TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
KENTUCKY 23

FINANCIAL REPORT

MAY 31, 2024

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

Opinion

We have audited the accompanying financial statements of Taylor County Rural Electric Cooperative Corporation, which comprise the balance sheets as of May 31, 2024 and 2023, 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, 2024 and 2023, 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 opinion.

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.

Certified Public Accountants and Advisors

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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 August 30, 2024, 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
August 30, 2024

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
May 31, 2024 and 2023

Assets	2024	2023
Electric Plant, at Original Cost:		
In service	$ 115,662,635	$ 109,266,862
Under construction	417,656	497,970
	116,080,291	109,764,832
Less accumulated depreciation	44,389,195	41,993,554
	71,691,096	67,771,278
Investments in Associated Organizations	34,534,392	33,697,061
Current Assets:		
Cash and cash equivalents	2,341,547	3,618,021
Accounts receivable, less allowance for credit losses in 2024 of $83,610 and 2023 of $100,005	523,017	1,106,208
Other receivables	287,773	128,797
Material and supplies, at average cost	1,834,032	1,174,917
Other current assets	310,308	334,146
Total current assets	5,296,677	6,362,089
Deferred Debits	184,519	40,526
Total assets	$ 111,706,684	$ 107,870,954

Members' Equities and Liabilities	2024	2023
Members' Equities:		
Patronage capital	$ 61,183,784	$ 64,240,631
Other equities	433,499	425,455
Accumulated other comprehensive gain	235,403	247,793
	61,852,686	64,913,879
Long-Term Debt and Other Liabilities		
Long-term debt, less current portion	37,740,615	27,105,661
Finance lease obligations, less current portion	324,636	424,415
Accumulated postretirement benefits	3,672,906	3,628,764
Total long-term liabilities	41,738,157	31,158,840
Current Liabilities:		
Short-term notes payable	2,000,000	4,900,000
Current portion of long-term debt	1,404,894	1,950,242
Current portion of finance lease obligations	101,890	96,424
Accounts payable	670,218	1,411,741
Consumer deposits	2,585,189	2,258,643
Accrued expenses	876,921	703,668
Total current liabilities	7,639,112	11,320,718
Consumer Advances for Construction	476,729	477,517
Total members' equities and liabilities	$ 111,706,684	$ 107,870,954

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, 2024 and 2023

	2024	2023
Operating Revenues		
Sales of electric energy	$ 56,806,945	$ 59,035,546
Other electric revenues	750,262	808,090
	57,557,207	59,843,636
Operating Expenses		
Cost of power	44,720,733	49,356,350
Distribution - operations	2,403,196	2,406,663
Distribution - maintenance	4,661,303	6,166,429
Consumer accounts	1,319,233	1,283,318
Customer services	144,997	156,579
Administrative and general	2,321,915	2,138,451
Depreciation, excluding $350,107 in 2024 and $343,107 in 2023 charged to clearing accounts	3,623,310	3,426,202
Other deductions	40,773	33,730
Interest on long-term debt	1,597,107	994,591
Other interest	607,729	139,987
	61,440,296	66,102,300
Operating Deficits	(3,883,089)	(6,258,664)
Nonoperating Margins		
Interest income	23,657	22,127
Other income	10,666	9,966
	34,323	32,093
Patronage Capital Credits		
Generation and transmission	722,101	1,717,146
Others	236,629	115,228
	958,730	1,832,374
Net Deficits	(2,890,036)	(4,394,197)
Other Comprehensive Income (Loss)		
Postretirement benefits amortization of net (gain) loss	(12,390)	193,116
Postretirement benefits actuarial gain	- -	2,174,865
	(12,390)	2,367,981
Net Deficits and Comprehensive Income (Loss)	$ (2,902,426)	$ (2,026,216)

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, 2024 and 2023

	Patronage Capital							
	Assigned	Assignable	Retirements	Prior Deficits	Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balance - May 31, 2022	$ 74,858,629	$ (337,309)	$ (5,668,112)	$ - -	$ 68,853,208	$ 421,855	$ (2,120,188)	$ 67,154,875
Allocate (deficit)		337,309		(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	74,858,629	(4,394,197)	(5,886,492)	(337,309)	64,240,631	425,455	247,793	64,913,879
Allocate (deficit)		4,394,197		(4,394,197)	- -			- -
Comprehensive income (loss):								
Net (deficit)		(2,890,036)			(2,890,036)			(2,890,036)
Postretirement benefit obligation								
Amortization							(12,390)	(12,390)
Total comprehensive (loss)								(2,902,426)
Refunds to estates			(166,811)		(166,811)			(166,811)
Other equities						8,044		8,044
Balance - May 31, 2024	$ 74,858,629	$ (2,890,036)	$ (6,053,303)	$ (4,731,506)	$ 61,183,784	$ 433,499	$ 235,403	$ 61,852,686

