SALT RIVER ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 21

FINANCIAL REPORT

December 31, 2021

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Salt River Electric Cooperative Corporation, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenue and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt River Electric Cooperative Corporation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Salt River Electric Cooperative Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Salt River Electric Cooperative Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Salt River Electric Cooperative Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Salt River Electric Cooperative Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we have identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 24, 2022, 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 solely 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 the effectiveness of the Salt River Electric Cooperative Corporation's 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 the Salt River Electric Cooperative Corporation's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 24, 2022

SALT RIVER ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2021 and 2020

ASSETS	2021	2020
Electric Plant, at original cost:		
In service	$ 174,755,840	$ 170,647,790
Under construction	971,512	30,886
	175,727,352	170,678,676
Less accumulated depreciation	105,601,118	100,122,804
	70,126,234	70,555,872
Investments:		
Associated organizations	74,060,257	72,922,263
Other investments	320,283	364,776
Total investments	74,380,540	73,287,039
Current Assets:		
Cash and cash equivalents	12,706,213	24,107,444
Accounts receivable, less allowance for 2021 of $500,000 and 2020 of $400,000	16,697,932	10,326,947
Other receivables	383,575	177,164
Material and supplies, at average cost	1,426,400	857,153
Prepayments	160,393	148,483
Total current assets	31,374,513	35,617,191
Other Assets:		
Pension asset	9,988,595	4,820,613
Deferred debits	1,190,693	- -
Total assets	$ 187,060,575	$ 184,280,715
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 2,530,390	$ 2,458,065
Patronage capital	117,114,103	115,388,182
Other equities	6,328,244	6,012,011
Accumulated other comprehensive (loss)	(3,578,193)	(8,006,644)
Total members' equities	122,394,544	115,851,614
Long-term Liabilities:		
Long-term debt, less current portion	45,139,537	51,187,976
Accumulated postretirement benefits	905,491	906,746
Total long-term liabilities	46,045,028	52,094,722
Current Liabilities:		
Current portion of long-term debt	2,667,899	2,216,017
Accounts payable	10,872,135	8,879,440
Consumer deposits	3,191,311	3,125,488
Accrued expenses	1,356,234	1,387,129
Total current liabilities	18,087,579	15,608,074
Deferred Credits	533,424	726,305
Total members' equities and liabilities	$ 187,060,575	$ 184,280,715

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, 2021 and 2020

	2021	2020
Operating Revenues		
Sale of electric energy	$ 111,955,040	$ 97,406,894
Other electric revenues	742,459	907,034
	112,697,499	98,313,928
Operating Expenses		
Cost of power	90,381,980	76,381,613
Distribution - operations	3,210,780	2,919,437
Distribution - maintenance	2,654,535	2,281,506
Consumer accounts	2,020,019	1,997,124
Customer service and information	227,116	246,439
Sales	157,812	148,283
Administrative and general	3,458,962	3,408,068
Depreciation, excluding $350,048 in 2021 and $418,894 in 2020 charged to clearing accounts	6,585,922	6,989,236
Amortization of debt expense	62,668	- -
Taxes, other than income	120,246	127,376
Interest on long-term debt	967,220	1,462,586
Other interest and deductions	11,598	59,316
Total cost of electric service	109,858,858	96,020,984
Operating Margins	2,838,641	2,292,944
Nonoperating Margins		
Interest income	109,532	473,723
Earnings from equity investment	256,637	161,593
Other nonoperating (losses)	(7,706)	(26,130)
	358,463	609,186
Patronage Capital Credits		
Generation and transmission	1,099,800	3,577,645
Other associated organizations	252,254	248,967
	1,352,054	3,826,612
Net Margins	4,549,158	6,728,742
Other Comprehensive Income (Loss)		
Pension plan actuarial net (loss) gain	3,455,116	(1,174,148)
Pension plan amortization of net loss	966,705	375,115
Postretirement benefits amortization of net loss	6,630	6,630
	4,428,451	(792,403)
Net Margins and Comprehensive Income	$ 8,977,609	$ 5,936,339

