TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 23

FINANCIAL REPORT

MAY 31, 2020

C O N T E N T S

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 sheets as of May 31, 2020 and 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discuss in Note 2, Taylor County Rural Electric Cooperative Corporation has adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 17, 2020

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
May 31, 2020 and 2019

Assets	2020	2019
Electric Plant, at original cost:		
In service	$ 96,321,739	$ 92,423,177
Under construction	277,891	270,829
	96,599,630	92,694,006
Less accumulated depreciation	35,439,580	33,380,338
	61,160,050	59,313,668
Investments in Associated Organizations	31,831,460	30,113,622
Current Assets:		
Cash and cash equivalents	8,956,372	3,783,033
Accounts receivable, less allowance for 2020 of $151,424 and 2019 of $80,943	549,858	567,842
Other receivables	281,061	325,484
Material and supplies, at average cost	760,014	688,061
Other current assets	288,104	299,649
Total current assets	10,835,409	5,664,069
Total	$ 103,826,919	$ 95,091,359

Members' Equities and Liabilities	2020	2019
Members' Equities:		
Patronage capital	$ 67,588,040	$ 66,173,760
Other equities	413,434	410,022
Accumulated other comprehensive loss	(2,506,420)	(2,699,536)
	65,495,054	63,884,246
Long-Term Debt and Other Liabilities		
Long-term debt, less current portion	25,020,686	21,518,704
Capital lease obligation, less current portion	228,942	107,404
Accumulated postretirement benefits	5,361,853	5,197,743
Total long-term liabilities	30,611,481	26,823,851
Current Liabilities:		
Current portion of long-term debt	2,178,326	1,295,000
Current portion of capital lease obligation	60,816	36,552
Accounts payable	2,741,446	362,906
Consumer deposits	1,653,058	1,546,723
Accrued expenses	542,651	523,847
Total current liabilities	7,176,297	3,765,028
Consumer Advances for Construction	544,087	618,234
Total	$ 103,826,919	$ 95,091,359

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years ended May 31, 2020 and 2019

	2020	2019
Operating Revenues		
Sales of electric energy	$ 44,728,983	$ 46,583,907
Other electric revenues	658,261	760,019
	45,387,244	47,343,926
Operating Expenses		
Cost of power	34,820,548	36,271,833
Distribution - operations	2,128,457	2,156,451
Distribution - maintenance	1,923,169	2,036,396
Consumer accounts	1,220,574	1,216,296
Customer services	111,049	29,192
Administrative and general	1,573,447	1,523,402
Depreciation, excluding $191,891 in 2020 and $167,111 in 2019 charged to clearing accounts	3,027,287	2,932,271
Other deductions	61,210	52,566
Interest on long-term debt	850,090	847,797
Other interest	54,005	75,030
	45,769,835	47,141,234
Operating Margins (Deficit)	(382,591)	202,692
Nonoperating Margins		
Interest income	117,641	163,219
Others	(58,445)	(33,959)
	59,196	129,260
Patronage Capital Credits		
Generation and transmission	1,843,718	1,757,301
Others	96,443	115,750
	1,940,161	1,873,051
Net Margins	1,616,766	2,205,003
Other Comprehensive Income (Loss):		
Postretirement plan actuarial loss	- -	(289,658)
Postretirement benefits amortization of net loss	193,116	197,223
	193,116	(92,435)
Total Comprehensive Income	$ 1,809,882	$ 2,112,568

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENT OF CHANGES IN MEMBERS' EQUITIES
Years Ended May 31, 2020 and 2019

	Patronage Capital						Accumulated Other	Total
						Other	Comprehensive	Members'
	Assigned	Unassigned	Retirements	Assignable	Total	Equities	Income (Loss)	Equities
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
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
Allocate margins	2,222,434	325,367		(2,547,801)	- -			- -
Comprehensive income:								
Net margins				1,616,766	1,616,766			1,616,766
Postretirement benefit obligation								
Amortization							193,116	193,116
Total comprehensive income								1,809,882
Refunds to estates			(202,486)		(202,486)			(202,486)
Other equities						3,412		3,412
Balance - May 31, 2020	$ 67,886,234	$ 5,575,935	$ (5,296,779)	$ (577,350)	$ 67,588,040	$ 413,434	$ (2,506,420)	$ 65,495,054

