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## 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 sheets as of June 30, 2023 and 2022, the related statements of operations and comprehensive income, patronage capital and other equities and cash flows for the years 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 the Cooperative as of June 30, 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 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 (*Government Auditing Standards*). 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 audit. 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 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 the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



An independently owned member  
**RSM US Alliance**



**TSCPA**  
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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 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 of 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2023 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 the Cooperative'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 Cooperative's internal control over financial reporting and compliance.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
October 16, 2023

POWELL VALLEY ELECTRIC COOPERATIVE

BALANCE SHEETS

	As of June 30,	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>			
<b>ELECTRIC PLANT</b>			
Electric Plant in Service		\$ 142,618,450	\$ 135,362,724
Construction Work in Progress		3,868,443	8,843,035
		<u>146,486,893</u>	<u>144,205,759</u>
Less Accumulated Depreciation		<u>(77,124,073)</u>	<u>(74,575,314)</u>
<b>Net Electric Plant</b>		<u>69,362,820</u>	<u>69,630,445</u>
<b>INVESTMENTS</b>			
Capital Term Certificates		<u>1,075,290</u>	<u>1,075,290</u>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents		6,790,140	5,408,352
Accounts Receivable, Net		1,151,186	1,724,827
Unbilled Electric Receivable		1,552,051	1,939,500
Current Maturities of Rural Economic Development Loan Program Receivable		253,636	347,119
Current Maturities of Fiber Contract Receivable		4,695,000	3,000,000
Materials and Supplies		4,489,850	6,891,064
Prepaid Expenses		246,649	153,462
Current Maturities of Advances to Retirement Security Program		0	81,079
Other Current Assets		<u>556,670</u>	<u>573,058</u>
<b>Total Current Assets</b>		<u>19,735,182</u>	<u>20,118,461</u>
<b>OTHER NONCURRENT ASSETS</b>			
Rural Economic Development Loan Program Receivable		409,160	662,796
Fiber Contract Receivable		24,253,170	18,725,027
Conservation Contracts Outstanding		1,842,923	1,670,107
Other Assets		<u>739,080</u>	<u>573,599</u>
<b>Total Other Noncurrent Assets</b>		<u>27,244,333</u>	<u>21,631,529</u>
<b>TOTAL ASSETS</b>		<u>\$ 117,417,625</u>	<u>\$ 112,455,725</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>2023</u>	<u>2022</u>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>MEMBERSHIP CAPITAL</b>			
Memberships		\$ 127,240	\$ 125,975
Patronage Capital		86,262,304	82,497,534
Accumulated Comprehensive Income		<u>1,428,927</u>	<u>2,354,363</u>
<b>Total Membership Capital</b>		<u>87,818,471</u>	<u>84,977,872</u>
<b>LONG-TERM DEBT</b>		<u>2,400,503</u>	<u>2,711,399</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable - Purchased Power		7,127,612	8,546,312
General Accounts Payable		557,210	1,063,077
Accrued Liabilities		2,092,360	1,937,930
Current Maturities of Long-Term Debt		2,537,419	827,006
Current Portion of Accrued Post-Retirement Benefits		147,601	127,418
Current Portion of Fiber Contract Deferred Revenue		<u>4,695,000</u>	<u>3,000,000</u>
<b>Total Current Liabilities</b>		<u>17,157,202</u>	<u>15,501,743</u>
<b>NONCURRENT LIABILITIES</b>			
Consumer and Security Deposits		1,873,892	1,804,880
Accrued Post-Retirement Benefits		1,872,241	1,366,757
Fiber Contract Deferred Revenue		4,478,120	4,416,098
Conservation Program Advances		<u>1,817,196</u>	<u>1,676,976</u>
<b>Total Noncurrent Liabilities</b>		<u>10,041,449</u>	<u>9,264,711</u>
<b>TOTAL MEMBERSHIP CAPITAL AND LIABILITIES</b>		<u>\$ 117,417,625</u>	<u>\$ 112,455,725</u>

