SALT RIVER ELECTRIC
COOPERATIVE CORPORATION
KENTUCKY 21

FINANCIAL REPORT

December 31, 2023

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

Opinion

We have audited the accompanying financial statements of Salt River Electric Cooperative Corporation, which comprise the balance sheets as of December 31, 2023 and 2022, 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, 2023 and 2022, 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

Certified Public Accountants and Advisors

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 11, 2024, 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 11, 2024

SALT RIVER ELECTRIC COOPERATIVE CORPORATION

BALANCE SHEETS
December 31, 2023 and 2022

ASSETS	2023	2022
Electric Plant, at original cost:		
In service	$ 189,121,873	$ 180,620,794
Under construction	500,952	862,724
	189,622,825	181,483,518
Less accumulated depreciation	114,204,183	109,813,374
	75,418,642	71,670,144
Investments:		
Associated organizations	78,077,660	75,979,969
Other investments	458,572	461,309
Total investments	78,536,232	76,441,278
Current Assets:		
Cash and cash equivalents	20,924,137	16,395,173
Accounts receivable, less allowance for 2023 of $301,156 and 2022 of $297,584	16,060,528	20,302,431
Other receivables	349,680	519,466
Material and supplies, at average cost	1,943,113	1,820,006
Prepayments	169,750	166,107
Total current assets	39,447,208	39,203,183
Other Assets:		
Pension asset	17,956,706	13,437,986
Deferred debits	689,349	940,021
Total assets	$ 212,048,137	$ 201,692,612
MEMBERS' EQUITIES AND LIABILITIES		
Members' Equities:		
Memberships	$ 2,665,990	$ 2,598,040
Patronage capital	123,983,117	121,069,440
Other equities	7,011,280	6,658,584
Accumulated other comprehensive income (loss)	625,067	(1,802,395)
Total members' equities	134,285,454	128,523,669
Long-term Liabilities:		
Long-term debt, less current portion	56,151,135	50,786,401
Accumulated postretirement benefits	562,049	891,933
Total long-term liabilities	56,713,184	51,678,334
Current Liabilities:		
Current portion of long-term debt	2,837,066	2,445,320
Accounts payable	11,311,053	13,260,790
Consumer deposits	3,848,958	3,394,582
Accrued expenses	2,080,608	1,740,101
Total current liabilities	20,077,685	20,840,793
Deferred Credits	971,814	649,816
Total members' equities and liabilities	$ 212,048,137	$ 201,692,612

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, 2023 and 2022

	2023	2022
Operating Revenues		
Sale of electric energy	$ 128,433,617	$ 135,426,610
Other electric revenues	1,831,292	1,658,509
	130,264,909	137,085,119
Operating Expenses		
Cost of power	106,185,793	115,036,024
Distribution - operations	2,997,917	3,519,421
Distribution - maintenance	4,962,165	2,926,479
Consumer accounts	1,966,456	1,857,962
Customer service and information	216,196	231,234
Sales	156,238	180,667
Administrative and general	3,430,614	3,516,238
Depreciation, excluding $309,143 in 2023 and $272,704 in 2022 charged to clearing accounts	6,518,543	6,099,323
Amortization of debt expense	250,672	250,672
Taxes, other than income	103,596	100,787
Interest on long-term debt	1,764,854	1,090,490
Other interest and deductions	165,299	13,889
Total cost of electric service	128,718,343	134,823,186
Operating Margins	1,546,566	2,261,933
Nonoperating Margins		
Interest income	1,153,049	319,092
Earnings from equity investment	37,262	214,389
Employee retention credit	647,663	- -
Other nonoperating gains (losses)	(31,582)	39,834
	1,806,392	573,315
Patronage Capital Credits		
Generation and transmission	2,034,812	3,791,040
Other associated organizations	367,844	274,358
	2,402,656	4,065,398
Net Margins	5,755,614	6,900,646
Other Comprehensive Income		
Pension plan actuarial net gain	2,120,217	1,763,683
Pension plan amortization of net loss	- -	5,485
Postretirement benefits amortization of net loss	10,526	6,630
	2,130,743	1,775,798
Net Margins and Comprehensive Income	$ 7,886,357	$ 8,676,444

