



PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Powell Valley Electric Cooperative
New Tazewell, Tennessee

Report on the Audit of the Financial Statements

We have audited the financial statements of Powell Valley Electric Cooperative (the "Cooperative"), which comprise the balance sheet as of June 30, 2022, the related statements of operations and comprehensive income, patronage capital and other equities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Powell Valley Electric Cooperative as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Powell Valley Electric Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Cooperative as of and for the year ended June 30, 2021 were audited by other auditors, whose report dated November 1, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Powell Valley Electric Cooperative's ability to continue as a going concern within one year after the date that the financial statements are issued.



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

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 GAAS 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, individual 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 GAAS 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 Powell Valley Electric 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 of events, considered in the aggregate, that raise substantial doubt about Powell Valley Electric 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Cooperative has restated the financial statements for the year ended June 30, 2021 to correct for misstatements related to post-retirement benefits other than pension and net margins. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2022 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
October 13, 2022

POWELL VALLEY ELECTRIC COOPERATIVE

BALANCE SHEETS

	As of June 30,	<u>2022</u>	As Restated <u>2021</u>
ASSETS			
ELECTRIC PLANT			
Electric Plant in Service		\$ 135,362,724	\$ 129,189,694
Construction Work in Progress		8,843,035	4,160,236
		<u>144,205,759</u>	<u>133,349,930</u>
Less Accumulated Depreciation		<u>(74,575,314)</u>	<u>(71,474,279)</u>
Net Electric Plant		<u>69,630,445</u>	<u>61,875,651</u>
INVESTMENTS			
Capital Term Certificates		<u>1,075,290</u>	<u>1,075,290</u>
CURRENT ASSETS			
Cash and Cash Equivalents		5,408,352	14,954,228
Accounts Receivable, Net		1,724,827	2,537,465
Unbilled Electric Receivable		1,939,500	1,774,558
Current Maturities of Rural Economic Development Loan Program Receivable		347,119	439,476
Current Maturities of Fiber Contract Receivable		3,000,000	1,485,839
Materials and Supplies		6,891,064	4,452,188
Prepaid Expenses		153,462	272,994
Current Maturities of Advances to Retirement Security Program		81,079	162,158
Other Current Assets		<u>573,058</u>	<u>628,895</u>
Total Current Assets		<u>20,118,461</u>	<u>26,707,801</u>
OTHER NONCURRENT ASSETS			
Rural Economic Development Loan Program Receivable		662,796	1,256,128
Fiber Contract Receivable		18,725,027	6,612,595
Conservation Contracts Outstanding		1,670,107	1,658,184
Advances to Retirement Security Program		0	81,078
Other Assets		<u>573,599</u>	<u>489,215</u>
Total Other Noncurrent Assets		<u>21,631,529</u>	<u>10,097,200</u>
TOTAL ASSETS		<u>\$ 112,455,725</u>	<u>\$ 99,755,942</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

POWELL VALLEY ELECTRIC COOPERATIVE

BALANCE SHEETS (Continued)

