TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 23

FINANCIAL REPORT

MAY 31, 2021

C O N T E N T S

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 sheets as of May 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2021, 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 23, 2021

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
May 31, 2021 and 2020

Assets	2021	2020
Electric Plant, at original cost:		
In service	$ 100,325,213	$ 96,321,739
Under construction	447,182	277,891
	100,772,395	96,599,630
Less accumulated depreciation	37,671,364	35,439,580
	63,101,031	61,160,050
Investments in Associated Organizations	32,650,451	31,831,460
Current Assets:		
Cash and cash equivalents	4,526,103	8,956,372
Accounts receivable, less allowance for 2021 of $267,205 and 2020 of $151,424	686,905	549,858
Other receivables	451,534	281,061
Material and supplies, at average cost	799,522	760,014
Other current assets	275,464	288,104
Total current assets	6,739,528	10,835,409
Total	$ 102,491,010	$ 103,826,919

Members' Equities and Liabilities	2021	2020
Members' Equities:		
Patronage capital	$ 69,370,784	$ 67,588,040
Other equities	417,915	413,434
Accumulated other comprehensive loss	(2,313,304)	(2,506,420)
	67,475,395	65,495,054
Long-Term Debt and Other Liabilities		
Long-term debt, less current portion	24,382,621	25,020,686
Capital lease obligations, less current portion	371,964	228,942
Accumulated postretirement benefits	5,534,872	5,361,853
Total long-term liabilities	30,289,457	30,611,481
Current Liabilities:		
Current portion of long-term debt	1,405,344	2,178,326
Current portion of capital lease obligations	96,414	60,816
Accounts payable	282,515	2,741,446
Consumer deposits	1,827,902	1,653,058
Accrued expenses	591,922	542,651
Total current liabilities	4,204,097	7,176,297
Consumer Advances for Construction	522,061	544,087
Total	$ 102,491,010	$ 103,826,919

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, 2021 and 2020

	2021	2020
Operating Revenues		
Sales of electric energy	$ 45,733,977	$ 44,728,983
Other electric revenues	438,559	658,261
	46,172,536	45,387,244
Operating Expenses		
Cost of power	35,199,848	34,820,548
Distribution - operations	2,092,508	2,128,457
Distribution - maintenance	2,332,856	1,923,169
Consumer accounts	1,259,725	1,220,574
Customer services	126,326	111,049
Administrative and general	1,510,865	1,573,447
Depreciation, excluding $249,692 in 2021 and $191,891 in 2020 charged to clearing accounts	3,160,911	3,027,287
Other deductions	43,859	61,210
Interest on long-term debt	668,023	850,090
Other interest	31,985	54,005
	46,426,906	45,769,835
Operating Margins (Deficit)	(254,370)	(382,591)
Nonoperating Margins		
Interest income	76,328	117,641
PPP loan forgiveness	882,874	- -
Other expense	(41,722)	(58,445)
	917,480	59,196
Patronage Capital Credits		
Generation and transmission	1,206,060	1,843,718
Others	104,640	96,443
	1,310,700	1,940,161
Net Margins	1,973,810	1,616,766
Other Comprehensive Income:		
Postretirement benefits amortization of net loss	193,116	193,116
Total Comprehensive Income	$ 2,166,926	$ 1,809,882

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended May 31, 2021 and 2020

	Patronage Capital					Other	Accumulated Other Comprehensive	Total Members'
	Assigned	Unassigned	Retirements	Assignable	Total	Equities	Income (Loss)	Equities
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
Allocate margins	2,222,434	325,367		(2,547,801)	- -			- -
Comprehensive income:								
Net margins				1,973,810	1,973,810			1,973,810
Postretirement benefit obligation								
Amortization							193,116	193,116
Total comprehensive income								2,166,926
Refunds to estates			(191,066)		(191,066)			(191,066)
Other equities						4,481		4,481
Balance - May 31, 2021	$ 70,108,668	$ 5,901,302	$ (5,487,845)	$ (1,151,341)	$ 69,370,784	$ 417,915	$ (2,313,304)	$ 67,475,395

