Kentucky 52
Fleming-Mason Energy Cooperative
Flemingsburg, Kentucky

Audited Financial Statements
December 31, 2014 and 2013

Alan M. Zumstein
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

CONTENTS

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147
zumstein@windstream.net

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS

Independent Auditor's Report

To the Board of Directors
Fleming Mason Energy Cooperative

Report on the Financial Statements

I have audited the accompanying financial statements of *Fleming Mason Energy Cooperative*, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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, I 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 financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Directors
Fleming Mason Energy Cooperative

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Fleming Mason Energy Cooperative* as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated March 11, 2015, on my consideration of *Fleming Mason Energy Cooperative's* internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 internal control over financial reporting and compliance.

Alan M. Zumstein

Alan M. Zumstein, CPA
March 11, 2015

Fleming-Mason Energy Cooperative
Balance Sheets, December 31, 2014 and 2013

Assets	2014	2013
Electric Plant, at original cost:		
In service	$ 97,838,822	$ 95,377,056
Under construction	387,483	299,454
	98,226,305	95,676,510
Less accumulated depreciation	31,880,183	30,084,799
	66,346,122	65,591,711
Investments in Associated Organizations	37,848,800	33,318,140
Current Assets:		
Cash and cash equivalents	930,748	564,133
Accounts receivable, less allowance for 2014 of $92,096 and 2013 of $108,328	7,643,585	7,425,616
Other receivables	1,410,970	1,678,492
Material and supplies, at average cost	402,989	397,380
Other current assets	127,546	209,188
	10,515,838	10,274,809
Total	$ 114,710,760	$ 109,184,660

Members' Equities and Liabilities		
Members' Equities:		
Memberships	$ 233,645	$ 232,635
Patronage capital	49,912,283	44,866,552
Other equities	47,315	44,828
Accumulated other comprehensive income	(3,509,823)	(2,676,340)
	46,683,420	42,467,675
Long Term Liabilities:		
Long term debt	44,260,956	44,739,254
Accumulated operating provisions	6,655,873	5,676,830
	50,916,829	50,416,084
Current Liabilities:		
Short term borrowings	5,730,000	5,300,000
Accounts payable	6,446,045	6,365,924
Current portion of long term debt	2,450,000	2,350,000
Consumer deposits	807,014	770,274
Accrued expenses	1,672,000	1,511,372
	17,105,059	16,297,570
Deferred Credits	5,452	3,331
Total	$ 114,710,760	$ 109,184,660

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

Fleming-Mason Energy Cooperative
Statements of Revenue and Comprehensive Income
for the years ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Sale of electric energy	$ 75,176,455	$ 70,450,477
Other electric revenue	1,005,627	1,039,781
	76,182,082	71,490,258
Operating Expenses:		
Cost of power	63,006,794	58,155,902
Distribution - operations	1,971,517	2,007,120
Distribution - maintenance	2,817,769	2,883,382
Consumer accounts	1,767,599	1,890,880
Customer services	120,206	127,752
Sales	58,210	93,103
Administrative and general	1,415,043	1,386,066
Depreciation, excluding $227,308 in 2014 and $241,200 in 2013 charged to clearing account	3,286,785	3,082,331
Taxes, other than income	78,163	73,301
Other deductions	22,320	25,467
	74,544,406	69,725,304
Operating margins before interest charges	1,637,676	1,764,954
Interest Charges:		
Long-term debt	927,977	972,879
Other	110,280	86,988
	1,038,257	1,059,867
Operating margins after interest charges	599,419	705,087
Nonoperating Margins		
Interest income	43,756	43,173
Others	(4,718)	(80,953)
	39,038	(37,780)
Patronage Capital Credits	4,627,652	5,212,264
Net Margins	5,266,109	5,879,571
Other Comprehensive Income:		
Pension plan	-	1,720,446
Postretirement benefits	(833,483)	643,178
Total Comprehensive Income	$ 4,432,626	$ 8,243,195

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

Fleming-Mason Energy Cooperative
Statement of Changes in Members' Equity
for the years ended December 31, 2014 and 2013

