SALT RIVER ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 21

FINANCIAL REPORT

December 31, 2019

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Salt River Electric Cooperative Corporation
Bardstown, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Salt River Electric Cooperative Corporation, which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements.

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 we 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our 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, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, Salt River Electric Cooperative Corporation has adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2020, on our consideration of Salt River Electric Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Prior Period Financial Statements

The financial statements of Salt River Electric Cooperative Corporation, as of December 31, 2018, were audited by other auditors whose report dated February 4, 2019, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 3, 2020

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS
December 31, 2019 and 2018

Assets	2019	2018
Electric Plant, at original cost:		
In service	$ 163,558,816	$ 157,952,303
Under construction	783,231	1,461,288
	164,342,047	159,413,591
Less accumulated depreciation	94,154,445	88,670,968
	70,187,602	70,742,623
Investments and Other Assets:		
Associated organizations	69,778,706	65,756,341
Other investments	312,545	343,599
	70,091,251	66,099,940
Current Assets:		
Cash and cash equivalents	23,063,974	23,076,124
Accounts receivable, less allowance for 2019 and 2018 of $300,000	9,961,762	10,671,116
Other receivables	1,085,392	397,688
Material and supplies, at average cost	873,548	825,337
Prepayments	177,310	151,786
Total current assets	35,161,986	35,122,051
Pension Asset	3,993,033	3,393,684
Total	$ 179,433,872	$ 175,358,298

Members' Equities and Liabilities	2019	2018
Members' Equities:		
Memberships	$ 2,386,790	$ 2,317,690
Patronage capital	111,352,901	105,401,918
Other equities	5,682,622	5,347,510
Accumulated other comprehensive (loss)	(7,214,241)	(6,413,588)
	112,208,072	106,653,530
Long-Term Debt	48,899,218	50,744,813
Accumulated Postretirement Benefits	900,178	896,565
Current Liabilities:		
Current portion of long-term debt	3,265,000	3,400,000
Accounts payable	9,376,590	9,152,383
Consumer deposits	3,062,953	2,977,530
Accrued expenses	1,240,484	1,071,291
Total current liabilities	16,945,027	16,601,204
Consumer Advances for Construction	481,377	462,186
Total	$ 179,433,872	$ 175,358,298

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

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Sale of electric energy	$ 103,903,470	$ 106,649,105
Other electric revenues	1,658,150	1,517,510
	105,561,620	108,166,615
Operating Expenses		
Cost of power	83,747,055	85,851,419
Distribution - operations	2,517,911	3,049,003
Distribution - maintenance	1,963,743	1,929,508
Consumer accounts	1,724,290	1,798,716
Customer service and information	239,024	220,923
Sales	44,595	(44,432)
Administrative and general	3,344,240	3,426,930
Depreciation, excluding $894,606 in 2019 and $474,898 in 2018 charged to clearing accounts	6,513,838	6,343,271
Taxes, other than income	127,611	121,339
Interest on long-term debt	2,325,059	2,563,043
Other interest and deductions	86,766	49,705
Total cost of electric service	102,634,132	105,309,425
Operating margins	2,927,488	2,857,190
Nonoperating Margins		
Interest income	1,151,632	1,184,283
Others	67,271	220,323
	1,218,903	1,404,606
Patronage Capital Credits		
East Kentucky Power Cooperative	4,277,713	4,122,400
Other organizations	194,420	242,449
	4,472,133	4,364,849
Net Margins	8,618,524	8,626,645
Other Comprehensive Income (Loss)		
Pension plan	(807,283)	(1,560,306)
Postretirement benefits	6,630	6,630
	(800,653)	(1,553,676)
Total Comprehensive Income	$ 7,817,871	$ 7,072,969

