SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2025 and 2024

And Reports of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
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Report of Independent Auditor

To the Board of Directors
South Kentucky Rural Electric Cooperative Corporation
Somerset, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Kentucky Rural Electric Cooperative Corporation (the "Cooperative") which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of income and comprehensive income, changes in members' and patrons' 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 the Cooperative as of December 31, 2025 and 2024, 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 Cooperative, 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 Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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 Cooperative'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 Cooperative'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

***Other Reporting Required by* Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2026, 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. 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 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 Cooperative's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Lexington, Kentucky
April 7, 2026

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS

DECEMBER 31, 2025 AND 2024

	2025	2024
ASSETS		
Electric Plant in Service, Net	$ 218,966,814	$ 227,008,850
Investments:		
Investments in associated organizations	7,472,542	7,806,596
Investment in East Kentucky Power Cooperative	91,827,918	87,504,883
Total Investments	99,300,460	95,311,479
Current Assets:		
Cash and equivalents	25,864,540	12,183,652
Accounts receivable - customers (net of allowance for credit losses of $328,968 and $739,496 in 2025 and 2024, respectively)	5,604,146	4,308,982
Accounts receivable - unbilled	10,191,674	9,765,239
Other receivables	31,842,387	2,455,676
Materials and supplies	2,974,787	2,555,383
Prepayments and other	635,716	702,919
Total Current Assets	77,113,250	31,971,851
Regulatory Assets, Net	408,422	771,875
Total Assets	$ 395,788,946	$ 355,064,055

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

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2025 AND 2024

	2025	2024
MEMBERS' AND PATRONS' EQUITIES AND LIABILITIES		
Members' and Patrons' Equities:		
Memberships	$ 1,246,452	$ 1,239,229
Patronage capital	166,357,904	154,858,597
Equities	7,745,588	12,780,490
Accumulated other comprehensive margin	(2,344,459)	(1,677,399)
Total Members' and Patrons' Equities	173,005,485	167,200,917
Long-Term Debt and Other Liabilities:		
Long-term debt, less current maturities	169,795,921	151,485,127
Accrued compensated absences	1,441,390	1,374,426
Postretirement benefits obligation	7,581,184	7,066,326
Total Long-Term Debt and Other Liabilities	178,818,495	159,925,879
Current Liabilities:		
Current portion of long-term debt	8,873,677	8,249,828
Accounts payable	19,145,034	13,995,012
Accrued interest	160,924	200,602
Customer guaranty deposits	3,140,371	2,874,346
Other current liabilities	1,369,117	2,146,546
Total Current Liabilities	32,689,123	27,466,334
Deferred Credits:		
Consumer advances for construction	11,275,391	470,290
Other	452	635
Total Deferred Credits	11,275,843	470,925
Total Members' and Patrons' Equities and Liabilities	**$ 395,788,946**	**$ 355,064,055**

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

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	%	2024	%
Operating Revenue:				
Sale of Electric Energy:				
Residential	$ 113,049,312	68.14 %	$ 102,174,598	66.38 %
Commercial	47,321,242	28.52	46,590,171	30.27
Public authorities and outdoor lighting	2,312,435	1.40	2,102,955	1.36
Total Sale of Electric Energy	162,682,989	98.06	150,867,724	98.01
Other Revenue	3,216,685	1.94	3,057,047	1.99
Total Operating Revenue	165,899,674	100.00	153,924,771	100.00
Operating Expenses:				
Cost of power	118,709,868	71.56	111,139,692	72.20
Distribution expense	20,007,534	12.06	20,720,587	13.46
Customer accounts expense	4,125,001	2.49	4,304,553	2.80
Customer services and information expense	737,701	0.44	762,428	0.50
Administrative and general expense	4,617,993	2.78	5,035,646	3.27
Depreciation and amortization	11,184,532	6.74	10,907,116	7.09
Taxes	156,524	0.09	148,297	0.10
Total Operating Expenses	159,539,153	96.16	153,018,319	99.42
Net Operating Margin	6,360,521	3.84	906,452	0.58
Nonoperating Income (Expense):				
Interest expense	(5,718,787)	(3.45)	(5,533,060)	(3.59)
Other margins	944,570	0.57	1,361,915	0.88
Patronage capital	4,997,112	3.01	1,255,679	0.82
Total Nonoperating Margin	222,895	0.13	(2,915,466)	(1.89)
Net Margin	6,583,416	3.97	(2,009,014)	(1.31)
Other Comprehensive Margin:				
Change in postretirement benefit obligation	(667,060)	(0.40)	249,465	0.16
Comprehensive Margin	$ 5,916,356	3.57 %	$ (1,759,549)	(1.15) %