		Patronage Capital						Accumulated Other Comprehensive	Total Members'
	Memberships	Assigned	Unasigned	Prior Deficits	Retirements	Total	Other Equity	Income	Equity
Balance - Beginning of year	$ 231,515	$ 43,114,340	$ 4,176,281	$ (3,283,607)	$ (4,835,889)	$ 39,171,125	$ 42,994	$ (5,039,964)	$ 34,405,670
Allocate margins 2012		4,132,777	(4,176,281)	43,504		-			-
Comprehensive income:									
Net margins			5,879,571			5,879,571			5,879,571
Pension plan									
Amortization								228,193	
Adjustment								1,492,253	1,720,446
Postretirement benefit obligation									
Amortization								22,874	
Adjustment								620,304	643,178
Total comprehensive income									8,243,195
Net change in memberships	1,120								1,120
Refunds of capital credits					(184,144)	(184,144)			(184,144)
Other equities						-	1,834		1,834
Balance - December 31, 2013	232,635	47,247,117	5,879,571	(3,240,103)	(5,020,033)	44,866,552	44,828	(2,676,340)	42,467,675
Allocate margins 2013		5,836,397	(5,879,571)	43,174		-			-
Comprehensive income:									
Net margins			5,266,109			5,266,109			5,266,109
Pension plan									
Amortization								124,339	
Adjustment								(952,668)	(828,329)
Postretirement benefit obligation									
Amortization								(5,154)	
Adjustment								-	(5,154)
Total comprehensive income									4,432,626
Net change in memberships	1,010								1,010
Refunds of capital credits					(220,378)	(220,378)			(220,378)
Other equities						-	2,487		2,487
Balance - December 31, 2014	$ 233,645	$ 53,083,514	$ 5,266,109	$ (3,196,929)	$ (5,240,411)	$ 49,912,283	$ 47,315	$ (3,509,823)	$ 46,683,420

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

Fleming-Mason Energy Cooperative
Statements of Cash Flows
for the years ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margins	$ 5,266,109	$ 5,879,571
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,286,785	3,082,331
Charged to clearing accounts	227,308	241,200
Patronage capital credits assigned	(4,627,652)	(5,212,264)
Accumulated postretirement benefits	145,560	181,114
Change in assets and liabilities:		
Receivables	49,553	30,929
Material and supplies	(5,609)	(10,379)
Other assets	81,642	(66,603)
Payables	80,121	(169,492)
Consumer deposits and advances	38,861	13,444
Accrued expenses	160,628	664,116
	4,703,306	4,633,967
Cash Flows from Investing Activities:		
Plant additions	(4,044,560)	(4,777,645)
Plant removal costs	(234,106)	(290,574)
Salvage recovered from retired plant	10,162	10,223
Receipts from other investments, net	96,992	71,909
	(4,171,512)	(4,986,087)
Cash Flows from Financing Activities:		
Net increase in memberships	1,010	1,120
Refund of patronage capital to members	(220,378)	(184,144)
Increase in other equities	2,487	1,834
Advances of long term debt	2,000,000	-
Payments on long term debt	(2,378,298)	(2,334,800)
Short term borrowings	430,000	3,000,000
	(165,179)	484,010
Net increase in cash	366,615	131,890
Cash and cash equivalents, beginning of year	564,133	432,243
Cash and cash equivalents, end of year	$ 930,748	$ 564,133
Supplemental cash flows information:		
Interest paid on long-term debt	$ 928,769	$ 975,720

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

Note 1. Summary of Significant Accounting Policies

Fleming Mason Energy Cooperative ("Fleming Mason") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of:

	2014	2013
Distribution plant	$87,731,130	$85,376,162
General plant	10,107,692	10,000,894
Total	$97,838,822	$95,377,056

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 1.44% to 10.0%, with a composite rate of 3.62% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	10% - 20%
Other general plant	5% - 10%

Cash and Cash Equivalents Fleming Mason considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk Fleming Mason has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2014, the financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

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

Revenue Fleming Mason records revenue as billed to its consumers based on monthly meter-reading cycles. All consumers are required to pay a refundable deposit that may be waived under certain circumstances. Fleming Mason's sales are concentrated in an eight county area of eastern Kentucky. Consumers must pay their bill within 20 days of billing, at which time a disconnect notice is sent with payment to be within 10 days. If not paid, then consumers are subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. There was one customer whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2014 and 2013. See Note 8 for additional information.

Note 1. Summary of Significant Accounting Policies, continued

Sales Taxes Fleming Mason is required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Fleming Mason's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Cost of Power Fleming Mason is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Fleming Mason is committed to purchase its electric power and energy requirements from East Kentucky until 2051. The rates charged by East Kentucky are subject to approval of the PSC. The cost of purchased power is recorded monthly during the period in which the energy is consumed, based upon billings from East Kentucky. There are certain surcharges, clauses, and credits that East Kentucky includes to Fleming Mason that are passed on to consumers using a methodology prescribed by the Commission.

