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

CONSOLIDATED FINANCIAL REPORT

December 31, 2023

CONTENTS

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023 and 2022, and the related consolidated statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fleming-Mason Energy Cooperative, Inc. and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fleming-Mason Energy Cooperative, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Certified Public Accountants and Advisors

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, on our consideration of the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fleming-Mason Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 8, 2024

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

ASSETS	2023	2022
Utility Plant, at original cost:		
In service	$ 129,065,873	$ 125,011,132
Under construction	534,521	603,558
	129,600,394	125,614,690
Less accumulated depreciation	50,613,864	48,360,805
	78,986,530	77,253,885
Investments in Associated Organizations	59,268,875	57,942,657
Current Assets:		
Cash and cash equivalents	712,044	1,118,466
Accounts receivable, less allowance for credit losses in 2023 of $109,991 and 2022 of $100,015	9,010,993	8,961,474
Other receivables	1,108,661	1,215,218
Material and supplies, at average cost	758,650	691,063
Other current assets	120,012	208,122
Total current assets	11,710,360	12,194,343
Deferred Debits	1,098,144	1,358,363
Total assets	$ 151,063,909	$ 148,749,248
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 259,115	$ 254,935
Patronage capital	77,936,367	77,552,246
Other equities	983,611	982,097
Accumulated other comprehensive loss	(306,393)	(784,188)
Total members' equities	78,872,700	78,005,090
Long-Term Liabilities:		
Long-term debt, less current portion	47,640,619	43,035,539
Pension liability	1,520,175	1,618,598
Accumulated postretirement benefits	2,299,790	2,663,858
Total long-term liabilities	51,460,584	47,317,995
Current Liabilities:		
Notes payable	4,600,000	7,800,000
Current portion of long-term debt	2,651,111	2,710,111
Accounts payable	7,856,693	8,616,208
Consumer deposits	1,820,676	657,046
Accrued expenses	3,797,290	3,538,489
Total current liabilities	20,725,770	23,321,854
Deferred Credits	4,855	104,309
Total member's equities and liabilities	$ 151,063,909	$ 148,749,248

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, 2023 and 2022

	2023	2022
Operating Revenues		
Sale of electric energy	$ 88,039,879	$ 93,828,042
Other electric revenues	1,105,179	1,051,255
	89,145,058	94,879,297
Operating Expenses		
Cost of power	74,100,617	80,627,507
Distribution - operations	1,834,039	1,828,772
Distribution - maintenance	4,284,878	3,720,990
Consumer accounts	1,466,369	1,414,494
Customer services	120,273	116,959
Sales	91,405	79,733
Administrative and general	1,720,152	1,621,964
Depreciation, excluding $329,850 in 2023 and $309,632 in 2022 charged to clearing accounts	4,335,041	4,183,689
Taxes, other than income	69,655	74,473
Interest on long-term debt	1,613,861	1,047,376
Other interest expense	503,625	142,023
Other deductions	21,614	14,586
Total cost of electric service	90,161,529	94,872,566
Operating Margins (Deficit)	(1,016,471)	6,731
Nonoperating Margins		
Interest income	44,049	46,119
Other nonoperating income (loss)	91	(4,908)
Employee retention credit	110,050	- -
Gain on sale of equipment	45,962	37,870
	200,152	79,081
Patronage Capital Credits		
Generation and transmission	1,136,936	2,991,661
Other associated organizations	320,139	215,278
	1,457,075	3,206,939
Net Margins	640,756	3,292,751
Other Comprehensive Income		
Pension plan amortization of net actuarial loss	45,084	363,957
Pension plan actuarial gain	53,339	2,631,536
Postretirement actuarial gain (loss)	379,372	(1,152,954)
	477,795	1,842,539
Net Margins and Comprehensive Income	$ 1,118,551	$ 5,135,290