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

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' AND PATRONS' EQUITIES

YEARS ENDED DECEMBER 31, 2025 AND 2024

	Memberships	Patronage Capital	Equities	Accumulated Other Comprehensive Loss	Total Members' and Patrons' Equities
Balance January 1, 2024	$ 1,222,525	$ 157,953,935	$ 11,821,297	$ (1,926,864)	$ 169,070,893
Comprehensive margin	-	(3,370,929)	1,361,915	249,465	(1,759,549)
Net change in memberships	16,704	-	-	-	16,704
Refunds to estates	-	(297,702)	170,571	-	(127,131)
Transfers to other equity and prior year's income	-	573,293	(573,293)	-	-
Balance December 31, 2024	1,239,229	154,858,597	12,780,490	(1,677,399)	167,200,917
Comprehensive margin	-	5,638,846	944,570	(667,060)	5,916,356
Net change in memberships	7,223	-	-	-	7,223
Refunds to estates	-	(270,073)	151,062	-	(119,011)
Transfers to other equity and prior year's income	-	6,130,534	(6,130,534)	-	-
Balance, December 31, 2025	$ 1,246,452	$ 166,357,904	$ 7,745,588	$ (2,344,459)	$ 173,005,485

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

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Cash flows from operating activities:		
Net margins	$ 6,583,416	$ (2,009,014)
Noncash expenses included in net margins:		
Patronage capital assigned but not paid by associated organizations	(4,997,112)	(1,255,679)
Depreciation and amortization	11,184,532	10,907,116
Credit loss (recovery) expense	(288,389)	109,895
Gain on disposition of electric plant in service	(48,439)	(133,967)
Changes in current and noncurrent assets and liabilities:		
Accounts receivable	(1,433,210)	1,054,408
Other receivables	(12,277,508)	(982,411)
Materials and supplies	(419,404)	25,057
Prepayments and other	67,203	(214,898)
Accounts payable	5,150,022	906,743
Customer guaranty deposits	266,025	82,359
Accrued interest and other current liabilities	(817,107)	1,058,762
Accrued compensated absences	66,964	(60,524)
Postretirement benefits obligation	(152,202)	(71,527)
Net cash flows from operating activities	2,884,791	9,416,320
Cash flows from investing activities:		
Decrease in deferred debits	176,224	32,333
Increase in deferred credits	10,804,918	81,718
Decrease in advance loan payments unapplied	8,264,300	7,148,739
Decrease in economic development loan funds	643,594	657,455
Proceeds from sale of electric plant in service	14,513	14,379
Additions to electric plant in service	(18,325,843)	(17,410,873)
Removal cost, net	(1,704,701)	(1,561,773)
Patronage capital received from associated organizations	364,537	158,137
Net cash flows from investing activities	237,542	(10,879,885)

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

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Cash flows from financing activities:		
Proceeds from long-term notes payable	$ 19,000,000	$ 5,000,000
Payment of principal on long-term notes payable	(8,329,657)	(8,239,789)
Membership fees, net	7,223	16,704
Refund of patronage capital to members	(270,073)	(297,702)
Changes in other patronage capital and equities	151,062	170,571
Net cash flows from financing activities	10,558,555	(3,350,216)
Change in cash and equivalents during the year	13,680,888	(4,813,781)
Cash and equivalents, beginning of year	12,183,652	16,997,433
Cash and equivalents, end of year	$ 25,864,540	$ 12,183,652
Supplemental disclosure of cash flow information:		
Interest paid	$ 5,758,465	$ 5,525,127
Supplemental schedule of noncash transactions:		
Debt relieved through the sale of fixed assets	$ -	$ 147,669
Contribution in aid from insurance receivable which decreases the cost of fixed asset additions	$ 6,085,566	$ -
Other reconciling items:		
Insurance proceeds related to electric plant in service included in other receivables	$ 11,023,637	$ -

