**TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION**
**KENTUCKY 23**

**FINANCIAL REPORT**

**MAY 31, 2022**

## 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 Audit of 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, 2022 and 2021, 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.

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, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Taylor County Rural Electric Cooperative Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Taylor County Rural Electric Cooperative Corporation's internal control. Accordingly, no such opinion is expressed.

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Taylor County Rural Electric Cooperative Corporation's ability to continue as a going concern for a reasonable period of time.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, 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, 2022

**TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION**
**BALANCE SHEETS**
**May 31, 2022 and 2021**

| Assets | 2022 | 2021 |
|---|---|---|
| Electric Plant, at original cost: | | |
| In service | $ 104,671,560 | $ 100,325,213 |
| Under construction | 58,268 | 447,182 |
| | 104,729,828 | 100,772,395 |
| Less accumulated depreciation | 39,903,977 | 37,671,364 |
| | 64,825,851 | 63,101,031 |
| Investments in Associated Organizations | 33,129,642 | 32,650,451 |
| Current Assets: | | |
| Cash and cash equivalents | 4,165,354 | 4,526,103 |
| Accounts receivable, less allowance for 2022 of $168,896 and 2021 of $267,205 | 1,454,276 | 686,905 |
| Other receivables | 106,557 | 451,534 |
| Material and supplies, at average cost | 874,532 | 799,522 |
| Other current assets | 286,226 | 275,464 |
| Total current assets | 6,886,945 | 6,739,528 |
| GPS System | 239,981 | - - |
| Total | $ 105,082,419 | $ 102,491,010 |
| Members' Equities and Liabilities | | |
| Members' Equities: | | |
| Patronage capital | $ 68,853,208 | $ 69,370,784 |
| Other equities | 421,855 | 417,915 |
| Accumulated other comprehensive loss | (2,120,188) | (2,313,304) |
| | 67,154,875 | 67,475,395 |
| Long-Term Debt and Other Liabilities | | |
| Long-term debt, less current portion | 26,554,991 | 24,382,621 |
| Capital lease obligations, less current portion | 535,170 | 371,964 |
| Accumulated postretirement benefits | 5,684,452 | 5,534,872 |
| Total long-term liabilities | 32,774,613 | 30,289,457 |
| Current Liabilities: | | |
| Current portion of long-term debt | 1,402,037 | 1,405,344 |
| Current portion of capital lease obligations | 129,038 | 96,414 |
| Accounts payable | 580,582 | 282,515 |
| Consumer deposits | 1,946,902 | 1,827,902 |
| Accrued expenses | 616,015 | 591,922 |
| Total current liabilities | 4,674,574 | 4,204,097 |
| Consumer Advances for Construction | 478,357 | 522,061 |
| Total | $ 105,082,419 | $ 102,491,010 |

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, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| Operating Revenues | | |
| Sales of electric energy | $ 52,660,274 | $ 45,733,977 |
| Other electric revenues | 641,714 | 438,559 |
| | 53,301,988 | 46,172,536 |
| Operating Expenses | | |
| Cost of power | 42,645,052 | 35,199,848 |
| Distribution - operations | 2,096,772 | 2,092,508 |
| Distribution - maintenance | 2,541,609 | 2,332,856 |
| Consumer accounts | 1,142,057 | 1,259,725 |
| Customer services | 129,555 | 126,326 |
| Administrative and general | 1,652,295 | 1,510,865 |
| Depreciation, excluding $225,490 in 2022 and $249,692 in 2021 charged to clearing accounts | 3,319,883 | 3,160,911 |
| Other deductions | 52,513 | 43,859 |
| Interest on long-term debt | 625,002 | 668,023 |
| Other interest | 27,381 | 31,985 |
| | 54,232,118 | 46,426,906 |
| Operating Deficit | (930,130) | (254,370) |
| Nonoperating Margins (Deficit) | | |
| Interest income | 21,678 | 76,328 |
| PPP loan forgiveness | - - | 882,874 |
| Other expense | (38,124) | (41,722) |
| | (16,446) | 917,480 |
| Patronage Capital Credits | | |
| Generation and transmission | 462,219 | 1,206,060 |
| Others | 147,048 | 104,640 |
| | 609,267 | 1,310,700 |
| Net Margins (Deficit) | (337,309) | 1,973,810 |
| Other Comprehensive Income: | | |
| Postretirement benefits amortization of net loss | 193,116 | 193,116 |
| Total Comprehensive Income (Loss) | $ (144,193) | $ 2,166,926 |