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, 2023 and 2022

		Patronage Capital						Accumulated Other	Total
	Memberships	Assigned	Unassigned	Prior Deficits	Retirements	Total	Other Equities	Comprehensive Income (Loss)	Members' Equities
Balance - December 31, 2021	$ 249,880	$ 82,365,336	$ 2,316,084	$ (2,036,750)	$ (8,095,539)	$ 74,549,131	$ 995,808	$ (2,626,727)	$ 73,168,092
Allocate margins		2,095,630	(2,316,084)	220,454		- -			- -
Comprehensive income:									
Net margins			3,292,751			3,292,751			3,292,751
Pension plan									
Amortization of actuarial loss								363,957	
Actuarial gain								2,631,536	2,995,493
Postretirement benefit obligation									
Actuarial loss								(1,152,954)	(1,152,954)
Total comprehensive income									5,135,290
Net change in memberships	5,055								5,055
Refunds of capital credits					(289,636)	(289,636)			(289,636)
Other equities							(13,711)		(13,711)
Balance - December 31, 2022	254,935	84,460,966	3,292,751	(1,816,296)	(8,385,175)	77,552,246	982,097	(784,188)	78,005,090
Allocate margins		3,085,267	(3,292,751)	207,484		- -			- -
Comprehensive income:									
Net margins			640,756			640,756			640,756
Pension plan									
Amortization of actuarial loss								45,084	
Actuarial gain								53,339	98,423
Postretirement benefit obligation									
Actuarial gain								379,372	379,372
Total comprehensive income									1,118,551
Net change in memberships	4,180								4,180
Refunds of capital credits					(256,635)	(256,635)			(256,635)
Other equities							1,514		1,514
Balance - December 31, 2023	$ 259,115	$ 87,546,233	$ 640,756	$ (1,608,812)	$ (8,641,810)	$ 77,936,367	$ 983,611	$ (306,393)	$ 78,872,700

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 640,756	$ 3,292,751
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	4,335,041	4,183,689
Charged to clearing accounts	329,850	309,632
Patronage capital credits assigned	(1,457,075)	(3,206,939)
Gain on disposition of general plant	(45,962)	(37,870)
Amortization of pension plan actuarial adjustment	45,084	363,957
Pension plan actuarial adjustment	53,339	2,631,536
Postretirement actuarial adjustment	379,372	(1,152,954)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	57,038	423,855
Material and supplies	(67,587)	(200,352)
Other current assets	88,110	12,327
Deferred debits	260,219	(1,358,363)
Accounts payable	(759,515)	211,738
Consumer deposits and consumer energy prepayments	1,064,176	90,198
Pension liability	(98,423)	(2,995,493)
Accumulated postretirement benefits	(364,068)	1,085,324
Accrued expenses	258,801	(125,888)
Deferred credits	(99,454)	95,752
Net cash provided by operating activities	4,619,702	3,622,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(5,867,950)	(6,593,821)
Plant removal costs	(688,588)	(665,060)
Salvage recovered from retired plant	304,418	88,404
Receipts from other investments, net	130,857	1,387,908
Net cash (used in) investing activities	(6,121,263)	(5,782,570)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	4,180	5,055
Refund of patronage capital to members	(256,635)	(289,636)
Increase (decrease) in other equities	1,514	(13,711)
Proceeds from long-term debt	7,157,000	1,500,000
Payments on long-term debt	(2,610,920)	(2,748,385)
Cushion of credit applied	- -	777,073
Short-term borrowings (repayments)	(3,200,000)	3,450,000
Net cash provided by financing activities	1,095,139	2,680,396
Net increase (decrease) in cash and cash equivalents	(406,422)	520,726
Cash and cash equivalents, beginning of year	1,118,466	597,740
Cash and cash equivalents, end of year	$ 712,044	$ 1,118,466
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,099,441	$ 1,198,104

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

FLEMING-MASON ENERGY COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Description of business

Fleming-Mason Energy Cooperative, Inc. (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.

Use of 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.