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, 2021 and 2020

		Patronage Capital							
	Memberships	Assigned	Assignable	Retirements	Unassigned	Total	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
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
Comprehensive income:									
Net margins			6,728,742			6,728,742			6,728,742
Assigned margins		8,618,524	(8,618,524)			- -			- -
Pension plan									
Amortization of net loss								375,115	
Actuarial net loss								(1,174,148)	(799,033)
Postretirement benefit obligation									
Amortization of net loss								6,630	6,630
Total comprehensive income									5,936,339
Net change in memberships	71,275								71,275
Refunds of capital credits				(2,693,461)		(2,693,461)			(2,693,461)
Other equities							329,389		329,389
Balance - December 31, 2020	2,458,065	153,024,870	6,728,742	(44,643,025)	277,595	115,388,182	6,012,011	(8,006,644)	115,851,614
Comprehensive income:									
Net margins			4,549,158			4,549,158			4,549,158
Assigned margins		6,728,742	(6,728,742)			- -			- -
Pension plan									
Amortization of net loss								966,705	
Actuarial net gain								3,455,116	4,421,821
Postretirement benefit obligation									
Amortization of net loss								6,630	6,630
Total comprehensive income									8,977,609
Net change in memberships	72,325								72,325
Refunds of capital credits				(2,823,237)		(2,823,237)			(2,823,237)
Other equities							316,233		316,233
Balance - December 31, 2021	$ 2,530,390	$ 159,753,612	$ 4,549,158	$ (47,466,262)	$ 277,595	$ 117,114,103	$ 6,328,244	$ (3,578,193)	$ 122,394,544

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 4,549,158	$ 6,728,742
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	6,585,922	6,989,236
Charged to clearing accounts	350,048	418,894
Patronage capital credits and equity investment	(1,608,691)	(3,988,205)
Amortization of debt expense	62,668	- -
Amortization of postretirement actuarial adjustments	6,630	6,630
Pension benefit expense	1,253,840	373,387
Pension benefit contributions	(2,000,000)	(2,000,000)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	(6,577,396)	543,043
Material and supplies	(569,247)	16,395
Prepayments	(11,910)	28,827
Deferred debits	(1,190,693)	- -
Payables	1,992,695	(497,150)
Consumer deposits	65,823	62,535
Accrued expenses	(30,895)	146,645
Consumer advances for construction	34,764	17,283
Postretirement liability	(1,255)	6,568
Net cash provided by operating activities	2,911,461	8,852,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(6,471,113)	(7,007,548)
Plant removal cost	(301,237)	(618,024)
Salvage recovered from retired plant	35,371	76,817
Receipts from other investments, net	455,522	792,417
Net cash (used in) investing activities	(6,281,456)	(6,756,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	72,325	71,275
Retirements of capital credits	(2,823,237)	(2,693,461)
Other equities	316,233	329,389
Advances of long-term debt	- -	6,400,000
Principal payments on long-term debt	(5,596,557)	(12,845,224)
Cushion of credit applied	- -	7,685,000
Net cash (used in) financing activities	(8,031,236)	(1,053,022)
Net increase (decrease) in cash and cash equivelants	(11,401,231)	1,043,470
Cash and cash equivalents, beginning of year	24,107,444	23,063,974
Cash and cash equivalents, end of year	$ 12,706,213	$ 24,107,444
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on long-term debt	$ 1,025,189	$ 1,529,689

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

SALT RIVER ELECTRIC COOPERATIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Business activity

Salt River Electric Cooperative Corporation (Salt River) provides distribution electric services to residential and commercial consumers concentrated in a ten-county area in central Kentucky. 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:

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Electric plant

Electric plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead 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:

	2021	2020
Distribution plant	$ 159,946,244	$ 155,822,135
General plant	14,809,596	14,825,655
Total	$ 174,755,840	$ 170,647,790

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 4.04% for distribution plant. General plant rates are as follows:

Structures and imporvements	3%
Transportation equipment	16%
Other general plant	6 - 16%

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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. Accounts receivable are recorded at their 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.