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

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2019 and 2018

		Patronage Capital						Accumulated Other	Total
	Memberships	Assigned	Assignable	Retirements	Unassigned	Total	Other Equities	Comprehensive Income (Loss)	Members' Equities
Balance - December 31, 2017	$ 2,248,440	$ 130,495,621	$ 5,284,080	$ (36,577,476)	$ 277,595	$ 99,479,820	$ 5,036,509	$ (4,859,912)	$ 101,904,857
Comprehensive income:									
Net margins			8,626,645			8,626,645			8,626,645
Assigned margins		5,284,080	(5,284,080)			- -			- -
Pension plan									
Amortization								1,330,700	
Adjustment								(2,891,006)	(1,560,306)
Postretirement benefit obligation									
Amortization								6,630	
Adjustment								- -	6,630
Total comprehensive income									7,072,969
Net change in memberships	69,250								69,250
Refunds of capital credits				(2,704,547)		(2,704,547)			(2,704,547)
Other equities							311,001		311,001
Balance - December 31, 2018	2,317,690	135,779,701	8,626,645	(39,282,023)	277,595	105,401,918	5,347,510	(6,413,588)	106,653,530
Comprehensive income:									
Net margins			8,618,524			8,618,524			8,618,524
Assigned margins		8,626,645	(8,626,645)			- -			- -
Pension plan									
Amortization								528,161	
Adjustment								(1,335,444)	(807,283)
Postretirement benefit obligation									
Amortization								6,630	
Adjustment								- -	6,630
Total comprehensive income									7,817,871
Net change in memberships	69,100								69,100
Refunds of capital credits				(2,667,541)		(2,667,541)			(2,667,541)
Other equities							335,112		335,112
Balance - December 31, 2019	$ 2,386,790	$ 144,406,346	$ 8,618,524	$ (41,949,564)	$ 277,595	$ 111,352,901	$ 5,682,622	$ (7,214,241)	$ 112,208,072

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

SALT RIVER ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 8,618,524	$ 8,626,645
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	6,513,838	6,343,271
Charged to clearing accounts	894,606	474,898
Patronage capital credits	(4,472,133)	(4,364,849)
Net increase in pension liability	(1,406,632)	(980,864)
Change in assets and liabilities:		
Receivables	21,650	461,760
Material and supplies	(48,211)	8,369
Prepayments	(25,524)	(25,079)
Payables	224,207	(240,317)
Consumer deposits	85,423	204,388
Accrued expenses and advances	188,384	(449,756)
Postretirement liability	3,613	2,149
Net cash provided by operating activities	10,597,745	10,060,615
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(6,861,849)	(5,431,039)
Salvage, net of removal costs	15,056	12,907
Proceeds (purchase) of other investments, net of receipts	480,822	(85,378)
Net cash (used in) investing activities	(6,365,971)	(5,503,510)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	69,100	69,250
Retirements of capital credits	(2,667,541)	(2,704,547)
Other equities	335,112	311,001
Additional borrowings	6,000,000	- -
Principal payments on long-term debt	(17,404,597)	(3,303,577)
Cushion of credit applied (payment)	9,424,002	(3,095,541)
Net cash (used in) financing activities	(4,243,924)	(8,723,414)
Net (decrease) in cash and cash equivelants	(12,150)	(4,166,309)
Cash and cash equivalents, beginning of year	23,076,124	27,242,433
Cash and cash equivalents, end of year	$ 23,063,974	$ 23,076,124
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on long-term debt	$ 2,406,715	$ 2,569,018

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

SALT RIVER ELECTRIC COOPERATIVE CORPORATION

NOTES TO 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 accounting principles generally accepted in the United States of America. The significant accounting policies are as follows:

Business Activity Salt River provides distribution electric service to residential, business, and commercial consumers primarily in four counties in central Kentucky.

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 the following as of December 31:

	2019	2018
Distribution plant	$ 149,044,460	$ 143,583,839
General plant	14,514,356	14,368,464
Total	$ 163,558,816	$ 157,952,303

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%, for a composite rate of 4.29% for distribution plant. General plant rates are as follows:

Structures and imporvements	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. Salt River 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 credit risk related to the accounts is minimal.

Accounts Receivable Accounts receivable consists of amounts due for sales of electric energy which were not collected at year-end. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts. Salt River uses the allowance method to account for uncollectible accounts receivable balances. Management charges off uncollectible receivables to the allowance when it is determined the amounts will not be realized.

Materials and Supplies Salt River values materials and supplies at the lower of average cost or net realizable value.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Sales Tax Salt River is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. 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.

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 asset is created.

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.

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.