Utility plant

Utility 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 utility 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Utility plant (continued)

Utility plant consists of the following as of December 31, 2023 and 2022:

	2023	2022
Distribution plant	$ 116,884,817	$ 113,000,702
General plant	11,921,870	11,718,128
Subtotal electric plant	128,806,687	124,718,830
Vehicles	253,760	230,276
Equipment	5,426	62,026
Subtotal subsidiary plant	259,186	292,302
Utility Plant, at original cost	$ 129,065,873	$ 125,011,132

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 3.53% 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 and allowance for credit losses

Fleming-Mason operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of December 31, 2023, 2022, and 2021 was $9,010,993, $8,961,474, and $8,778,142, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Accounts receivable and allowance for credit losses (continued)

Fleming-Mason uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts using a pooled basis approach where similar characteristics exist (See Note 3). The allowance estimate is derived from a review of Fleming-Mason's historical losses based on the aging of receivables. The estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by Fleming-Mason.

Fleming-Mason writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses.

Materials and supplies

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

Deferred debits and credits

Regulatory requirements authorized by the PSC allow the electric supplier to impose a fuel adjustment surcharge upon Fleming-Mason. In turn, Fleming-Mason is required to pass on the fuel surcharge to the consumer. Due to regulatory requirements in calculating the surcharge Fleming-Mason may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the PSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, Fleming-Mason is required to pass on this environmental cost recovery mechanism to the consumer.

Taxes

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

Cost of power

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Advertising

Fleming-Mason expenses advertising costs as incurred. Advertising expenses were $328 and $2,880 for the years ended December 31, 2023 and 2022, respectively.

Comprehensive income (loss)

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

Risk management

Fleming-Mason and 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.

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.

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.

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 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, 2023 and 2022.

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

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, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net margins. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing Fleming-Mason's exposure to credit risk and the measurement of credit losses. Fleming-Mason's financial assets subject to the guidance include accounts receivable.

Fleming-Mason adopted the standard effective January 1, 2023. The impact of the adoption was not material to the consolidated financial statements and primarily resulted in new and enhanced disclosures only.

Subsequent events

Management has evaluated subsequent events through April 8, 2024, 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.

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, 2023 and 2022.

Disaggregation of revenue

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

	2023	2022
Large industrial	$ 49,079,202	$ 52,227,130
Residential	34,575,999	37,259,975
Small commercial	4,024,166	3,957,734
Public lights	360,512	383,203
Rent from electric property	514,840	520,694
Other	590,339	530,561
Total	$ 89,145,058	$ 94,879,297

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

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

	2023	2022	2021
Contract assets	$ 1,090,724	$ 1,347,119	$ - -
Contract liabilities	$ 1,820,676	$ 755,279	$ 662,600

Note 3. Allowance for Credit Losses

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

	2023	2022
Beginning balance	$ 100,015	$ 101,576
Provision for credit losses	41,299	31,466
Write-offs	(67,575)	(74,216)
Recoveries	36,252	41,189
Ending balance	$ 109,991	$ 100,015

Note 4. Investments in Associated Organizations

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

	2023	2022
East Kentucky, patronage capital	$ 56,424,937	$ 55,288,001
CFC, CTC's	803,660	806,299
CFC, patronage capital	290,720	292,966
Others	1,749,558	1,555,391
	$ 59,268,875	$ 57,942,657

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 ranging from zero to 5.00% and are scheduled to mature at varying times from 2025 to 2080.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. 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, 2023 and 2022 were 52.21% and 52.44% of total assets, respectively.

Note 6. 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, 2023 and 2022, there was zero and $7,157,000 of FFB loan funds unadvanced, respectively. These funds will be used for future plant additions.

Long-term debt consists of the following as of December 31, 2023 and 2022:

	2023	2022
FFB, 1.38% to 4.73% fixed rate notes	$ 42,392,327	$ 36,596,502
RUS, Economic Development loan, no interest	277,778	388,889
CFC, 2.42% to 6.04% fixed rate notes	648,128	823,790
CoBank, 3.26% fixed rate note	6,973,497	7,936,469
	50,291,730	45,745,650
Less current portion	2,651,111	2,710,111
	$ 47,640,619	$ 43,035,539

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, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 2,651,111
2025	2,922,509
2026	3,298,673
2027	3,794,135
2028	4,498,557
Thereafter	33,126,745
	$ 50,291,730

