(558,272)	-	-	(558,272)
Balances, December 31, 2022	<u>\$ 584,700</u>	<u>\$ 51,750,329</u>	<u>\$ (372,053)</u>	<u>\$ 2,412,427</u>	<u>\$ 54,375,403</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net margins	\$ 2,281,606	\$ 2,534,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,969,882	3,731,072
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,311,955)	(1,471,918)
(Increase) decrease in inventory	(286,510)	(234,706)
(Increase) decrease in prepaid expenses	(12,864)	(19,922)
(Increase) decrease in deferred charges	89,579	178,136
Increase (decrease) in accounts payable	893,813	148,840
Increase (decrease) in customer deposits	111,587	121,583
Increase (decrease) in accrued expenses	41,265	(18,007)
Increase (decrease) in customer advances for construction	<u>35,152</u>	<u>34,319</u>
Net cash provided (used) by operating activities	<u>5,811,555</u>	<u>5,004,295</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(6,660,318)	(5,543,888)
Plant removal costs	(1,064,314)	(544,878)
Salvage recovered from retirement of plant	96,915	79,805
Investments in subsidiary companies	(58,989)	57,589
(Increase) decrease in other receivable	333,348	333,348
(Increase) decrease in investments in associated organizations and other investments	<u>(525,304)</u>	<u>(522,094)</u>
Net cash provided (used) by investing activities	<u>(7,878,662)</u>	<u>(6,140,118)</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities:		
Memberships issued	\$ 8,905	\$ 5,970
Distributions of patronage capital	(558,272)	(425,698)
Retired capital credits - gain	125,975	66,074
Increase (decrease) in noncurrent liabilities	13,860	(31,737)
Other debt increase (decrease)	(161,277)	(1,597,112)
Advance principal payments unapplied (increase) decrease	-	96,012
Principal payments to CFC	(603,123)	(602,785)
Principal payments to FFB	(1,852,109)	(1,708,705)
Loan advancements from RUS/FFB/CFC	6,951,000	6,500,000
Principal payments on short term debt	<u>(1,750,000)</u>	<u>(1,150,000)</u>
 Net cash provided (used) by financing activities	 <u>2,174,959</u>	 <u>1,152,019</u>
 Increase (decrease) in cash and cash equivalents	 107,852	 16,196
 Cash and cash equivalents at beginning of year	 <u>1,242,328</u>	 <u>1,226,132</u>
 Cash and cash equivalents at end of year	 <u>\$ 1,350,180</u>	 <u>\$ 1,242,328</u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 120,554	\$ 67,900
Interest	\$ 1,803,265	\$ 1,555,037

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. 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 eleven-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 plant in service at December 31, 2022 and 2021 were:

	<u>2022</u>		<u>2021</u>
Distribution Plant	\$ 102,266,004	\$	97,221,307
General Plant	10,691,455		10,254,051
Other Production Plant	1,502,071		1,502,071
Intangible Plant	<u>3,625</u>		<u>3,625</u>
Electric Plant	114,463,155		108,981,054
Propane Plant	<u>4,468,658</u>		<u>3,937,711</u>
Total Utility Plant	<u>\$ 118,931,813</u>	<u>\$</u>	<u>112,918,765</u>

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, 2022 and 2021:

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 and amortization expense for the years ended December 31, 2022 and 2021 was \$3,969,882 and \$3,731,072 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 \$1,383,148 at December 31, 2022, and \$1,597,310 at December 31, 2021. The amount of the (over) under recovery of the environmental cost recovery mechanism at December 31, 2022 and 2021 was \$385,543 and \$340,901, 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.

New Accounting Principle

In 2022, the company adopted FASB Topic 842, *Leases*, which established requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. As of December 31, 2022, the Company had no leases required to be included on the balance sheet under FASB ASC 842.

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 \$111,040 at December 31, 2022 and \$222,160 at December 31, 2021. 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. The balance of the note receivable from TJ Samson at December 31, 2022 and December 31, 2021 was \$1,481,468 and \$1,703,696, respectively. 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, 2022 and 2021 income tax expense was approximately \$115,000 and \$69,000 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 February 20, 2023 the date which the financial statements were available to be issued.

Reclassifications

Certain amounts in the 2021 financial statements were reclassified to conform to the 2022 presentation.

