FLEMING-MASON ENERGY COOPERATIVE, INC.
AND SUBSIDIARY
KENTUCKY 52

CONSOLIDATED FINANCIAL REPORT

December 31, 2020

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fleming-Mason Energy Cooperative, Inc. and Subsidiary
Flemingsburg, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fleming-Mason Energy Cooperative, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fleming-Mason Energy Cooperative, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2021, on our consideration of Fleming-Mason Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and 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 internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 15, 2021

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	2020	2019
Utility Plant, at original cost:		
In service	$ 115,784,589	$ 111,397,185
Under construction	641,325	608,448
	116,425,914	112,005,633
Less accumulated depreciation	44,047,598	42,015,655
	72,378,316	69,989,978
Investments in Associated Organizations	55,173,832	53,539,401
Current Assets:		
Cash and cash equivalents	378,281	566,558
Accounts receivable, less allowance for 2020 of $100,212 and 2019 of $105,988	7,385,211	6,668,854
Other receivables	1,523,626	1,443,527
Material and supplies, at average cost	380,523	366,816
Other current assets	133,504	217,195
Total current assets	9,801,145	9,262,950
Total assets	$ 137,353,293	$ 132,792,329
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 248,310	$ 242,780
Patronage capital	73,739,832	70,630,260
Other equities	61,430	61,176
Accumulated other comprehensive (loss)	(4,777,996)	(4,843,513)
Total members' equities	69,271,576	66,090,703
Long-Term Liabilities:		
Long-term debt, less current portion	39,883,860	36,773,212
Pension liability	4,777,996	4,843,513
Accumulated postretirement benefits	3,625,042	3,558,017
Total long-term liabilities	48,286,898	45,174,742
Current Liabilities:		
Notes payable	5,700,000	8,400,000
Current portion of long-term debt	3,759,606	3,114,000
Accounts payable	6,300,492	6,116,768
Consumer deposits	712,355	706,110
Accrued expenses	3,315,839	3,185,536
Total current liabilities	19,788,292	21,522,414
Consumer Energy Prepayments	6,527	4,470
Total member's equities and liabilities	$ 137,353,293	$ 132,792,329

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

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Sale of electric energy	$ 65,942,357	$ 67,361,450
Other electric revenues	698,423	1,062,304
	66,640,780	68,423,754
Operating Expenses		
Cost of power	52,251,010	54,937,878
Distribution - operations	2,148,678	1,811,154
Distribution - maintenance	3,061,815	3,107,116
Consumer accounts	1,416,832	1,396,028
Customer services	119,377	117,863
Sales	74,638	70,544
Administrative and general	1,548,731	1,530,264
Depreciation, excluding $381,046 in 2020 and $295,206 in 2019 charged to clearing accounts	3,847,754	3,692,913
Taxes, other than income	83,582	84,690
Interest on long-term debt	895,955	1,193,501
Other interest expense	139,115	235,230
Other deductions	14,370	23,443
Total cost of electric service	65,601,857	68,200,624
Operating Margins	1,038,923	223,130
Nonoperating Margins		
Interest income	218,701	301,426
Other nonoperating (losses)	(5,909)	- -
Gain (loss) on sale of equipment	14,825	(22,737)
	227,617	278,689
Patronage Capital Credits		
Generation and transmission	1,894,944	3,078,937
Other associated organizations	184,707	172,535
	2,079,651	3,251,472
Net Margins	3,346,191	3,753,291
Other Comprehensive Income (Loss)		
Pension plan amortization of net actuarial loss	218,339	199,093
Pension plan actuarial (loss)	(152,822)	(761,013)
	65,517	(561,920)
Net Margins and Comprehensive Income	$ 3,411,708	$ 3,191,371