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of Fleming Mason's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to Fleming Mason. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Fleming Mason may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

Advertising Fleming Mason expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

Income Tax Status Fleming Mason is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Fleming Mason include no provision for income taxes. Fleming Mason's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Fleming Mason has no uncertain tax positions resulting in an accrual of tax expense or benefit. Fleming Mason recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Fleming Mason did not recognize any interest or penalties during the years ended December 31, 2014 and 2013. Fleming Mason's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Risk Management Fleming Mason is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

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

Subsequent Events Management has evaluated subsequent events through March 11, 2015, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2014	2013
East Kentucky, patronage capital	$35,819,937	$31,328,556
CFC, CTC's	830,137	856,388
CFC, patronage capital	274,570	267,094
Others	924,156	866,102
Total	$37,848,800	$33,318,140

Fleming Mason records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 0%, 3%, and 5% and are scheduled to mature at varying times from 2020 to 2080.

Note 3. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Fleming Mason may distribute the difference between 25% and the payments made to such estates. The equity at December 31, 2014 was 41% of total assets. Prior years' losses are being carried forward and are offset with future years' non operating margins.

Note 4. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank ("FFB"), CFC, and National Bank for Cooperative ("CoBank") under a joint mortgage agreement. Long term debt consists of:

	2014	2013
RUS, 1.62% to 5.18%	$14,435,927	$14,759,151
RUS, Economic Development Loan, 0%	935,253	1,091,481
FFB, 0.02%	25,164,337	24,213,276
CFC, 3.1% to 5.95%	2,106,620	2,323,460
CoBank, 3.73%	4,068,819	4,701,886
	46,710,956	47,089,254
Less current portion	2,450,000	2,350,000
Long term portion	$44,260,956	$44,739,254

The interest rates on the notes to CFC are subject to change every seven years from the repricing date for each individual note. The long term debt is due in quarterly and monthly installments of varying amounts through 2039. Fleming Mason has a loan application pending with FFB in the amount of $12,380,000. RUS assess 12.5 basis points to administer the FFB loans. During 2010, Fleming Mason refinanced $6,649,662 of RUS 5% loans with 3.73% notes from CoBank.

Fleming Mason is participating in a RUS sponsored program which provides economic development funds to businesses in Fleming Mason's service area. Fleming Mason serves as a conduit for these funds and is contingently liable if the recipient fails to repay the loan.

As of December 31, 2014, the annual principal payments for the next five years are as follows: 2015 - $2,450,000; 2016 - $2,500,000; 2017 - $2,550,000; 2018 - $2,600,000; 2019 - $2,650,000.

Note 5. Short Term Borrowings

At December 31, 2014, Fleming Mason had a short term line of credit of $10,000,000 available from CFC. The outstanding balance under the line of credit at December 31, 2014 and 2013 was $5,300,000 and $2,300,000, respectively. The interest rate at December 31, 2014 and 2013 was 2.90%, respectively. Fleming-Mason also has a line of credit with CoBank in the amount of $10,000,000. There were no advances against this line of credit during the audit period.

Note 6. Pension Plan

Fleming Mason has a noncontributory defined benefit pension plan covering substantially all employees who meet minimum age and service requirements. The plan has pay-related pension benefit formula. Fleming Mason's policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act ("ERISA") of 1974. The plan is measured as of December 31, 2014 and 2013. Effective January 1, 2010, the benefit level will change from 2.0 to 1.8 and lump-sum payments will be discontinued. Benefits accrued prior to January 1, 2010 will not be affected.

Note 6. Pension Plan, continued

The following is an assessment of the noncontributory defined benefit plan:

	2014	2013
Change in Benefit Obligation:		
Beginning of year	$7,643,760	$8,697,783
Service cost	429,575	479,860
Interest cost	380,253	386,423
Actuarial (gain)/loss	862,470	(1,099,032)
Benefits paid	(64,617)	(821,274)
End of year	9,251,441	7,643,760
Change in Plan Assets:		
Beginning of year	3,959,421	3,880,798
Actual return on assets	233,811	699,897
Employer contributions	466,566	200,000
Benefits paid	(64,617)	(821,274)
End of year	4,595,181	3,959,421
Funded status of plan	($4,656,260)	($3,684,339)
Accumulated benefit obligation in plan	$6,135,907	$5,034,896

The amounts recognized in the statement of financial position are as follows:

	2014	2013
Accumulated operating provisions	($4,499,874)	($4,028,475)
Accrued benefit liability	(317,111)	(253,557)
Amount recognized in financial statements	($4,816,985)	($4,282,032)

