TAYLOR COUNTY RURAL ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 23

FINANCIAL REPORT

MAY 31, 2023

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 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, 2023 and 2022, 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, 2023 and 2022, 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.

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 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 these 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 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 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 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 1, 2023, on our consideration of Taylor County Rural Electric Cooperative Corporation'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. 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 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 1, 2023

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
May 31, 2023 and 2022

Assets	2023	2022
Electric Plant, at Original Cost:		
In service	$ 109,266,862	$ 104,671,560
Under construction	497,970	58,268
	109,764,832	104,729,828
Less accumulated depreciation	41,993,554	39,903,977
	67,771,278	64,825,851
Investments in Associated Organizations	33,697,061	33,129,642
Current Assets:		
Cash and cash equivalents	3,618,021	4,165,354
Accounts receivable, less allowance for 2023 of $100,005 and 2022 of $168,896	1,106,208	1,454,276
Other receivables	128,797	106,557
Material and supplies, at average cost	1,174,917	874,532
Other current assets	374,672	286,226
Total current assets	6,402,615	6,886,945
GPS System	- -	239,981
Total	$ 107,870,954	$ 105,082,419

Members' Equities and Liabilities	2023	2022
Members' Equities:		
Patronage capital	$ 64,240,631	$ 68,853,208
Other equities	425,455	421,855
Accumulated other comprehensive gain (loss)	247,793	(2,120,188)
	64,913,879	67,154,875
Long-Term Debt and Other Liabilities		
Long-term debt, less current portion	27,105,661	26,554,991
Finance lease obligations, less current portion	424,415	535,170
Accumulated postretirement benefits	3,628,764	5,684,452
Total long-term liabilities	31,158,840	32,774,613
Current Liabilities:		
Short-term notes payable	4,900,000	- -
Current portion of long-term debt	1,950,242	1,402,037
Current portion of finance lease obligations	96,424	129,038
Accounts payable	1,411,741	580,582
Consumer deposits	2,258,643	1,946,902
Accrued expenses	703,668	616,015
Total current liabilities	11,320,718	4,674,574
Consumer Advances for Construction	477,517	478,357
Total	$ 107,870,954	$ 105,082,419

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, 2023 and 2022

	2023	2022
Operating Revenues		
Sales of electric energy	$ 59,035,546	$ 52,660,274
Other electric revenues	808,090	641,714
	59,843,636	53,301,988
Operating Expenses		
Cost of power	49,356,350	42,645,052
Distribution - operations	2,406,663	2,096,772
Distribution - maintenance	6,166,429	2,541,609
Consumer accounts	1,283,318	1,142,057
Customer services	156,579	129,555
Administrative and general	2,138,451	1,652,295
Depreciation, excluding $343,107 in 2023 and $225,490 in 2022 charged to clearing accounts	3,426,202	3,319,883
Other deductions	33,730	52,513
Interest on long-term debt	994,591	625,002
Other interest	139,987	27,381
	66,102,300	54,232,118
Operating Deficit	(6,258,664)	(930,130)
Nonoperating Margins (Deficit)		
Interest income	22,127	21,678
Other expense	9,966	(38,124)
	32,093	(16,446)
Patronage Capital Credits		
Generation and transmission	1,717,146	462,219
Others	115,228	147,048
	1,832,374	609,267
Net Deficit	(4,394,197)	(337,309)
Other Comprehensive Income:		
Postretirement benefits amortization of net loss	193,116	193,116
Postretirement benefits actuarial gain	2,174,865	- -
	2,367,981	193,116
Total Comprehensive Loss	$ (2,026,216)	$ (144,193)