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, 2023 and 2022

		Patronage Capital						Accumulated Other	Total
	Memberships	Assigned	Assignable	Retirements	Unassigned	Total	Other Equities	Comprehensive Income (Loss)	Members' Equities
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
Comprehensive income:									
Net margins			6,900,646			6,900,646			6,900,646
Assigned margins		4,549,158	(4,549,158)			- -			- -
Pension plan									
Amortization of net loss								5,485	
Actuarial net gain								1,763,683	1,769,168
Postretirement benefit obligation									
Amortization of actuarial loss								6,630	6,630
Total comprehensive income									8,676,444
Net change in memberships	67,650								67,650
Refunds of capital credits				(2,945,309)		(2,945,309)			(2,945,309)
Other equities							330,340		330,340
Balance - December 31, 2022	2,598,040	164,302,770	6,900,646	(50,411,571)	277,595	121,069,440	6,658,584	(1,802,395)	128,523,669
Comprehensive income:									
Net margins			5,755,614			5,755,614			5,755,614
Assigned margins		6,900,646	(6,900,646)			- -			- -
Pension plan									
Actuarial net gain								2,120,217	2,120,217
Postretirement benefit obligation									
Amortization of actuarial loss								10,526	10,526
Actuarial gain								296,719	296,719
Total comprehensive income									8,183,076
Net change in memberships	67,950								67,950
Refunds of capital credits				(2,841,937)		(2,841,937)			(2,841,937)
Other equities							352,696		352,696
Balance - December 31, 2023	$ 2,665,990	$ 171,203,416	$ 5,755,614	$ (53,253,508)	$ 277,595	$ 123,983,117	$ 7,011,280	$ 625,067	$ 134,285,454

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, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 5,755,614	$ 6,900,646
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation		
Charged to expense	6,518,543	6,099,323
Charged to clearing accounts	309,143	272,704
Patronage capital credits and equity investment	(2,439,918)	(4,279,787)
Amortization of debt expense	250,672	250,672
Amortization of postretirement actuarial adjustments	10,526	6,630
Postretirement actuarial adjustment	296,719	- -
Pension benefit adjustment	(398,503)	319,776
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	4,411,689	(3,740,390)
Material and supplies	(123,107)	(393,606)
Prepayments	(3,643)	(5,714)
Accounts payable	(1,949,737)	2,388,655
Consumer deposits	454,376	203,271
Accrued expenses	340,507	383,867
Consumer advances for construction	321,998	116,392
Postretirement liability	(329,884)	(13,558)
Net cash provided by operating activities	11,424,995	6,508,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(10,204,159)	(7,545,553)
Plant removal cost	(655,824)	(562,361)
Salvage recovered from retired plant	66,964	191,977
Receipts from other investments, net	561,799	2,219,050
Net cash (used in) investing activities	(10,231,220)	(5,696,887)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in memberships	67,950	67,650
Retirements of capital credits	(2,841,937)	(2,945,309)
Other equities	352,696	330,340
Advances of long-term debt	8,450,000	8,400,000
Principal payments on long-term debt	(2,693,520)	(2,975,715)
Net cash provided by financing activities	3,335,189	2,876,966
Net increase in cash and cash equivelants	4,528,964	3,688,960
Cash and cash equivalents, beginning of year	16,395,173	12,706,213
Cash and cash equivalents, end of year	$ 20,924,137	$ 16,395,173
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on long-term debt	$ 1,770,771	$ 766,558

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:

	2023	2022
Distribution plant	$ 173,820,216	$ 165,665,023
General plant	15,301,657	14,955,771
Total	$ 189,121,873	$ 180,620,794

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 3.71% for distribution plant. General plant rates are as follows:

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

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 and allowance for credit losses

Salt River operates in the electric services distribution industry, and its accounts receivable are primarily derived from the sales of electric energy. Accounts receivable are stated at net realizable value and are usually collected within thirty days. The balance in accounts receivable as of December 31, 2023, 2022, and 2021 was $16,060,528, $20,302,431, and $16,697,932, respectively.