2. Investments in Associated Organizations:

Investments in associated organizations as of December 31, 2022 and 2021 are listed as follows:

	<u>2022</u>	<u>2021</u>
East Kentucky Power Cooperative, Inc.	\$ 32,564,275	\$ 32,142,666
National Rural Utilities Cooperative Finance Corp.	789,787	790,864
Other	<u>1,374,051</u>	<u>1,269,279</u>
Total	<u>\$ 34,728,113</u>	<u>\$ 34,202,809</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:

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. All deposits in various financial institutions are covered by FDIC or through the insured cash sweep service.

4. 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, 2022 and 2021 consisted of:

	<u>2022</u>	<u>2021</u>
Due United States of America:		
4.353% - 4.898% Mortgage Notes-FFB	\$ 9,682,836	\$ 10,118,984
1.804% - 4.449% Mortgage Notes-FFB	12,217,719	12,730,990
1.927% - 4.422% Mortgage Notes-FFB	14,672,658	15,115,383
1.813% - 4.422% Mortgage Notes-FFB	18,895,429	17,404,394
3.327% - 3.887% Mortgage Notes-FFB	5,000,000	-
0% Rural Economic Development Loan	<u>1,592,508</u>	<u>1,925,856</u>
Total due United States of America	62,061,150	57,295,607
Due National Rural Utilities Cooperative Finance Corporation:		
3.5 - 4.4% First Mortgage Notes	<u>3,301,461</u>	<u>3,904,583</u>
Total	65,362,611	61,200,190
Less current maturities	<u>(3,118,355)</u>	<u>(2,916,342)</u>
Farmers Rural Electric Cooperative Corporation	<u>\$ 62,244,256</u>	<u>\$ 58,283,848</u>
Due Shelby Propane Plus, LLC 3.25%	\$ 172,071	\$ -
Less current maturities	<u>(68,589)</u>	<u>-</u>
Farmers Energy Propane Plus	<u>\$ 103,482</u>	<u>\$ -</u>
Total all companies	\$ 65,534,682	\$ 61,200,190
Less current maturities	<u>(3,186,944)</u>	<u>(2,916,342)</u>
Total long term consolidated debt	<u>\$ 62,347,738</u>	<u>\$ 58,283,848</u>

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% - 4.898%. 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 1.927% - 4.422%. All funds were advanced to the Cooperative.

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

4. Long-Term Debt, Concluded:

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 1.813% - 4.422%. All funds were advanced to the Cooperative.

In 2021, the Cooperative received approval from the Federal Financing Bank-Rural Utilities Service for loan funds in the amount of \$15,920,000. These loans are for a period of thirty-four years, payable quarterly, and currently bearing interest rates from 3.327% - 3.887%. At December 31, 2022, \$5,000,000 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 2020, The Cooperative received a Payroll Protection Program (PPP) loan from the Small Business Administration in the amount of \$1,096,768. Under the terms of this loan, if the proceeds were used for payroll and related operational expenses within a certain time period, loan forgiveness could be obtained. Forgiveness for this loan was obtained on February 2, 2021. For purposes of these financial statements, the loan forgiveness amount has been included in other nonoperating income for the year ended December 31, 2021.

In July 2022, Farmers Energy Propane Plus, LLC entered into a 36-month agreement with Shelby Propane Plus, LLC to borrow \$200,000 for the purchase of fixed assets. Principal and interest payments of \$6,097 are due monthly until maturity in August 2025. Interest rates are adjusted annually to match the current rates of the Wall Street Prime minus 1.5 points. The interest rate was 3.25% at December 31, 2022.

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

2023	\$	3,186,944
2024		3,221,288
2025		2,999,509
2026		2,999,150
2027		2,812,678
2028-2032		14,027,598
2033-2037		13,445,820
2038-2042		9,422,043
2043-2047		8,200,067
2048-2052		4,472,828
2053-2056		746,757
Total	\$	<u>65,534,682</u>

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

5. 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 April 10, 2024. 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, 2022 and 2021 the balance of the line-of-credit was \$0.

The Cooperative has available a line of credit for short-term loans of up to \$5,000,000 with CoBank extending to August 31, 2023. 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, 2022, the balance of the line of credit was \$0 and at December 31, 2021 the balance was \$1,750,000.