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 1,973,810	$ 1,616,766
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,160,911	3,027,287
Charged to clearing accounts	249,692	191,891
Patronage capital credits assigned	(1,310,700)	(1,940,161)
PPP loan forgiveness	(882,874)	- -
Amortization of postretirement actuarial adjustment	193,116	193,116
Change in assets and liabilities:		
Receivables	(307,520)	62,407
Material and supplies	(39,508)	(71,953)
Other current assets	12,640	11,545
Accounts payable	(2,458,931)	2,378,540
Consumer deposits and advances	152,818	32,188
Accrued expenses	49,271	18,804
Accumulated postretirement benefits	173,019	164,110
Net cash provided by operating activities	965,744	5,684,540
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(4,759,103)	(4,482,072)
Removal costs, net of salvage	(332,093)	(397,462)
Receipts from other investments	491,709	222,323
Net cash (used in) investing activities	(4,599,487)	(4,657,211)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other equities	4,481	3,412
Retirements of capital credits	(191,066)	(202,486)
PPP loan proceeds	- -	882,874
Advances of long-term debt	- -	3,800,000
Principal payments on capital lease obligations	(81,767)	(40,223)
Principal payments on long-term debt	(1,355,207)	(1,199,134)
Cushion of credit applied	827,033	901,568
Net cash provided by (used in) financing activities	(796,526)	4,146,011
Net increase (decrease) in cash and cash equivelants	(4,430,269)	5,173,339
Cash and cash equivalents, beginning of year	8,956,372	3,783,033
Cash and cash equivalents, end of year	$ 4,526,103	$ 8,956,372
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 733,066	$ 900,712
Property and equipment acquired with capital lease	$ 260,387	$ 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 accounting principles generally accepted in the United States of America. 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, 2021 and 2020:

	2021	2020
Distribution plant	$ 94,943,665	$ 91,316,994
General plant	5,381,548	5,004,745
Total	$ 100,325,213	$ 96,321,739

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.

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 their 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 were $907 and $626 for the years ended May 31, 2021 and 2020, 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 qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income tax for the years ended May 31, 2021 and 2020. Accordingly, the financial statements of 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. Taylor County has no uncertain tax positions resulting in an accrual of tax expense or benefit.

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

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 (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the FERC's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending May 31, 2023.

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.

Subsequent events

Management has evaluated subsequent events through September 23, 2021, the date the financial statements were available to be issued.

Note 2. Revenue Recognition

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. Revenue for pole attachments is invoiced at the end of the year. The performance obligation is satisfied ratably over the term of the contract and revenue is recognized monthly as earned.

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, 2021 and 2020.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2021 and 2020:

	2021	2020
Residential	$ 29,572,605	$ 28,595,459
Industrial	4,968,436	4,979,688
Large Commercial	7,331,087	7,267,642
Small Commercial	3,357,703	3,353,772
Other	504,146	532,422
	$ 45,733,977	$ 44,728,983

Note 2. Revenue Recognition (Continued)

Contract assets and cost liabilities

Contract assets include unbilled pole attachment revenue and are included in other receivables on the balance sheets. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of May 31:

	2021	2020	2019
Contract assets			
Unbilled pole attachments	$ 276,692	$ 36,066	$ 124,114
Contract liabilities			
Consumer deposits	$ 1,827,902	$ 1,653,058	$ 1,546,723

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2021 and 2020:

	2021	2020
East Kentucky, patronage capital	$ 31,270,031	$ 30,466,528
CoBank, patronage capital	681,630	694,074
Others	698,790	670,858
Total	$ 32,650,451	$ 31,831,460

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, 2021 and 2020 was 66% and 63% 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. Long-term debt is due in quarterly and monthly installments of varying amounts through 2039. RUS assesses 12.5 basis points to administer the FFB loans. Taylor County had loan funds available from FFB in the amount of $6,200,000 as of May 31, 2021. These funds will be used for future plant additions.