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, 2022 and 2021**

| | Patronage Capital | | | | | Other | Accumulated Other Comprehensive | Total Members' |
|---|---|---|---|---|---|---|---|---|
| | Assigned | Unassigned | Retirements | Assignable | Total | Equities | Income (Loss) | Equities |
| 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 |
| Allocate margins | 2,222,434 | 325,367 | | (2,547,801) | - - | | | - - |
| Comprehensive income (loss): | | | | | | | | |
| Net (deficit) | | | | (337,309) | (337,309) | | | (337,309) |
| Postretirement benefit obligation | | | | | | | | |
| Amortization | | | | | | | 193,116 | 193,116 |
| Total comprehensive (loss) | | | | | | | | (144,193) |
| Refunds to estates | | | (180,267) | | (180,267) | | | (180,267) |
| Other equities | | | | | | 3,940 | | 3,940 |
| Balance - May 31, 2022 | $ 72,331,102 | $ 6,226,669 | $ (5,668,112) | $ (4,036,451) | $ 68,853,208 | $ 421,855 | $ (2,120,188) | $ 67,154,875 |

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, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net margins (deficit) | $ (337,309) | $ 1,973,810 |
| Adjustments to reconcile net margins (deficit) to net cash provided by operating activities: | | |
| Depreciation: | | |
| Charged to expense | 3,319,883 | 3,160,911 |
| Charged to clearing accounts | 225,490 | 249,692 |
| Patronage capital credits assigned | (609,267) | (1,310,700) |
| PPP loan forgiveness | - - | (882,874) |
| Amortization of postretirement actuarial adjustment | 193,116 | 193,116 |
| Change in assets and liabilities, net of the effects of investing and financing activities: | | |
| Receivables, net | (422,394) | (307,520) |
| Material and supplies | (75,010) | (39,508) |
| Other current assets | (10,762) | 12,640 |
| GPS system | (239,981) | - - |
| Accounts payable | 298,067 | (2,458,931) |
| Consumer deposits | 75,296 | 152,818 |
| Accrued expenses | 24,093 | 49,271 |
| Accumulated postretirement benefits | 149,580 | 173,019 |
| Net cash provided by operating activities | 2,590,802 | 965,744 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Plant additions | (4,460,030) | (4,759,103) |
| Removal costs, net of salvage | (513,127) | (332,093) |
| Receipts from other investments | 130,076 | 491,709 |
| Net cash (used in) investing activities | (4,843,081) | (4,599,487) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in other equities | 3,940 | 4,481 |
| Retirements of capital credits | (180,267) | (191,066) |
| Advances of long-term debt | 3,200,000 | - - |
| Principal payments on capital lease obligations | (101,206) | (81,767) |
| Principal payments on long-term debt | (1,383,748) | (1,355,207) |
| Cushion of credit applied | 352,811 | 827,033 |
| Net cash provided by (used in) financing activities | 1,891,530 | (796,526) |
| Net decrease in cash and cash equivelants | (360,749) | (4,430,269) |
| Cash and cash equivalents, beginning of year | 4,526,103 | 8,956,372 |
| Cash and cash equivalents, end of year | $ 4,165,354 | $ 4,526,103 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash payments for interest | $ 652,200 | $ 733,066 |
| Property and equipment acquired with capital lease | $ 297,036 | $ 260,387 |

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

Note 1. 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, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Distribution plant | $ 98,930,566 | $ 94,943,664 |
| General plant | 5,740,994 | 5,381,549 |
| Total | $ 104,671,560 | $ 100,325,213 |

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% |

# NOTES TO FINANCIAL STATEMENTS

Note 1. 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.

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's policy is to exclude taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

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.

Use of 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. 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 $800 and $907 for the years ended May 31, 2022 and 2021, 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, 2022 and 2021. 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.

Note 1. 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 Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

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, 2022, 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, 2022 and 2021.

