TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

FINANCIAL REPORT

MAY 31, 2019

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Taylor County Rural Electric Cooperative Corporation
Campbellsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Taylor County Rural Electric Cooperative Corporation, which comprise the balance sheet as of May 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Certified Public Accountants and Advisors
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Opinion

In our opinion, the 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, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019, on our consideration of Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Taylor County Rural Electric Cooperative Corporation's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Taylor County Rural Electric Cooperative Corporation, as of and for the year ended May 31, 2018 were audited by other auditors whose report dated August 1, 2018 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 4, 2019

TAYLOR COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION

BALANCE SHEETS
May 31, 2019 and 2018

Assets	2019	2018
Electric plant, at original cost:		
In service	$ 92,423,177	$ 89,395,217
Under construction	270,829	278,268
	92,694,006	89,673,485
Less accumulated depreciation	33,380,338	31,074,522
	59,313,668	58,598,963
Investments in associated organizations	30,113,622	28,311,605
Current Assets:		
Cash and cash equivalents	3,783,033	2,341,109
Accounts receivable, less allowance for 2019 of $80,943 and 2018 of $83,153	567,842	790,069
Other receivables	325,484	334,047
Material and supplies, at average cost	688,061	637,885
Other current assets	299,649	434,361
Total current assets	5,664,069	4,537,471
Total	$ 95,091,359	$ 91,448,039

Members' Equities and Liabilities	2019	2018
Members' Equities:		
Patronage capital	$ 66,173,760	$ 64,151,349
Other equities	410,022	407,146
Accumulated other comprehensive (loss)	(2,699,536)	(2,607,101)
	63,884,246	61,951,394
Long Term Debt, less current portion	21,518,704	17,958,555
Accumulated Postretirement Benefits	5,197,743	4,738,457
Current Liabilities:		
Notes payable	- -	2,365,000
Accounts payable	506,862	621,678
Consumer deposits	1,546,723	1,476,740
Current portion of long term debt	1,295,000	1,260,000
Accrued expenses	523,847	475,003
Total current liabilities	3,872,432	6,198,421
Consumer Advances	618,234	601,212
Total	$ 95,091,359	$ 91,448,039

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

TAYLOR COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION

STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years ended May 31, 2019 and 2018

	2019	2018
Operating Revenues		
Sales of electric energy	$ 46,583,907	$ 47,574,831
Other revenues	760,019	740,527
	47,343,926	48,315,358
Operating Expenses:		
Cost of power	36,271,833	37,555,043
Distribution - operations	2,156,451	2,029,980
Distribution - maintenance	2,036,396	1,897,145
Consumer accounts	1,216,296	1,111,705
Customer services	29,192	55,124
Administrative and general	1,523,402	1,540,167
Depreciation, excluding $167,111 in 2019 and $160,805 in 2018 charged to clearing accounts	2,932,271	2,839,602
Taxes	52,566	57,091
Interest on long-term debt	847,797	658,555
Other interest	75,030	90,302
Total cost of electric service	47,141,234	47,834,714
Operating margins	202,692	480,644
Nonoperating Margins		
Interest income	163,219	201,340
Others	(33,959)	(7,771)
	129,260	193,569
Patronage Capital Credits		
Generation and transmission capital credits	1,757,301	939,573
Others	115,750	157,361
	1,873,051	1,096,934
Net Margins	2,205,003	1,771,147
Other Comprehensive Income:		
Accumulated postretirement benefits	(92,435)	209,544
Comprehensive Income	$ 2,112,568	$ 1,980,691

