Kentucky 23
Taylor County Rural Electric Cooperative Corporation

Campbellsville, Kentucky

Audited Financial Statements
May 31, 2011 and 2010

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To the Board of Directors
Taylor County Rural Electric Cooperative Corporation

I have audited the financial statements of Taylor County Rural Electric Cooperative Corporation for the year ended May 31, 2011, and have issued my report thereon dated July 27, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Taylor County Rural Electric Cooperative Corporation for the year ended May 31, 2011, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated July 27, 2011, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Taylor County's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

However, I recommend corrective action be taken in the following area:

1. The bank reconciliations have not been prepared on a timely basis. This has resulted in the cash accounts and accounts receivable balances to be out of balance. I suggest these be reconciled and reviewed on a monthly basis.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended May 31, 2011, of Taylor County.
    1. Obtained and read a borrower prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
    2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
    3. Noted written RUS approval was not obtained by the borrower for all contracts listed. Taylor County's management informed me that RUS approval was not required as the contracts listed related to operation or maintenance entered into during the normal course of business.
- Procedures performed with respect to the requirement to submit RUS Financial and Operating Report Electric Distribution to RUS:
    1. Agreed amounts reported in RUS Financial and Operating Report Electric Distribution to Taylor County's records as of December 31, 2010.

The results of my tests indicate that, with respect to the items tested, Taylor County complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Taylor County had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of RUS to enter into any contract for the operation and maintenance of all or any part of property, for the use of mortgaged property by others as defined in 1773.33(d)(1)(i); and,
- The borrower has submitted its RUS Financial and Operating Report Electric Distribution to RUS and the RUS Financial and Operating Report Electric Distribution, as of December 31, 2010, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.

Comments on Other Additional Matters

In connection with my audit of Taylor County, nothing came to my attention that caused me to believe that Taylor County failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended May 31, 2011, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments, of which there were none.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred debits are as follows:

Deferred property retirement	$527,068

The deferred credits are as follows:

Consumer advances for construction	$875,205

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein, CPA
July 27, 2011

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Independent Auditor's Report

To the Board of Directors
Taylor County Rural Electric Cooperative Corporation

I have audited the balance sheets of Taylor County Rural Electric Cooperative Corporation, as of May 31, 2011 and 2010, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of Taylor County Rural Electric Cooperative Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taylor County Rural Electric Cooperative Corporation as of May 31, 2011 and 2010, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* I have also issued a report dated July 27, 2011, on my consideration of Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

Alan Zumstein

Alan M. Zumstein, CPA
July 27, 2011

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To the Board of Directors
Taylor County Rural Electric Cooperative Corporation

I have audited the financial statements of Taylor County Rural Electric Cooperative Corporation as of and for the years ended May 31, 2011 and 2010, and have issued my report thereon dated July 27, 2011. I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein, CPA
July 27, 2011

Taylor County Rural Electric Cooperative Corporation

Balance Sheets, May 31, 2011 and 2010

Assets	2011	2010
Electric Plant, at original cost:		
In service	$ 69,170,476	$ 66,384,429
Under construction	223,222	319,448
	69,393,698	66,703,877
Less accumulated depreciation	17,955,744	16,539,770
	51,437,954	50,164,107
Investments in Associated Organizations	11,980,611	10,534,661
Current Assets:		
Cash and cash equivalents	7,226,172	3,002,456
Accounts receivable, less allowance for 2011 of $270,894 and 2010 of $148,745	378,460	578,559
Other receivables	229,087	206,403
Material and supplies, at average cost	687,505	693,358
Other current assets	173,661	166,197
	8,694,885	4,646,973
Deferred Property Retirement	527,068	709,519
Total	$ 72,640,518	$ 66,055,260

Members' Equities and Liabilities	2011	2010
Members' Equities:		
Memberships	$ 283,575	$ 284,475
Patronage capital	44,966,257	42,570,094
Other equities	97,213	96,388
Accumulated other comprehensive income	(2,934,764)	(3,045,656)
	42,412,281	39,905,301
Long Term Debt	22,244,701	18,256,419
Accumulated Postretirement Benefits	4,275,365	4,450,328
Current Liabilities:		
Accounts payable	309,549	267,673
Consumer deposits	1,184,999	1,127,792
Current portion of long term debt	900,000	800,000
Accrued expenses	438,418	392,701
	2,832,966	2,588,166
Consumer Advances	875,205	855,046
Total	$ 72,640,518	$ 66,055,260