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, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net deficits	$ (2,890,036)	$ (4,394,197)
Adjustments to reconcile net deficits to net cash provided by (used in) operating activities:		
Depreciation:		
Charged to expense	3,623,310	3,426,202
Charged to clearing accounts	350,107	343,107
Amortization of ROU assets	117,104	170,010
Patronage capital credits assigned	(958,730)	(1,832,374)
Amortization of postretirement actuarial adjustment	(12,390)	193,116
Postretirement actuarial adjustment	- -	2,174,865
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	424,215	325,828
Material and supplies	(659,115)	(300,385)
Other current assets	23,838	(47,920)
Deferred debits	(143,993)	(40,526)
GPS system	- -	239,981
Accounts payable	(741,523)	831,159
Consumer deposits	325,758	310,901
Accrued expenses	173,253	87,653
Accumulated postretirement benefits	44,142	119,177
Net cash provided by (used in) operating activities	(324,060)	1,606,597
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(7,554,356)	(8,818,748)
Removal costs, net of salvage	(455,983)	(240,863)
Receipts from other investments	121,399	1,264,955
Net cash (used in) investing activities	(7,888,940)	(7,794,656)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other equities	8,044	3,600
Retirements of capital credits	(166,811)	(218,380)
Advances of long-term debt	11,475,844	3,000,000
Principal payments on finance lease obligations	(94,313)	(143,369)
Principal payments on long-term debt	(1,368,076)	(1,893,204)
Cushion of credit added	(18,162)	(7,921)
Additional short-term borrowings	19,600,000	14,200,000
Payments on short-term borrowings	(22,500,000)	(9,300,000)
Net cash provided by financing activities	6,936,526	5,640,726
Net decrease in cash and cash equivalants	(1,276,474)	(547,333)
Cash and cash equivalents, beginning of year	3,618,021	4,165,354
Cash and cash equivalents, end of year	$ 2,341,547	$ 3,618,021
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 2,109,361	$ 1,027,933

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

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL 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, 2024 and 2023:

	2024	2023
Distribution plant	$ 108,641,498	$ 102,783,539
General plant	7,021,137	6,483,323
Total	$ 115,662,635	$ 109,266,862

NOTES TO FINANCIAL STATEMENTS

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 and allowance for credit losses

Taylor County operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of May 31, 2024, 2023 and 2022 was $523,017, $1,106,208, and $1,454,276, respectively.

Taylor County uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts using a pooled basis approach where similar characteristics exist (See Note 3). The allowance estimate is derived from a review of Taylor County's historical losses based on the aging of receivables. The estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by Taylor County.

Taylor County writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses.

Materials and supplies

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

Leases

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Leases (continued)

Right-of-use 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. When a lease does 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 lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

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

Deferred debits

Deferred debits consist of preliminary survey and investigation charges.

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.

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 $1,289 and $2,292 for the years ended May 31, 2024 and 2023, 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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 receivable are limited due to its large number of customers.

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.

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 is one to two years.

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, 2024 and 2023. 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 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, 2024 and 2023.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

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.

Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net margins. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing Taylor County's exposure to credit risk and the measurement of credit losses. Taylor County's financial assets subject to the guidance include accounts receivable.

Taylor County adopted the standard effective June 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in new and enhanced disclosures.

Subsequent events

Management has evaluated subsequent events through August 30, 2024, the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the May 31, 2023, financial statement presentation to correspond to the current year's format. Total members' equities and net deficit are unchanged due to these reclassifications.

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, 2024 and 2023.

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended May 31, 2024 and 2023:

	2024	2023
Residential	$ 36,001,339	$ 36,225,255
Industrial	6,808,968	8,408,914
Large Commercial	9,328,069	9,521,867
Small Commercial	4,044,005	4,223,222
Other	624,564	656,288
	$ 56,806,945	$ 59,035,546

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition (Continued)

Contract assets and liabilities

Contract assets include unbilled pole attachment revenues, which 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:

	2024	2023	2022
Contract assets			
Unbilled pole attachments	$ 76,274	$ 2,333	$ 1,032
Contract liabilities			
Consumer deposits	$ 2,585,189	$ 2,258,643	$ 1,946,902

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows for the years ended May, 31:

	2024	2023
Beginning balance	$ 100,005	$ 168,896
Provision for credit losses	30,000	67,500
Write-offs	(70,241)	(174,556)
Recoveries	23,846	38,165
Ending balance	$ 83,610	$ 100,005

Note 4. Investments in Associated Organizations

Investments in associated organizations consist of the following as of May 31, 2024 and 2023:

	2024	2023
East Kentucky, patronage capital	$ 33,090,167	$ 32,368,066
CoBank, patronage capital	498,707	514,349
Others	945,518	814,646
Total	$ 34,534,392	$ 33,697,061

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.

NOTES TO FINANCIAL STATEMENTS

Note 5. Leases

Taylor County has finance leases for vehicles. The leases have remaining lease terms of 3 years to 4 years. As of May 31, 2024 and 2023, the net ROU assets included with electric plant on the balance sheets were $353,154 and $470,258, respectively.