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

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2020 and 2019

		Patronage Capital						Accumulated Other	Total
	Memberships	Assigned	Unasigned	Prior Deficits	Retirements	Total	Other Equities	Comprehensive Income (Loss)	Members' Equities
Balance - December 31, 2018	$ 240,395	$ 71,664,992	$ 4,428,423	$ (2,864,311)	$(6,089,282)	$ 67,139,822	$ 58,162	$ (4,281,593)	$ 63,156,786
Allocate margins		4,122,742	(4,428,423)	305,681		- -			- -
Comprehensive income:									
Net margins			3,753,291			3,753,291			3,753,291
Pension plan									
Amortization								199,093	
Adjustment								(761,013)	(561,920)
Total comprehensive income									3,191,371
Net change in memberships	2,385								2,385
Refunds of capital credits					(262,853)	(262,853)			(262,853)
Other equities							3,014		3,014
Balance - December 31, 2019	242,780	75,787,734	3,753,291	(2,558,630)	(6,352,135)	70,630,260	61,176	(4,843,513)	66,090,703
Allocate margins		3,451,865	(3,753,291)	301,426		- -			- -
Comprehensive income:									
Net margins			3,346,191			3,346,191			3,346,191
Pension plan									
Amortization								218,339	
Adjustment								(152,822)	65,517
Total comprehensive income									3,411,708
Net change in memberships	5,530								5,530
Refunds of capital credits					(236,619)	(236,619)			(236,619)
Other equities							254		254
Balance - December 31, 2020	$ 248,310	$ 79,239,599	$ 3,346,191	$ (2,257,204)	$(6,588,754)	$ 73,739,832	$ 61,430	$ (4,777,996)	$ 69,271,576

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

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 3,346,191	$ 3,753,291
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,847,754	3,692,913
Charged to clearing accounts	381,046	295,206
Patronage capital credits assigned	(2,079,651)	(3,251,472)
(Gain) loss on disposition of general plant	(14,825)	22,737
Change in assets and liabilities:		
Receivables	(796,456)	653,386
Material and supplies	(13,707)	117,178
Other assets	83,691	14,022
Accounts payable	183,724	(333,724)
Consumer deposits and consumer energy prepayments	8,302	8,430
Accumulated postretirement benefits	67,025	84,305
Accrued expenses	130,303	212,848
Net cash provided by operating activities	5,143,397	5,269,120
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(6,102,859)	(5,251,140)
Plant removal costs	(562,287)	(458,215)
Salvage recovered from retired plant	62,833	15,328
Receipts from other investments, net	445,220	214,790
Net cash (used in) investing activities	(6,157,093)	(5,479,237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	5,530	2,385
Refund of patronage capital to members	(236,619)	(262,853)
Increase in other equities	254	3,014
Proceeds from long-term debt	5,177,100	1,000,000
Payments on long-term debt	(3,052,123)	(3,070,121)
Cushion of credit applied	1,631,277	1,149,685
Short-term borrowings (repayments)	(2,700,000)	1,700,000
Net cash provided by financing activities	825,419	522,110
Net increase (decrease) in cash and cash equivalents	(188,277)	311,993
Cash and cash equivalents, beginning of year	566,558	254,565
Cash and cash equivalents, end of year	$ 378,281	$ 566,558
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,038,266	$ 1,424,935

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

Note 1. Summary of Significant Accounting Policies

Description of business

Fleming-Mason Energy Cooperative, Inc. and Subsidiary (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 accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of Fleming-Mason Energy Cooperative, Inc. and its wholly-owned subsidiary, FM Utility Resources, LLC (FMUR). All significant intercompany accounts and transactions have been eliminated.

Business activity

Fleming-Mason provides distribution electric service to residential, business, and commercial consumers in eight counties in eastern Kentucky. FMUR provides utility right-of-way services exclusively for Fleming-Mason.

Estimates

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

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. FMUR's fixed assets consist primarily of vehicles and tree trimming equipment.

Note 1. Summary of Significant Accounting Policies (Continued)

Electric plant (continued)

Electric plant consists of the following as of December 31, 2020 and 2019:

	2020	2019
Distribution plant	$ 104,156,842	$ 100,186,441
General plant	11,321,925	11,210,744
Subtotal electric plant	$ 115,478,767	$ 111,397,185
Vehicles	$ 221,988	$ - -
Equipment	58,743	- -
Subtotal subsidiary plant	$ 280,731	$ - -
Utility Plant, at original cost	$ 115,759,498	$ 111,397,185

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 10.00%, for a composite rate of 3.51% for distribution plant. General plant rates are as follows:

Structures and improvements	2.50%
Transportation equipment	10.00 - 20.00%
Other general plant	5.00 - 10.00%

FMUR's depreciation is computed using the straight-line method over the useful lives of its assets.

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. Fleming-Mason maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Accounts receivable

Accounts receivable consists of amounts due for sales of electric energy. Accounts receivable are recorded at their net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Fleming-Mason uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Note 1. Summary of Significant Accounting Policies (Continued)

Materials and supplies

Fleming-Mason values materials and supplies at the lower of average cost or net realizable value.