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

Statements of Revenue and Patronage Capital

for the years ended May 31, 2011 and 2010

	2011	2010
Operating Revenues	$ 44,128,668	$ 43,838,946
Operating Expenses:		
Cost of power	33,777,332	33,131,792
Distribution - operations	1,738,629	1,504,026
Distribution - maintenance	1,836,654	1,509,939
Consumer accounts	1,116,382	1,064,694
Customer services	116,409	116,933
Administrative and general	1,386,866	1,403,514
Depreciation, excluding $137,378 in 2011 and $127,941 in 2010 charged to clearing account	2,185,814	2,109,213
Taxes	47,133	38,002
	42,205,219	40,878,113
Operating margins before interest charges	1,923,449	2,960,833
Interest Charges:		
Long-term debt	958,911	897,099
Other	69,405	64,172
	1,028,316	961,271
Operating margins after interest charges	895,133	1,999,562
Nonoperating Margins		
Interest income	112,436	42,838
Others	(3,660)	(4,332)
	108,776	38,506
Patronage Capital Credits	1,533,878	1,480,465
Net Margins	2,537,787	3,518,533
Patronage Capital, beginning of year	42,570,094	39,223,521
Retirements of capital credits	(141,624)	(171,960)
Patronage Capital, end of year	$ 44,966,257	$ 42,570,094

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

Statements of Cash Flows

for the years ended May 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Net margins (deficit)	$ 2,537,787	$ 3,518,533
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,185,814	2,109,213
Charged to clearing accounts	137,378	127,941
Patronage capital credits assigned	(1,533,878)	(1,480,465)
Accumulated postretirement benefits	(64,071)	(8,539)
Deferred property retirements	182,451	93,018
Change in assets and liabilities:		
Receivables	177,415	402,470
Material and supplies	5,853	38,036
Other assets	(7,464)	(118,874)
Payables	41,876	15,930
Consumer deposits and advances	77,366	17,890
Accrued expenses	45,717	(11,840)
	3,786,244	4,703,313
Cash Flows from Investing Activities:		
Plant additions	(3,388,760)	(2,841,071)
Plant removal costs	(273,375)	(297,296)
Salvage recovered from retired plant	65,096	126,959
Receipts from other investments, net	87,928	100,641
	(3,509,111)	(2,910,767)
Cash Flows from Financing Activities:		
Net increase in memberships	(900)	(1,140)
Increase in other equities	825	10,764
Retirements of capital credits	(141,624)	(171,960)
Advances of long term debt	6,000,000	-
Payments on long term debt	(873,760)	(761,667)
Advance payments on long term debt	(1,037,958)	(2,355)
	3,946,583	(926,358)
Net increase in cash	4,223,716	866,188
Cash and cash equivalents, beginning of year	3,002,456	2,136,268
Cash and cash equivalents, end of year	$ 7,226,172	$ 3,002,456
Supplemental cash flows information:		
Interest paid on long-term debt	$ 958,911	$ 897,098

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

Note 1. Summary of Significant Accounting Policies

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

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

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation for distribution plant. Gain or loss is recognized on disposition of general plant items.

Electric plant consists of:

	2011	2010
Distribution plant	$65,540,655	$63,045,547
General plant	3,629,821	3,338,882
Total	$69,170,476	$66,384,429

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates are as follows:

Distribution plant	3%
Structures and improvements	2%
Transportation equipment	16%
Other general plant items	6% - 16%

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

Off Balance Sheet Risk Taylor County has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) at various time during the month. Taylor County's primary bank participates in a temporary "Transaction Account Guarantee Program" through the FDIC that provides unlimited coverage for noninterest-bearing transaction accounts.

Revenue Taylor County implemented an Automated Meter Reading ("AMR") program during 2009 where meters are remotely read on the 1st day of each month. All consumers are required to pay a refundable deposit, which may be waived under certain circumstances. Taylor County's sales are concentrated in a six county area of southeastern Kentucky. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at May 31, 2011 or 2010.

Note 1. Summary of Significant Accounting Policies, continued

Cost of Power Taylor County is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Taylor County 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 power bill is received, rather that the period of actual usage, based upon billings from East Kentucky. The cost of power purchased but not recorded was $2,365,926 for 2011 and $1,673,254 for 2010.

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

> Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices of similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Taylor County may, and also does, invest idle funds in local banks and with advance payments to East Kentucky for the power bill. These investments are classified as held-to-maturity in accordance with provisions of the *Financial Instruments Topic* of FASB ASC 320. Held-to-maturity securities are presented at amortized cost. The fair value of held-to-maturity securities approximates cost at 2011 and 2010.

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

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

Advertising Taylor County expenses advertising costs as incurred.

Note 1. Summary of Significant Accounting Policies, continued

Income Tax Status Taylor County is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements include no provision for income taxes.

Effective January 1, 2008, Taylor County adopted the provisions of the *Income Taxes Topic* of the FASB ASC that pertains to accounting for uncertainty in income taxes. Taylor County had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statures, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. Taylor County recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Taylor County did not recognize any interest or penalties during the years ended 2010 or 2009.

Subsequent Events Management has evaluated subsequent events through July 27, 2011, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2011	2010
East Kentucky, patronage capital	$11,145,522	$9,762,159
CoBank	446,807	452,985
Others	388,282	319,517
Total	$11,980,611	$10,534,661

Taylor County records patronage capital assigned by associated organizations in the year in which such assignments are received. Investments and purchases from National Bank for Cooperatives ("CoBank") are a condition of borrowing loan funds.

