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Salt River Electric Cooperative Corporation
Bardstown, Kentucky

Audited Financial Statements
December 31, 2014 and 2013

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Independent Auditor's Report

To the Board of Directors
Salt River Electric Cooperative

Report on the Financial Statements

I have audited the accompanying financial statements of Salt River Electric Cooperative, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made my management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Directors
Salt River Electric Cooperative

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt River Electric Cooperative as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated February 2, 2015, on my consideration of Salt River Electric Cooperative's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Alan M. Zumstein

Alan M. Zumstein, CPA
February 2, 2015

Salt River Electric Cooperative Corporation
Balance Sheets, December 31, 2014 and 2013

Assets	2014	2013
Electric Plant, at original cost:		
In service	$ 144,473,210	$ 136,693,492
Under construction	1,317,485	2,824,605
	145,790,695	139,518,097
Less accumulated depreciation	68,676,598	64,379,363
	77,114,097	75,138,734
Investments and Other Assets:		
Associated organizations	48,497,910	42,922,656
Others	2,222,332	3,666,390
	50,720,242	46,589,046
Current Assets:		
Cash and cash equivalents	17,062,226	16,908,061
Accounts receivable, less allowance for 2014 of $300,000 and 2013 of $300,000	11,857,802	12,255,951
Material and supplies, at average cost	624,386	685,778
Regulatory asset	-	47,566
Prepayments	288,651	329,077
	29,833,065	30,226,433
Pension Asset	673,653	808,698
Total	$ 158,341,057	$ 152,762,911

Members Equities and Liabilities	2014	2013
Members' Equities:		
Memberships	$ 2,039,040	$ 1,971,515
Patronage capital	81,883,111	75,012,399
Other equities	4,112,031	3,823,010
Accumulated other comprehensive income	(5,616,102)	(4,780,025)
	82,418,080	76,026,899
Long Term Debt	59,915,384	59,956,678
Accumulated Operating Provisions	928,545	906,511
Current Liabilities:		
Accounts payable	8,467,887	9,148,078
Current portion of long term debt	2,250,000	2,150,000
Consumer deposits	2,599,438	2,587,510
Accrued expenses	1,391,007	1,619,715
	14,708,332	15,505,303
Consumer Advances for Construction	370,716	367,520
Total	$ 158,341,057	$ 152,762,911

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

Statements of Revenue and Comprehensive Income
for the years ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Electric sales	$ 105,574,254	$ 101,779,504
Other electric revenue	1,662,585	1,695,608
	107,236,839	103,475,112
Operating Expenses:		
Cost of power	86,580,590	82,927,495
Distribution - operations	2,792,244	2,871,601
Distribution - maintenance	2,612,080	2,861,256
Consumer accounts	1,795,427	1,790,882
Customer service and information	225,567	210,684
Sales	155,687	124,644
Administrative and general	2,967,538	3,039,752
Depreciation, excluding $390,440 in 2014 and $490,980 in 2013 charged to clearing accounts	5,695,018	5,555,796
Taxes, other than income	121,046	106,036
Other deductions	9,270	26,551
	102,954,467	99,514,697
Operating margins before interest charges	4,282,372	3,960,415
Interest Charges:		
Interest on long-term debt	2,301,420	2,420,673
Operating margins after interest charges	1,980,952	1,539,742
Nonoperating Margins:		
Interest income	974,395	653,471
Others	109,535	240,583
	1,083,930	894,054
Patronage Capital assigned from:		
East Kentucky Power Cooperative	5,840,723	6,725,233
Other organizations	257,821	264,125
	6,098,544	6,989,358
Net Margins	9,163,426	9,423,154
Comprehensive Income:		
Pension plan	(849,277)	974,906
Accumulated postretirement benefits	13,200	13,200
Net Comprehensive Income	$ 8,327,349	$ 10,411,260

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

Statement of Changes in Members' Equity
for the years ended December 31, 2013 and 2014