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

Note 1—Nature of operations

South Kentucky Rural Electric Cooperative Corporation (the “Cooperative”) is engaged in distributing power to its member consumers throughout 11 south central Kentucky counties and 2 northern Tennessee counties. The audited financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (“PSC”) and the United States Department of Agriculture Rural Utilities Services (“RUS”), which conform with generally accepted accounting principles as applied to regulated enterprises.

Note 2—Summary of significant accounting policies

Basis of Accounting – The financial statements in accordance with policies prescribed or permitted by the Kentucky Public Service Commission and the United States Department of Agriculture, RUS, conform with accounting principles generally accepted in the United States of America (“U.S. GAAP”) in all material respects. As a rate-regulated entity, the Cooperative’s financial statements reflect actions of regulators that result in the recording of revenues and expenses in different time periods than enterprises that are not rate-regulated in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 980, *Regulated Operations.* The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Electric Plant in Service – Electric plant is stated at original cost, which is the cost when first dedicated to public service. Maintenance and repairs, including the cost of renewals of minor items of property, are charged to maintenance expense accounts. Replacements of property, exclusive of minor items, are charged to the electric plant accounts.

In accordance with 7 CFR §1773.16 and §1773.20, economic losses on electric plant in service are offset by insurance proceeds. Any further proceeds greater than the loss are recorded as contribution in aid, which is a reduction to the replacement costs of related electric plant in service. During the year ended December 31, 2025, the Cooperative recorded $11,023,637 as an offset to an economic loss of various electric plant in service during April 2025. Additionally, $6,085,566 was recorded as contribution in aid during the year ended December 31, 2025.

Depreciation is provided using the straight-line method at rates which are designed to amortize the cost of depreciable plant, net of estimated salvage value, over its estimated useful life. Depreciation rates are within the ranges included in RUS Bulletin 183-1 and any rate changes have been approved by RUS for the depreciation rates used by the Cooperative. The depreciation rates have also been approved by the PSC in December 2025 as part of the regulatory rate increase. The composite depreciation rate for distribution plant was 3.40% and 3.33% for 2025 and 2024, respectively. Plant is being depreciated using specific identification straight-line method as follows:

Distribution plant	2.04% - 7.77%
General plant	2.00% - 15.00%

When distribution plant is retired or otherwise disposed of in the normal course of business, an estimate of its cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation. Gains and losses resulting from the sale or disposal of general plant are recognized in income currently.

Note 2—Summary of significant accounting policies (continued)

The major classifications of electric plant in service were as follows:

	2025	2024
Distribution plant	$ 301,126,509	$ 289,847,474
General plant	29,287,929	44,289,234
Construction in progress	3,146,681	4,773,323
	333,561,119	338,910,031
Accumulated depreciation	114,594,305	111,901,181
Electric plant in service, net	$ 218,966,814	$ 227,008,850

Cash and Equivalents – For purposes of the statements of cash flows, the Cooperative considers short-term investments having maturities of three months or less at time of purchase to be cash equivalents.

Accounts Receivable – Accounts receivable consists of amounts due for sales of electric energy, which were not received by the Cooperative at year-end. The allowance for credit losses is based on the Cooperative's assessment of the collectability of customer accounts receivable. In accordance with ASC Topic 326, *Financial Instruments – Credit Losses*, the Cooperative makes ongoing estimates relating to the collectability of accounts receivable and records an allowance for estimated losses expected from the inability of its customers to make required payments. The Cooperative establishes expected credit losses by evaluating historical levels of credit losses, current and future economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Accounts receivable are written off when there is no reasonable expectation of recovery. As of December 31, 2025 and 2024, the allowance for credit losses was $328,968 and $739,496, respectively. In calendar year 2025, the Cooperative experienced significant loss of property, plant, and equipment resulting from a natural disaster. Other receivables includes $17,109,203 in anticipated insurance recoveries related to that loss. Accounts receivable and other receivables were as follows as of December 31:

2025	2024	2023
$ 47,638,207	$ 16,529,897	$ 16,711,789

Additionally, regulatory requirements authorized by the PSC allow the electric supplier to impose a fuel adjustment surcharge upon the Cooperative. In turn, the Cooperative is required to pass on the fuel surcharge to the consumer. Due to the regulatory requirements in calculating the surcharge the Cooperative may experience an over or under recovery of the fuel adjustment surcharge.