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, 2023 and 2022

	Patronage Capital					Other	Accumulated Other Comprehensive	Total Members'
	Assigned	Unassigned	Retirements	Assignable	Total	Equities	Income (Loss)	Equities
Balance - May 31, 2021	$ 66,983,517	$ 5,901,302	$ (5,487,845)	$ 1,973,810	$ 69,370,784	$ 417,915	$ (2,313,304)	$ 67,475,395
Allocate margins	767,750	1,206,060		(1,973,810)	- -			- -
Comprehensive income:								
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	67,751,267	7,107,362	(5,668,112)	(337,309)	68,853,208	421,855	(2,120,188)	67,154,875
Allocate margins	(799,528)	462,219		337,309	- -			- -
Comprehensive income (loss):								
Net (deficit)				(4,394,197)	(4,394,197)			(4,394,197)
Postretirement benefit obligation								
Amortization							193,116	
Adjustments							2,174,865	2,367,981
Total comprehensive (loss)								(2,026,216)
Refunds to estates			(218,380)		(218,380)			(218,380)
Other equities						3,600		3,600
Balance - May 31, 2023	$ 66,951,739	$ 7,569,581	$ (5,886,492)	$ (4,394,197)	$ 64,240,631	$ 425,455	$ 247,793	$ 64,913,879

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net deficit	$ (4,394,197)	$ (337,309)
Adjustments to reconcile net deficit to net cash provided by operating activities:		
Depreciation:		
Charged to expense	3,426,202	3,319,883
Charged to clearing accounts	343,107	225,490
Amortization of ROU assets	170,010	- -
Patronage capital credits assigned	(1,832,374)	(609,267)
Amortization of postretirement actuarial adjustment	193,116	193,116
Postretirement actuarial adjustment	2,174,865	- -
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	325,828	(422,394)
Material and supplies	(300,385)	(75,010)
Other current assets	(88,446)	(10,762)
GPS system	239,981	(239,981)
Accounts payable	831,159	298,067
Consumer deposits	310,901	75,296
Accrued expenses	87,653	24,093
Accumulated postretirement benefits	119,177	149,580
Net cash provided by operating activities	1,606,597	2,590,802
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,918,748)	(4,460,030)
Removal costs, net of salvage	(240,863)	(513,127)
Receipts from other investments	1,264,955	130,076
Net cash (used in) investing activities	(2,894,656)	(4,843,081)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other equities	3,600	3,940
Retirements of capital credits	(218,380)	(180,267)
Advances of long-term debt	3,000,000	3,200,000
Principal payments on finance lease obligations	(143,369)	(101,206)
Principal payments on long-term debt	(1,893,204)	(1,383,748)
Cushion of credit (added) applied	(7,921)	352,811
Additional short-term borrowings	14,200,000	- -
Payments on short-term borrowings	(9,300,000)	- -
Net cash provided by financing activities	740,726	1,891,530
Net decrease in cash and cash equivelants	(547,333)	(360,749)
Cash and cash equivalents, beginning of year	4,165,354	4,526,103
Cash and cash equivalents, end of year	$ 3,618,021	$ 4,165,354
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,027,933	$ 652,200
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Electric plant acquired with finance leases	$ - -	$ 297,036

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:

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.

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 costs 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, 2023 and 2022:

	2023	2022
Distribution plant	$ 102,783,540	$ 98,930,565
General plant	6,483,322	5,740,995
Total	$ 109,266,862	$ 104,671,560

Note 1. Significant Accounting Policies (Continued)

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 finance 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%

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.

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.

Materials and supplies

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

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Taylor County adopted the standard effective June 1, 2022, and recognized and measured leases existing at, or entered into after, June 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended May 31, 2022 are made under prior lease guidance in FASB ASC 840.

Note 1. Significant Accounting Policies (Continued)

Leases (continued)

Taylor County elected the available practical expedients to account for existing capital leases as finance leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, Taylor County recognized on June 1, 2022, a lease liability at the carrying amount of the capital lease obligations on May 31, 2022, of $664,208 and a right-of-use asset at the carrying amount of the capital lease asset of $645,512.

The standard did not have a material impact on the financial statements. The accounting for finance leases remained substantially unchanged.