Note 7. Short-Term Notes Payable

As of December 31, 2023 and 2022, 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 $4,600,000 and $7,800,000 as of December 31, 2023 and 2022, respectively. The variable interest rate was 7.25% and 5.75% as of December 31, 2023 and 2022, respectively. The CFC line of credit matures in 2049. There were no outstanding balances on the CoBank line of credit as of December 31, 2023 and 2022. The CoBank line of credit had variable interest rates of 7.21% and 6.35% as of December 31, 2023 and 2022, respectively, and matures in August 2024.

Note 8. 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, 2023 and 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

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

	2023	2022
Change in Benefit Obligation:		
Beginning of year	$ 10,276,937	$ 15,247,347
Service cost	361,493	614,215
Interest cost	543,019	431,239
Settlement	- -	(161,294)
Actuarial (gain) loss	493,684	(4,342,882)
Benefits paid	(228,046)	(1,511,688)
End of year	11,447,087	10,276,937
Change in Plan Assets:		
Beginning of year	6,256,297	8,040,866
Actual return on assets	776,172	(1,022,881)
Employer contributions	600,000	750,000
Benefits paid	(228,046)	(1,511,688)
End of year	7,404,423	6,256,297
Funded status of plan (deficit)	$ (4,042,664)	$ (4,020,640)
Accumulated benefit obligation in plan	$ 8,532,952	$ 7,911,643

Note 8. Pension Plan (Continued)

The amounts recognized in the consolidated balance sheets are as follows:

	2023	2022
Pension liability	$ (1,520,175)	$ (1,618,598)
Accrued benefit liability	(2,522,489)	(2,402,042)
	$ (4,042,664)	$ (4,020,640)

Amounts included in other comprehensive income:

	2023	2022
Amortization of net actuarial loss	$ 45,084	$ 363,957
Actuarial gain	53,339	2,631,536
	$ 98,423	$ 2,995,493

The net periodic pension benefit cost was calculated as follows:

	2023	2022
Service cost	$ 361,493	$ 614,215
Interest cost	543,019	431,239
Expected return on plan assets	(474,074)	(637,334)
Amortization of actuarial loss	45,084	363,957
Net periodic benefit cost	$ 475,522	$ 772,077

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

	2023	2022
Discount rate	5.00%	5.25%
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 8. 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 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:	
December 31, 2023	Fair Value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash and cash equivalents	$ 222,133	$ 222,133	$ - -
Stocks	5,849,494	5,849,494	- -
Investment grade debt instruments	1,332,796	- -	1,332,796
	$ 7,404,423	$ 6,071,627	$ 1,332,796

		Fair value measurements using:	
December 31, 2022	Fair Value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash and cash equivalents	$ 187,689	$ 187,689	$ - -
Stocks	5,005,038	5,005,038	- -
Investment grade debt instruments	1,063,570	- -	1,063,570
	$ 6,256,297	$ 5,192,727	$ 1,063,570

Expected retiree pension benefit payments are projected to be as follows: 2024 - $227,712; 2025 - $227,384; 2026 - $226,959; 2027 - $226,195; 2028 - $225,337.

Fleming-Mason expects to contribute approximately $341,000 during the year ending December 31, 2024. However, Fleming-Mason reserves the right to contribute more or less depending on other considerations and circumstances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Postretirement Benefits

Fleming-Mason sponsors a defined benefit plan that provides medical insurance coverage to retired employees. 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 6.00% in 2024, then decreasing by .25% per year until 3.00% per year, in the per capita cost of covered healthcare benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 4.50% and 3.05% in 2023 and 2022, respectively. There have been no significant changes that affect the comparability of 2023 and 2022 other than the previously mentioned change in discount rate.

