ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147
zumstein@windstream.net

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS

To the Board of Directors
Salt River Electric Cooperative Corporation

I have audited the financial statements of Salt River Electric Cooperative Corporation for the year ended December 31, 2012, and have issued my report thereon dated February 22, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Salt River for the year ended December 31, 2012, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.3 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.3(d)(1) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated February 22, 2013, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Salt River's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012, of Salt River.
    1. Salt River has not entered into any contract during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.33(e)(1)(i).
- Procedures performed with respect to the requirement to submit RUS Financial and Operating Report Electric Distribution to RUS:
    1. Agreed amounts reported in RUS Financial and Operating Report Electric Distribution to Salt River's records as of December 31, 2012.

The results of my tests indicate that, with respect to the items tested, Salt River complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Salt River had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its RUS Financial and Operating Report Electric Distribution to RUS and the Financial and Operating Report Electric Distribution, Financial and Statistical Report, as of December 31, 2011, represented by the borrower as having been submitted to RUS appears to be in agreement with its audited records in all material respects.
- During the period of this review, Salt River received no long term advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

Comments on Other Additional Matters

In connection with my audit of Salt River, nothing came to my attention that caused me to believe that Salt River failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f);
- The depreciation rates addressed at 7 CFR Part 1773.33(g);
- The detailed schedule of deferred debits and deferred credits; and
- The detailed schedule of investments, of which there were none.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The deferred credits are as follows:

Consumer advances for construction	$366,974

Salt River is a one-half (1/2) owner of a subsidiary, Lock 7 Hydro Partners, LLC, which generates electricity through hydro methods on the Kentucky River. The investment is accounted for using the equity method of accounting. The original investment was $100,000. The investment is as follows:

	Investment	Profits
Beginning balance	$120,000	$219,461
Income for 2012	-	150,533
Return of earnings	-	(50,000)
Ending balance	$120,000	$319,994

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
February 22, 2013

Kentucky 21

Salt River Electric Cooperative Corporation
Bardstown, Kentucky

Audited Financial Statements
December 31, 2012 and 2011

Alan M. Zumstein
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

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Independent Auditor's Report

To the Board of Directors
Salt River Electric Cooperative Corporation

I have audited the accompanying balance sheets of Salt River Electric Cooperative Corporation, as of December 31, 2012 and 2011, and the related statements of revenue and comprehensive income, changes in member's equity, and cash flows for the years then ended. These financial statements are the responsibility of Salt River Electric Cooperative Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt River Electric Cooperative Corporation as of December 31, 2012 and 2011, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 22, 2013, on my consideration of Salt River Electric Cooperative Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

Alan M. Zumstein

Alan M. Zumstein, CPA
February 22, 2013

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To the Board of Directors
Salt River Electric Cooperative Corporation

I have audited the financial statements of Salt River Electric Cooperative Corporation as of and for the years ended December 31, 2012 and 2011, and have issued my report thereon dated February 22, 2013. I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Salt River's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Salt River's internal control over financial reporting. Accordingly, I do no express an opinion on the effectiveness of Salt River's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salt River's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan M. Zumstein

Alan M. Zumstein, CPA
February 22, 2013

Salt River Electric Cooperative Corporation
Balance Sheets, December 31, 2012 and 2011

Assets	2012	2011
Electric Plant, at original cost:		
In service	$ 132,338,682	$ 128,108,393
Under construction	1,982,747	1,875,890
	134,321,429	129,984,283
Less accumulated depreciation	59,682,663	55,049,691
	74,638,766	74,934,592
Investments and Other Assets:		
Associated organizations	35,951,948	30,593,507
Others	3,928,226	4,253,637
	39,880,174	34,847,144
Current Assets:		
Cash and cash equivalents	7,163,989	7,225,769
Accounts receivable, less allowance for 2012 of $350,000 and 2011 of $375,000	11,401,365	11,058,702
Material and supplies, at average cost	727,198	784,075
Regulatory asset	648,209	699,537
Prepayments	226,769	237,558
	20,167,530	20,005,641
Total	$ 134,686,470	$ 129,787,377

Members Equities and Liabilities	2012	2011
Members' Equities:		
Memberships	$ 1,900,790	$ 1,832,765
Patronage capital	67,521,360	61,820,897
Other equities	3,579,499	3,398,972
Accumulated other comprehensive income	(5,768,131)	(5,151,454)
	67,233,518	61,901,180
Long Term Debt	50,077,534	51,693,242
Accumulated Operating Provisions	1,597,112	1,447,612
Current Liabilities:		
Accounts payable	8,640,461	8,006,548
Current portion of long term debt	3,375,000	3,030,000
Consumer deposits	2,384,724	2,076,664
Accrued expenses	1,011,147	1,289,749
	15,411,332	14,402,961
Regulatory Liability	-	-
Consumer Advances for Construction	366,974	342,382
Total	$ 134,686,470	$ 129,787,377

The accompanying notes are an integral part of the financial statements.