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,616,766	$ 2,205,003
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,027,287	2,932,271
Charged to clearing accounts	191,891	167,111
Patronage capital credits assigned	(1,940,161)	(1,873,051)
Amortization of postretirement actuarial adjustment	193,116	197,223
Change in assets and liabilities:		
Receivables	62,407	230,790
Material and supplies	(71,953)	(50,176)
Other current assets	11,545	134,712
Accounts payable	2,378,540	(79,526)
Consumer deposits and advances	32,188	87,005
Accrued expenses	18,804	48,844
Accumulated postretirement benefits	164,110	169,628
Net cash provided by operating activities	5,684,540	4,169,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(4,482,072)	(3,452,946)
Salvage, net of removal costs	(397,462)	(361,141)
Receipts from other investments	222,323	71,034
Net cash (used in) investing activities	(4,657,211)	(3,743,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other equities	3,412	2,876
Retirements of capital credits	(202,486)	(182,592)
Repayments of short-term borrowings	- -	(2,365,000)
Advances of long-term debt	4,682,874	4,000,000
Principal payments on capital lease obligation	(40,223)	(35,290)
Principal payments on long-term debt	(1,199,134)	(1,257,475)
Advance payments on long-term debt	901,568	852,624
Net cash provided by financing activities	4,146,011	1,015,143
Net increase in cash and cash equivelants	5,173,339	1,441,924
Cash and cash equivalents, beginning of year	3,783,033	2,341,109
Cash and cash equivalents, end of year	$ 8,956,372	$ 3,783,033
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 900,712	$ 902,827
Property and equipment acquired with capital lease	$ 186,026	$ - -

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

Note 1. Summary of Significant Accounting Policies

Description of business

Taylor County Rural Electric Cooperative Corporation (Taylor County) provides distribution electric services to residential, business, and commercial consumers concentrated in a six-county area in central Kentucky. 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 the following as of May 31, 2020 and 2019:

	2020	2019
Distribution plant	$ 91,316,994	$ 87,742,285
General plant	5,004,745	4,680,892
Total	$ 96,321,739	$ 92,423,177

Depreciation

Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Amortization of assets under capital leases is included in depreciation expense. Depreciation rates are as follows:

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

Note 1. Summary of Significant Accounting Policies (Continued)

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. 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.

Sales tax

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.

Cost of power

Taylor County is one of 16 members of East Kentucky Power Cooperative, Inc. (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. The power bill includes a fuel adjustment and environmental surcharge component that is passed on to Taylor County's customers using a methodology prescribed by the PSC.

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 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 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable

Accounts receivable consists of amounts due for sales of electric which were not collected at year-end. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Taylor County uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Advertising

Taylor County expenses advertising costs as incurred. Advertising expenses $626 and $3,037 for the years ended May 31, 2020 and 2019, respectively.

Materials and supplies

Taylor County values materials and supplies at the lower of average cost or net realizable value.

Comprehensive income (loss)

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

Credit risk

Taylor County grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

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, 2020 and 2019. 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Pension accounting pronouncement

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 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 ASC Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the PSC's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on Statement of Financial Accounting Standards No. 106 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncements

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credits losses that have taken place during the period. This standard will be effective for the year ending May 31, 2024.

Taylor County is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the 2020 presentation.

Subsequent events

Management has evaluated subsequent events through September 17, 2020, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

Adoption of accounting pronouncement

Taylor County adopted ASU 2014-09, *Revenue from Contracts with Customers* as of June 1, 2019. The new standard replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. The standard was adopted using the modified retrospective method and had no effect on Taylor County's financial position or results of operations. Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as consumer deposits. Taylor County has no long-term contract liabilities.

Revenue from contracts

Taylor County is engaged in the distribution and sales of electricity to residential and commercial customers in six counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Taylor County 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 Taylor County. 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 15 days of the date of the bill.

Significant judgements

Taylor County has multiple billing cycles that process customer bills on approximately the same day each month. The amounts billed are based on actual meter reading 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, Taylor County'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

Taylor County customers generally have no minimum purchase commitments. Revenue is recognized as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there are no unsatisfied performance obligations to recognize as of May 31, 2020 and 2019.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2020 and 2019:

	2020	2019
Residential	$ 28,595,459	$ 29,570,919
Industrial	4,979,688	5,165,359
Large Commercial	7,267,642	7,849,517
Small Commercial	3,353,772	3,441,184
Other	532,422	556,928
	$ 44,728,983	$ 46,583,907

Contract assets and cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $1,653,058 and $1,546,723 as of May 31, 2020 and 2019, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2020 and 2019:

	2020	2019
East Kentucky, patronage capital	$ 30,466,528	$ 28,791,375
CoBank, patronage capital	694,074	674,829
Others	670,858	647,418
Total	$ 31,831,460	$ 30,113,622

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 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% 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. Members' equity as of May 31, 2020 and 2019 was 63% and 67% of total assets, respectively.

Note 5. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (FFB), and CoBank under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2039. RUS assess 12.5 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. During December 2019, Taylor County was approved for a loan in the amount of $10,000,000 from FFB. Taylor County had loan funds available from FFB in the amount of $6,200,000 as of May 31, 2020. These funds will be used for future plant additions.