Similarly, the PSC has an environmental cost recovery mechanism that allows the electric supplier to recover certain costs incurred in complying with the Federal Clean Air Act as amended and those federal, state, and local environmental requirements which apply to coal combustion wastes and byproducts from facilities utilized for the production of energy from coal. In turn, the Cooperative is required to pass on this environmental cost recovery mechanism to the consumer.

Every six months and every two years, the PSC reviews the outcomes of the cost recovery mechanism for the environmental surcharge and may order an additional recovery or payback amount. The Cooperative records these amounts as a regulatory asset or liability.

The Cooperative records the under or over recovery of the fuel adjustment surcharge and the environmental surcharge on the financial statements.

Note 2—Summary of significant accounting policies (continued)

Materials and Supplies – The Cooperative values materials and supplies at average cost.

Regulatory Asset – Deferred meter retirement is considered a regulatory asset in accordance with RUS Bulletin 1767B-1. RUS Bulletin 1767B-1 indicates that a regulatory asset results from a rate action of regulatory agencies. Regulatory assets arise from specific expenses or losses that would have been included in net income determinations in one period under the general requirements of the Uniform System of accounts but for it being probable that such items will be included in a different period for purposes of developing the rates the utility is authorized to charge for its utility services.

The deferred meter retirement expense was incurred by the Cooperative through a project to update its meters in conjunction with the Smart Grid Investment Grant provided by the Department of Energy.

Per guidance of PSC, as mandated in its order dated May 11, 2012 in conjunction with Case No. 2011-00096, the Cooperative has placed the loss on the retirement of the old mechanical meters on its financial statements as a regulatory asset. This loss is to be amortized over a 15-year period. The net amount of the loss at December 31, 2025 and 2024, was $374,458 and $561,687, respectively. Amortization expense for the years ended December 31, 2025 and 2024 was $187,229; deferred meter retirement is displayed on the balance sheets as a regulatory asset, net of the accumulated amortization.

The Cooperative also incurred expenses pertaining to a regulatory rate increase in 2022 in the amount of $345,365. This expense is to be amortized over a five-year period which commenced in July 2022. The net amount of this deferred expense as of December 31, 2025 and 2024 was $103,910 and $173,183. respectively. Amortization expense for the years ended December 31, 2025 and 2024 was $69,273 and $70,071, respectively.

The Cooperative also incurred expenses pertaining to a regulatory rate increase in 2024 and 2025 in the amount of $103,136. This expense is to be amortized over a three-year period which commenced upon finalization of the rate increase in December 2025. The net amount of this deferred expense as of December 31, 2025 and 2024 was $103,136 and $37,005, respectively. Amortization of these costs will begin in January 2026. Deferred regulatory rate increase expenses are displayed on the balance sheets as a regulatory asset, net of the accumulated amortization.

Revenue and Cost of Purchased Power – The Cooperative records revenue as billed to its consumers based on monthly meter reading cycles. Consumers are required to pay a refundable customer deposit, which may be waived under certain circumstances. The Cooperative's sales are concentrated in an 11-county area of south-central Kentucky and 2 northern Tennessee counties. Consumers must pay their bill within 20 days of billing, then are subject to disconnect after another 10 days. Accounts are written off when they are deemed to be uncollectible.

The Cooperative is required to collect, on behalf of the State of Kentucky, sales taxes based on 6% of gross sales from non-residential consumers, a 3% school tax from certain counties on most gross sales, and franchise fees in certain cities. The Cooperative's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

The Cooperative is one of 16 members of East Kentucky Power Cooperative ("East Kentucky"). Under a wholesale power agreement, the Cooperative 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.