Statements of Revenue and Comprehensive Income
for the years ended December 31, 2012 and 2011

	2012	2011
Operating Revenues	$ 99,061,958	$ 98,515,417
Operating Expenses:		
Cost of power	79,316,414	78,451,169
Distribution - operations	2,739,704	2,562,532
Distribution - maintenance	2,350,803	2,752,489
Consumer accounts	1,927,390	2,068,047
Customer service and information	209,738	204,189
Sales	198,973	195,416
Administrative and general	2,903,776	2,977,154
Depreciation, excluding $301,481 in 2012 and $320,163 in 2011 charged to clearing accounts	5,337,819	5,174,860
Taxes, other than income	103,994	88,720
Other deductions	77,588	115,192
	95,166,199	94,589,768
Operating margins before interest charges	3,895,759	3,925,649
Interest Charges:		
Interest on long-term debt	2,673,321	2,798,028
Operating margins after interest charges	1,222,438	1,127,621
Patronage Capital assigned from:		
East Kentucky Power Cooperative	5,079,524	5,546,539
Other organizations	371,446	247,650
	5,450,970	5,794,189
Net operating margins	6,673,408	6,921,810
Nonoperating Margins:		
Interest income	492,531	568,592
Others	165,946	210,813
	658,477	779,405
Net Margins	7,331,885	7,701,215
Comprehensive Income:		
Pension plan	(629,877)	977,408
Accumulated postretirement benefits	13,200	193,249
Patronage Capital - end of year	$ 6,715,208	$ 8,871,872

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

for the years ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net margins	$ 7,331,885	$ 7,701,215
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	5,337,819	5,174,860
Charged to clearing accounts	301,481	320,163
Patronage capital credits	(5,450,970)	(5,794,189)
Accumulated operating provisions	(467,177)	(658,153)
Change in assets and liabilities:		
Receivables	(291,335)	(1,061,042)
Material and supplies	56,877	(146,868)
Prepayments	10,789	37,200
Payables	633,913	(1,320,045)
Consumer deposits	308,060	421,356
Accrued expenses and advances	(254,010)	160,416
	7,517,332	4,834,913
Cash Flows from Investing Activities:		
Construction of plant	(5,143,550)	(4,464,794)
Salvage, net of removal costs	(199,924)	(231,059)
Purchase of other investments, net of receipts	417,940	(374,770)
	(4,925,534)	(5,070,623)
Cash Flows from Financing Activities:		
Net increase in memberships	68,025	10,545
Retirements of capital credits	(1,631,422)	(1,662,515)
Other equities	180,527	244,743
Additional borrowings	2,000,000	2,500,000
Payments on long-term debt	(3,270,708)	(2,913,479)
Cushion of credit applied (payment)	-	(2,000,000)
	(2,653,578)	(3,820,706)
Net increase in cash	(61,780)	(4,056,416)
Cash and cash equivalents - beginning of period	7,225,769	11,282,185
Cash and cash equivalents - end of period	$ 7,163,989	$ 7,225,769
Supplemental cash flows information:		
Interest paid on long-term debt	$ 2,681,334	$ 2,805,641

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Members' Equity
for the years ended December 31, 2011 and 2012

	Memberships	Patronage Capital	Other Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 1,822,220	$ 55,782,197	$ 3,154,229	$(6,322,111)	$ 54,436,535
Comprehensive income:					
Net margins		7,701,215			7,701,215
Pension plan					
Amortization				338,600	
Adjustment				638,808	977,408
Postretirement benefit obligation					
Amortization				24,734	
Adjustment				168,515	193,249
Total comprehensive income					8,871,872
Net change in memberships	10,545				10,545
Refunds of capital credits		(1,662,515)			(1,662,515)
Other equities			244,743		244,743
Balance - December 31, 2011	1,832,765	61,820,897	3,398,972	(5,151,454)	61,901,180
Comprehensive income:					
Net margins		7,331,885			7,331,885
Pension plan					
Amortization				413,048	
Adjustment				(1,042,925)	(629,877)
Postretirement benefit obligation					
Amortization				13,200	
Adjustment				-	13,200
Total comprehensive income					6,715,208
Net change in memberships	68,025				68,025
Refunds of capital credits		(1,631,422)			(1,631,422)
Other equities			180,527		180,527
Balance - December 31, 2012	$ 1,900,790	$ 67,521,360	$ 3,579,499	$(5,768,131)	$ 67,233,518