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

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

Materials and supplies

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 six percent of gross sales from non-residential consumers, a three percent school tax from certain counties on most gross sales, and franchise fees in certain cities. 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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 $292,817 and $272,620 for the years ended December 31, 2023 and 2022, respectively.

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, 2023 and 2022. Accordingly, the financial statements of Salt River include no provision for income taxes.

Note 1. Significant Accounting Policies (Continued)

Income tax status (continued)

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 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, 2023 and 2022.

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.

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.

Adoption of accounting pronouncement

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

Salt River adopted the standard effective January 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in new and enhanced disclosures only.

Note 1. Significant Accounting Policies (Continued)

Subsequent events

Management has evaluated subsequent events through March 11, 2024, the date the financial statements were available to be issued.

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, 2023 and 2022.

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:

	2023	2022
Residential	$ 80,447,761	$ 87,222,753
Large Industrial	37,142,839	37,109,448
Commercial	10,232,938	10,528,574
Public Lights	610,079	565,835
Other	1,831,292	1,658,509
Total	$ 130,264,909	$ 137,085,119

Contract liabilities

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

	2023	2022	2021
Contract liabilities	$ 3,848,958	$ 3,394,582	$ 3,191,311

Note 3. Allowance for Credit Losses

The allowance for credit losses for accounts receivable and the related activity are as follows:

	2023	2022
Beginning balance	$ 297,584	$ 500,000
Provision for credit losses	253,569	222,664
Write-offs	(324,594)	(621,985)
Recoveries	74,597	196,905
Ending balance	$ 301,156	$ 297,584

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments in Associated Organizations

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

	2023	2022
East Kentucky, patronage capital	$ 73,668,315	$ 71,633,503
National Bank for Cooperatives (CoBank)		
Patronage capital	739,970	924,213
CFC CTCs and patronage capital	955,707	955,707
CFC member capital securities	1,000,000	1,000,000
Other associated organizations	1,713,668	1,466,546
	$ 78,077,660	$ 75,979,969

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 5. 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:

	2023	2022
Lock 7 investment, beginning balance	$ 421,310	$ 206,921
Earnings	37,262	214,389
Lock 7 investment, ending balance	$ 458,572	$ 421,310

Note 5. Other Investments (Continued)

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

	2023	2022
Assets	$ 849,934	$ 751,708
Liabilities	$ 32,633	$ 8,931
Equity	$ 817,301	$ 742,777
Revenues and other income	$ 580,422	$ 626,588
Expenses and other expenses	$ 505,899	$ 197,810
Net income	$ 74,523	$ 428,778

For the year ended December 31, 2022, other investments also had included an economic development loan that was paid in full during the current year. The balance of the note at December 31, 2022 was $39,999.

Note 6. Patronage Capital

Under provisions of the long-term debt agreement, return to patrons of capital contributed by them is limited to amounts which would not allow the total equities and margins to be less than 30.00% 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, 2023 and 2022 were 63.33% and 63.72% of total assets, respectively.

Note 7. Long-Term Debt

All assets, except vehicles, are pledged as collateral on the long-term debt to RUS, Federal Financing Bank (FFB), and CFC under a joint mortgage agreement. The long-term debt is due in quarterly and monthly installments of varying amounts through 2052. RUS assesses 0.25 basis points to administer the FFB loans. Salt River had unadvanced loan funds from FFB in the amount of $6,750,000 and $15,200,000 as of December 31, 2023 and 2022, respectively. These funds 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.

