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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, 2025 and 2024, 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, 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 (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 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 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 29, 2025 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 29, 2025

POWELL VALLEY ELECTRIC COOPERATIVE

BALANCE SHEETS

	As of June 30,	2025	2024
ASSETS			
ELECTRIC PLANT			
Electric Plant in Service		\$ 153,265,467	\$ 148,775,971
Construction Work in Progress		9,828,511	4,584,879
		163,093,978	153,360,850
Less Accumulated Depreciation		(83,350,101)	(80,728,856)
Net Electric Plant		79,743,877	72,631,994
INVESTMENTS			
Capital Term Certificates		1,075,290	1,075,290
CURRENT ASSETS			
Cash and Cash Equivalents		5,325,912	5,968,983
Accounts Receivable, Net		3,046,338	2,023,023
Unbilled Electric Receivable		2,332,427	2,121,134
Current Maturities of Rural Economic Development Loan Program Receivable		122,760	92,070
Current Maturities of Fiber Contract Receivable		7,510,000	6,100,000
Materials and Supplies		2,677,821	2,548,569
Prepaid Expenses		335,402	144,624
Other Current Assets		614,003	640,755
Total Current Assets		21,964,663	19,639,158
OTHER NONCURRENT ASSETS			
Rural Economic Development Loan Program Receivable		163,640	286,400
Fiber Contract Receivable		19,278,864	22,470,150
Conservation Contracts Outstanding		2,059,748	1,969,347
Other Assets		406,410	712,491
Total Other Noncurrent Assets		21,908,662	25,438,388
TOTAL ASSETS		\$ 124,692,492	\$ 118,784,830

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,	2025	2024
CAPITALIZATION AND LIABILITIES			
MEMBERSHIP CAPITAL			
Memberships	\$	131,967	\$ 128,870
Patronage Capital		90,044,693	89,155,434
Accumulated Comprehensive Income		1,105,582	1,153,756
Total Membership Capital		<u>91,282,242</u>	<u>90,438,060</u>
LONG-TERM DEBT		<u>4,688,334</u>	<u>2,072,573</u>
CURRENT LIABILITIES			
Accounts Payable - Purchased Power		8,884,304	7,912,101
General Accounts Payable		1,078,385	552,851
Accrued Liabilities		2,233,710	3,288,761
Current Maturities of Long-Term Debt		2,465,172	1,080,096
Current Portion of Consumer and Security Deposits		427,518	200,240
Current Portion of Accrued Post-Retirement Benefits		160,006	151,993
Current Portion of Fiber Contract Deferred Revenue		1,611,000	1,336,000
Total Current Liabilities		<u>16,860,095</u>	<u>14,522,042</u>
NONCURRENT LIABILITIES			
Consumer and Security Deposits		1,560,054	1,728,956
Accrued Post-Retirement Benefits		1,974,527	1,930,056
Fiber Contract Deferred Revenue		6,247,381	6,167,030
Conservation Program Advances		2,079,859	1,926,113
Total Noncurrent Liabilities		<u>11,861,821</u>	<u>11,752,155</u>
TOTAL MEMBERSHIP CAPITAL AND LIABILITIES	\$	<u>124,692,492</u>	\$ <u>118,784,830</u>