Sales tax

Fleming-Mason is required to collect, on behalf of the Commonwealth 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 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 PSC.

Advertising

Fleming-Mason expenses advertising costs as incurred. Advertising expenses were $3,896 and $5,448 for the years ended December 31, 2020 and 2019, respectively.

Comprehensive income (loss)

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

Risk management

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

Credit risk

Fleming-Mason grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Note 1. Summary of Significant Accounting Policies (Continued)

Income tax status

Fleming-Mason qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Fleming-Mason's tax-exempt purpose is subject to taxation as unrelated business income. Fleming-Mason is responsible for reporting unrelated business income associated with its wholly owned subsidiary FMUR, a limited liability company.

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. Fleming-Mason has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Fleming-Mason's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Pension accounting

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, FERC's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending December 31, 2022.

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements (continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending December 31, 2023.

Fleming-Mason is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications

Certain amounts presented in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

Subsequent events

Management has evaluated subsequent events through March 15, 2021, the date the consolidated financial statements were available to be issued.

Note 2. Revenue Recognition

Revenue from contracts

Fleming-Mason is engaged in the distribution and sale of electricity to residential and commercial customers in eight counties in eastern Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Fleming-Mason 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 Fleming-Mason. The amount of revenue recognized is the billed volume of electricity multiplied by a tariff rate per-unit of energy, plus any applicable fixed or additional regulatory charges. Customers are billed monthly and outstanding amounts are typically due within 20 days of the date of the bill.

Significant judgements

Fleming-Mason has multiple billing cycles that process customer bills on approximately the same day each month. The amounts billed are based on actual meter readings of kilowatt hours used for the billing period. The amount of revenue recorded each month represent a full month of kilowatt hour usage. There are no significant judgements for over or under-billed revenues because each month's revenue is based on actual meter readings. This method of revenue recognition presents fairly, Fleming-Mason's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy plus any applicable fixed charges as set by the PSC.

Note 2. Revenue Recognition (Continued)

Performance obligations

Fleming-Mason customers generally have no minimum purchase commitments. Fleming-Mason recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2020 and 2019.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2020	2019
Large industrial	$ 32,681,799	$ 33,711,813
Residential	29,844,159	30,041,778
Small commercial	3,129,382	3,277,183
Public lights	287,017	330,676
Rent from electric property	513,294	510,800
Other	185,129	551,504
Total	$ 66,640,780	$ 68,423,754

Contract cost liabilities

Contract cost liabilities include consumer deposits. The balances in contract liabilities were as follows as of December 31:

	2020	2019	2018
Contract liabilities	$ 712,355	$ 706,110	$ 695,440

Note 3. Investments in Associated Organizations

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

	2020	2019
East Kentucky, patronage capital	$ 52,783,239	$ 51,202,898
CFC, CTC's	809,596	823,110
CFC, patronage capital	293,910	291,881
Others	1,287,087	1,221,512
	$ 55,173,832	$ 53,539,401

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investments in Associated Organizations (Continued)

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 3.00% and 5.00% and are scheduled to mature at varying times from 2020 to 2080.

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25.00% of the net margins for the next preceding year, Fleming-Mason may distribute the difference between 25.00% and the payments made to such estates. Fleming-Mason's equity as of December 31, 2020 and 2019 were 50.43% and 49.86% of total assets, respectively.

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), CoBank and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2053. RUS assesses 12.5 basis points to administer the FFB loans. As of December 31, 2020 and 2019, there was $17,257,000 and $13,157,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

In April 2020, Fleming-Mason qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the United States Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.00% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness upon Fleming-Mason's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by Fleming-Mason. Fleming-Mason intends to apply for forgiveness of the PPP Loan with respect to covered expenses. Fleming-Mason is accounting for the loan proceeds as debt in accordance with ASC 470. As such, Fleming-Mason will recognize the forgiveness of debt in accordance with RUS guidance once the conditions for loan forgiveness have been substantially met.