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Salt River Electric Cooperative Corporation ("Salt River") maintains its records in accordance with the policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS"), which conform in all material respects with generally accepted accounting principles. The more significant of these policies are as follows:

Electric Plant Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to electric plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. Electric plant consists of:

	2012	2011
Distribution plant	$120,382,980	$116,583,899
General plant	11,955,702	11,524,494
Total	$132,338,682	$128,108,393

Depreciation Provision has been made for depreciation on the basis of the estimated lives of assets, using the straight-line method. Depreciation rates range from 2.2% to 5.0%, with a composite rate of 4.28% for distribution plant. General plant rates are as follows:

Structures and improvements	2.5%
Transportation equipment	16%
Other general plant	6% - 16%

Cash and Cash Equivalents Salt River considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk Salt River has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Salt River (FDIC). At December 31, 2012, several financial institutions reported deposits in excess of the $250,000 FDIC insured limit several times during the audit period. Deposits and repurchase agreements in excess of the FDIC limits are 100% secured with collateral from the financial institution that provides the majority of banking functions. The other financial institutions have strong credit ratings and management believes that the credit risk related to those accounts is minimal.

Revenue Salt River records revenue as billed to its consumers based on monthly meter-reading cycles. Consumers may be required to pay a refundable deposit which can be waived under certain circumstances. Salt River's sales are concentrated in a ten county area of central Kentucky. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible. The allowance for uncollectible accounts is based on the aging of receivables. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2012 or 2011.

Salt River is required to collect, on behalf of the State 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. Salt River's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Note 1. Summary of Significant Accounting Policies, continued

Cost of Power Salt River is one of sixteen (16) members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, Salt River 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 energy is consumed, based upon billings from East Kentucky.

Regulatory Asset/Liability Included on the current power bill from East Kentucky are amounts for fuel adjustment and environmental surcharge. These amounts are passed on to Salt River's consumers using the methodology prescribed by the PSC. There is a billing lag between the time Salt River pays East Kentucky and the time Salt River bills its consumers. When the net is a credit, it creates a regulatory liability, when there is a net charge, a regulatory assets is created.

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of Salt River's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to Salt River. Long term debt can not be traded in the market, and is specifically for electric cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

Salt River may, and also does, invest idle funds in local banks and in National Rural Utilities Cooperative Finance Corporation ("CFC") commercial paper. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

Environmental Contingency Salt River 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 Salt River 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 Salt River's financial position or its future cash flows.

Note 1. Summary of Significant Accounting Policies, continued

Risk Management Salt River 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.

Income Tax Status Salt River is exempt from federal and state income taxes under provisions of Section 501(c)(12). Accordingly, the financial statements for Salt River include no provision for income taxes. Salt River's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes Salt River has no uncertain tax positions resulting in an accrual of tax expense or benefit. Salt River recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. Salt River did not recognize any interest or penalties during the years ended December 31, 2012 and 2011. Salt River's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years.

Estimates The preparation of financial statements in conformity with generally accepted accounting principles 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.

Advertising Salt River expenses advertising costs as incurred.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of its pension plan and accumulated postretirement benefit obligation.

Subsequent Events Management has evaluated subsequent events through February 22, 2013, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments in Associated Organizations

Investments in associated organizations consist of:

	2012	2011
East Kentucky, patronage capital	$31,469,215	$26,389,691
National Bank for Cooperatives (CoBank)		
Patronage capital	1,184,433	1,147,881
CFC, CTC's and patronage capital	980,883	1,003,462
CFC, Member Capital Security	1,000,000	1,000,000
Other associated organizations	1,317,417	1,052,473
	$35,951,948	$30,593,507

Salt River records patronage capital assigned by associated organizations in the year in which such assignments are received. The Capital Term Certificates ("CTCs") of CFC are recorded at cost. The CTCs were purchased from CFC as a condition of obtaining long-term financing. The CTCs bear interest at 3% and 5% and are scheduled to mature at varying times from 2020 to 2080. Member Capital Securities have a 7.5% fixed interest rate and mature 35 years from the issuance date. Interest is paid each April1 and October 1.