Taylor County leases vehicles and determines if an arrangement is a lease at inception. Finance lease right-of-use assets are included in electric plant on the balance sheets. Finance lease obligations are included in current liabilities and long-term liabilities on the balance sheets.

ROU assets represent Taylor County’s right to use an underlying asset for the lease term and lease liabilities represent Taylor County’s obligation to make lease payments arising from the lease. Finance lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, Taylor County uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The finance lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Taylor County’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Taxes

Taylor County is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on six percent of gross sales from non-residential consumers, a three 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.

Note 1. Significant Accounting Policies (Continued)

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.

Advertising

Taylor County expenses advertising costs as incurred. Advertising expenses were $2,292 and $800 for the years ended May 31, 2023 and 2022, respectively.

Comprehensive income (loss)

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

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 and workers compensation. Each of these areas is covered through the purchase of commercial insurance.

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, 2023 and 2022. 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

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, 2023 and 2022.

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.

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 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 this ASU on the financial statements.

Subsequent events

Management has evaluated subsequent events through September 1, 2023, 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, 2023 and 2022.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2023 and 2022:

	2023	2022
Residential	$ 36,225,255	$ 33,131,709
Industrial	8,408,914	6,777,721
Large Commercial	9,521,867	8,362,783
Small Commercial	4,223,222	3,802,885
Other	656,288	585,176
	$ 59,035,546	$ 52,660,274

Note 2. Revenue Recognition (Continued)

Contract assets and contract liabilities

Contract assets include accounts receivable net of allowance and unbilled pole attachment revenue. Contract liabilities include consumer deposits. Contract assets and liabilities were as follows as of May 31:

	2023	2022	2021
Contract assets			
Accounts receivable, net	$ 1,106,208	$ 1,454,276	$ 686,905
Unbilled pole attachments	2,333	1,032	276,692
	$ 1,108,541	$ 1,455,308	$ 963,597
Contract liabilities			
Consumer deposits	$ 2,258,643	$ 1,946,902	$ 1,827,902

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2023 and 2022:

	2023	2022
East Kentucky, patronage capital	$ 32,368,066	$ 31,732,250
CoBank, patronage capital	514,349	634,754
Others	814,646	762,638
Total	$ 33,697,061	$ 33,129,642

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. Leases

Taylor County has finance leases for vehicles. The leases have remaining lease terms of 4 years to 5 years. As of May 31, 2023, assets recorded under finance leases were $732,080 and accumulated amortization associated with finance leases was $261,822. The ROU assets are included with electric plant on the balance sheets.

NOTES TO FINANCIAL STATEMENTS

Note 4. Leases (Continued)

The components of lease expense were as follows for the year ended May 31:

	2023
Finance lease cost	
Right-of-use asset amortization	$ 170,010
Interest expense	33,105
Total lease cost, net	$ 203,115

Other information related to leases was as follows for the year ended May 31:

	2023
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 31,953
Financing cash flows from finance leases	$ 143,369
Right-of-use assets obtained in exchange for lease obligations	
Finance leases	$ 635,685
Weighted average remaining lease term	
Finance leases	4.03 years
Weighted average discount rate	
Finance leases	6.15%

Future undiscounted lease payments for finance leases with initial terms of one year or more as of May 31, 2023, were as follows:

2024	$ 118,642
2025	118,642
2026	118,642
2027	222,446
2028	20,156
	598,528
Less imputed interest	(77,689)
Net lease liabilities	$ 520,839

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Note 4. Leases (Continued)

As of May 31, 2022, Taylor County's finance (capital) leases were accounted for under ASC 840, Leases. Taylor County leased five of its vehicles under a capital lease. The economic substance of the leases is that Taylor County is financing the acquisition of the assets through the lease, and accordingly, it is recorded in Taylor County's assets and liabilities. The following is an analysis of the leased assets included in electric plant:

	2022
Vehicles	$ 976,916
Less accumulated amortization	(331,404)
Total	$ 645,512

Note 5. 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, 2023 and 2022 was 60% and 64% of total assets, respectively.