Note 5. Long-Term Debt (Continued)

Long-term debt consists of the following as of December 31, 2020 and 2019:

	2020	2019
FFB, 1.57% and 2.77%	$ 33,584,802	$ 30,792,452
RUS, advance payment earns 5.00% interest	(2,656,964)	(4,288,241)
RUS, Economic Development loan, no interest	713,875	907,210
CFC, 3.10% to 3.85%	1,155,024	1,310,527
CoBank, 3.73%	- -	524,403
CoBank, 3.26%	9,769,629	10,640,861
Community Trust Bank, PPP loan, 1.00%	1,077,100	- -
	43,643,466	39,887,212
Less current portion	3,759,606	3,114,000
	$ 39,883,860	$ 36,773,212

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, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	$ 3,759,606
2022	3,171,160
2023	2,861,330
2024	2,801,670
2025	2,725,080
Thereafter	28,324,620
	$ 43,643,466

Note 6. Short-Term Notes Payable

As of December 31, 2020 and 2019, Fleming-Mason has a short-term line of credit of $10,000,000 available from CFC and a short-term line of credit of $5,000,000 available from CoBank. The outstanding balance under the CFC line of credit was $5,700,000 and $8,400,000 as of December 31, 2020 and 2019, respectively. The interest rate was 2.45% and 3.25% as of December 31, 2020 and 2019, respectively. The line of credit matures in 2049. There were no outstanding balances on the CoBank line of credit as of December 31, 2020 and 2019.

Note 7. 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 a 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). The plan was measured as of December 31, 2020 and 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

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

	2020	2019
Change in Benefit Obligation:		
Beginning of year	$ 13,975,857	$ 11,859,202
Service cost	603,906	502,503
Interest cost	436,878	476,312
Actuarial loss	592,103	1,501,941
Benefits paid	(1,009,934)	(364,101)
End of year	14,598,810	13,975,857
Change in Plan Assets:		
Beginning of year	6,781,784	5,403,046
Actual return on assets	961,620	1,142,839
Employer contributions	750,000	600,000
Benefits paid	(1,009,934)	(364,101)
End of year	7,483,470	6,781,784
Funded status of plan (deficit)	$ (7,115,340)	$ (7,194,073)
Accumulated benefit obligation in plan	$ 10,228,014	$ 9,927,444

The amounts recognized in the balance sheets are as follows as of December 31, 2020 and 2019:

	2020	2019
Accumulated other comprehensive (loss)	$ (4,777,996)	$ (4,843,513)
Accrued benefit liability	(2,337,344)	(2,350,560)
Amount recognized in financial statements	$ (7,115,340)	$ (7,194,073)

The net periodic pension benefit cost was calculated as follows:

	2020	2019
Service cost	$ 603,906	$ 502,503
Interest cost	436,878	476,312
Expected return on plan assets	(522,339)	(401,911)
Amortization of actuarial loss	218,339	199,093
Net periodic benefit cost	$ 736,784	$ 775,997

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

	2020	2019
Discount rate	2.75%	3.25%
Rate of increase in compensation level	3.50%	3.50%
Expected long-term rate of return on assets	8.00%	8.00%

Note 7. Pension Plan (Continued)

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.

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 prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plan of approximately 50.00% equities. The remaining may be allocated among fixed income or cash equivalent investments. The plan's investments are reported at fair value as follows as of December 31:

			Fair value measurements using:	
	Fair Value		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2020				
Cash and cash equivalents	$ 224,504		$ 224,504	$ - -
Stocks	5,986,776		5,986,776	- -
Investment grade debt instruments	1,272,190		- -	1,272,190
	$ 7,483,470		$ 6,211,280	$ 1,272,190

			Fair value measurements using:	
	Fair Value		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019				
Cash and cash equivalents	$ 135,636		$ 135,636	$ - -
Stocks	5,425,427		5,425,427	- -
Investment grade debt instruments	1,220,721		- -	1,220,721
	$ 6,781,784		$ 5,561,063	$ 1,220,721

Expected retiree pension benefit payments are projected to be as follows: 2021 - $149,790; 2022 - $147,490; 2023 - $727,826; 2024 - $158,491; 2025 - $368,706.

Fleming-Mason expects to contribute approximately $750,000 during the year ending December 31, 2021. However, Fleming-Mason reserves the right to contribute more or less depending on other considerations and circumstances.

Note 8. Postretirement Benefits

Fleming-Mason sponsors a defined benefit plan that provides medical insurance coverage to retired employees, directors and attorney. Eligible participants are limited to employees hired prior to March 5, 1993. The plan calls for benefits to be paid at retirement based primarily upon years of service with Fleming-Mason. For measurement purposes, an annual rate of increase of 8.00% in 2020, then decreasing by .25% per year until 5.00% per year, in the per capita cost of covered healthcare benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 5.00% in 2020 and 2019. There have been no significant changes that affect the comparability of 2020 and 2019.