		Patronage Capital						Accumulated Other Comprehensive	Total Members'
	Memberships	Assigned	Assignable	Retirements	Unassigned	Total	Other Equity	Income	Equity
Balance - Beginning of year	$ 1,900,790	$ 84,781,230	$ 7,331,885	$ (24,869,350)	$ 277,595	$ 67,521,360	$ 3,579,499	$ (5,768,131)	$ 67,233,518
Comprehensive income:									
Net margins			9,423,154			9,423,154			9,423,154
Assigne margins		7,331,885	(7,331,885)			-			-
Pension plan									
Amortization								478,624	
Adjustment								496,282	974,906
Postretirement benefit obligation									
Amortization								13,200	
Adjustment								-	13,200
Total comprehensive income									10,411,260
Net change in memberships	70,725								70,725
Refunds of capital credits				(1,932,115)		(1,932,115)			(1,932,115)
Other equities							243,511		243,511
Balance - December 31, 2013	1,971,515	92,113,115	9,423,154	(26,801,465)	277,595	75,012,399	3,823,010	(4,780,025)	76,026,899
Comprehensive income:									
Net margins			9,163,426			9,163,426			9,163,426
Assigne margins		9,423,154	(9,423,154)			-			-
Pension plan									
Amortization								395,180	
Adjustment								(1,244,457)	(849,277)
Postretirement benefit obligation									
Amortization								13,200	
Adjustment								-	13,200
Total comprehensive income									8,327,349
Net change in memberships	67,525								67,525
Refunds of capital credits				(2,292,714)		(2,292,714)			(2,292,714)
Other equities							289,021		289,021
Balance - December 31, 2014	$ 2,039,040	$ 101,536,269	$ 9,163,426	$ (29,094,179)	$ 277,595	$ 81,883,111	$ 4,112,031	$ (5,616,102)	$ 82,418,080

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

Statements of Cash Flows

for the years ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margins	$ 9,163,426	$ 9,423,154
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		
Charged to expense	5,695,018	5,555,796
Charged to clearing accounts	309,440	490,980
Patronage capital credits	(6,098,544)	(6,989,358)
Accumulated operating provisions	(678,998)	(511,193)
Change in assets and liabilities:		
Receivables	445,715	(253,943)
Material and supplies	61,392	41,420
Prepayments	40,426	(102,308)
Payables	(680,191)	507,617
Consumer deposits	11,928	202,786
Accrued expenses and advances	(225,512)	609,114
	8,044,100	8,974,065
Cash Flows from Investing Activities:		
Construction of plant	(7,647,394)	(6,278,856)
Salvage, net of removal costs	(332,427)	(267,888)
Purchase of other investments, net of receipts	1,967,348	280,486
	(6,012,473)	(6,266,258)
Cash Flows from Financing Activities:		
Net increase in memberships	67,525	70,725
Retirements of capital credits	(2,292,714)	(1,932,115)
Other equities	289,021	243,511
Additional borrowings	-	14,087,100
Payments on long-term debt	(2,162,482)	(3,207,637)
Cushion of credit applied (payment)	2,221,188	(2,225,319)
	(1,877,462)	7,036,265
Net increase in cash	154,165	9,744,072
Cash and cash equivalents - beginning of period	16,908,061	7,163,989
Cash and cash equivalents - end of period	$ 17,062,226	$ 16,908,061
Supplemental cash flows information:		
Interest paid on long-term debt	$ 2,304,755	$ 2,442,144

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:

	2014	2013
Distribution plant	$128,038,634	$123,969,594
General plant	16,434,576	12,723,898
Total	$144,473,210	$136,693,492

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, 2014, 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, 2014 or 2013.

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, 2014 and 2013. 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 14, 2015, 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:

	2014	2013
East Kentucky, patronage capital	$44,035,171	$38,194,448
National Bank for Cooperatives (CoBank)		
Patronage capital	1,213,125	1,207,005
CFC, CTC's and patronage capital	826,736	826,736
CFC, Member Capital Security	1,000,000	1,000,000
Other associated organizations	1,422,878	1,694,467
	$48,497,910	$42,922,656

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 Aprill 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:

	2014	2013
Non utility property, net of depreciation	$100,130	$121,059
Economic development loans, no interest, various due in 108 months, from date of loan	161,831	242,194
Springfield-Washington Economic Development Authority note dated October 1, 2011, monthly payment of $3,589 with an interest rate of 3.75%	661,997	679,880
County of Nelson, Kentucky note dated July 26, 2004 due on or before 5 years, interest rate 1% over US Treasury rate, currently 1.11%	1,298,374	2,623,257
	$2,222,332	$3,666,390

Note 4. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30% of total assets, except that distributions may be made to estates of deceased patrons. The debt agreement provides, however, that should such distributions to estates not exceed 25% of the net margins for the next preceding year, Salt River may distribute the difference between 25% and the payments made to such estates. At December 31, 2014, the equities and margins were 50% of total assets.

Note 5. Long Term Debt

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:

	2014	2013
First mortgage notes due RUS:		
3.68% to 5.75%	$36,278,275	$37,250,461
Advance payment	(7,009,526)	(9,230,713)
	29,268,749	28,019,748
First mortgage notes due FFB:		
0.22%	19,592,137	20,287,508
First mortgage notes due CoBank:		
3.18% to 7.40%	13,057,320	13,506,619
Economic development loans, no interest	247,178	292,803
	62,165,384	62,106,678
less current portion of debt	2,250,000	2,150,000
	$59,915,384	$59,956,678

Note 5. Long Term Debt, continued

The long term debt payable to RUS and CoBank is due in quarterly and monthly installments of varying amounts through 2039. RUS assesses 1.25 basis points to administer the FFB loans. Salt River has a loan pending with FFB that will be used for plant additions.