Credit Risk Salt River grants credit to residents of local counties. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

Advertising Salt River expenses advertising costs as incurred. Advertising expense amounted to $277,763 and $275,039 for the years ended December 31, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018. Salt River's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

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

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 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 Statement of Financial Accounting Standards No. 106 and reported as an expense under net margins from continuing operations.

Recent Accounting Pronouncements In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of income and comprehensive income. This standard will be effective for the year ending December 31, 2021.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses.* The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of revenue and comprehensive income will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending December 31, 2023.

Salt River is currently in the process of evaluating the impact of the adoption of these ASUs on the financial statements.

Subsequent Events Management has evaluated subsequent events through March 3, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

Adoption of accounting pronouncement

Salt River adopted ASU 2014-09, *Revenue from Contracts with Customers* as of January 1, 2019. The new standard replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. The standard was adopted using the modified retrospective method and had no effect on Salt River's financial position or results of operations.

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as consumer deposits. Salt River has no contract assets or long-term contract liabilities.

Revenue from contracts

Salt River is engaged in the distribution and sale of electricity to residential and commercial customers in ten counties in central Kentucky. Revenue from these activities is generated from tariffs approved by the PSC. Salt River 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 Salt River. 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 20 days of the date of the bill.

Significant judgements

Salt River bills customers on monthly cycles based on meter readings taken at approximately the same day each month. Industrial customers are billed at the end of each month, some residential customers are billed around the 20th day of the month, and the remaining residential customers are billed around the 10th day of the next month. Revenue is recognized in the month billed for billing cycles that fall on the 20th of the month, at the end of the month, and within 10 days of the next month. There is no material difference in revenue recognition from the timing difference of the billing cycles. This method of revenue recognition presents fairly, Salt River's transfer of electricity to customers as the amount recognized is based on actual volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges as set by the PSC.

Performance obligations

Salt River customers generally have no minimum purchase commitments. Salt River recognizes revenue as each performance obligation is satisfied. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation to recognize as of December 31, 2019 and 2018.

Note 2. Revenue Recognition (Continued)

Disaggregation of revenue

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	2019	2018
Residential	$ 68,768,532	$ 71,102,923
Large Industrial	26,379,355	26,847,694
Commercial	8,238,837	8,185,315
Public Lights	511,735	495,117
Other	5,011	18,056
Total	$ 103,903,470	$ 106,649,105

Contract cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was $3,062,953 and $2,977,530 as of December 31, 2019 and 2018, respectively.

Note 3. Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

	2019	2018
East Kentucky, patronage capital	$ 65,409,350	$ 61,227,817
National Bank for Cooperatives (CoBank)		
Patronage capital	1,047,865	1,085,100
CFC, CTC's and patronage capital	826,736	955,707
CFC, Member Capital Security	1,000,000	1,000,000
Other associated organizations	1,494,755	1,487,717
	$ 69,778,706	$ 65,756,341

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 3.00% and 5.00% and are scheduled to mature at varying times from 2021 to 2080. Member Capital Securities have a 7.50% fixed interest rate and mature thirty-five years from the issuance date. Interest is paid each April 1 and October 1.

Note 3. Investments in Associated Organizations (Continued)

In addition to associated organizations, Salt River is a 50% owner of Lock 7 Hydro Partners, LLC ("Lock 7"), which generate electricity through hydro methods on the Kentucky River. The investment is accounted for using the equity method of accounting, and has been included in other investments in the accompanying balance sheets. The activity of the equity method investor is as follows for the years ended December 31:

	2019	2018
Lock 7 investment, beginning balance	$ 185,707	$ 166,365
Earnings	117,984	214,342
Return of earnings	(165,000)	(195,000)
Lock 7 investment, ending balance	$ 138,691	$ 185,707

The following is summarized financial information of Lock 7 as of and for the years ended December 31, 2019 and 2018:

	2019	2018
Assets	$ 238,281	$ 326,261
Liabilities	$ 60,742	$ 54,689
Equity	$ 177,539	$ 271,572
Revenues and other income	$ 503,091	$ 666,218
Expenses and other expenses	$ 267,124	$ 237,534
Net income	$ 235,967	$ 428,684

Note 4. Other Assets

The economic development loans are secured by either a portion of the assets pledged by Salt River's consumers or guarantees from local banks. The notes are either low or zero interest rate loans. The loans are scheduled to mature at varying times from 2021 through 2028.