Advertising Costs – The Cooperative records advertising expenses as they are incurred. Advertising expense amounted to $26,344 and $35,389 for the years ended December 31, 2025 and 2024, respectively.

Note 2—Summary of significant accounting policies (continued)

Investments in Associated Organizations – The Cooperative follows the method of accounting as prescribed by the RUS Uniform System of Accounts in accounting for its investment in associated organizations. This accounting method results in the Cooperative recognizing income on its pro rata share of the associated organization's net margins in the year such margins are assigned. This accounting method does not provide for similar treatment for any losses of the associated organizations. Rather, such losses would not be assigned to member organizations and no additional margins are assigned until subsequent cumulative margins exceed prior cumulative losses.

Accrued Compensated Absences – The Cooperative has a policy to pay available but untaken compensated absences to employees who leave service. Accrued compensated absences presented in the financial statements represent available sick leave at December 31, 2025 and 2024. Paid time off is valued at the employees' current base rate of pay and the unpaid balance is paid out in full upon termination of employment.

Comprehensive Income – Comprehensive income is the change in equity of an enterprise during the year from transactions and other events and circumstances arising from non-operating sources. The Cooperative's total comprehensive income includes amounts associated with the change in post-retirement benefits obligation (see Note 9).

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure 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.

Other – The Cooperative has a collective bargaining agreement with 64 of its employees. This represents 48% of the Cooperative's 134 full-time employees. The current contract was negotiated in late 2024 and established a three-year agreement. The agreement went into effect December 12, 2024 and is effective through December 12, 2027.

Revenue Recognition – Operating revenues consist of income from the sale of electricity which constitutes approximately 98% of the Cooperative's operating revenues. The Cooperative provides services to customers prior to billing and those are recognized as accounts receivable - unbilled on the balance sheets. The unbilled revenue constitutes a contract asset, which is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time. Electricity revenues are recognized over time as energy is delivered based upon month-end meter readings and rates approved by the PSC.

Subsequent Events – Subsequent events for the Cooperative have been considered through April 7, 2026, which represents the date the financial statements were available to be issued.

Note 3—Investments in associated organizations

East Kentucky – The Cooperative's investment of $91,827,918 and $87,504,883 as of December 31, 2025 and 2024, respectively, in East Kentucky, the sole supplier of power to the Cooperative, represents the Cooperative's equity ownership interest (approximately 11%) in East Kentucky. The Cooperative owed East Kentucky $13,363,751 and $11,553,394 at December 31, 2025 and 2024, respectively. These amounts are included in accounts payable on the balance sheets.

Note 3—Investments in associated organizations (continued)

Associated Organizations – Investments in other associated organizations consisted of:

	December 31,	
	2025	2024
Cooperative Finance Corporation, capital term certificates	$ 1,304,157	$ 1,500,777
Cooperative Finance Corporation, patronage capital	621,616	646,518
United Utility Supply	1,780,364	1,337,399
Meridian Cooperative, Inc.	417,014	421,654
National Information Solutions Cooperative	45,897	39,650
Other associated organizations	1,342,825	1,256,336
Rural economic development loans and grants	1,935,875	2,579,469
Non utility property	24,794	24,793
	$ 7,472,542	$ 7,806,596

Substantially all such investments, which consist mainly of patronage capital in the associated organization and capital term certificates (“CTCs”) are restricted by the respective organization and are not currently available for distribution. The patronage capital will be available to the Cooperative if the Cooperative should terminate its investment in the associated organization. The capital term certificates are not available until the related debt is paid off, currently expected to be between the years 2026 and 2080.

CTCs were purchased from CFC as a condition of obtaining long-term financing and are recorded at cost. The CTCs bear interest at varying rates between 0% and 5% per annum. These certificates are required to be maintained under the note agreement with the National Rural Utilities Cooperative Finance Corporation (“NRUCFC”) in an amount at least equal to 5% of the original debt issued or guaranteed by NRUCFC until maturity.