Note 6. 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. As of May 31, 2023 and 2022, Taylor County had loan funds available from FFB in the amount of zero and $3,000,000, respectively. These funds will be used for future plant additions.

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Long-term debt consists of the following as of May 31, 2023 and 2022:

	2022	2021
Rural Utilities Service		
Notes at 0.25% to 5.38%	$ 3,709,672	$ 4,060,773
Advance payments	(380,449)	(372,528)
	3,329,223	3,688,245
CoBank notes at 2.60% to 6.78%	7,048,026	8,088,697
FFB notes at 3.31% to 4.97%	18,678,654	16,180,086
Total long-term debt	29,055,903	27,957,028
Less current portion	1,950,242	1,402,037
Long-term portion	$ 27,105,661	$ 26,554,991

As of May 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 1,950,242
2025	2,008,215
2026	2,068,098
2027	2,129,961
2028	2,193,880
Thereafter	18,705,507
	$ 29,055,903

Note 7. Short-Term Notes Payable

As of May 31, 2023 and 2022, Taylor County had a short-term line of credit of $3,000,000 available from CoBank with variable interest rates of 7.06% and 3.40%, respectively. Advances against the CoBank line of credit were $3,000,000 and zero as of May 31, 2023 and 2022, respectively. The CoBank line of credit matures on January 31, 2024. Additionally, Taylor County had a line of credit of $3,000,000 available from National Rural Utilities, Cooperative Finance Corporation (CFC), with variable interest rates of 6.75% and 2.45% as of May 31, 2023 and 2022, respectively. Advances against the CFC line of credit were $1,900,000 and zero as of May 31, 2023 and 2022, respectively. The CFC line of credit matures on November 6, 2023.

NOTES TO FINANCIAL STATEMENTS

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. Effective September 28, 2022, Taylor County amended their contributions for each participant to equal 16.0% of participants' base compensation with employees required to make a minimum contribution of 3.0% of base wages. Prior to September 28, 2022, Taylor County made contributions for each participant equal to 10.0% of participants' gross compensation with employees required to make a minimum contribution of 3.0% of gross wages. Taylor County contributed $507,525 in 2023 and $357,891 in 2022. 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 other than the previously mentioned change in employer contributions.

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 2023, 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 2023 and 2022.

The funded status of the plan was as follows as of May 31, 2023 and 2022:

	2023	2022
Projected benefit obligation	$ (3,628,764)	$ (5,684,452)
Plan assets at fair value	- -	- -
Total	$ (3,628,764)	$ (5,684,452)

Note 9. Postretirement Benefits (Continued)

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

	2023	2022
Benefit obligation at beginning of year	$ 5,684,452	$ 5,534,872
Components of net periodic benefit cost:		
Service cost	140,901	98,013
Interest cost	209,547	252,435
Net periodic benefit cost	350,448	350,448
Benefits paid	(231,271)	(200,868)
Actuarial gain	(2,174,865)	- -
Benefit obligation at end of year	$ 3,628,764	$ 5,684,452

	2023	2022
Amounts recognized in the balance sheet consists of:		
Accumulated postretirement benefits	$ (3,628,764)	$ (5,684,452)
Amounts included in other comprehensive income:		
Postretirement benefits amortization of net loss	$ 193,116	$ 193,116
Postretirement benefits actuarial gain	$ 2,174,865	$ - -
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 6,180,900	
Net periodic benefit cost	$ 373,200	

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $219,700; 2025 - $230,100; 2026 - $213,600; 2027 - $168,200; 2028 - $145,800.

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.

NOTES TO FINANCIAL STATEMENTS

Note 12. Contingencies

Taylor County, on occasion, 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.

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, 2023 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 1, 2023.

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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
September 1, 2023

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, 2023, 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 1, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2023, 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	$ 477,517

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 1, 2023