6. Deferred Charges:

The following is a summary of amounts recorded as deferred charges approved by RUS per 1773.33(h) as of December 31, 2022 and 2021 which have been approved in writing by RUS:

<u>Deferred Debits:</u>	<u>2022</u>	<u>2021</u>
Transportation Expense	\$ 15,997	\$ (3,851)
GIS-Field Inventory Cost	237,052	271,324
ESRI and EDP costs	114,051	64,501
Pension Plan Prepayment	<u>623,526</u>	<u>748,231</u>
	<u>\$ 990,626</u>	<u>\$ 1,080,205</u>
<u>Deferred Credits:</u>		
Customer Advances for Construction	<u>\$ 355,083</u>	<u>\$ 319,931</u>
	<u>\$ 355,083</u>	<u>\$ 319,931</u>

7. 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 \$558,272 and \$425,698 were paid for the years ended December 31, 2022 and 2021, respectively.

8. Other Equities:

At December 31, 2022 and 2021 other equities consisted of retired capital credits – gain, in amounts of \$2,412,427 and \$2,286,452, respectively.

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

9. 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 2022 and in 2021 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 \$599,478 in 2022 and \$634,712 in 2021. There have been no significant changes that affect the comparability of 2022 and 2021 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, 2022 and over 80% funded at January 1, 2021 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

9. 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. Both 401k plans offer the employees the option to make Roth contributions. Total employer contributions for all Plans for 2022 and 2021 were \$141,243 and \$127,800 respectively. Total employee contributions for all Plans for 2022 and 2021 were \$250,026 and \$247,228, 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 \$102,727 in 2022 and \$66,596 in 2021.

10. 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, 2022 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 2019.

11. 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, 2022 and 2021 was \$18,624 and \$18,624 respectively.

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

13. 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>2022</u>	<u>2021</u>
Accumulated Benefit Obligation		
Projected benefit obligation at end of year	\$ 823,543	\$ 844,835
Fair Value of plan assets at end of year	-	-
Unfunded status at end of year	<u>\$ 823,543</u>	<u>\$ 844,835</u>
Amounts recognized in the balance sheet		
Unfunded status	\$ 823,543	\$ 844,835
Current liabilities	-	-
Noncurrent liabilities	<u>\$ 823,543</u>	<u>\$ 844,835</u>
Change in Accumulated Benefit Obligation		
Accumulated post-retirement benefit obligation at beginning of year	\$ 844,835	\$ 910,891
Service cost	4,650	998
Interest cost	28,824	29,569
Actuarial loss (gain)	(13,707)	(62,560)
Amortization of transition obligation	-	-
Amortization of net actuarial loss (gain)	-	-
Disbursements	(41,059)	(34,063)
Accumulated post-retirement benefit obligation at end of year	<u>\$ 823,543</u>	<u>\$ 844,835</u>

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

13. Postretirement Benefit Plans, Concluded:

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

	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 406,063	\$ 493,288
Net loss (gain)	(13,707)	(62,561)
Amortization of net loss (gain)	(20,303)	(14,620)
Amortization of transition obligation	-	(10,044)
Total recognized in other comprehensive income	<u>(34,010)</u>	<u>(87,225)</u>
End of year	<u>\$ 372,053</u>	<u>\$ 406,063</u>

Amounts recognized in accumulated other comprehensive income

Net loss (gain)	\$ 372,053	\$ 305,565
Transition obligation	-	100,498
	<u>\$ 372,053</u>	<u>\$ 406,063</u>

Net periodic benefit cost

Service cost	\$ 4,650	\$ 998
Interest cost	28,824	29,569
Amortization of transition obligation	-	10,044
Amortization of net actuarial gain	<u>20,303</u>	<u>14,620</u>
Net periodic benefit cost	<u>\$ 53,777</u>	<u>\$ 55,231</u>

Amounts in other comprehensive income expected to be realized in 2023

Amortization of net loss (gain)	\$ 19,973	
Amortization of transition obligation	-	
	<u>\$ 19,973</u>	

The discount rate used in determining the accumulated postretirement benefit obligation was 3.5% in 2022 and 4.0% in 2021.

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

2023	\$14,124
2024	\$29,943
2025	\$15,832
2026	\$16,703
2027	\$0

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	\$ 875,000	
Net periodic benefit cost	\$ 58,000	

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

14. Revenue Recognition:

Revenue from contracts

Farmers Rural Electric Cooperative Corporation is engaged in the distribution and sale of electricity to residential and commercial customers in 11 counties in south central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. FRECC 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 FRECC. Customers are billed monthly and outstanding amounts are typically due within 18 days of the date of the bill.

Significant judgments

Farmers Rural Electric Cooperative Corporation bills all customers for electricity used from the first day of the month to the first day of the following month. The amount of revenue recognized each month is equal to the actual customer usage multiplied by the approved tariff rate, plus any additional regulatory charges. This method of revenue recognition presents fairly, FRECC's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges set by the PSC.