Note 3. Other Assets

The economic development loans are secured by either/or a portion of the assets pledged by Salt River's consumers, or guarantees from local banks. The note to Nelson County is secured by land at an industrial site. Payments will be made to Salt River at the time real estate, or a portion thereof, is sold or leased, at which time, based on the value of the property sold or leased, in proportion to the contribution value of the entire property. The note to Spencer-Washington Economic Development Authority has been set up as a 30 year amortization, with a 15 year balloon; however, it is SWEDA goal to pay off the loan in less than 15 years.

Other assets consist of:

	2012	2011
Non utility property, net of depreciation	$141,989	$162,919
Economic development loans, no interest, various due in 108 months, from date of loan	270,834	461,574
Springfield-Washington Economic Development Authority note dated October 1, 2011, monthly payment of $3,589 with an interest rate of 3.75%	697,102	771,487
County of Nelson, Kentucky note dated July 26, 2004 due on or before 5 years, interest rate 1% over US Treasury rate, currently 1.18%	2,818,301	2,857,657
	$3,928,226	$4,253,637

Note 4. Patronage Capital

Patronage capital consisted of:

	2012	2011
Assigned to date	$84,781,230	$77,080,015
Assignable	7,331,885	7,701,215
Retirements to date	(24,869,350)	(23,237,928)
Unassigned	277,595	277,595
	$67,521,360	$61,820,897

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, Salt River may distribute the difference between 25% and the payments made to such estates. At December 31, 2012, the equities and margins were 50% of total assets.

Note 5. Long Term Debt

The long term debt payable to RUS and CoBank is due in quarterly and monthly installments of varying amounts through 2039. During 2003, Salt River refinanced $14,442,183 of 5% RUS loans with funds advanced from CFC. The principal portion of long term debt payable to CFC is due in ten (10) annual installments of $1,444,218 each until 2013. RUS assesses 1.25 basis points to administer the FFB loans. Salt River has loan funds available from FFB in the amount of $13,873,000, which will be used for plant additions.

Note 5. Long Term Debt, continued

All assets, except vehicles, are pledged as collateral on the long term debt to RUS, Federal Financing Bank (FFB), CoBank, and CFC under a joint mortgage agreement. Long term debt consists of:

	2012	2011
First mortgage notes due RUS:		
3.68% to 5.75%	$38,179,777	$39,068,027
Advance payment	(7,005,395)	(6,665,727)
	31,174,382	32,402,300
First mortgage notes due FFB:		
0.104% (0.22% in 2011)	6,808,244	5,000,000
First mortgage notes due CoBank:		
3.18% to 7.40%	13,919,208	14,298,246
First mortgage notes due CFC:		
5.5%	1,444,219	2,888,437
Economic development loans, no interest	106,481	134,259
	53,452,534	54,723,242
less current portion of debt	3,375,000	3,030,000
	$50,077,534	$51,693,242

Salt River is participating in a RUS sponsored program which provides economic development funds to businesses in Salt River's service area. Salt River serves as a conduit for these funds and is contingently liable if the recipient fails to repay the loan.

As of December 31, 2012, annual current principal due for the next five years are as follows: 2013 - $3,375,000; 2014 - $2,050,000; 2015 - $2,150,000; 2016 - $2,250,000; 2017 - $2,375,000.

Note 6. Short Term Borrowings

At December 31, 2012, Salt River had a short term line of credit of $4,000,000 available from CoBank. There were no advances against either line of credit during the year.

Note 7. Savings Plan

Salt River sponsors a savings plan covering all employees who are covered by a collective bargaining agreement and who meet certain length of service requirements. This salary deferral plan provides a 2.50% contribution by Salt River based on eligible employee wages. Salt River contributed $83,833 in 2012 and $86,642 in 2011 to this plan.

Salt River also sponsors a plan covering all eligible employees not covered by a collective bargaining agreement which allows an employee salary deferral and also provides a 6% Salt River contribution based on eligible employee wages. Salt River's contribution is made on behalf of the employee regardless of their decision to participate with elective salary deferral contributions. Salt River contributed $107,583 in 2012 and $107,672 in 2011.

Note 8. Pension Plan

Salt River has a noncontributory defined benefit pension plan covering substantially all employees who meet minimum age and service requirements. The plan has pay-related pension benefit formula. Salt River's policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act ("ERISA"). The plan is measured as of December 31, 2012 and 2011.