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

STATEMENT OF CHANGES IN MEMBERS' EQUITIES
Years Ended May 31, 2019 and 2018

	Patronage Capital					Other	Accumulated Other Comprehensive	Total Members'
	Assigned	Unassigned	Retirements	Assignable	Total	Equities	Income	Equities
Balance - May 31, 2017	$ 61,218,932	$ 4,599,834	$ (4,731,659)	$ 1,473,137	$ 62,560,244	$ 401,364	$ (2,816,645)	$ 60,144,963
Allocate margins	2,222,434	325,367		(2,547,801)	- -			- -
Comprehensive income:								
Net margins				1,771,147	1,771,147			1,771,147
Postretirement benefit obligation								
Amortization							209,544	
Adjustments								209,544
Total comprehensive income								1,980,691
Net change in memberships								
Refunds to estates			(180,042)		(180,042)			(180,042)
Other equities						5,782		5,782
Balance - May 31, 2018	63,441,366	4,925,201	(4,911,701)	696,483	64,151,349	407,146	(2,607,101)	61,951,394
Allocate margins	2,222,434	325,367		(2,547,801)	- -			- -
Comprehensive income:								
Net margins				2,205,003	2,205,003			2,205,003
Postretirement benefit obligation								
Amortization							197,223	
Adjustments							(289,658)	(92,435)
Total comprehensive income								2,112,568
Net change in memberships								
Refunds to estates			(182,592)		(182,592)			(182,592)
Other equities						2,876		2,876
Balance - May 31, 2019	$ 65,663,800	$ 5,250,568	$ (5,094,293)	$ 353,685	$ 66,173,760	$ 410,022	$ (2,699,536)	$ 63,884,246

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

TAYLOR COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 2,205,003	$ 1,771,147
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	2,932,271	2,839,602
Charged to clearing accounts	167,111	160,805
Patronage capital credits assigned	(1,873,051)	(1,096,934)
Accumulated postretirement benefits	366,851	201,193
Change in assets and liabilities:		
Receivables	230,790	(288,671)
Material and supplies	(50,176)	(6,777)
Other assets	134,712	(244,448)
Payables	(114,816)	140,656
Consumer deposits and advances	87,005	(65,546)
Accrued expenses	48,844	2,185
Net cash provided by operating activities	4,134,544	3,413,212
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,452,946)	(3,748,558)
Plant removal costs	(366,237)	(360,272)
Salvage recovered from retired plant	5,096	76,778
Receipts from other investments, net	71,034	90,007
Net cash (used in) investing activities	(3,743,053)	(3,942,045)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other equities	2,876	5,782
Retirements of capital credits	(182,592)	(180,042)
Short term borrowings, net	(2,365,000)	615,000
Advances of long term debt	4,000,000	- -
Principal payments on long term debt	(1,257,475)	(1,248,237)
Advance payments on long term debt	852,624	771,093
Net cash provided by (used in) financing activities	1,050,433	(36,404)
Net increase (decrease) in cash and cash equivelants	1,441,924	(565,237)
Cash and cash equivalents, beginning of year	2,341,109	2,906,346
Cash and cash equivalents, end of year	$ 3,783,033	$ 2,341,109
Supplemental cash flows information:		
Cash payments for interest	$ 902,827	$ 748,857

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

NOTES TO 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 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:

	2019	2018
Distribution plant	$ 87,742,285	$ 84,822,605
General plant	4,680,892	4,572,612
Total	$ 92,423,177	$ 89,395,217

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 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 the credit risk related to the accounts is minimal.

Revenue Taylor County utilizes an Automated Meter Reading ("AMR") process 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, 2019 or 2018.

Sales Taxes Taylor County is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. Taylor County' 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.

NOTES TO FINANCIAL STATEMENTS

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 than the period of actual usage, based upon billings from East Kentucky.

Fair Value Measurements FASB ASC 820, *Fair Value Measurements and Disclosures,* requires that Taylor County to disclose estimated fair values of its financial instruments. Fair value estimates, methods, and assumptions are set forth below for Taylor County' financial instruments.

The carrying amounts of Taylor County's cash and cash equivalents, receivables, inventories, accounts payable, and accrued expenses and 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 are not considered financial instruments because they represent activities specifically related to Taylor County. Long term debt cannot be traded in the market, and is specifically for electric cooperatives and a value other than its outstanding principal cannot be determined.

Taylor County may, and also does, invest idle funds in local banks. 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 2019 and 2018.

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 accordance 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.