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

	2023	2022
Projected benefit obligation	$ (2,299,790)	$ (2,663,858)
Plan assets at fair value	- -	- -
Funded status	$ (2,299,790)	$ (2,663,858)

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

	2023	2022
Benefit obligation - beginning of period	$ 2,663,858	$ 1,578,534
Actuarial adjustment	(379,372)	1,152,954
Net periodic benefit cost:		
Service cost	128,560	121,330
Interest cost	60,878	74,671
Net period cost	189,438	196,001
Benefits payments to participants	(174,134)	(159,034)
Benefit obligation - end of period	$ 2,299,790	$ 2,663,858
Amounts recognized in the consolidated balance sheets consist of:		
Accumulated postretirement benefits	$ 2,299,790	$ 2,663,858
Amounts included in other comprehensive income:		
Actuarial gain (loss)	$ 379,372	$ (1,152,954)
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 2,392,000	
Net periodic benefit cost	$ 197,000	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $174,400; 2025 - $164,000; 2026 - $167,100; 2027 - $156,100; 2028 - $143,800.

Note 10. Major Customer Concentration

One industrial customer accounted for approximately 21% of electric revenues for the years ended December 31, 2023 and 2022. Accounts receivable from this customer included 17% and 18% of the total accounts receivable balance as of December 31, 2023 and 2022, respectively. Fleming-Mason has a contract in place with the customer. Management does not expect the business relationship to change with this customer.

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 11. 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 12. 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 13. 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 consolidated financial statements.

Note 14. Employee Retention Credit

Under provisions of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), Fleming-Mason determined they met the criteria and were eligible for the refundable Employee Retention Credit (ERC). Fleming-Mason amended its Form 941 Employer Quarterly Federal Tax Return for one quarter to claim a refund related to this credit. For the years ended December 31, 2023 and 2022, Fleming-Mason claimed $110,050 and zero, respectively, with the amount recognized as nonoperating margins, in accordance with IAS 20, in the statements of revenue and comprehensive income. The IRS may subsequently initiate an ERC audit and request a refund, including penalties and interest, if they determine that Fleming-Mason was not eligible for the ERC claimed. The general statute of limitations is three years but the IRS has extended the statute to five years for ERC. Fleming-Mason engaged a third-party service provider to assist in determining that Fleming-Mason met the criteria for the ERC and management believes they have met the eligibility requirements.

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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, 2023 and 2022, and our report thereon dated April 8, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information shown on pages 22 and 23 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 8, 2024

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2023

ASSETS	Fleming-Mason Energy	FM Utility Resources	Eliminations	Consolidated
Utility Plant, at original cost:				
In service	$ 128,806,686	$ 259,187	$ - -	$ 129,065,873
Under construction	534,521	- -	- -	534,521
	129,341,207	259,187	- -	129,600,394
Less accumulated depreciation	50,497,427	116,437	- -	50,613,864
	78,843,780	142,750	- -	78,986,530
Investments and Other Assets:				
Associated organizations	59,268,875	- -	- -	59,268,875
Investment in Subsidiary	(5,034)	- -	5,034	- -
Note receivable, less current portion	160,797	- -	(160,797)	- -
	59,424,638	- -	(155,763)	59,268,875
Current Assets:				
Cash and cash equivalents	674,613	37,431	- -	712,044
Accounts receivable, less allowance for credit losses in 2023 of $109,991	9,010,993	- -	- -	9,010,993
Other receivables	1,133,269	31,743	(56,351)	1,108,661
Current portion of note receivable	27,649	- -	(27,649)	- -
Material and supplies, at average cost	758,650	- -	- -	758,650
Other current assets	120,012	- -	- -	120,012
Total current assets	11,725,186	69,174	(84,000)	11,710,360
Deferred Debits	1,098,144	- -	- -	1,098,144
Total assets	$ 151,091,748	$ 211,924	$ (239,763)	$ 151,063,909
MEMBERS' EQUITIES AND LIABILITIES				
Members' Equities:				
Capital investment	$ - -	$ (5,034)	$ 5,034	$ - -
Memberships	259,115	- -	- -	259,115
Patronage capital	77,936,367	- -	- -	77,936,367
Other equities	983,611	- -	- -	983,611
Accumulated other comprehensive loss	(306,393)	- -	- -	(306,393)
Total members' equities	78,872,700	(5,034)	5,034	78,872,700
Long-Term Debt				
Long-term debt, less current portion	47,640,619	160,797	(160,797)	47,640,619
Pension liability	1,520,175	- -	- -	1,520,175
Accumulated postretirement benefits	2,299,790	- -	- -	2,299,790
Total long-term liabilities	51,460,584	160,797	(160,797)	51,460,584
Current Liabilities:				
Notes payable	4,600,000	- -	- -	4,600,000
Current portion of long-term debt	2,651,111	27,649	(27,649)	2,651,111
Accounts payable	7,888,436	24,608	(56,351)	7,856,693
Consumer deposits	1,820,676	- -	- -	1,820,676
Accrued expenses	3,793,386	3,904	- -	3,797,290
Total current liabilities	20,753,609	56,161	(84,000)	20,725,770
Deferred Credits	4,855	- -	- -	4,855
Total members' equities and liabilities	$ 151,091,748	$ 211,924	$ (239,763)	$ 151,063,909

