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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

Opinion

We have audited the financial statements of Powell Valley Electric Cooperative (the Cooperative), which comprise the balance sheets as of June 30, 2024 and 2023, 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, 2024 and 2023, 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 (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.

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, 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 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 31, 2024 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 31, 2024

POWELL VALLEY ELECTRIC COOPERATIVE

BALANCE SHEETS

	As of June 30,	<u>2024</u>	<u>2023</u>
ASSETS			
ELECTRIC PLANT			
Electric Plant in Service		\$ 148,775,971	\$ 142,618,450
Construction Work in Progress		<u>4,584,879</u>	<u>3,868,443</u>
		153,360,850	146,486,893
Less Accumulated Depreciation		<u>(80,728,856)</u>	<u>(77,124,073)</u>
Net Electric Plant		<u>72,631,994</u>	<u>69,362,820</u>
INVESTMENTS			
Capital Term Certificates		<u>1,075,290</u>	<u>1,075,290</u>
CURRENT ASSETS			
Cash and Cash Equivalents		5,968,983	6,790,140
Accounts Receivable, Net		2,023,023	1,151,186
Unbilled Electric Receivable		2,121,134	1,552,051
Current Maturities of Rural Economic Development Loan Program Receivable		92,070	253,636
Current Maturities of Fiber Contract Receivable		6,100,000	4,695,000
Materials and Supplies		2,548,569	4,489,850
Prepaid Expenses		144,624	246,649
Other Current Assets		<u>640,755</u>	<u>556,670</u>
Total Current Assets		<u>19,639,158</u>	<u>19,735,182</u>
OTHER NONCURRENT ASSETS			
Rural Economic Development Loan Program Receivable		286,400	409,160
Fiber Contract Receivable		22,470,150	24,253,170
Conservation Contracts Outstanding		1,969,347	1,842,923
Other Assets		<u>712,491</u>	<u>739,080</u>
Total Other Noncurrent Assets		<u>25,438,388</u>	<u>27,244,333</u>
TOTAL ASSETS		<u>\$ 118,784,830</u>	<u>\$ 117,417,625</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>2024</u>	<u>2023</u>
CAPITALIZATION AND LIABILITIES			
MEMBERSHIP CAPITAL			
Memberships		\$ 128,870	\$ 127,240
Patronage Capital		89,155,434	86,262,304
Accumulated Comprehensive Income		<u>1,153,756</u>	<u>1,428,927</u>
Total Membership Capital		<u>90,438,060</u>	<u>87,818,471</u>
LONG-TERM DEBT		<u>2,072,573</u>	<u>2,400,503</u>
CURRENT LIABILITIES			
Accounts Payable - Purchased Power		7,912,101	7,127,612
General Accounts Payable		552,851	557,210
Accrued Liabilities		3,288,761	2,092,360
Current Maturities of Long-Term Debt		1,080,096	2,537,419
Current Portion of Accrued Post-Retirement Benefits		151,993	147,601
Current Portion of Fiber Contract Deferred Revenue		<u>6,100,000</u>	<u>4,695,000</u>
Total Current Liabilities		<u>19,085,802</u>	<u>17,157,202</u>
NONCURRENT LIABILITIES			
Consumer and Security Deposits		1,929,196	1,873,892
Accrued Post-Retirement Benefits		1,930,056	1,872,241
Fiber Contract Deferred Revenue		1,403,030	4,478,120
Conservation Program Advances		<u>1,926,113</u>	<u>1,817,196</u>
Total Noncurrent Liabilities		<u>7,188,395</u>	<u>10,041,449</u>
TOTAL MEMBERSHIP CAPITAL AND LIABILITIES		<u>\$ 118,784,830</u>	<u>\$ 117,417,625</u>