The net periodic pension benefit cost was calculated as follows:

	2014	2013
Service cost	$429,575	$479,860
Interest cost	380,253	386,423
Expected return on plan assets	(324,009)	(306,676)
Amortization of actuarial (gain)/loss	124,339	228,193
Net periodic benefit cost	$610,158	$787,800

Assumptions used to develop the projected benefit obligation are as follows:

	2014	2013
Discount rate	4.25%	4.50%
Rate of increase in compensation level	3.50%	3.50%
Expected long-term rate of return on assets	8.00%	8.00%

The expected long term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen from the best range determined by applying anticipated long term returns for various asset categories to the target asset allocation of the plan, as well as taking into account historical returns.

Note 6. Pension Plan, continued

The general investment objectives are to invest in a diversified portfolio, comprised of debt investments, equity investments, and fixed income investments. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plan of approximately 50% equities. The remaining may be allocated among fixed income or cash equivalent investments.

Expected retiree pension benefit payments are projected to be as follows: 2015 - $91,000; 2016 - $95,000; 2017 - $98,000; 2018 - $101,000; 2019 - $1,661,000.

Fleming Mason expects to contribute approximately $350,000 during 2015. However, Fleming Mason reserves the right to contribute more or less depending on other considerations and circumstances.

Note 7. Postretirement Benefits

Fleming Mason sponsors a defined benefit plan that provides medical insurance coverage to retired employees, directors and attorney. The plan calls for benefits to be paid at retirement based primarily upon years of service with Fleming Mason. The following is a reconciliation of the postretirement obligation.

The status of the unfunded postretirement benefit plan is as follows:

	2014	2013
Change in Benefit Obligation:		
Beginning of year	$2,897,402	$3,359,466
Service cost	145,820	161,855
Interest cost	148,826	138,179
Actuarial (gain)/loss	-	(620,304)
Benefits paid	(143,932)	(141,794)
End of year	3,048,116	2,897,402
Plan assets	-	-
Funded status of plan	($3,048,116)	($2,897,402)

Projected retiree benefit payments for the next five years are expected to be as follows: 2015 - $145,000; 2016 - $142,000; 2017 - $148,000; 2018 - $141,000; 2019 - $138,000.

The discount rate used in determining the APBO was 5.0% for 2014 and 2013. The health care cost trend rate used to compute the APBO in an 8% annual rate of increase for 2014, and decreasing gradually to 5.%, and then remain at that level thereafter.

Note 8. Significant Patron Information

Operating revenues, cost of power, and accounts receivable as of December 31, 2014 and 2013, resulting from the sale of electric energy to the single industrial customer as shown below. In addition, Fleming Mason bills and collects steam charges for East Kentucky to the industrial customer. There are no margins realized from this arrangement with East Kentucky, therefore, the amounts are not reflected in operating revenues or cost of power. The amount for steam was $13,618,254 for 2014 and $13,618,254 for 2013.

Note 8. Significant Patron Information, continued

Operating revenue, cost of power, and accounts receivable as of December 31, 2014 and 2013, resulting from the sale of electricity to the single industrial customers, are as follows:

	2014	2013
Operating revenues	$14,817,223	$14,179,182
Cost of power	14,334,437	13,567,792
Accounts receivable	2,494,192	2,459,140

Note 9. Related Party Transactions

Several of the Directors of Fleming Mason, its President & CEO, and another employee are on the boards of directors of various associated organizations.

Note 10. Commitments

Fleming Mason has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain meter reading, construction, and maintenance work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 11. Contingencies

Fleming Mason, on occasion, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

* * * * * *

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147
zumstein@windstream.net

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Fleming Mason Energy Cooperative

I 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 financial statements of Fleming Mason Energy Cooperative, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated March 11, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Fleming Mason's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fleming Mason's internal control. Accordingly, we do not express an opinion on the effectiveness of Fleming Mason'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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Fleming Mason's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan M. Zumstein

Alan M. Zumstein, CPA
March 11, 2015

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 333-1695
zumstein@windstream.net

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS

Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Fleming Mason Energy Cooperative

Independent Auditor's Report

I 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 Fleming Mason Energy ("the Cooperative"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 11, 2015. In accordance with *Government Auditing Standards*, I have also issued my report dated March 11, 2015, on my consideration of the Cooperative's internal control over financial reporting and on my 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 related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative 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,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2015, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative'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 my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- 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, of which there were none.

The deferred credits are as follows:

Consumer advances and prepayments	$5,452

This report is intended solely for the information and use of the board of directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
March 11, 2015