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POWELL VALLEY ELECTRIC COOPERATIVE
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended June 30,	<u>2025</u>	<u>2024</u>
OPERATING REVENUES			
Residential	\$	43,345,966	\$ 39,025,794
Large Commercial		23,003,922	20,803,118
Small Commercial		6,661,031	5,903,099
Street and Outdoor Lighting		1,900,772	1,777,776
Rent from Electric Properties		1,552,665	1,425,132
Miscellaneous Electric Revenues		<u>1,522,375</u>	<u>1,500,198</u>
Total Operating Revenues		<u>77,986,731</u>	<u>70,435,117</u>
OPERATING EXPENSES			
Purchased Power		59,546,435	53,240,517
Other Operating Expenses		9,642,358	9,422,151
General		4,141,362	3,550,551
Depreciation		<u>5,042,963</u>	<u>4,890,559</u>
Total Operating Expenses		<u>78,373,118</u>	<u>71,103,778</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE		(386,387)	(668,661)
INTEREST EXPENSE		<u>358,709</u>	<u>427,679</u>
OPERATING MARGINS AFTER INTEREST EXPENSE		<u>(745,096)</u>	<u>(1,096,340)</u>
UNUSUAL AND INFREQUENT ITEMS			
Hurricane Helene Expenses		<u>(2,496,385)</u>	<u>0</u>
Total Unusual and Infrequent Items		<u>(2,496,385)</u>	<u>0</u>
OTHER INCOME (EXPENSES)			
Interest Income		2,170,684	2,263,988
Fiber Contract Revenue		1,934,374	1,648,390
Miscellaneous Income		<u>25,682</u>	<u>77,092</u>
Total Other Income (Expenses)		<u>4,130,740</u>	<u>3,989,470</u>
NET MARGINS		889,259	2,893,130
OTHER COMPREHENSIVE INCOME (LOSS)			
Adjustment for Post-Retirement Benefits		<u>(48,174)</u>	<u>(275,171)</u>
COMPREHENSIVE INCOME	\$	<u><u>841,085</u></u>	\$ <u><u>2,617,959</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, 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	128,870	89,155,434	1,153,756	90,438,060
Change in Memberships	3,097	0	0	3,097
Net Margins	0	889,259	0	889,259
Other Comprehensive Income (Loss)	<u>0</u>	<u>0</u>	<u>(48,174)</u>	<u>(48,174)</u>
Balance, June 30, 2025	<u>\$ 131,967</u>	<u>\$ 90,044,693</u>	<u>\$ 1,105,582</u>	<u>\$ 91,282,242</u>

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POWELL VALLEY ELECTRIC COOPERATIVE

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Margins	\$	889,259	\$ 2,893,130
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation		5,425,711	5,261,398
Fiber Contract Deferred Revenue		355,351	(1,670,090)
(Increase) Decrease in Accounts Receivable		(1,023,315)	(871,837)
(Increase) Decrease in Unbilled Electric Receivables		(211,293)	(569,083)
(Increase) Decrease in Fiber Contract Receivable		1,781,286	378,020
(Increase) Decrease in Materials and Supplies		(129,252)	1,941,281
(Increase) Decrease in Prepaid Expenses		(190,778)	102,025
(Increase) Decrease in Other Current Assets		26,752	(84,085)
(Increase) Decrease in Other Assets		306,081	26,589
Increase (Decrease) in Accounts Payable		1,497,737	780,130
Increase (Decrease) in Accrued Liabilities		(992,365)	1,038,741
Total Adjustments		6,845,915	6,333,089
Net Cash Provided by Operating Activities		7,735,174	9,226,219
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Increase) Decrease in Conservation Loans		(90,401)	(126,424)
Proceeds Received From Rural Economic Loan Development Program		92,070	284,326
Additions to Plant		(12,537,594)	(8,530,572)
Net Cash Used in Investing Activities		(12,535,925)	(8,372,670)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Proceeds (Payments) on Long Term Debt		3,666,369	(2,068,045)
Net Proceeds (Payments) on Cushion of Credit		334,468	282,792
Increase in Memberships		3,097	1,630
Conservation Advances, Net		153,746	108,917
Net Cash Provided by Financing Activities		4,157,680	(1,674,706)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(643,071)	(821,157)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		5,968,983	6,790,140
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	5,325,912	\$ 5,968,983
Supplementary Disclosures of Cash Flow Information:			
Cash Paid During the Year for Interest	\$	312,467	\$ 427,771
Unrecognized Actuarial Gain/(Loss) on Post-Retirement Benefits	\$	(48,174)	\$ (275,171)

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