

Independent Auditors' Report

To the Board of Directors
Powell Valley Electric Cooperative
New Tazewell, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Powell Valley Electric Cooperative (the "Cooperative"), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of income and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2020 and 2019, and the changes in its members' and patrons' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Cooperative of the Tennessee Valley
Tennessee Valley Cooperative

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, 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 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.

Rodger Moss + C. Ph.D.

Knoxville, Tennessee
October 23, 2020

Management's Responsibility 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. This includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2019 and 2018, and the changes in its members' and partners' equity and in cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

POWELL VALLEY ELECTRIC COOPERATIVE
Balance Sheets
June 30, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Electric Plant		
Electric plant in service	\$ 127,238,225	\$ 124,356,739
Construction work in progress	<u>2,015,661</u>	<u>93,849</u>
	129,253,886	124,450,588
Less accumulated depreciation	<u>(68,597,452)</u>	<u>(65,240,344)</u>
Electric plant, net	<u>60,656,434</u>	<u>59,210,244</u>
Non - Current Investments and Other Assets		
Conservation program notes receivable	1,709,058	2,097,518
Other notes receivable	1,802,274	2,253,641
Capital term certificates	1,127,744	1,127,744
Advances to retirement security program	243,236	405,394
Other assets	<u>452,072</u>	<u>489,979</u>
Total non - current investments and other assets	<u>5,334,384</u>	<u>6,374,276</u>
Current Assets		
Cash and cash equivalents	21,964,117	20,513,223
Accounts receivable, net of allowance for doubtful accounts	3,461,448	3,312,474
Contract assets	1,530,565	1,587,209
Prepaid expenses	604,207	577,325
Investments and other assets, current portion	617,277	619,408
Materials and supplies	1,651,776	556,761
Other current assets	<u>591,641</u>	<u>611,812</u>
Total current assets	<u>30,421,031</u>	<u>27,778,212</u>
Total assets	<u>\$ 96,411,849</u>	<u>\$ 93,362,732</u>

See notes to financial statements.

	<u>2020</u>	<u>2019</u>
LIABILITIES AND EQUITY		
Equity		
Memberships	\$ 123,405	\$ 122,210
Patronage capital	<u>76,087,891</u>	<u>73,039,543</u>
Total equity	<u>76,211,296</u>	<u>73,161,753</u>
Other Liabilities		
Post retirement benefits	1,891,261	1,960,603
Long - term debt, less current maturities	4,104,022	3,916,742
Conservation program liabilities	<u>1,639,704</u>	<u>1,898,471</u>
Total other liabilities	<u>7,634,987</u>	<u>7,775,816</u>
Current Liabilities		
Accounts payable - purchased power	5,874,405	6,409,053
Accrued liabilities	2,264,181	2,627,435
Current maturities of long-term debt	2,010,014	1,521,283
Consumer and security deposits	1,080,224	1,040,118
Accounts payable - other	958,922	444,886
Tax accruals and payroll deductions	<u>377,820</u>	<u>382,388</u>
Total current liabilities	<u>12,565,566</u>	<u>12,425,163</u>
Total liabilities and equity	<u>\$ 96,411,849</u>	<u>\$ 93,362,732</u>

POWELL VALLEY ELECTRIC COOPERATIVE
Statements of Income and Patronage Capital
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Residential	\$ 34,783,960	\$ 36,208,377
Large commercial	14,460,267	15,273,982
Small commercial	5,044,417	5,087,304
Rent from electric properties	2,365,570	2,253,472
Street and outdoor lighting	1,619,927	1,643,553
Miscellaneous electric revenues	<u>562,492</u>	<u>425,351</u>
Total operating revenues	<u>58,836,633</u>	<u>60,892,039</u>
Operating Expenses		
Purchased power	43,178,347	45,300,759
Operating	6,400,881	5,707,594
Depreciation	4,278,072	4,209,866
General	<u>2,916,233</u>	<u>2,968,024</u>
Total operating expenses	<u>56,773,533</u>	<u>58,186,243</u>
Operating margins before interest expense	2,063,100	2,705,796
Interest Expense	<u>677,453</u>	<u>717,178</u>
Operating margins after interest expense	<u>1,385,647</u>	<u>1,988,618</u>
Non - operating Margins		
Interest income	1,264,835	1,238,872
Miscellaneous income	<u>397,866</u>	<u>30,456</u>
Total non-operating margins	<u>1,662,701</u>	<u>1,269,328</u>
Net margins before non-recurring income	<u>3,048,348</u>	<u>3,257,946</u>
Non-recurring income		
Change in employee benefit plan actuarial assumptions	<u>-</u>	<u>3,764,960</u>
Total non-recurring income	<u>-</u>	<u>3,764,960</u>
Net margins	<u>3,048,348</u>	<u>7,022,906</u>
Patronage capital at the beginning of the year	73,039,543	66,016,637
Patronage capital at the end of the year	<u>\$ 76,087,891</u>	<u>\$ 73,039,543</u>

See notes to financial statements.

POWELL VALLEY ELECTRIC COOPERATIVE
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 58,926,632	\$ 60,691,735
Cash paid to suppliers and employees	(52,980,119)	(53,697,984)
Interest paid	(677,453)	(717,178)
Interest received	1,264,835	1,238,872
Other receipts	<u>397,866</u>	<u>30,456</u>
Net cash flows from operating activities	<u>6,931,761</u>	<u>7,545,901</u>
Cash Flows From Investing Activities		
Construction and acquisition of plant	(5,594,318)	(2,604,427)
Proceeds from sales of fixed assets	791,020	650,915
Plant removal costs	(920,964)	(751,974)
Increase in materials and supplies	(1,095,015)	(77,773)
Net proceeds from conservation program notes receivable	388,460	184,585
Issuances of other notes receivable	-	(135,000)
Cash receipts from collection of other notes receivable	453,498	403,603
Net decrease in other assets	<u>37,907</u>	<u>37,778</u>
Net cash flows from investing activities	<u>(5,939,412)</u>	<u>(2,292,293)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of long-term debt	1,254,100	-
Principal payments on long-term debt, net of advance note payments	(578,089)	(684,127)
Net decrease in energy conservation program liabilities	(258,767)	(143,493)
Increase in customer deposits	40,106	26,208
Increase of membership deposits	<u>1,195</u>	<u>935</u>
Net cash flows from financing activities	<u>458,545</u>	<u>(800,477)</u>
Net change in cash and cash equivalents	1,450,894	4,453,131
Cash and cash equivalents, beginning of the year	<u>20,513,223</u>	<u>16,060,092</u>
Cash and cash equivalents, end of the year	<u>\$ 21,964,117</u>	<u>\$ 20,513,223</u>

See notes to financial statements.

POWELL VALLEY ELECTRIC COOPERATIVE
Statements of Cash Flows (Continued)

	<u>2020</u>	<u>2019</u>
Reconciliation of Net Margins to Net Cash Flows From Operating Activities		
Net margins	\$ 3,048,348	\$ 7,022,906
Adjustments to reconcile net margins to net cash flows from operating activities		
Depreciation	4,278,072	4,209,866
Net change in post retirement benefit obligation	(69,342)	90,467
Change in employee benefit plan actuarial assumptions	-	(3,764,960)
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	(148,974)	(338,956)
Contract assets	56,644	97,903
Prepaid expenses and other current assets	155,447	(243,296)
Decrease in liabilities:		
Accounts payable and other accrued expenses	<u>(388,434)</u>	<u>471,971</u>
Net cash flows from operating activities	<u>\$ 6,931,761</u>	<u>\$ 7,545,901</u>

See notes to financial statements.