The funded status of the plan was as follows as of December 31:

	2020	2019
Projected benefit obligation	$ (3,625,042)	$ (3,558,017)
Plan assets at fair value	- -	- -
Funded status	$ (3,625,042)	$ (3,558,017)

The components of net periodic postretirement benefit cost are as follows as of and for the years ended December 31:

	2020	2019
Benefit obligation - beginning of period	$ 3,558,017	$ 3,473,712
Net periodic benefit cost:		
Service cost	63,420	67,317
Interest cost	167,004	163,107
Net period cost	230,424	230,424
Benefits payments to participants	(163,399)	(146,119)
Benefit obligation - end of period	$ 3,625,042	$ 3,558,017
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ 3,625,042	$ 3,558,017
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 3,824,000	
Net periodic benefit cost	$ 243,100	

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $118,000; 2022 - $114,000; 2023 - $109,000; 2024 - $102,000; 2025 - $96,000.

Note 9. Major Customer Concentration

One industrial customer accounted for approximately 21% of electric revenues for the years ended December 31, 2020 and 2019. Accounts receivable from this customer included 17% and 22% of the total accounts receivable balance as of December 31, 2020 and 2019, respectively. Fleming-Mason has a contract in place with the customer. Management does not expect the business relationship to change with this customer.

Note 9. Major Customer Concentration (Continued)

In addition, Fleming-Mason bills and collects steam charges for East Kentucky to the 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.

Note 10. Related Party Transactions

Several of the Directors of Fleming-Mason, its President and CEO, and another employee, serve on the Boards of Directors of various associated organizations.

Note 11. Commitments

Fleming-Mason has various other agreements outstanding with local contractors. Under these agreements, the contractors will perform certain 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 12. 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 outcome will not have a material adverse effect on the financial statements.

Note 13. Environmental Contingency

Fleming-Mason from time to time is required to work with and handle PCBs, herbicides, automotive fluids, lubricants, and other hazardous materials in the normal course of business. As a result, there is the possibility that environmental conditions may arise which would require Fleming-Mason to incur cleanup costs. The likelihood of such an event, or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect Fleming-Mason's financial position or its future cash flows.

Note 14. Risks and Uncertainties

Since March 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Fleming-Mason as of March 15, 2021, management believes that a material impact on Fleming-Mason's financial position and results of future operations is reasonably possible.

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Fleming-Mason Energy Cooperative, Inc. and Subsidiary
Flemingsburg, Kentucky

We have audited the consolidated financial statements of Fleming-Mason Energy Cooperative, Inc. and Subsidiary as of and for the years ended December 31, 2020 and 2019, and our report thereon dated March 15, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 20 and 21 is presented for purposes of additional analysis and is 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 15, 2021

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2020

ASSETS	Fleming-Mason Energy	FM Utility Resources	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 115,503,858	$ 280,731	$ - -	$ 115,784,589
Under construction	641,325	- -	- -	641,325
	116,145,183	280,731	- -	116,425,914
Less accumulated depreciation	44,020,792	26,806	- -	44,047,598
	72,124,391	253,925	- -	72,378,316
Investments and Other Assets:				
Associated organizations	55,173,832	- -	- -	55,173,832
Investment in Subsidiary	(5,034)	- -	5,034	- -
Note receivable, less current portion	241,131	- -	(241,131)	- -
	55,409,929	- -	(236,097)	55,173,832
Current Assets:				
Cash and cash equivalents	362,367	15,914	- -	378,281
Accounts receivable, less allowance of $100,212	7,385,211	- -	- -	7,385,211
Other receivables	1,528,703	- -	(5,077)	1,523,626
Current portion of note receivable	25,091	- -	(25,091)	- -
Material and supplies, at average cost	380,523	- -	- -	380,523
Other current assets	133,504	- -	- -	133,504
Total current assets	9,815,399	15,914	(30,168)	9,801,145
Total assets	$ 137,349,719	$ 269,839	$ (266,265)	$ 137,353,293
MEMBERS' EQUITIES AND LIABILITIES				
Members' Equities:				
Memberships	$ 248,310	$ (5,034)	$ 5,034	$ 248,310
Patronage capital	73,739,832	- -	- -	73,739,832
Other equities	61,430	- -	- -	61,430
Accumulated other comprehensive income (loss)	(4,777,996)	- -	- -	(4,777,996)
Total members' equities	69,271,576	(5,034)	5,034	69,271,576
Long-Term Debt				
Long-term debt, less current portion	39,883,860	241,131	(241,131)	39,883,860
Pension liability	4,777,996	- -	- -	4,777,996
Accumulated postretirement benefits	3,625,042	- -	- -	3,625,042
Total long-term liabilities	48,286,898	241,131	(241,131)	48,286,898
Current Liabilities:				
Notes payable	5,700,000	- -	- -	5,700,000
Current portion of long-term debt	3,759,606	25,091	(25,091)	3,759,606
Accounts payable	6,300,492	5,077	(5,077)	6,300,492
Consumer deposits	712,355	- -	- -	712,355
Accrued expenses	3,312,265	3,574	- -	3,315,839
Total current liabilities	19,784,718	33,742	(30,168)	19,788,292
Consumer Energy Prepayments	6,527	- -	- -	6,527
Total members' equities and liabilities	$ 137,349,719	$ 269,839	$ (266,265)	$ 137,353,293