FLEMING-MASON ENERGY COOPERATIVE, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2023

	Fleming-Mason Energy	FM Utility Resources	Eliminations	Consolidated
Operating Revenues				
Sale of electric energy	$ 88,039,879	$ - -	$ - -	$ 88,039,879
Other electric revenues	1,105,179	- -	- -	1,105,179
Contract services	- -	338,624	(338,624)	- -
	89,145,058	338,624	(338,624)	89,145,058
Operating Expenses				
Cost of power	74,100,617	- -	- -	74,100,617
Distribution - operations	1,834,039	- -	- -	1,834,039
Distribution - maintenance	4,326,389	297,113	(338,624)	4,284,878
Consumer accounts	1,466,369	- -	- -	1,466,369
Customer services	120,273	- -	- -	120,273
Sales	91,405	- -	- -	91,405
Administrative and general	1,720,152	- -	- -	1,720,152
Depreciation, excluding $329,850 charged to clearing accounts	4,300,200	34,841	- -	4,335,041
Taxes, other than income	69,655	- -	- -	69,655
Interest on long-term debt	1,613,861	6,670	(6,670)	1,613,861
Other interest expense	503,625	- -	- -	503,625
Other deductions	21,614	- -	- -	21,614
Total cost of electric service	90,168,199	338,624	(345,294)	90,161,529
Operating Deficit	(1,023,141)	- -	6,670	(1,016,471)
Nonoperating Margins				
Interest income	50,719	- -	(6,670)	44,049
Other nonoperating margins	91	- -	- -	91
Employee retention credit	110,050	- -	- -	110,050
Gain on sale of equipment	45,962	- -	- -	45,962
	206,822	- -	(6,670)	200,152
Patronage Capital Credits				
Generation and transmission	1,136,936	- -	- -	1,136,936
Other associated organizations	320,139	- -	- -	320,139
	1,457,075	- -	- -	1,457,075
Net Margins	640,756	- -	- -	640,756
Other Comprehensive Income				
Pension plan amortization of net actuarial loss	45,084	- -	- -	45,084
Pension plan actuarial gain	53,339	- -	- -	53,339
Postretirement actuarial	379,372	- -	- -	379,372
	477,795	- -	- -	477,795
Net Margins and Comprehensive Income	$ 1,118,551	$ - -	$ - -	$ 1,118,551

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
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, 2023 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 April 8, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified.

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 8, 2024

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Jones, Nale & Mattingly PLC

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, 2023, 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 April 8, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, 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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401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

- 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 debits are as follows:

Preliminary survey costs	$	7,420
Environmental surcharge		859,345
Fuel adjustment surcharge		231,379
	$	1,098,144

The deferred credits are as follows:

Consumer energy prepayments	$	4,855

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 $188,446 as of December 31, 2023. The activity of the investment in subsidiary is as follows for the year ended December 31, 2023:

	Investment	
Beginning balance (deficit)	$	(5,034)
Net income		- -
Ending balance (deficit)	$	(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
April 8, 2024