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

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

	2023	2022
RUS, 1.25% to 3.00% fixed rate notes	$ 3,997,426	$ 4,356,895
FFB, 2.15% to 3.79% fixed rate notes	52,174,579	45,069,160
CoBank, 2.12% fixed rate note	2,816,196	3,799,782
Economic development loans, no interest	- -	5,884
	58,988,201	53,231,721
Less current portion	2,837,066	2,445,320
Long-term portion	$ 56,151,135	$ 50,786,401

As of December 31, 2023, the annual principal portion of long-term debt outstanding for the next five years and thereafter are as follows:

2024	$ 2,837,066
2025	2,907,961
2026	2,716,247
2027	1,983,428
2028	2,036,820
Thereafter	46,506,679
	$ 58,988,201

During 2021 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 balance sheet as deferred debits and will be amortized over the life of the note. Amortization expense was $250,672 for the years ended December 31, 2023 and 2022. The remaining balance of the broken funding fee to be amortized in future years was $689,349 and $940,021 as of December 31, 2023 and 2022, respectively. The broken funding fee is scheduled to be fully amortized in September 2026.

Note 8. Short-Term Borrowings

Salt River has a short-term line of credit of $4,000,000 available from CFC with variable interest rates of 5.91% and 5.75% as of December 31, 2023 and 2022, respectively. Salt River also has a short-term line of credit of $1,000,000 available from CoBank with variable interest rates of 7.26% and 6.20% as of December 31, 2023 and 2022, respectively. There were no advances against either line of credit as of December 31, 2023 and 2022. The lines of credit from CFC and CoBank mature in September 2024 and July 2024, respectively, and they renew on a regular basis throughout the term of the long-term debt (See Note 7).

Note 9. 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 2023 and 2022.

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 $109,809 and $94,191 to this plan in 2023 and 2022, 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 $131,682 and $127,692 in 2023 and 2022, respectively.

Note 10. 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, 2023 and 2022. There have been no significant changes that affect the comparability of 2023 and 2022.

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

	2023	2022
Projected benefit obligation	$ (14,764,648)	$ (14,582,313)
Fair value of plan assets	32,721,354	28,020,299
Funded status	$ 17,956,706	$ 13,437,986
Accumulated benefit obligation included in plan	$ 10,603,854	$ 10,857,731
Amount recognized as asset	$ 17,956,706	$ 13,437,986

NOTES TO FINANCIAL STATEMENTS

Note 10. 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:

Net Periodic Benefit Cost (Benefit)		
Service cost	$ 784,429	$ 1,341,545
Interest cost	761,622	833,206
Expected return on assets	(1,896,651)	(2,406,929)
SFAS 88 Settlement	(47,903)	546,469
Amortization loss	- -	5,485
Net periodic benefit cost (benefit)	$ (398,503)	$ 319,776
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 14,582,313	$ 26,587,470
Service cost	746,429	1,305,545
Interest cost	761,622	833,206
Settlement	(1,657,676)	(4,643,268)
Disbursements	(37,387)	(38,691)
Actuarial (gain) loss	369,347	(9,461,949)
Projected benefit obligation at end of year	$ 14,764,648	$ 14,582,313
Change in Fair Value of Plan Assets		
Fair value of plan assets, beginning of year	$ 28,020,299	$ 36,576,065
Investment gain (loss)	4,431,358	(4,066,453)
Settlement	(1,657,676)	(6,412,772)
Employer contributions	2,000,000	2,000,000
Benefits paid	(37,387)	(38,691)
Administrative costs	(35,240)	(37,850)
Fair value of plan assets, end of year	$ 32,721,354	$ 28,020,299

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

	2023	2022
Discount rate	5.00%	5.75%
Rate of increase in compensation level	3.00%	3.00%
Expected long-term rate of return on assets	7.00%	7.00%