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2020

	Fleming-Mason Energy	FM Utility Resources	Eliminations	Consolidated
Operating Revenues				
Sale of electric energy	$ 65,942,357	$ - -	$ - -	$ 65,942,357
Other electric revenues	698,423	- -	- -	698,423
Contract services	- -	193,949	(193,949)	- -
	66,640,780	193,949	(193,949)	66,640,780
Operating Expenses				
Cost of power	52,251,010	- -	- -	52,251,010
Distribution - operations	2,148,678	- -	- -	2,148,678
Distribution - maintenance	3,090,374	165,390	(193,949)	3,061,815
Consumer accounts	1,416,832	- -	- -	1,416,832
Customer services	119,377	- -	- -	119,377
Sales	74,638	- -	- -	74,638
Administrative and general	1,548,731	- -	- -	1,548,731
Depreciation, excluding $381,046 charged to clearing accounts	3,820,948	26,806	- -	3,847,754
Taxes, other than income	83,582	- -	- -	83,582
Interest on long-term debt	895,955	6,787	(6,787)	895,955
Other interest expense	139,115	- -	- -	139,115
Other deductions	14,370	- -	- -	14,370
Total cost of electric service	65,603,610	198,983	(200,736)	65,601,857
Operating Margins	1,037,170	(5,034)	6,787	1,038,923
Nonoperating Margins				
Interest income	225,488	- -	(6,787)	218,701
Other nonoperating margins	(5,909)	- -	- -	(5,909)
Gain on sale of equipment	14,825	- -	- -	14,825
Investment in subsidiary	(5,034)	- -	5,034	- -
	229,370	- -	(1,753)	227,617
Patronage Capital Credits				
Generation and transmission	1,894,944	- -	- -	1,894,944
Other associated organizations	184,707	- -	- -	184,707
	2,079,651	- -	- -	2,079,651
Net Margins (Deficit)	3,346,191	(5,034)	5,034	3,346,191
Other comprehensive Income (Loss)				
Pension plan amortization of net actuarial loss	218,339	- -	- -	218,339
Pension plan actuarial (loss)	(152,822)	- -	- -	(152,822)
	65,517	- -	- -	65,517
Net Margins (Deficit) and Comprehensive Income	$ 3,411,708	$ (5,034)	$ 5,034	$ 3,411,708

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, Inc. and Subsidiary
Flemingsburg, 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 Fleming-Mason Energy Cooperative, Inc. and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated March 15, 2021.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 15, 2021

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

To the Board of Directors
Fleming-Mason Energy Cooperative, Inc. and Subsidiary
Flemingsburg, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Fleming-Mason Energy Cooperative, Inc. and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 15, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the 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 and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the 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 our audit, we 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;

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- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred credits are as follows:

Consumer energy prepayments	$ 6,527

Fleming-Mason is a 100% owner of a subsidiary, FM Utility Resources, LLC, which is engaged in utility right-of-way services exclusively for Fleming-Mason. In March 2020, Fleming-Mason loaned $284,514 to FM Utility Resources, LLC. The loan is payable over 10 years at an interest rate of 3.25% per annum. The principal balance outstanding was $266,222 as of December 31, 2020. The activity of the investment in subsidiary is as follows for the year ended December 31, 2020:

	Investment
Beginning balance	$ - -
Net (loss)	(5,034)
Ending balance	$ (5,034)

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 15, 2021