The following is an assessment of the noncontributory defined benefit plan:

	2012	2011
Projected benefit obligation	($16,431,021)	($14,558,363)
Fair value of plan assets	15,696,035	13,935,394
Funded status	($734,986)	($622,969)
Accumulated benefit obligation included in plan	$13,692,813	$12,436,001
Amount recognized as accrued benefit liability	($734,986)	($622,969)

The calculation of net periodic benefit cost, change in projected benefit obligation, and change in fair value of plan assets are as follows:

	2012	2011
Net Periodic Benefit Cost		
Service cost	$791,998	$704,753
Interest cost	785,797	696,105
Expected return on assets	(1,108,703)	(966,356)
Amortization (gain) loss	413,048	338,600
Net periodic benefit cost	$882,140	$773,102
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$14,558,363	$14,504,159
Service cost	721,998	634,753
Interest cost	785,797	696,105
Disbursements	(915,395)	(277,955)
Actuarial (gain) loss	1,280,258	(998,699)
Projected benefit obligation at end of year	$16,431,021	$14,558,363
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$13,935,394	$12,176,885
Actual return on plan assets	1,394,148	598,378
Employer contributions	1,400,000	1,500,000
Benefits paid	(915,395)	(277,955)
Administrative costs	(118,112)	(61,914)
Projected benefit obligation at end of year	$15,696,035	$13,935,394

Note 8. Pension Plan, continued

Assumptions used to develop the projected benefit obligation were as follows:

	2012	2011
Discount rate	5.50%	5.50%
Rate of increase in compensation level	3.50%	3.50%
Expected long-term rate of return on assets	8.50%	8.50%

The expected long term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen from the best range determined by applying anticipated long term returns for various asset categories to the target asset allocation of the plan, as well as taking into account historical returns.

The general investment objectives are to invest in a diversified portfolio, comprised of debt investments, equity investments, and fixed income investments. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plan of approximately 50% equities. The remaining may be allocated amount fixed income or cash equivalent investments.

Expected retiree pension benefit payments are projected to be as follows: 2013 - $510,000; 2014 - $1,093,000; 2015 - $930,000; 2016 - $1,750,000; 2017 - $815,000.

Contributions for 2013 are expected to be approximately $1,500,000.

Note 9. Postretirement Benefits

Salt River sponsors a defined benefit plan that provides medical insurance coverage for retired employees under age 65, and have worked 30 or more years for Salt River. The plan for retirees is a continuation of the fully insured program now in place for active employees.

The funded status of the plan is as follows:

	2012	2011
Projected benefit obligation	($862,127)	($824,644)
Fair value of plan assets	-	-
Funded status	($862,127)	($824,644)

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

	2012	2011
Benefit obligation at beginning of year	$824,644	$949,148
Components of net periodic benefit cost:		
Service cost	29,514	38,046
Interest cost	46,386	44,345
Net periodic benefit cost	75,900	82,391
Actuarial (gain) loss	-	(168,515)
Benefits paid	(38,417)	(38,380)
Benefit obligation at end of year	$862,127	$824,644

Note 9. Postretirement Benefits, continued

For measurement purposes, an annual rate of increase of 8% in 2012, then decreasing by 0.5% per year until 5% 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 5.50% in 2012 and 6.0% in 2011.

Projected retiree benefit payments for the next five years are expected to be as follows: 2013 - $26,000; 2014 - $17,000; 2015 - $17,000; 2016 - $12,000; 2017 - $12,000.

Note 10. Leases

Salt River leases tower space at its non utility property to an unrelated party. The monthly tower lease is $500 per month. The lease may be cancelled by either party.

Salt River leases space for one of its branch office from an unrelated party. The lease, dated January 1, 2004, is for a period of 5 years, with an option to renew for 2 successive 5 year periods. The lease is an operating lease with monthly payments of $931 per month, with 3% increases each year of the lease.

Salt River exercised the option to lease space for another of its branch offices from an unrelated party. The lease option, dated July 1, 2005, is for a three year period, with options for additional three year lease terms. The lease is an operating lease with monthly payments of $896 per month.

Note 11. Commitments

Salt River 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 three years.

Note 12. Related Party Transactions

Several of the Directors of Salt River and its President & CEO are on the Boards of Directors of various associated organizations. The President & CEO is also on the Board of Directors of one of the local banks where Salt River routinely performs its banking functions.

Note 13. Labor Force

Approximately 75% of Salt River's labor force is subject to a collective bargaining agreement. An eight (8) year agreement was negotiated and approved for the period starting June, 2013 between Salt River and the International Brotherhood of Electric Workers ("IBEW").

Note 14. Contingencies

Salt River 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.

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