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**POWELL VALLEY ELECTRIC COOPERATIVE**  
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	For the Years Ended June 30,	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>			
Residential		\$ 39,469,605	\$ 37,853,460
Large Commercial		23,231,081	17,031,252
Small Commercial		5,858,095	5,517,223
Street and Outdoor Lighting		1,840,715	1,721,695
Rent from Electric Properties		1,402,353	1,413,335
Miscellaneous Electric Revenues		<u>1,486,773</u>	<u>1,296,718</u>
<b>Total Operating Revenues</b>		<u>73,288,622</u>	<u>64,833,683</u>
<b>OPERATING EXPENSES</b>			
Purchased Power		56,750,780	48,145,705
Other Operating Expenses		9,143,374	6,135,346
General		3,503,447	3,386,092
Depreciation		<u>4,629,028</u>	<u>4,410,129</u>
<b>Total Operating Expenses</b>		<u>74,026,629</u>	<u>62,077,272</u>
<b>OPERATING MARGINS BEFORE INTEREST EXPENSE</b>		(738,007)	2,756,411
<b>INTEREST EXPENSE</b>		<u>428,373</u>	<u>284,900</u>
<b>OPERATING MARGINS AFTER INTEREST EXPENSE</b>		<u>(1,166,380)</u>	<u>2,471,511</u>
<b>OTHER INCOME (EXPENSES)</b>			
Interest Income		2,237,766	1,469,545
Miscellaneous Income		<u>2,693,384</u>	<u>591,978</u>
<b>Total Other Income (Expenses)</b>		<u>4,931,150</u>	<u>2,061,523</u>
<b>NET MARGINS</b>		3,764,770	4,533,034
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Adjustment for Post-Retirement Benefits		<u>(925,436)</u>	<u>(56,599)</u>
<b>COMPREHENSIVE INCOME</b>		<u>\$ 2,839,334</u>	<u>\$ 4,476,435</u>

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**POWELL VALLEY ELECTRIC COOPERATIVE**

**STATEMENTS OF CASH FLOWS**

	For the Years Ended June 30,	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Margins		\$ 3,764,770	\$ 4,533,034
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation		4,923,096	4,410,129
Fiber Contract Deferred Revenue		1,757,022	7,416,098
(Increase) Decrease in Accounts Receivable		573,641	812,638
(Increase) Decrease in Unbilled Electric Receivables		387,449	(164,942)
(Increase) Decrease in Fiber Contract Receivable		(7,223,143)	(13,626,593)
(Increase) Decrease in Materials and Supplies		2,401,214	(2,438,876)
(Increase) Decrease in Prepaid Expenses		(93,187)	119,532
(Increase) Decrease in Other Current Assets		16,388	55,837
(Increase) Decrease in Other Assets		(84,402)	77,773
Increase (Decrease) in Accounts Payable		(1,924,567)	1,150,214
Increase (Decrease) in Accrued Liabilities		(176,327)	199,059
Total Adjustments		<u>557,184</u>	<u>(1,989,131)</u>
<b>Net Cash Provided by Operating Activities</b>		<u>4,321,954</u>	<u>2,543,903</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (Increase) Decrease in Conservation Loans		(172,816)	(11,923)
Proceeds Received From Rural Economic Loan Development Program		347,119	685,689
Additions to Plant		(30,914,931)	(47,546,018)
Dispositions of Plant		<u>26,259,460</u>	<u>35,381,095</u>
<b>Net Cash Used in Investing Activities</b>		<u>(4,481,168)</u>	<u>(11,491,157)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net Proceeds (Payments) on Long Term Debt		973,005	(1,221,666)
Net Proceeds (Payments) on Cushion of Credit		426,512	571,864
Increase in Memberships		1,265	655
Conservation Advances, Net		<u>140,220</u>	<u>50,525</u>
<b>Net Cash Provided by Financing Activities</b>		<u>1,541,002</u>	<u>(598,622)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		1,381,788	(9,545,876)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>5,408,352</u>	<u>14,954,228</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>\$ 6,790,140</u>	<u>\$ 5,408,352</u>
<b>Supplementary Disclosures of Cash Flow Information:</b>			
Cash Paid During the Year for Interest		\$ 426,793	\$ 284,900
Unrecognized Actuarial Gain/(Loss) on Post-Retirement Benefits		\$ (925,436)	\$ (56,599)

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