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POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended June 30,	<u>2024</u>	<u>2023</u>
OPERATING REVENUES			
Residential	\$	39,025,794	\$ 39,469,605
Large Commercial		20,803,118	23,231,081
Small Commercial		5,903,099	5,858,095
Street and Outdoor Lighting		1,777,776	1,840,715
Rent from Electric Properties		1,425,132	1,402,353
Miscellaneous Electric Revenues		<u>1,500,198</u>	<u>1,486,773</u>
Total Operating Revenues		<u>70,435,117</u>	<u>73,288,622</u>
OPERATING EXPENSES			
Purchased Power		53,240,517	56,750,780
Other Operating Expenses		9,422,151	9,143,374
General		3,550,551	3,503,447
Depreciation		<u>4,890,559</u>	<u>4,629,028</u>
Total Operating Expenses		<u>71,103,778</u>	<u>74,026,629</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE		(668,661)	(738,007)
INTEREST EXPENSE		<u>427,679</u>	<u>428,373</u>
OPERATING MARGINS AFTER INTEREST EXPENSE		<u>(1,096,340)</u>	<u>(1,166,380)</u>
OTHER INCOME (EXPENSES)			
Interest Income		2,263,988	2,237,766
Miscellaneous Income		<u>1,725,482</u>	<u>2,693,384</u>
Total Other Income (Expenses)		<u>3,989,470</u>	<u>4,931,150</u>
NET MARGINS		2,893,130	3,764,770
OTHER COMPREHENSIVE INCOME (LOSS)			
Adjustment for Post-Retirement Benefits		<u>(275,171)</u>	<u>(925,436)</u>
COMPREHENSIVE INCOME	\$	<u><u>2,617,959</u></u>	\$ <u><u>2,839,334</u></u>

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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, 2022	\$ 125,975	\$ 82,497,534	\$ 2,354,363	\$ 84,977,872
Change in Memberships	1,265	0	0	1,265
Net Margins	0	3,764,770	0	3,764,770
Other Comprehensive Income (Loss)	<u>0</u>	<u>0</u>	<u>(925,436)</u>	<u>(925,436)</u>
Balance, June 30, 2023	127,240	86,262,304	1,428,927	87,818,471
Change in Memberships	1,630	0	0	1,630
Net Margins	0	2,893,130	0	2,893,130
Other Comprehensive Income (Loss)	<u>0</u>	<u>0</u>	<u>(275,171)</u>	<u>(275,171)</u>
Balance, June 30, 2024	<u>\$ 128,870</u>	<u>\$ 89,155,434</u>	<u>\$ 1,153,756</u>	<u>\$ 90,438,060</u>

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POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Margins		\$ 2,893,130	\$ 3,764,770
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation		5,261,398	4,923,096
Fiber Contract Deferred Revenue		(1,670,090)	1,757,022
(Increase) Decrease in Accounts Receivable		(871,837)	573,641
(Increase) Decrease in Unbilled Electric Receivables		(569,083)	387,449
(Increase) Decrease in Fiber Contract Receivable		378,020	(7,223,143)
(Increase) Decrease in Materials and Supplies		1,941,281	2,401,214
(Increase) Decrease in Prepaid Expenses		102,025	(93,187)
(Increase) Decrease in Other Current Assets		(84,085)	16,388
(Increase) Decrease in Other Assets		26,589	(84,402)
Increase (Decrease) in Accounts Payable		780,130	(1,924,567)
Increase (Decrease) in Accrued Liabilities		1,038,741	(176,327)
Total Adjustments		<u>6,333,089</u>	<u>557,184</u>
Net Cash Provided by Operating Activities		<u>9,226,219</u>	<u>4,321,954</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Increase) Decrease in Conservation Loans		(126,424)	(172,816)
Proceeds Received From Rural Economic Loan Development Program		284,326	347,119
Additions to Plant		<u>(8,530,572)</u>	<u>(4,655,471)</u>
Net Cash Used in Investing Activities		<u>(8,372,670)</u>	<u>(4,481,168)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Proceeds (Payments) on Long Term Debt		(2,068,045)	973,005
Net Proceeds (Payments) on Cushion of Credit		282,792	426,512
Increase in Memberships		1,630	1,265
Conservation Advances, Net		<u>108,917</u>	<u>140,220</u>
Net Cash Provided by Financing Activities		<u>(1,674,706)</u>	<u>1,541,002</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(821,157)	1,381,788
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>6,790,140</u>	<u>5,408,352</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$ 5,968,983</u>	<u>\$ 6,790,140</u>
Supplementary Disclosures of Cash Flow Information:			
Cash Paid During the Year for Interest		\$ 427,771	\$ 426,793
Unrecognized Actuarial Gain/(Loss) on Post-Retirement Benefits		\$ (275,171)	\$ (925,436)

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