Income Tax Status Taylor County is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Taylor County include no provision for income taxes. Taylor County's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Taylor County has no uncertain tax positions resulting in an accrual of tax expense or benefit. 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 May 31, 2019 and 2018. Taylor County's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Subsequent Events Management has evaluated subsequent events through September 4, 2019, 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:

	2019	2018
East Kentucky, patronage capital	$ 28,791,375	$ 27,034,075
CoBank	674,829	650,535
Others	647,418	626,995
Total	$ 30,113,622	$ 28,311,605

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

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, 2019, the equities and margins were 67% of total assets.

Note 4. 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:

	2019	2018
RUS, 1.625% to 5.375%	$ 5,064,133	$ 5,386,412
Advance payments, earns 5.0%	(2,453,941)	(3,306,565)
	2,610,192	2,079,847
FFB, 2.403% and 3.306%	10,314,256	10,616,796
CoBank, 2.91% to 6.78%	7,994,356	4,320,070
Refinance RUS loans, 4.52%	1,894,900	2,201,842
	9,889,256	6,521,912
	22,813,704	19,218,555
Less current portion	1,295,000	1,260,000
Long term portion	$ 21,518,704	$ 17,958,555

Note 4. Long Term Debt (Continued)

The long term debt payable to RUS and CoBank are due in quarterly and monthly installments of varying amounts through 2039. RUS assess 125 basis points to administer the FFB loans. During August 2010, Taylor County refinanced $5.42 million of RUS loans with lower interest rate loans from CoBank.

As of May 31, 2019, annual current principal due for the next five years are as follows: 2020 - $1,295,000; 2021 - $1,330,000; 2022 - $1,380,000; 2023 - $1,425,000; 2024 - $1,470,000.

Note 5. 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, 2019 Taylor County had repaid all advances against these lines of credit.

Note 6. 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 $318,683 in 2019 and $304,102 in 2018. Participants vest immediately in their contributions and the contributions of Taylor County. There were no changes in the plan that would affect the comparability of the prior year.

Note 7. 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 5% in 2019, 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 4.5% in 2019 and 2018.

The funded status of the plan is as follows:

	2019	2018
Projected benefit obligation	$ (5,197,743)	$ (4,738,457)
Plan assets at fair value	- -	- -
Total	$ (5,197,743)	$ (4,738,457)

NOTES TO FINANCIAL STATEMENTS

Note 7. Postretirement Benefits (Continued)

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

	2019	2018
Benefit obligation at beginning of year	$ 4,738,457	$ 4,746,808
Components of net periodic benefit cost:		
Service cost	128,266	142,562
Interest cost	223,565	213,418
Net periodic benefit cost	351,831	355,980
Benefits paid	(182,203)	(364,331)
Actuarial adjustments	289,658	- -
Benefit obligation at end of year	$ 5,197,743	$ 4,738,457

	2019	2018
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	$ (2,699,536)	$ (2,607,101)

Effect of 1% increase in the health care trend:	
Postemployment benefit obligation	$ 5,535,000
Net periodic benefit cost	$ 375,000

Note 8. 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 9. 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 10. Contingencies

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

Note 11. Commitments

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 12. Labor Force

Approximately 80% of Taylor County's labor force is subject to a collective bargaining agreement. A three (3) year agreement was negotiated and approved for the period starting December 1, 2017 between Taylor County and the Local Union No. 89, General Drivers, Warehousemen and Helpers, Affiliated with International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America.

Jones, Nale & Mattingly PLC

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
Taylor County Rural Electric Cooperative Corporation
Campbellsville, 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 financial statements of Taylor County Rural Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of May 31, 2019 and the related statements of revenue and comprehensive income, changes in members' equities and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated September 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations

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contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 4, 2019

JNM

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
Taylor County Rural Electric Cooperative Corporation
Campbellsville, 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 financial statements of Taylor County Rural Electric Cooperative Corporation ("the Cooperative"), which comprise the balance sheet as of May 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019, 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;

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

Consumer advances for construction	$618,234

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 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
September 4, 2019