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

	2024	2023
Finance lease cost		
Right-of-use asset amortization	$ 117,104	$ 170,010
Interest expense	27,596	33,105
Total lease cost, net	$ 144,700	$ 203,115

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

	2024	2023
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 27,855	$ 31,953
Financing cash flows from finance leases	$ 94,313	$ 143,369
Right-of-use assets obtained in exchange for lease obligations		
Finance leases	$ - -	$ 635,685
Weighted average remaining lease term		
Finance leases	3.02 years	4.03 years
Weighted average discount rate		
Finance leases	6.22%	6.15%

Future undiscounted lease payments for finance leases with initial terms of one year or more as of May 31, 2024, were as follows:

2025	$ 118,642
2026	118,642
2027	222,446
2028	14,890
	474,620
Less imputed interest	(48,094)
Net lease liabilities	$ 426,526

Note 6. 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, 2024 and 2023 was 55% and 60% of total assets, respectively.

Note 7. 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 2048. RUS assesses 12.5 basis points to administer the FFB loans. As of May 31, 2024 and 2023, Taylor County had loan funds available from RUS in the amount of $32,020,156 and zero, respectively. These funds will be used for future plant additions.

Long-term debt consists of the following as of May 31, 2024 and 2023:

	2024	2023
RUS:		
0.25% to 5.375% fixed rate notes	$ 3,352,796	$ 3,709,672
5.46% variable rate note	11,472,426	- -
Advance payments	(398,611)	(380,449)
	14,426,611	3,329,223
FFB:		
3.306% fixed rate note	4,043,399	4,220,691
5.451% variable rate notes	14,223,220	14,457,963
	18,266,619	18,678,654
CoBank:		
2.60% to 6.78% fixed rate notes	6,452,279	7,048,026
Total long-term debt	39,145,509	29,055,903
Less current portion	1,404,894	1,950,242
Long-term portion	$ 37,740,615	$ 27,105,661

Note 7. Long-Term Debt (Continued)

As of May 31, 2024, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2025	$ 1,404,894
2026	1,449,249
2027	1,495,174
2028	1,542,733
2029	1,591,989
Thereafter	31,661,470
	$ 39,145,509

Note 8. Short-Term Notes Payable

As of May 31, 2024 and 2023, Taylor County had a short-term line of credit of $3,000,000 available from CoBank with variable interest rates of 7.48% and 7.06%, respectively. Advances against the CoBank line of credit were $2,000,000 and $3,000,000 as of May 31, 2024 and 2023, respectively. The CoBank line of credit matures on January 31, 2025. 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 7.25% and 6.75% as of May 31, 2024 and 2023, respectively. Advances against the CFC line of credit were zero and $1,900,000 as of May 31, 2024 and 2023, respectively. The CFC line of credit matures on October 6, 2025.

Note 9. 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 $678,250 in 2024 and $507,525 in 2023. 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 10. 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 2024 and 2023.

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits (Continued)

The funded status of the plan was as follows as of May 31, 2024 and 2023:

	2024	2023
Projected benefit obligation	$ (3,672,906)	$ (3,628,764)
Plan assets at fair value	- -	- -
Total	$ (3,672,906)	$ (3,628,764)

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

	2024	2023
Benefit obligation at beginning of year	$ 3,628,764	$ 5,684,452
Components of net periodic benefit cost:		
Service cost	107,602	140,901
Interest cost	164,288	209,547
Net periodic benefit cost	271,890	350,448
Benefits paid	(227,748)	(231,271)
Actuarial gain	- -	(2,174,865)
Benefit obligation at end of year	$ 3,672,906	$ 3,628,764

	2024	2023
Amounts recognized in the balance sheets consists of:		
Unrecognized actuarial gain	$ 235,403	$ 247,793
Accumulated postretirement benefits	$ 3,672,906	$ 3,628,764
Amounts included in other comprehensive income:		
Amortization of actuarial (gain) loss	$ (12,390)	$ 193,116
Actuarial gain	$ - -	$ 2,174,865
Effect of 1% increase in the health care trend:		
Postemployment benefit obligation	$ 3,911,650	
Net periodic benefit cost	$ 289,560	

Projected retiree benefit payments for the next five years are expected to be as follows: 2025 - $230,100; 2026 - $213,600; 2027 - $168,200; 2028 - $145,800; 2029 - $151,300.

Note 11. 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 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.

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Taylor County Rural Electric Cooperative Corporation as of and for the years ended May 31, 2024 and 2023, and our report thereon dated August 30, 2024, which expressed an unmodified opinion on those financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of deferred debits and deferred credits shown on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
August 30, 2024

Certified Public Accountants and Advisors

401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

TAYLOR COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION
SCHEDULE OF DEFERRED DEBITS AND DEFERRED CREDITS
May 31, 2024 and 2023

	2024	2023	RUS Approval
Deferred Debits			
Preliminary survey and investigation charges	$ 184,519	$ 40,526	§1767, account #183
Deferred Credits			
Consumer advances for construction	$ 476,729	$ 477,517	§1767, account #252

JNM

Jones, Nale & Mattingly PLC

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, 2024 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 August 30, 2024.

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) as a basis for designing 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 were not identified.

Certified Public Accountants and Advisors

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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 from material misstatement, we performed tests 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 financial statements. 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 results 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
August 30, 2024