*Disaggregation of revenue*

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Residential | $ 33,131,709 | $ 29,572,605 |
| Industrial | 6,777,721 | 4,968,436 |
| Large Commercial | 8,362,783 | 7,331,087 |
| Small Commercial | 3,802,885 | 3,357,703 |
| Other | 585,176 | 504,146 |
| | $ 52,660,274 | $ 45,733,977 |

## NOTES TO FINANCIAL STATEMENTS

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:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Contract assets | | | |
| Unbilled pole attachments | $ 1,032 | $ 276,692 | $ 36,066 |
| Contract liabilities | | | |
| Consumer deposits | $ 1,946,902 | $ 1,827,902 | $ 1,653,058 |

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| East Kentucky, patronage capital | $ 31,732,250 | $ 31,270,031 |
| CoBank, patronage capital | 634,754 | 681,630 |
| Others | 762,638 | 698,790 |
| Total | $ 33,129,642 | $ 32,650,451 |

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, 2022 and 2021 was 64% and 66% 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 2053. RUS assesses 12.5 basis points to administer the FFB loans. Taylor County had loan funds available from FFB in the amount of $3,000,000 as of May 31, 2022. These funds will be used for future plant additions.

Long-term debt consists of the following as of May 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Rural Utilities Service | | |
| Notes at 0.25% to 5.46% | $ 4,060,773 | $ 4,407,007 |
| Advance payments | (372,528) | (725,339) |
| | 3,688,245 | 3,681,668 |
| CoBank notes at 2.60% to 6.78% | 8,088,697 | 8,668,205 |
| FFB notes at 1.56% to 3.31% | 16,180,086 | 13,438,092 |
| Total long-term debt | 27,957,028 | 25,787,965 |
| Less current portion | 1,402,037 | 1,405,344 |
| Long-term portion | $ 26,554,991 | $ 24,382,621 |

As of May 31, 2022, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

| | |
|---|---|
| 2023 | $ 1,402,037 |
| 2024 | 1,446,177 |
| 2025 | 1,491,874 |
| 2026 | 1,539,192 |
| 2027 | 1,588,193 |
| Thereafter | 20,489,555 |
| | $ 27,957,028 |

Note 6. Short-Term Notes Payable

As of May 31, 2022 and 2021, 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, 2022 and 2021. The CoBank line of credit matures on January 31, 2023, and the CFC line of credit matures on November 6, 2023.

Note 7. Capital Lease Obligations

Taylor County leases four trucks and an automobile 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:

| | |
|---|---|
| 2023 | $ 149,417 |
| 2024 | 118,642 |
| 2025 | 118,642 |
| 2026 | 118,642 |
| 2027 | 209,633 |
| Thereafter | 28,781 |
| | 743,757 |
| Less amounts representing interest | (79,549) |
| Present value of minimum lease payments | 664,208 |
| Less current portion | (129,038) |
| Long-term portion | $ 535,170 |

The cost of equipment under capital leases was $965,749 with related accumulated amortization of $334,586 as of May 31, 2022. The cost of equipment under capital leases was $668,713 with related accumulated amortization of $213,851 as of May 31, 2021.

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 $357,891 in 2022 and $345,032 in 2021. 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 2022 and 2021.

The funded status of the plan was as follows as of May 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Projected benefit obligation | $ (5,684,452) | $ (5,534,872) |
| Plan assets at fair value | - - | - - |
| Total | $ (5,684,452) | $ (5,534,872) |

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

| | 2022 | 2021 |
|---|---|---|
| Benefit obligation at beginning of year | $ 5,534,872 | $ 5,361,853 |
| Components of net periodic benefit cost: | | |
| Service cost | 98,013 | 105,272 |
| Interest cost | 252,435 | 245,176 |
| Net periodic benefit cost | 350,448 | 350,448 |
| Benefits paid | (200,868) | (177,429) |
| Benefit obligation at end of year | $ 5,684,452 | $ 5,534,872 |

| | 2022 | 2021 |
|---|---|---|
| Amounts recognized in the balance sheet consists of: | | |
| Accumulated postretirement benefits | $ (5,684,452) | $ (5,534,872) |
| 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 | $ 6,053,000 | |
| Net periodic benefit cost | $ 373,200 | |

Projected retiree benefit payments for the next five years are expected to be as follows: 2023 - $338,300; 2024 - $356,900; 2025 - $376,500; 2026 - $395,300; 2027 - $415,100.

## NOTES TO FINANCIAL STATEMENTS

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 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, 2022, management believes that a material impact on Taylor County's financial position and results of future operations is reasonably possible.

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

To the Board of Directors
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, 2022 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, 2022.

**Report on 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 or significant deficiencies may exist that have not been identified.



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**Report on 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, 2022

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, 2022, 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, and have issued our report thereon dated September 23, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, 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 debits are as follows:

| | |
|---|---|
| GPS system | $ 239,981 |

The deferred credits are as follows:

| | |
|---|---|
| Consumer advances for construction | $ 478,357 |

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, 2022