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 10. 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, 2023	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 3,906	$ 3,906	$ - -
Large cap blend	17,297,019	17,297,019	- -
Stable value	8,571,682	- -	8,571,682
Large cap value	3,740,237	- -	3,740,237
Small cap value	3,108,510	- -	3,108,510
	$ 32,721,354	$ 17,300,925	$ 15,420,429

		Fair value mearsurements using:	
December 31, 2022	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash	$ 3,226	$ 3,226	$ - -
Large cap blend	13,708,867	13,708,867	- -
Stable value	8,074,840	- -	8,074,840
Large cap value	3,576,951	- -	3,576,951
Small cap value	2,655,553	- -	2,655,553
Intermediate term bond	862	- -	862
	$ 28,020,299	$ 13,712,093	$ 14,308,206

Expected retiree pension benefit payments are projected to be as follows: 2024 - $430,965; 2025 - $589,555; 2026 - $626,315; 2027 - $832,792; 2028 - $247,263.

Contributions for the year ending December 31, 2024, are expected to be approximately $2,000,000.

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 2023 and 2022.

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

	2023	2022
Projected benefit obligation	$ (562,049)	$ (891,933)
Fair value of plan assets	- -	- -
Funded status (deficit)	$ (562,049)	$ (891,933)

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

	2023	2022
Benefit obligation at beginning of year	$ 891,933	$ 905,491
Components of net periodic benefit cost:		
Service cost	3,320	8,667
Interest cost	15,515	40,775
Net periodic benefit cost	18,835	49,442
Actuarial gain	(296,719)	- -
Benefits paid	(52,000)	(63,000)
Benefit obligation at end of year	$ 562,049	$ 891,933
Amounts recognized in the balance sheets consists of:		
Accumulated operating provisions	$ 562,049	$ 891,933
Amounts included in other comprehensive income:		
Actuarial gain	$ 296,719	$ - -
Amortization of actuarial loss	$ 10,526	$ 6,630
Effect of 1.00% increase in the health care trend:		
Postemployment benefit obligation	$ 579,000	
Net periodic benefit cost	$ 19,400	

For measurement purposes, an annual rate of increase of 5.00% in 2023, then decreasing by .25% 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% and 4.50% in 2023 and 2022, respectively.

Projected retiree benefit payments for the next five years are expected to be as follows: 2024 - $48,000; 2025 - $30,000; 2026 - $18,000; 2027 - $0; 2028 - $0.

NOTES TO FINANCIAL STATEMENTS

Note 12. 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 13. 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.

Note 14. 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 15. 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 16. Employee Retention Credits

Under provisions of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), Salt River determined it met the criteria and was eligible for the refundable Employee Retention Credit (ERC). Salt River amended its Form 941 Employer Quarterly Federal Tax Return for three quarters to claim refunds related to this credit. For the years ended December 31, 2023 and 2022, Salt River claimed $647,663 and zero, respectively, with the amount recognized as nonoperating margins, in accordance with IAS 20, in the statements of revenue and comprehensive income. The IRS may subsequently initiate an ERC audit and request a refund, including penalties and interest, if they determine that Salt River was not eligible for the ERC claimed. The general statute of limitations is three years but the IRS has extended the statute to five years for ERC. Salt River engaged a third-party service provider to assist in determining that Salt River met the criteria for the ERC and management believes Salt River met the eligibility requirements.

Jones, Nale & Mattingly PLC

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

To the Board of Directors
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, 2023 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 11, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial 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 11, 2024

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, 2023, and the related statements of revenue and comprehensive income, changes in members' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2024, 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, 2023:

	Investment
Beginning balance	$ 421,310
Net income	37,262
Ending balance	$ 458,572

The deferred debits are as follows:

Unamortized debt expense	$ 689,349

The deferred credits are as follows:

Consumer advances for construction	$ 658,176
Meter installation	313,638
	$ 971,814

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 11, 2024