Performance Obligations

Farmers Rural Electric Cooperative Corporation customers generally have no minimum purchase commitments, and the Coop recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of December 31, 2022 and December 31, 2021.

Disaggregation of Revenue

The following table shows Farmers Rural Electric Cooperative Corporation's revenues from contracts with customers disaggregated by customer class, for the years ended December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Residential	\$ 41,695,112	\$ 35,588,176
Small commercial	9,282,632	7,957,367
Large commercial	9,312,851	7,598,846
Public lights	95,728	86,657
Other	722,161	656,222
Propane	4,589,986	3,778,237
Total	<u>\$ 65,698,470</u>	<u>\$ 55,665,505</u>

Contract assets and liabilities

Contract assets include unbilled pole attachments and are included in other receivables. The balances in contract assets were \$225,219 and \$237,347 as of December 31, 2022 and 2021, respectively. Contract liabilities include prepaid customer balances. The balances in contract liabilities were \$1,139,215 and \$1,046,387 as of December 31, 2022 and 2021, respectively.



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA • R. Brent Billingsley, CPA • Ryan A. Mosier, CPA

Skip R. Campbell, CPA • L. Joe Rutledge, CPA • Jenna B. Glass, CPA • L. Caitlin Hagan, CPA • Jordan T. Constant, CPA

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, 2022, and our report thereon dated February 20, 2023, 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 I – IV, 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

February 20, 2023

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
December 31, 2022

ASSETS	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Current assets:				
Cash	\$ 948,947	\$ 401,233	\$ -	\$ 1,350,180
Accounts and notes receivable, less allowance for doubtful accounts of \$83,651 in 2022	6,924,573	304,871	-	7,229,444
Materials and supplies, at average cost	1,268,633	352,365	-	1,620,998
Prepaid expenses	<u>247,735</u>	<u>68,310</u>	<u>-</u>	<u>316,045</u>
Total current assets	<u>9,389,888</u>	<u>1,126,779</u>	<u>-</u>	<u>10,516,667</u>
Other assets and investments:				
Goodwill, net of amortization	-	412,247	-	412,247
Investments in subsidiary companies	2,923,469	-	(2,850,634)	72,835
Investments in associated organizations	34,698,285	29,828	-	34,728,113
Deferred charges	990,626	-	-	990,626
Note receivable - economic development project	<u>1,592,508</u>	<u>-</u>	<u>-</u>	<u>1,592,508</u>
	<u>40,204,888</u>	<u>442,075</u>	<u>(2,850,634)</u>	<u>37,796,329</u>
Utility plant, at cost				
Utility plant in service	114,463,155	4,468,658	-	118,931,813
Construction work-in-progress	<u>277,847</u>	<u>-</u>	<u>-</u>	<u>277,847</u>
	114,741,002	4,468,658	-	119,209,660
Less accumulated depreciation and amortization	<u>(35,355,608)</u>	<u>(2,651,809)</u>	<u>-</u>	<u>(38,007,417)</u>
Utility plant, net	<u>79,385,394</u>	<u>1,816,849</u>	<u>-</u>	<u>81,202,243</u>
TOTAL ASSETS	\$ 128,980,170	\$ 3,385,703	\$ (2,850,634)	\$ 129,515,239
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 5,601,303	\$ 91,458	\$ -	\$ 5,692,761
Accrued expenses	1,323,012	97,893	-	1,420,905
Customer deposits	1,139,215	173,647	-	1,312,862
Notes payable	-	-	-	-
Current portion of long-term debt	<u>3,118,355</u>	<u>68,589</u>	<u>-</u>	<u>3,186,944</u>
Total current liabilities	<u>11,181,885</u>	<u>431,587</u>	<u>-</u>	<u>11,613,472</u>
Long-term liabilities				
Long-term debt less current maturities	<u>62,244,256</u>	<u>103,482</u>	<u>-</u>	<u>62,347,738</u>
Total long-term liabilities	<u>62,244,256</u>	<u>103,482</u>	<u>-</u>	<u>62,347,738</u>
Noncurrent liabilities:				
Post retirement benefit obligations	823,543	-	-	823,543
Customer advances for construction	<u>355,083</u>	<u>-</u>	<u>-</u>	<u>355,083</u>
Total noncurrent liabilities	<u>1,178,626</u>	<u>-</u>	<u>-</u>	<u>1,178,626</u>
Members' equities:				
Memberships	584,700	-	-	584,700
Patronage capital and retained earnings	51,750,329	-	-	51,750,329
Accumulated other comprehensive income	(372,053)	-	-	(372,053)
Other equities	<u>2,412,427</u>	<u>2,850,634</u>	<u>(2,850,634)</u>	<u>2,412,427</u>
Total members' equities	<u>54,375,403</u>	<u>2,850,634</u>	<u>(2,850,634)</u>	<u>54,375,403</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	\$ 128,980,170	\$ 3,385,703	\$ (2,850,634)	\$ 129,515,239