	As of June 30,	<u>2022</u>	As Restated <u>2021</u>
CAPITALIZATION AND LIABILITIES			
MEMBERSHIP CAPITAL			
Memberships		\$ 125,975	\$ 125,320
Patronage Capital		82,497,534	77,964,500
Accumulated Comprehensive Income		<u>2,354,363</u>	<u>2,410,962</u>
Total Membership Capital		<u>84,977,872</u>	<u>80,500,782</u>
LONG-TERM DEBT		<u>2,711,399</u>	<u>3,210,623</u>
CURRENT LIABILITIES			
Accounts Payable - Purchased Power		8,546,312	6,206,637
General Accounts Payable		1,063,077	2,252,538
Accrued Liabilities		1,937,930	2,140,540
Current Maturities of Long-Term Debt		827,006	977,584
Current Portion of Accrued Post-Retirement Benefits		127,418	133,226
Current Portion of Fiber Contract Deferred Revenue		<u>3,000,000</u>	<u>0</u>
Total Current Liabilities		<u>15,501,743</u>	<u>11,710,525</u>
NONCURRENT LIABILITIES			
Consumer and Security Deposits		1,804,880	1,004,282
Accrued Post-Retirement Benefits		1,366,757	1,703,279
Fiber Contract Deferred Revenue		4,416,098	0
Conservation Program Advances		<u>1,676,976</u>	<u>1,626,451</u>
Total Noncurrent Liabilities		<u>9,264,711</u>	<u>4,334,012</u>
TOTAL MEMBERSHIP CAPITAL AND LIABILITIES		<u>\$ 112,455,725</u>	<u>\$ 99,755,942</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended June 30,	As Restated
	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Residential	\$ 37,853,460	\$ 35,663,236
Large Commercial	17,031,252	13,648,929
Small Commercial	5,517,223	5,150,485
Street and Outdoor Lighting	1,721,695	1,620,105
Rent from Electric Properties	2,233,335	2,450,539
Miscellaneous Electric Revenues	<u>476,718</u>	<u>259,830</u>
Total Operating Revenues	<u>64,833,683</u>	<u>58,793,124</u>
OPERATING EXPENSES		
Purchased Power	48,145,705	42,408,179
Other Operating Expenses	6,135,346	6,241,691
General	3,386,092	3,166,942
Depreciation	<u>4,410,129</u>	<u>4,336,168</u>
Total Operating Expenses	<u>62,077,272</u>	<u>56,152,980</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	2,756,411	2,640,144
INTEREST EXPENSE	<u>284,900</u>	<u>381,698</u>
OPERATING MARGINS AFTER INTEREST EXPENSE	<u>2,471,511</u>	<u>2,258,446</u>
OTHER INCOME (EXPENSES)		
Paycheck Protection Program Loan Forgiveness	0	1,254,100
Other Expense	0	(301,185)
Interest Income	1,469,545	950,876
Miscellaneous Income	<u>591,978</u>	<u>125,333</u>
Total Other Income (Expenses)	<u>2,061,523</u>	<u>2,029,124</u>
NET MARGINS	4,533,034	4,287,570
OTHER COMPREHENSIVE INCOME		
Adjustment for Post-Retirement Benefits	<u>(56,599)</u>	<u>(359,856)</u>
COMPREHENSIVE INCOME	<u>\$ 4,476,435</u>	<u>\$ 3,927,714</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Accumulated Comprehensive Income</u>	<u>Total</u>
Balance, June 30, 2020 as Originally Stated	\$ 123,405	\$ 76,447,748	\$ 0	\$ 76,571,153
Restatement (See Note 13)	<u>0</u>	<u>(2,770,818)</u>	<u>2,770,818</u>	<u>0</u>
Balance, June 30, 2020 as Restated	123,405	73,676,930	2,770,818	76,571,153
Change in Memberships	1,915	0	0	1,915
Net Margins	0	4,287,570	0	4,287,570
Other Comprehensive Income	<u>0</u>	<u>0</u>	<u>(359,856)</u>	<u>(359,856)</u>
Balance, June 30, 2021	125,320	77,964,500	2,410,962	80,500,782
Change in Memberships	655	0	0	655
Net Margins	0	4,533,034	0	4,533,034
Other Comprehensive Income	<u>0</u>	<u>0</u>	<u>(56,599)</u>	<u>(56,599)</u>
Balance, June 30, 2022	<u>\$ 125,975</u>	<u>\$ 82,497,534</u>	<u>\$ 2,354,363</u>	<u>\$ 84,977,872</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2022</u>	<u>As Restated</u> <u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Margins		\$ 4,533,034	\$ 4,287,570
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation		4,410,129	4,336,167
Paycheck Protection Program Loan Forgiveness		0	(1,254,100)
Fiber Contract Deferred Revenue		7,416,098	0
(Increase) Decrease in Accounts Receivable		812,638	83,005
(Increase) Decrease in Unbilled Electric Receivables		(164,942)	(243,993)
(Increase) Decrease in Fiber Contract Receivable		(13,626,593)	(7,257,456)
(Increase) Decrease in Materials and Supplies		(2,438,876)	(2,800,412)
(Increase) Decrease in Prepaid Expenses		119,532	145,077
(Increase) Decrease in Other Current Assets		55,837	(33,691)
(Increase) Decrease in Other Assets		77,773	186,135
Increase (Decrease) in Accounts Payable		1,150,214	1,625,848
Increase (Decrease) in Accrued Liabilities		199,059	(510,704)
Total Adjustments		<u>(1,989,131)</u>	<u>(5,724,124)</u>
Net Cash Provided by Operating Activities		<u>2,543,903</u>	<u>(1,436,554)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Increase) Decrease in Investments		0	52,454
Net (Increase) Decrease Conservation Loans		(11,923)	50,873
Proceeds Received From Rural Economic Loan Development Program		685,689	561,789
Additions to Plant		(47,546,018)	(5,558,024)
Proceeds from Sale of Plant		0	1,461,981
Dispositions of Plant		35,381,095	(1,459,342)
Net Cash Used in Investing Activities		<u>(11,491,157)</u>	<u>(4,890,269)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of Principal on Long-Term Debt		(1,221,666)	(7,750,984)
Net Payments on Cushion of Credit		571,864	7,079,256
Increase in Memberships		655	1,915
Conservation Advances, Net		50,525	(13,253)
Net Cash Provided by Financing Activities		<u>(598,622)</u>	<u>(683,066)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(9,545,876)	(7,009,889)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>14,954,228</u>	<u>21,964,117</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$ 5,408,352</u>	<u>\$ 14,954,228</u>
Supplementary Disclosures of Cash Flow Information:			
Cash Paid During the Year for Interest		\$ 284,900	\$ 381,698
Unrecognized Actuarial Gain/(Loss) on Post-Retirement Benefits		\$ (56,599)	\$ (359,856)

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.