Deferred debits

Unamortized debt expense is being amortized over the remaining life of the refinanced debt.

Taxes

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 taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Cost of power

Salt River is one of 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. There are certain surcharges, clauses, and credits that East Kentucky includes to Salt River that are passed on to consumers using a methodology prescribed by the PSC.

Advertising

Salt River expenses advertising costs as incurred. Advertising expense totaled $266,041 and $280,584 for the years ended December 31, 2021 and 2020, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Other comprehensive income (loss)

Other comprehensive income (loss) 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 and pension plan.

Credit risk

Salt River grants credit to residents within its service territory. Concentrations of credit risk with respect to accounts receivables are limited due to its large number of customers.

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.

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.

Income tax status

Salt River qualifies as a tax-exempt organization under Section 501(c)(12) of the Internal Revenue Code. However, income from certain activities not directly related to Salt River's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income tax for the years ended December 31, 2021 and 2020. Accordingly, the financial statements of 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. Salt River has no uncertain tax positions resulting in an accrual of tax expense or benefit.

Salt River's Federal Return of Organization Exempt from Income Tax is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Pension accounting

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard specifies how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under accounting principles generally accepted in the United States of America, and what components of those costs are eligible for capitalization in assets. This standard is effective for years beginning after December 15, 2018. The Federal Energy Regulatory Commission (FERC) issued Docket No. AI18-1-000 that allowed jurisdictional public utilities to continue to record PBOP costs in their entirety, less amounts capitalized, without change. Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of FASB Accounting Standards Codification (ASC) Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on ASC 715 and reported as an expense under net margins from continuing operations.

Recent accounting pronouncements

In 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 revenue and comprehensive income. This standard will be effective for the year ending December 31, 2022.

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 revenue 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.

Reclassifications

Certain amounts presented in the 2020 financial statement presentation have been reclassified to conform to the 2021 presentation.

Subsequent events

Management has evaluated subsequent events through March 24, 2022, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Revenue Recognition

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. Revenue for pole attachments are invoiced at the end of the year. The performance obligation is satisfied ratably over the time of the contract. These amounts are recorded as a receivable at the time of invoicing.

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, 2021 and 2020.

Disaggregation of revenue

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

	2021	2020
Residential	$ 73,646,918	$ 65,169,509
Large Industrial	29,045,421	24,018,048
Commercial	8,702,374	7,702,393
Public Lights	560,327	516,944
Other	742,459	907,034
Total	$ 112,697,499	$ 98,313,928

Note 2. Revenue Recognition (Continued)

Contract cost liabilities

Contract cost liabilities include consumer deposits. The balance in contract liabilities was as follows as of December 31:

	2021	2020	2019
Contract liabilities	$ 3,191,311	$ 3,125,488	$ 3,062,953

Note 3. Investments in Associated Organizations

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

	2021	2020
East Kentucky, patronage capital	$ 69,731,742	$ 68,631,942
National Bank for Cooperatives (CoBank)		
Patronage capital	978,567	1,023,022
CFC CTCs and patronage capital	955,707	955,707
CFC member capital securities	1,000,000	1,000,000
Other associated organizations	1,394,241	1,311,592
	$ 74,060,257	$ 72,922,263

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 4.00% and are scheduled to mature in 2085. The CFC member capital securities were purchased in December 2014 and bear interest at 5.00%. The member capital securities mature in December 2044 and are callable by CFC, in whole or in part, at any time after ten years from the date of issuance at 100 percent of the principal amount to be redeemed together with accrued and unpaid interest to the redemption date.