In May 2020, Taylor County qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the United States Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.00% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness upon Taylor County's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by Taylor County. Taylor County intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, Taylor County will be required to pay interest on the PPP Loan at a rate of 1.00% per annum, and commencing in November 2020 principal and interest payments will be required through the maturity date in May 2025. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

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

	2020	2019
Rural Utilities Service		
Notes at 1.14% to 5.46%	$ 4,743,136	$ 5,064,133
Advance payments, earns 5.0%	(1,552,372)	(2,453,941)
	3,190,764	2,610,192
CoBank		
Notes at 2.91% to 6.69%	7,702,658	7,994,356
Refinanced RUS loans, 4.52%	1,620,734	1,894,900
	9,323,392	9,889,256
FFB notes at 1.56% and 3.29%	13,801,982	10,314,256
Citizens Bank, PPP loan at 1.00%	882,874	- -
	27,199,012	22,813,704
Less current portion	2,178,326	1,295,000
Long-term portion	$ 25,020,686	$ 21,518,704

Note 5. Long-Term Debt

As of May 31, 2020, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2021	$ 2,178,326
2022	1,336,263
2023	1,378,518
2024	1,422,270
2025	1,467,581
Thereafter	19,416,054
	$ 27,199,012

Note 6. Short-Term Notes Payable

As of May 31, 2020 and 2019, Taylor County had two short-term lines of credit of $3,000,000 each available from CoBank and National Rural Utilities, Cooperative Finance Corporation (CFC). There were no advances against either lines of credit as of May 31, 2020 and 2019. The CoBank line of credit matures on March 31, 2021 and the CFC line of credit matures on December 31, 2049.

Note 7. Capital Lease Obligation

Taylor County leases two trucks under capital lease agreements. The economic substance of the leases are that Taylor County is financing the acquisitions of the trucks through the leases, and accordingly, the leases are recorded in the assets and liabilities on the balance sheet. Future minimum lease payments are as follows for the years ending May 31:

2021	$ 72,586
2022	72,586
2023	62,328
2024	31,553
2025	31,553
Thereafter	57,847
	328,453
Less amounts representing interest	(38,695)
Present value of minimum lease payments	289,758
Less current portion	(60,816)
Long-term portion	$ 228,942

The cost of equipment under capital leases was $408,326 with related accumulated amortization of $120,753 as of May 31, 2020. The cost of equipment under capital leases was $222,300 with related accumulated amortization of $80,008 as of May 31, 2019.

Note 8. 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 10.0% of participants' base compensation with employees required to make a minimum contribution of 3.0% of base wages. Taylor County contributed $330,996 in 2020 and $318,683 in 2019. 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 9. Postretirement Benefits

Taylor County sponsors a defined benefit plan that provides medical insurance coverage for qualified retired employees and their spouses. Qualified employees are those hired prior to December 1, 2005. Taylor County pays all the premiums for retirees and their dependents. For measurement purposes, an annual rate of increase of 5.0% in 2020, then decreasing by 0.5% per year until 3.0% 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 2020 and 2019.

The funded status of the plan was as follows as of May 31, 2020 and 2019:

	2020	2019
Projected benefit obligation	$ (5,361,853)	$ (5,197,743)
Plan assets at fair value	- -	- -
Total	$ (5,361,853)	$ (5,197,743)

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

	2020	2019
Benefit obligation at beginning of year	$ 5,197,743	$ 4,738,457
Components of net periodic benefit cost:		
Service cost	112,857	128,266
Interest cost	237,591	223,565
Net periodic benefit cost	350,448	351,831
Benefits paid	(186,338)	(182,203)
Actuarial adjustments	- -	289,658
Benefit obligation at end of year	$ 5,361,853	$ 5,197,743

NOTES TO FINANCIAL STATEMENTS

Note 9. Postretirement Benefits (Continued)

		2020		2019
Amounts recognized in the balance sheet consists of:				
Accumulated postretirement benefits	$	(5,361,853)	$	(5,197,743)
Amounts included in other comprehensive income:				
Postretirement benefits amortization of net loss	$	193,116	$	197,223
Postretirement plan actuarial loss		- -		(289,658)
	$	193,116	$	(92,435)
Effect of 1% increase in the health care trend:				
Postemployment benefit obligation	$	5,710,000		
Net periodic benefit cost	$	375,000		

Projected retiree benefit payments for the next five years are expected to be as follows: 2021 - $303,900; 2022 - $320,600; 2023 - $338,300; 2024 - $356,900; 2025 - $376,500.

Note 10. Related Party Transactions

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

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. 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 13. 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 14. 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.

Note 15. Risks and Uncertainties

In March 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Taylor County as of September 17, 2020, management believes that a material impact on Taylor County's financial position and results of future operations is reasonably possible.

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, 2020 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 17, 2020.

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 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 17, 2020

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, 2020, 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 17, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, 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;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The deferred credits are as follows:

Consumer advances for construction	$ 544,087

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 17, 2020