In May 2020, Taylor County applied for and was granted a forgivable loan of $882,874 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1.00% and will be unsecured. Taylor County accounted for the loan proceeds as debt in accordance with ASC 470. Taylor County submitted its application for forgiveness to the SBA and was notified in December 2020 that the entire loan was forgiven. As such, in compliance with guidance from RUS, Taylor County has recognized the forgiveness of debt as other nonoperating income.

Long-term debt consists of the following as of May 31, 2021 and 2020:

	2021	2020
Rural Utilities Service		
Notes at 1.14% to 5.46%	$ 4,407,007	$ 4,743,136
Advance payments, earns 5.0%	(725,339)	(1,552,372)
	3,681,668	3,190,764
CoBank notes at 2.60% to 6.78%	8,668,205	9,323,392
FFB notes at 1.56% to 3.29%	13,438,092	13,801,982
Citizens Bank, PPP loan at 1.00%	- -	882,874
Total long-term debt	25,787,965	27,199,012
Less current portion	1,405,344	2,178,326
Long-term portion	$ 24,382,621	$ 25,020,686

Note 5. Long-Term Debt (Continued)

As of May 31, 2021, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2022	$ 1,405,344
2023	1,449,301
2024	1,494,798
2025	1,541,896
2026	1,590,657
Thereafter	18,305,969
	$ 25,787,965

Note 6. Short-Term Notes Payable

As of May 31, 2021 and 2020, 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, 2021 and 2020. The CoBank line of credit matures on January 31, 2022 and the CFC line of credit matures on December 31, 2049.

Note 7. Capital Lease Obligations

Taylor County leases three 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 sheets. Future minimum lease payments are as follows for the years ending May 31:

2022	$ 116,552
2023	106,294
2024	75,519
2025	75,519
2026	75,519
Thereafter	84,873
	534,275
Less amounts representing interest	(65,897)
Present value of minimum lease payments	468,378
Less current portion	(96,414)
Long-term portion	$ 371,964

The cost of equipment under capital leases was $668,713 with related accumulated amortization of $213,851 as of May 31, 2021. The cost of equipment under capital leases was $408,326 with related accumulated amortization of $120,753 as of May 31, 2020.

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 $345,032 in 2021 and $330,996 in 2020. 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 2021 and 2020.

The funded status of the plan was as follows as of May 31, 2021 and 2020:

	2021	2020
Projected benefit obligation	$ (5,534,872)	$ (5,361,853)
Plan assets at fair value	- -	- -
Total	$ (5,534,872)	$ (5,361,853)

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

	2021	2020
Benefit obligation at beginning of year	$ 5,361,853	$ 5,197,743
Components of net periodic benefit cost:		
Service cost	105,272	112,857
Interest cost	245,176	237,591
Net periodic benefit cost	350,448	350,448
Benefits paid	(177,429)	(186,338)
Benefit obligation at end of year	$ 5,534,872	$ 5,361,853

Note 9. Postretirement Benefits (Continued)

		2021		2020
Amounts recognized in the balance sheet consists of:				
Accumulated postretirement benefits	$	(5,534,872)	$	(5,361,853)
Amounts included in other comprehensive income:				
Postretirement benefits amortization of net loss	$	193,116	$	193,116
Effect of 1% increase in the health care trend:				
Postemployment benefit obligation	$	5,895,000		
Net periodic benefit cost	$	375,000		

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $320,600; 2023 - $338,300; 2024 - $356,900; 2025 - $376,500; 2026 - $395,300.

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.

NOTES TO FINANCIAL STATEMENTS

Note 14. Labor Force

Approximately 80% of Taylor County's labor force is subject to a collective bargaining agreement. A five (5) year agreement was negotiated and approved for the period December 1, 2020, through November 30, 2025, 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

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 23, 2021, 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, 2021 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 23, 2021.

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.

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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 23, 2021

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, 2021, 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 23, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

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- 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	$ 522,061

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 23, 2021