Note 4. Other Investments

Salt River is a 50.00% equity owner of Lock 7 Hydro Partners, LLC (Lock 7), which generates 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 investment is as follows for the years ended December 31:

	2021	2020
Lock 7 investment, beginning balance	$ 170,284	$ 138,691
Earnings	256,637	161,593
Distributions	(220,000)	(130,000)
Lock 7 investment, ending balance	$ 206,921	$ 170,284

NOTES TO FINANCIAL STATEMENTS

Note 4. Other Investments (Continued)

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

	2021	2020
Assets	$ 382,117	$ 309,217
Liabilities	$ 68,118	$ 72,702
Equity	$ 313,999	$ 236,515
Revenues and other income	$ 765,642	$ 616,491
Expenses and other expenses	$ 248,158	$ 293,305
Net income	$ 517,484	$ 323,186

Other investments also include economic development loans that 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 remaining loan is scheduled to mature in 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, 2021 and 2020 were 65.43% and 62.87% 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 2052. RUS assesses 1.25 basis points to administer the FFB loans. Salt River had unadvanced loan funds from FFB in the amount of $23,600,000 as of December 31, 2021 and 2020. These funds will be used for future plant additions.

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

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.

Long-term debt consists of the following as of December 31:

	2021	2020
First mortgage notes due RUS:		
1.50% to 3.88%	$ 5,284,327	$ 5,638,555
First mortgage notes due FFB:		
0.05% to 2.23%	37,730,957	38,910,145
First mortgage notes due CoBank:		
2.12%	4,762,472	8,801,817
Economic development loans, no interest	29,680	53,476
	47,807,436	53,403,993
Less current portion	2,667,899	2,216,017
Long-term portion	$ 45,139,537	$ 51,187,976

As of December 31, 2021, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2022	$ 2,667,899
2023	2,711,593
2024	2,756,141
2025	2,802,042
2026	2,584,475
Thereafter	34,285,286
	$ 47,807,436

During the current year Salt River consolidated and refinanced several notes with CoBank into one. As part of this refinancing Salt River paid a broken funding fee of $1,253,361. In accordance with RUS guidance this broken funding fee has been included in the accompanying consolidated balance sheet as deferred debits and will be amortized over the life of the note. Current year amortization expense was $62,668. The remaining balance of the broken funding fee to be amortized in future years was $1,190,693 at December 31, 2021. The note is scheduled to mature in September 2026.

Note 7. Short-Term Borrowings

Salt River has short-term lines of credit of $4,000,000 and $1,000,000 available from CFC and CoBank, respectively. There were no advances against either line of credit as of December 31, 2021 and 2020. The lines of credit from CFC and CoBank mature in September 2023 and July 2022, respectively, and they renew on a regular basis throughout the term of the long-term debt (See Note 6).

NOTES TO FINANCIAL STATEMENTS

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 2021 and 2020.

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 $104,331 and $105,711 to this plan in 2021 and 2020, 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 $118,797 and $121,020 in 2021 and 2020, 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, 2021 and 2020. There have been no significant changes that affect the comparability of 2021 and 2020.

The following is an assessment of the noncontributory defined benefit plan as of December 31:

	2021	2020
Projected benefit obligation	$ (26,587,470)	$ (28,599,304)
Fair value of plan assets	36,576,065	33,419,917
Funded status	$ 9,988,595	$ 4,820,613
Accumulated benefit obligation included in plan	$ 22,724,074	$ 22,724,074
Amount recognized as asset	$ 9,988,595	$ 4,820,613

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:

	2021	2020
Net Periodic Benefit Cost		
Service cost	$ 1,376,409	$ 1,069,578
Interest cost	982,642	849,071
Expected return on assets	(2,071,917)	(1,920,377)
SFAS 88 Settlement	592,113	- -
Amortization loss	374,593	375,115
Net periodic benefit cost	$ 1,253,840	$ 373,387
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 28,599,304	$ 24,160,932
Service cost	1,341,409	1,034,578
Interest cost	982,642	849,071
Settlement	(4,516,813)	- -
Disbursements	(40,800)	(648,106)
Actuarial loss	221,728	3,202,829
Projected benefit obligation at end of year	$ 26,587,470	$ 28,599,304
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$ 33,419,917	$ 28,153,965
Actual return on plan assets	5,748,977	3,948,508
Settlement	(4,516,813)	- -
Employer contributions	2,000,000	2,000,000
Benefits paid	(40,800)	(648,106)
Administrative costs	(35,216)	(34,450)
Fair value of plan assets, end of year	$ 36,576,065	$ 33,419,917

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

	2021	2020
Discount rate	3.50%	3.25%
Rate of increase in compensation level	3.00%	3.00%
Expected long-term rate of return on assets	7.00%	7.50%

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.

NOTES TO FINANCIAL STATEMENTS

Note 9. 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 between fixed income or cash equivalent investments. The Plan's investments are reported at fair value as follows:

		Fair value mearsurements using:	
December 31, 2021	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 3,227	$ 3,227	$ - -
Large cap blend	19,172,510	19,172,510	- -
Stable value	10,369,653	- -	10,369,653
Large cap value	3,698,129	- -	3,698,129
Small cap value	3,331,543	- -	3,331,543
Intermediate term bond	1,003	- -	1,003
	$ 36,576,065	$ 19,175,737	$ 17,400,328

		Fair value mearsurements using:	
December 31, 2020	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 5,745	$ 5,745	$ - -
Large cap blend	16,199,646	16,199,646	- -
Stable value	9,945,251	- -	9,945,251
Large cap value	3,249,286	- -	3,249,286
Small cap value	4,018,977	- -	4,018,977
Intermediate term bond	1,012	- -	1,012
	$ 33,419,917	$ 16,205,391	$ 17,214,526

Expected retiree pension benefit payments are projected to be as follows: 2022 - $1,371,153; 2023 - $1,247,258; 2024 - $760,149; 2025 - $1,087,715; 2026 - $958,432.

Contributions for the year ending December 31, 2022, 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 2021 and 2020.

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

	2021	2020
Projected benefit obligation	$ (905,491)	$ (906,746)
Fair value of plan assets	- -	- -
Funded status (deficit)	$ (905,491)	$ (906,746)

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

	2021	2020
Benefit obligation at beginning of year	$ 906,746	$ 900,178
Components of net periodic benefit cost:		
Service cost	8,667	8,853
Interest cost	40,775	40,589
Net periodic benefit cost	49,442	49,442
Benefits paid	(50,697)	(42,874)
Benefit obligation at end of year	$ 905,491	$ 906,746
Amounts recognized in the balance sheets consists of:		
Accumulated operating provisions	$ 905,491	$ 906,746
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	$ 955,000	
Net periodic benefit cost	$ 52,200	

For measurement purposes, an annual rate of increase of 5.00% in 2021, 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 4.75% in 2021 and 2020.

Projected retiree benefit payments for the next five years are expected to be as follows: 2022 - $37,000; 2023 - $30,000; 2024 - $24,000; 2025 - $18,000; 2026 - $12,000.

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-year agreement was negotiated and approved for the period starting in June 2020 through June 2028 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

Local, U.S., and world governments have encouraged 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 24, 2022, management believes that a material impact on Salt River's financial position and results of future operations is reasonably possible.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
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, 2021 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 24, 2022.

Report on Internal Control over Financial Reporting

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

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

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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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 24, 2022

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, 2021, 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 24, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2022, 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% equity 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 investment is as follows for the year ended December 31, 2021:

	Investment
Beginning balance	$ 170,284
Net income	256,637
Distributions	(220,000)
Ending balance	$ 206,921

The deferred debits are as follows:

Unamortized debt expense	$ 1,190,693

The deferred credits are as follows:

Consumer advances for construction	$ 533,424

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 24, 2022