United Utility Supply (“United”) is a primary supplier of transformers and overhead line materials and supplies. The Cooperative’s purchases from United amounted to $5,813,228 and $4,922,251 for the years ended December 31, 2025 and 2024, respectively. The Cooperative owed United $395,396 and $229,946 at December 31, 2025 and 2024, respectively. These amounts are included in accounts payable on the balance sheets.

Meridian Cooperative, Inc. (“Meridian”), formally Southeastern Data Cooperative, Inc., was a primary supplier of data processing services and computer hardware and software. The Cooperative’s purchases from Meridian were $1,650 and $8,100 for the years ended December 31, 2025 and 2024, respectively. The Cooperative owed Meridian $-0- at December 31, 2025 and 2024.

National Information Solutions Cooperative (“NISC”) is a primary supplier of data processing services and computer hardware and software. The Cooperative’s purchases from NISC were $1,122,394 and $1,059,112 for the years ended December 31, 2025 and 2024, respectively. The Cooperative owed NISC $94,551 and $82,496 at December 31, 2025 and 2024, respectively. These amounts are included in accounts payable on the balance sheets.

The Cooperative participates in the Rural Economic Development Loan and Grant (“REDLG”) program through the United States Department of Agriculture (“USDA”). The USDA via the REDLG program provides zero interest loans and grants to rural communities through RUS borrowers. REDLG assistance promotes rural economic development and job creation projects in accordance with Section 313 of the RE Act 7 CFR 1703, Subpart H. The Cooperative currently sponsors two local organizations with loans with a principal amount due of $524,306 and $732,640 as of December 31, 2025 and 2024, respectively.

Note 3—Investments in associated organizations (continued)

The Cooperative also has a revolving loan fund in which loans are made from the repaid grant funds. There are 8 organizations that have received loans with a principal amount due of $1,411,569 as of December 31, 2025. There were 10 organizations that had received loans with a principal amount due of $1,846,829 as of December 31, 2024. The available cash balance of the rural economic development revolving loan fund was $1,739,116 and $1,274,494 as of December 31, 2025 and 2024, respectively.

Note 4—Income tax status

The Cooperative is exempt from federal and state income taxes under §501(c)(12) of the Internal Revenue Code. The Cooperative recognizes uncertain income tax positions using the “more-likely-than-not” approach as defined in the ASC. No liability for uncertain tax positions has been recorded in the accompanying financial statements.

Note 5—Lines of credit

At December 31, 2025 and 2024, the Cooperative had two executed lines of credit totaling $15,000,000 with CFC. These lines of credit bear variable interest rates, determined by CFC at the date of draw, and mature April 2027. Additionally, at December 31, 2025, the Cooperative had one executed line of credit in the amount of $5,000,000 with CoBank. This line of credit bears interest at a variable rate determined by CoBank on the first business day of each week and matures May 2026. At December 31, 2025 and 2024, there were no outstanding balances due under the lines of credit.

Note 6—Long-term debt

Long-term debt consisted of the following:

	December 31, 2025	December 31, 2024
RUS, 2.50% to 3.00%	$ 1,990,088	$ 2,262,113
Less advance payment	(864,060)	(9,128,360)
	1,126,028	(6,866,247)
FFB, 1.118% to 4.656%	139,463,688	143,510,814
Less advance payment	-	(19,000,000)
	139,463,688	124,510,814
CoBank, 3.55%	31,516,128	34,777,772
Economic development loans, 0%	3,090,305	3,298,639
CFC, 6.25% to 6.70%	1,861,119	2,254,980
City of Monticello, 4.75%	1,612,330	1,758,997
	178,669,598	159,734,955
Less current maturities	8,873,677	8,249,828
	$ 169,795,921	$ 151,485,127

Note 6—Long-term debt (continued)

The aggregate principal maturities of long-term debt as of December 31, 2025 are as follows:

2026	$	8,873,677
2027		8,960,243
2028		22,318,245
2029		13,622,502
2030		9,195,518
Thereafter		115,699,413
	$	178,669,598

The long-term debt as described above is payable in quarterly, monthly, and annual installments of varying amounts. Substantially all utility plant is pledged as collateral for the above notes. Under the terms of the loan agreements, the Cooperative is required to meet certain financial ratios. The Cooperative is in compliance with these covenants at December 31, 2025.