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, 2014, annual current principal due for the next five years are as follows: 2015 - $2,250,000; 2016 - $2,325,000; 2017 - $2,400,000; 2018 - $2,450,000; 2019 - $2,475,000.

Note 6. Short Term Borrowings

At December 31, 2014, 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 $84,917 in 2014 and $88,032 in 2013 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 $112,179 in 2014 and $108,188 in 2013.

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, 2014 and 2013.

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

	2014	2013
Projected benefit obligation	($17,339,586)	($15,263,649)
Fair value of plan assets	18,013,239	16,072,346
Funded status	$673,653	$808,697
Accumulated benefit obligation included in plan	$14,832,958	$12,871,939
Amount recognized as asset (accrued liability)	$673,653	$808,697

Note 8. Pension Plan, continued

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

	2014	2013
Net Periodic Benefit Cost		
Service cost	$843,830	$829,814
Interest cost	758,925	799,025
Expected return on assets	(1,312,167)	(1,276,240)
Amortization (gain) loss	395,180	478,624
Net periodic benefit cost	$685,768	$831,223
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$15,263,649	$16,431,021
Service cost	773,830	759,814
Interest cost	758,925	799,025
Disbursements	(833,209)	(3,414,991)
Actuarial (gain) loss	1,376,391	688,780
Projected benefit obligation at end of year	$17,339,586	$15,263,649
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$16,072,346	$15,696,035
Actual return on plan assets	1,433,636	2,521,060
Employer contributions	1,400,000	1,400,000
Benefits paid	(833,209)	(3,414,991)
Administrative costs	(59,534)	(129,758)
Projected benefit obligation at end of year	$18,013,239	$16,072,346

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

	2014	2013
Discount rate	5.00%	4.99%
Rate of increase in compensation level	3.50%	3.50%
Expected long-term rate of return on assets	8.50%	8.50%

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

	2014	2013
Discount rate	4.99%	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.

Note 8. Pension Plan, continued

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: 2015 - $760,000; 2016 - $1,625,000; 2017 - $900,000; 2018 - $875,000; 2019 - $2,025,000.

Contributions for 2015 are expected to be approximately $1,400,000.

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:

	2014	2013
Projected benefit obligation	($928,545)	($906,511)
Fair value of plan assets	-	-
Funded status	($928,545)	($906,511)

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

	2014	2013
Benefit obligation at beginning of year	$906,511	$862,127
Components of net periodic benefit cost:		
Service cost	24,821	27,452
Interest cost	51,079	48,448
Net periodic benefit cost	75,900	75,900
Actuarial (gain) loss	-	-
Benefits paid	(53,866)	(31,516)
Benefit obligation at end of year	$928,545	$906,511

For measurement purposes, an annual rate of increase of 8% in 2014, 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 2014 and 2013.

Projected retiree benefit payments for the next five years are expected to be as follows: 2015 - $36,000; 2016 - $27,000; 2017 - $27,000; 2018 - $22,000; 2019 - $22,000.

Note 10. 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 11. 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 12. 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, 2012 between Salt River and the International Brotherhood of Electric Workers ("IBEW").

Note 13. Contingencies

Salt River, 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.

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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
Salt River Electric Cooperative

I 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 Salt River Electric Cooperative, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated February 2, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Salt River's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Salt River'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Salt River Electric Cooperative

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan M. Zumstein

Alan M. Zumstein, CPA
February 2, 2015

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Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers

Board of Directors
Salt River Cooperative

Independent Auditor's Report

I 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 Salt River Cooperative ("the Cooperative"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated February 2, 2015. In accordance with *Government Auditing Standards*, we have also issued my report dated February 2, 2015, on my consideration of the Cooperative's internal control over financial reporting and on my 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 related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me 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,* §1773.33 and clarified in the RUS policy memorandum dated February 7, 2015, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my 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 my audit, I 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;

Board of Directors
Salt River Cooperative

- 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;
- 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; and
- Comply with the requirements for the detailed schedule of investments.

The deferred credits are:

Consumer advances for construction	$370,716

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 schedule is investments are:

	Investment
Beginning balance	$433,528
Income for 2014	85,208
Return of earnings	(382,083)
Ending balance	$136,653

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. However, this report is a matter of public record and its distributions is not limited.

Alan Zumstein
Alan M. Zumstein, CPA
February 2, 2015