Note 5. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% 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 25.00% of the net margins for the next preceding year, Salt River may distribute the difference between 25.00% and the payments made to such estates. The equity and margins as of December 31, 2019 and 2018 were 63.00% and 61.00% of total assets, respectively.

Note 6. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank ("FFB"), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2048. RUS assesses 1.25 basis points to administer the FFB loans. Long-term debt consists of the following as of December 31:

	2019	2018
First mortgage notes due RUS:		
3.00% to 4.38%	$ 16,519,756	$ 31,902,144
Advance payment, earns 5.00% interest	(7,685,000)	(16,500,567)
	8,834,756	15,401,577
First mortgage notes due FFB:		
1.57% and 2.23%	33,600,044	28,450,871
First mortgage notes due CoBank:		
3.10% to 7.40%	9,652,146	10,191,297
Economic development loans, no interest	77,272	101,068
	52,164,218	54,144,813
Less current portion	(3,265,000)	(3,400,000)
Long-term portion	$ 48,899,218	$ 50,744,813

Salt River has unadvanced loan funds from FFB in the amount of $30,000,000 that will be used for future 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, 2019, the annual principal portion of long-term debt outstanding for the next five years are as follows: 2020 - $3,265,000; 2021 - $3,150,000; 2022 - $3,065,000; 2023 - $3,000,000; 2024 - $3,000,000.

Note 7. Short-Term Borrowings

As of December 31, 2019, Salt River has a short-term line of credit of $4,000,000 available from CFC and a short-term line of credit of $1,000,000 available from CoBank. There were no advances against either line of credit as of December 31, 2019 and 2018. The lines of credit from CFC and CoBank mature in October 2021 and July 2020, respectively, and they renew on a regular basis throughout the term of the long-term debt (See Note 6).

Note 8. Savings Plans

All eligible employees of Salt River participate in the NRECA Retirement and Security Program ("Program"), a defined contribution pension plan qualified under section 401(k) and tax-exempt under section 501(a) of the Internal Revenue Code. Salt River makes annual contributions to the Program equal to the amounts accrued for pension expense. There have been no significant changes that affect the comparability of 2019 and 2018.

Note 8. Savings Plans (Continued)

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 $98,050 and $98,851 to this plan in 2019 and 2018, respectively.

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 6.00% 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 $107,352 and $115,369 in 2019 and 2018, respectively.

Note 9. 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 a 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, 2019 and 2018. There have been no significant changes that affect the comparability of 2019 and 2018.

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

	2019	2018
Projected benefit obligation	$ (24,160,932)	$ (19,338,735)
Fair value of plan assets	28,153,965	22,732,419
Funded status	$ 3,993,033	$ 3,393,684
Accumulated benefit obligation included in plan	$ 17,201,028	$ 15,184,640
Amount recognized as asset	$ 3,993,033	$ 3,393,684

Note 9. 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 as of and for the years ended December 31:

	2019	2018
Net Periodic Benefit Cost		
Service cost	$ 948,871	$ 890,191
Interest cost	966,004	821,700
Expected return on assets	(1,849,668)	(2,023,455)
SFAS 88 Settlement	- -	1,084,282
Amortization loss	528,161	246,418
Net periodic benefit cost	$ 593,368	$ 1,019,136
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 19,338,735	$ 21,182,500
Service cost	913,871	855,191
Interest cost	966,004	821,700
Settlement	- -	(3,276,029)
Disbursements	(1,359,513)	(53,624)
Actuarial loss (gain)	4,301,835	(191,003)
Projected benefit obligation at end of year	$ 24,160,932	$ 19,338,735
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$ 22,732,419	$ 25,155,626
Actual return (loss) on plan assets	4,815,879	(1,059,458)
Employer contributions	2,000,000	2,000,000
Settlement/Special termination benefits	- -	(3,276,029)
Benefits paid	(1,359,513)	(53,624)
Administrative costs	(34,820)	(34,096)
Fair value of plan assets, end of year	$ 28,153,965	$ 22,732,419