The Cooperative participates in a RUS sponsored program which provides economic development funds to businesses in Cooperative's service area. The Cooperative serves as a conduit for these funds and is contingently liable if the recipient fails to repay the loan. As such, these amounts are included in the debt service above. These loans carry a 0% interest rate to the Cooperative and the recipients. The loans are secured with bank letters of credit provided by the borrower.

Note 7—Members' and patrons' equities

Under terms of its long-term debt agreements, return of capital contributions or patronage capital to the Cooperative's members and patrons is restricted to amounts which would not allow total equity to be less than 30% of total assets, except that distributions may be made to estates of deceased members provided that such distributions do not exceed 25% of total patronage capital and margins received in the previous year. Total equity as a percentage of assets can fall below the 30% requirement if the Cooperative has obtained the appropriate waiver from the RUS. The Cooperative is in compliance with these requirements at December 31, 2025 and 2024.

Board policy related to capital credit allocation and retirement allows that annually any member bad debt that has been written off and that remains uncollected for a period of four years or more, shall have the bad debt reduced by applying the member capital credit balance to the uncollectible balance. There was no bad debt recapture during 2025 or 2024.

Note 8—Retirement benefits

Eligible employees of the Cooperative participate in the Retirement Security Plan ("RS Plan"), sponsored by the National Rural Electric Cooperative Association ("NRECA"). The RS Plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The Plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all the plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Note 8—Retirement benefits (continued)

The Cooperative contributions to the RS Plan in 2025 and in 2024 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of $2,754,623 in 2025 and $2,471,851 in 2024.

For the RS Plan, a “zone status” determination is not required and, therefore, not determined under the Pension Protection Act (“PPA”) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2025 and over 80% funded on January 1, 2024, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of plan experience.

In addition to the above, the Cooperative participates in the NRECA 401(k) plan. The 401(k) plan provides for the Cooperative matching a maximum of 2% of base wages. The Cooperative contributed $204,770 and $198,294 for 2025 and 2024, respectively. Participant contributions can be made after one month of employment and vest immediately. The Cooperative makes contributions for participants after one year of employment.

Note 9—Postretirement benefits

The Cooperative provides postretirement medical benefits to its retired employees and their dependents. The Cooperative pays the premiums for retirees based upon years of service and a percentage for dependents. “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” requires the accrual of the cost of providing certain postretirement benefits over the employees’ years of service, rather than on a pay-as-you-go (cash) basis.

In accordance with the provision of ASC Topic 715*, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*, the Cooperative has recorded an accrued benefit cost for the full benefit obligation as of December 31, 2025 and 2024.

The following table sets forth the plan’s benefit obligation and accrued liability:

	December 31,	
	2025	2024
Benefit obligation	$ (7,581,184)	$ (7,066,326)
Fair value of plan assets	-	-
Funded status	$ (7,581,184)	$ (7,066,326)
Accrued benefit cost recognized in the balance sheet	$ (7,581,184)	$ (7,066,326)
Weighted-average assumptions discounted rate	5.30%	5.40%

For measurement purposes, the health care cost trend rate is assumed to be 6.00% in 2025 and 6.50% 2024 for Pre-65. For Post-65, the healthcare cost trend rate is 0.5% for all years.

Note 9—Postretirement benefits (continued)

Future benefit payments are estimated based on the same assumptions used to measure the benefit obligations of the plans at the end of year 2025 and include estimated future employee service. The following tables provide a statement of the changes in benefit obligations, changes in benefit obligations, changes in plan assets, funded status, additional amounts recognized in the statements of admitted assets, liabilities, and surplus, amounts in surplus that have not been recognized as components of net periodic benefit costs, and other changes recognized in surplus for other postretirement benefits plan for 2025 and 2024:

	December 31, 2025	December 31, 2024
Change in projected benefits obligations:		
Benefit obligation - beginning of year	$ 7,066,326	$ 7,387,318
Service cost	123,003	119,295
Interest cost	365,141	339,271
Contribution by plan participants	232,492	255,565
Amendments	-	112,168
Actuarial loss (gain)	746,276	(173,597)
Benefits paid	(952,054)	(973,694)
Benefit obligation - end of year	$ 7,581,184	$ 7,066,326
Components of net periodic benefit cost:		
Service cost	$ 123,003	$ 119,295
Interest cost	365,141	339,271
Amortization of prior service cost	(6,018)	(14,518)
Amortization of unrecognized net loss	59,167	75,868
Total net periodic benefit cost	$ 541,293	$ 519,916
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net loss (gain)	$ 746,276	$ (173,597)
Prior service credit	-	112,168
Amortization of prior service cost	6,018	14,518
Amortization of net actuarial loss	(59,167)	(75,868)
Total recognized in other comprehensive income	$ 693,127	$ (122,779)

Amounts recognized in accumulated other comprehensive income related to this plan include net actuarial losses of $2,344,459 and $1,677,399 for December 31, 2025 and 2024, respectively.

Note 9—Postretirement benefits (continued)

The Cooperative's contributions to the other postretirement benefits plan are anticipated to be $624,984 during 2026. Estimated future benefit payments under the other postretirement benefits plans are as follows:

Years Ending December 31,		
2026	$	624,984
2027		605,458
2028		602,204
2029		580,609
2030		556,018
2031-2035		2,583,251
	$	5,552,524

Note 10—Detail of deferred credits

The following is a detail of deferred credits as of December 31:

Description		2025		2024
Customer advances for construction	$	11,275,391	$	470,290
Other		452		635
	$	11,275,843	$	470,925

Customer advances for construction are made up of amounts prepaid for the installation of electric plant in service and will be decreased when construction is complete. The balance as of December 31, 2025 includes advances from telecommunications companies for upgrades to electric infrastructure to safely accommodate additional attachments on electric utility poles.

Note 11—Concentrations

All of the Cooperative's sales are made in portions of 11 counties in south central Kentucky and two counties in north central Tennessee, which is primarily an agricultural and rural region. Accounts receivable and customer deposits at December 31, 2025 and 2024, were derived from the various classes of customers in approximately the same proportion as the revenues shown in the accompanying statements of income and other comprehensive income.

The Cooperative maintains its cash balances with banks throughout Kentucky. Effective July 21, 2010, the federal deposit insurance coverage provided by the Federal Deposit Insurance Corporation ("FDIC") is $250,000 per depositor. The Cooperative has implemented a policy whereby it sweeps non-interest-bearing funds from its district accounts to it general funds to maintain balances below the FDIC insured limit of $250,000. The local bank provides additional FDIC insurance on deposits and repurchase agreements in excess of the FDIC limits in the operating account up to an amount of $6,000,000. An additional $1,250,000 of coverage is provided for funds held in the economic development grant fund. As of December 31, 2025, there were no uninsured balances.

Note 12—Contingencies

During the course of normal operations, the Cooperative may be subject to possible litigation. However, there are currently no amounts which are deemed as contingent liabilities which should be disclosed or accrued in the financial statements.

OTHER REQUIRED REPORTS

Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor 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
South Kentucky Rural Electric Cooperative Corporation
Somerset, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Kentucky Rural Electric Cooperative Corporation (the "Cooperative") which comprise the balance sheet as of December 31, 2025, and the related statements of income and comprehensive income, changes in members' and patrons' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2026.

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.

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

Cherry Bekaert LLP

Lexington, Kentucky
April 7, 2026

Cherry Bekaert LLP
Your Guide Forward

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

To the Board of Directors
South Kentucky Rural Electric Cooperative Corporation
Somerset, 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 South Kentucky Rural Electric Cooperative Corporation (the "Cooperative"), which comprise the balance sheet as of December 31, 2025, and the related statements of income and comprehensive income, changes in members' and patrons' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2026. In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2026, on our consideration of 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 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 materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

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

Our audit of the financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, nor any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above and, accordingly, we express no opinion thereon.

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.

Cherry Bekaert LLP

Lexington, Kentucky
April 7, 2026