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
SCHEDULE II – CONSOLIDATING STATEMENTS OF REVENUE
For the Year Ended December 31, 2022

	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Operating revenues	\$ 61,127,108	\$ 4,589,986	\$ (18,624)	\$ 65,698,470
Operating expenses:				
Cost of purchases	45,844,519	2,268,584	-	48,113,103
Distribution - operations	1,762,215	-	-	1,762,215
Distribution - maintenance	3,383,090	-	-	3,383,090
Consumer accounts	1,377,839	-	-	1,377,839
Customer services and informational expense	117,260	-	-	117,260
Administrative and general	2,176,147	1,522,980	(18,624)	3,680,503
Depreciation and amortization	3,728,106	241,776	-	3,969,882
Taxes	873,592	14,288	-	887,880
Total operating expenses	<u>59,262,768</u>	<u>4,047,628</u>	<u>(18,624)</u>	<u>63,291,772</u>
Operating margins	\$ 1,864,340	\$ 542,358	\$ -	\$ 2,406,698
Interest on long-term debt to RUS and CFC	<u>1,800,708</u>	<u>2,557</u>	<u>-</u>	<u>1,803,265</u>
Operating margins after fixed charges	63,632	539,801	-	603,433
G & T and other capital credits	<u>1,680,606</u>	<u>-</u>	<u>-</u>	<u>1,680,606</u>
Net operating margins	<u>\$ 1,744,238</u>	<u>\$ 539,801</u>	<u>\$ -</u>	<u>\$ 2,284,039</u>
Nonoperating margins:				
Interest income, net of interest expense of \$38,836	20,889	351	-	21,240
Other net nonoperating income (loss)	31,844	6,047	-	37,891
Income (loss) from equity investments	484,635	-	(546,199)	(61,564)
Total nonoperating margins	<u>537,368</u>	<u>6,398</u>	<u>(546,199)</u>	<u>(2,433)</u>
Net margins	<u>\$ 2,281,606</u>	<u>\$ 546,199</u>	<u>\$ (546,199)</u>	<u>\$ 2,281,606</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
SCHEDULE III – CONSOLIDATING BALANCE SHEETS
December 31, 2021

ASSETS	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Current assets:				
Cash	\$ 1,023,094	\$ 219,234	\$ -	\$ 1,242,328
Accounts and notes receivable, less allowance for doubtful accounts of \$99,423 in 2021	5,748,826	168,663	-	5,917,489
Materials and supplies, at average cost	1,116,400	218,088	-	1,334,488
Prepaid expenses	231,207	71,974	-	303,181
Total current assets	<u>8,119,527</u>	<u>677,959</u>	<u>-</u>	<u>8,797,486</u>
Other assets and investments:				
Goodwill, net of amortization	-	458,052	-	458,052
Investments in subsidiary companies	2,438,835	-	(2,424,989)	13,846
Investments in associated organizations	34,172,981	29,828	-	34,202,809
Deferred charges	1,080,205	-	-	1,080,205
Note receivable-economic development project	1,925,856	-	-	1,925,856
	<u>39,617,877</u>	<u>487,880</u>	<u>(2,424,989)</u>	<u>37,680,768</u>
Utility plant, at cost				
Utility plant in service	108,981,054	3,937,711	-	112,918,765
Construction work-in-progress	966,367	-	-	966,367
	<u>109,947,421</u>	<u>3,937,711</u>	<u>-</u>	<u>113,885,132</u>
Less accumulated depreciation	<u>(33,927,052)</u>	<u>(2,458,336)</u>	<u>-</u>	<u>(36,385,388)</u>
Utility plant, net	<u>76,020,369</u>	<u>1,479,375</u>	<u>-</u>	<u>77,499,744</u>
TOTAL ASSETS	<u>\$ 123,757,773</u>	<u>\$ 2,645,214</u>	<u>\$ (2,424,989)</u>	<u>\$ 123,977,998</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 4,791,642	\$ 7,306	\$ -	\$ 4,798,948
Accrued expenses	1,321,609	58,031	-	1,379,640
Customer deposits	1,046,387	154,888	-	1,201,275
Notes payable	1,750,000	-	-	1,750,000
Current portion of long-term debt	2,916,342	-	-	2,916,342
Total current liabilities	<u>11,825,980</u>	<u>220,225</u>	<u>-</u>	<u>12,046,205</u>
Long-term liabilities				
Long-term debt less current maturities	58,283,848	-	-	58,283,848
Total long-term liabilities	<u>58,283,848</u>	<u>-</u>	<u>-</u>	<u>58,283,848</u>
Noncurrent liabilities:				
Post retirement benefit obligations	844,835	-	-	844,835
Customer advances for construction	319,931	-	-	319,931
Total noncurrent liabilities	<u>1,164,766</u>	<u>-</u>	<u>-</u>	<u>1,164,766</u>
Members' equities:				
Memberships	575,795	-	-	575,795
Patronage capital and retained earnings	50,026,995	-	-	50,026,995
Accumulated other comprehensive income	(406,063)	-	-	(406,063)
Other equities	2,286,452	2,424,989	(2,424,989)	2,286,452
Total members' equity	<u>52,483,179</u>	<u>2,424,989</u>	<u>(2,424,989)</u>	<u>52,483,179</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 123,757,773</u>	<u>\$ 2,645,214</u>	<u>\$ (2,424,989)</u>	<u>\$ 123,977,998</u>

FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION AND SUBSIDIARY
SCHEDULE IV – CONSOLIDATING STATEMENTS OF REVENUE
For the Year Ended December 31, 2021

	Farmers Rural Electric Cooperative Corporation, Inc.	Farmers Energy Propane Plus	Consolidating Entries	Consolidated Totals
Operating revenues	\$ 51,905,892	\$ 3,778,237	\$ (18,624)	\$ 55,665,505
Operating expenses:				
Cost of purchases	36,452,749	1,846,777	-	38,299,526
Distribution - operations	1,484,043	-	-	1,484,043
Distribution - maintenance	3,914,956	-	-	3,914,956
Consumer accounts	1,254,674	-	-	1,254,674
Customer services and informational expense	99,163	-	-	99,163
Administrative and general	1,888,476	1,450,055	(18,624)	3,319,907
Depreciation	3,554,644	176,428	-	3,731,072
Taxes	902,477	6,357	-	908,834
Total operating expenses	<u>49,551,182</u>	<u>3,479,617</u>	<u>(18,624)</u>	<u>53,012,175</u>
Operating margins	\$ 2,354,710	\$ 298,620	\$ -	\$ 2,653,330
Interest on long-term debt to RUS and CFC	<u>1,555,037</u>	<u>-</u>	<u>-</u>	<u>1,555,037</u>
Operating margins after fixed charges	799,673	298,620	-	1,098,293
G & T and other capital credits	<u>586,621</u>	<u>-</u>	<u>-</u>	<u>586,621</u>
Net operating margins	<u>\$ 1,386,294</u>	<u>\$ 298,620</u>	<u>\$ -</u>	<u>1,684,914</u>
Nonoperating margins:				
Interest income, net of interest expense of \$63,581	(19,784)	(2,382)	-	(22,166)
Other net nonoperating income (loss)	948,631	33,003	-	981,634
Income (loss) from equity investments	219,757	-	(329,241)	(109,484)
	<u>1,148,604</u>	<u>30,621</u>	<u>(329,241)</u>	<u>849,984</u>
Net margins	<u>\$ 2,534,898</u>	<u>\$ 329,241</u>	<u>\$ (329,241)</u>	<u>\$ 2,534,898</u>



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, 2022 and 2021 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 February 20, 2023. 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

Report on 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.

Report on 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, & Ratledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

February 20, 2023



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, 2022 and 2021 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 February 20, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2023, 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)
12/31/2021		(51,894)
12/31/2022		<u>(120,554)</u>
		<u>256,067</u>
Total Contributions:	\$	<u>481,067</u>
Undistributed (Losses) Earnings:		
Prior Years' Earnings	\$	1,021,262
12/31/2018		151,479
12/31/2019		91,159
12/31/2020		230,227
12/31/2021		329,241
12/31/2022		546,199
Total Undistributed (Losses) Earnings:		2,369,567
Original Investment and Investment Activities:		<u>481,067</u>
Book Value 12/31/22	\$	<u>2,850,634</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
February 20, 2023