Note 3. Patronage Capital

Patronage capital consisted of:

	2011	2010
Assigned to date	$44,251,938	$41,497,569
Assignable margins	779,359	1,175,306
Retirements to date	(3,662,444)	(3,521,250)
Unassigned	3,597,404	3,418,469
Total	$44,966,257	$42,570,094

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Taylor County may distribute the difference between 25% and the payments made to such estates. At May 31, 2011, the equities and margins were 58% of total assets.

Note 4. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income, which includes the effects of accumulated postretirement benefits, are as follows:

	2011	2010
Balance, beginning of period	($3,045,656)	($3,156,548)
Amortization	110,892	110,892
Initially apply and adjustments	-	-
Total	($2,934,764)	($3,045,656)

Note 5. Long Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (FFB), and CoBank under a joint mortgage agreement. First mortgage notes consist of:

	2011	2010
RUS, 1.50% (0.375% in 2010) to 5.375%	$7,478,154	$13,198,322
Advance payments, earns 5.0%	(1,086,508)	(48,549)
	6,391,646	13,149,773
FFB, 3.306%	5,955,821	-
CoBank, 3.35% to 6.95%	5,737,157	5,906,646
Refinance RUS loans, 4.52%	5,060,077	-
	10,797,234	5,906,646
	23,144,701	19,056,419
Less current portion	900,000	800,000
Long term portion	$22,244,701	$18,256,419

The long term debt payable to RUS and CoBank are due in quarterly and monthly installments of varying amounts through 2039. During August 2010, Taylor County refinanced $5.42 million of RUS loans with lower interest rate loans from CoBank.

As of May 31, 2011, annual current principal due for the next five years are as follows: 2012 - $900,000; 2013 - $1,000,000; 2014 - $1,050,000; 2015 - $1,150,000; 2016 - $1,200,000.

Note 6. Short Term Borrowings

Taylor County has executed short term line of credit agreements in the amount of $3,000,000 each with CoBank and with National Rural Utilities, Cooperative Finance Corporation ("CFC"). At May 31, 2010 Taylor County had repaid all advances against this line of credit.

Note 7. Pension Plan

Effective January 1, 1995, Taylor County implemented a Retirement Savings Plan for all employees who are eligible to participate in Taylor County's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Taylor County makes contributions for each participant equal to 10% of participants' base compensation with employees required to make a minimum contribution of 3% of base wages. Taylor County contributed $260,037 in 2011 and $266,698 in 2010. Participants vest immediately in their contributions and the contributions of Taylor County.

Note 8. Postretirement Benefits

Taylor County sponsors a defined benefit plan that provides medical insurance coverage for retired employees and their spouses. Taylor County pays all the premiums for retirees and their dependents. For measurement purposes, an annual rate of increase of 8.9% in 2009, then decreasing by 0.5% per year until 5% per year, in the per capita cost of covered health care benefit was assumed. The discount rate used in determining the accumulated postretirement benefit obligation was 6.50% in 2011 and 2010.

The funded status of the plan is as follows:

	2011	2010
Projected benefit obligation	($4,275,365)	($4,450,328)
Plan assets at fair value	-	-
Total	($4,275,365)	($4,450,328)

The components of net periodic postretirement benefit cost are as follows:

	2011	2010
Benefit obligation at beginning of year	$4,450,328	$4,569,759
Components of net periodic benefit cost:		
Service cost	104,511	110,149
Interest cost	118,389	112,751
Net periodic benefit cost	222,900	222,900
Benefits paid	(397,863)	(342,331)
Accumulated other comprehensive accounting	-	-
Benefit obligation at end of year	$4,275,365	$4,450,328

Projected retiree benefit payments for the next five years are expected to be as follows: 2012 - $302,480; 2013 - $290,895; 2014 - $276,070; 2015 - $260,080; 2016 - $199,710.

Note 9. Related Party Transactions

Several of the Directors of Taylor County and its General Manager & CEO are on the Boards of Directors of various associated organizations.

Note 10. Commitments and Contingencies

Taylor County is contingently liable as guarantor for approximately $106,000 of long term obligations of East Kentucky to RUS and CFC. Substantially all assets of Taylor County are pledged as collateral for this guarantee, in addition to the pledge in the mortgage agreement referred to in Note 5. This contingent liability was part of an overall financing plan for the construction of generating facilities near Maysville, Kentucky.

Taylor County 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 two years.

Note 11. Environmental Contingency

Taylor County 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 Taylor County 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 Taylor County's financial position or its future cash flows.

Note 12. Rate Matters

East Kentucky increased its base rates to Taylor County during August 2007, by 2%, in April 2009, by 7% and again in January 2011 by 4%. Taylor County passed these increases on to its customers using the methodology prescribed by the PSC.

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