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

	2019	2018
Discount rate	4.75%	4.25%
Rate of increase in compensation level	4.00%	4.50%
Expected long-term rate of return on assets	8.50%	8.50%

Note 9. Pension Plan (Continued)

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 between fixed income or cash equivalent investments. The Plan's investments are reported at fair value as follows:

		Fair value mearsurements using:	
December 31, 2019	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 5,730	$ 5,730	
Large cap blend	14,212,159	14,212,159	
Stable value	8,418,440		8,418,440
Large cap value	2,826,708		2,826,708
Small cap value	2,689,998		2,689,998
Intermediate term bond	930		930
	$ 28,153,965	$ 14,217,889	$ 13,936,076

		Fair value mearsurements using:	
December 31, 2018	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 4,985	$ 4,985	
Large cap blend	11,711,318	11,711,318	
Stable value	6,317,439		6,317,439
Large cap value	2,483,330		2,483,330
Small cap value	2,214,488		2,214,488
Intermediate term bond	859		859
	$ 22,732,419	$ 11,716,303	$ 11,016,116

Expected retiree pension benefit payments are projected to be as follows: 2020 - $1,341,000; 2021 - $2,457,000; 2022 - $1,331,000; 2023 - $1,168,000; 2024 - $787,000.

Contributions for the year ending December 31, 2020 are expected to be approximately $2,000,000.

NOTES TO FINANCIAL STATEMENTS

Note 10. Postretirement Benefits

Salt River sponsors a noncontributory 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. There have been no significant changes that affect the comparability of 2019 and 2018.

The funded status of the plan was as follows as of December 31:

	2019	2018
Projected benefit obligation	$ (900,178)	$ (896,565)
Fair value of plan assets	- -	- -
Funded status (deficit)	$ (900,178)	$ (896,565)

The components of net periodic postretirement benefit cost are as follows as of and for the year ended December 31:

	2019	2018
Benefit obligation at beginning of year	$ 896,565	$ 894,416
Components of net periodic benefit cost:		
Service cost	9,049	9,388
Interest cost	40,394	40,053
Net periodic benefit cost	49,443	49,441
Benefits paid	(45,830)	(47,292)
Benefit obligation at end of year	$ 900,178	$ 896,565
Amounts recognized in the balance sheets consists of:		
Accumulated operating provisions	$ 900,178	$ 896,565
Amounts included in other comprehensive income:		
Unrecognized actuarial income (loss)	$ 6,630	$ 6,630
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$950,000	
Net periodic benefit cost	52,200	

For measurement purposes, an annual rate of increase of 5.00% in 2019, then decreasing by .50% per year until 3.00% 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 4.50% in 2019 and 2018.

Projected retiree benefit payments for the next five years are expected to be as follows: 2020 - $53,000; 2021 - $52,000; 2022 - $52,000; 2023 - $37,000; 2024 - $27,000.

NOTES TO FINANCIAL STATEMENTS

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 and CEO serve on the Boards of Directors of various associated organizations. The VP of Economic Development 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 75.00% 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 in June 2012 through June 2020 between Salt River and the International Brotherhood of Electric Workers ("IBEW").

Note 14. 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 outcome will not have a material adverse effect on the financial statements.

Note 15. Uncertainties

Subsequent to December 31, 2019, local, U.S., and world governments have encourage self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to Salt River as of March 3, 2020, management believes that a material impact on Salt River's financial position and results of future operations is reasonably possible.

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 Corporation
Bardstown, 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 Salt River Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019 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 March 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 3, 2020

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
Salt River Electric Cooperative Corporation
Bardstown, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Salt River Electric Cooperative Corporation (the Cooperative), which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2020, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;

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- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements ("See RUS Bulletin 183-1, Depreciation Rates and Procedures");
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits, which are listed below; and
- Comply with the requirements for the detailed schedule of investments, of which there were none.

The Cooperative is a 50% owner of 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 activity of the equity method investor is as follows for the year ended December 31, 2019:

	Investment
Beginning balance	$185,707
Earnings for 2019	117,984
Return of earnings	(165,000)
Ending balance	$138,691

The deferred credits are as follows:

Consumer advances for construction	$481,377

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 3, 2020