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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Mountain Electric Cooperative, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mountain Electric Cooperative, Inc. (a nonprofit organization), which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of revenue and expense, comprehensive income, changes in members' and patrons' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 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 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 those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

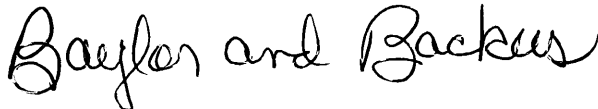
The Board of Directors of  
Mountain Electric Cooperative, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountain Electric Cooperative, Inc. as of June 30, 2020 and 2019, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2020, on our consideration of Mountain Electric Cooperative, Inc.'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 Mountain Electric Cooperative, Inc.'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 Mountain Electric Cooperative, Inc.'s internal control over financial reporting and compliance.



**BAYLOR AND BACKUS**  
Certified Public Accountants

Johnson City, Tennessee

October 21, 2020

**TENNESSEE 51 JOHNSON  
MOUNTAIN ELECTRIC COOPERATIVE, INC.**

**MOUNTAIN CITY, TENNESSEE**

**BALANCE SHEETS**

**June 30, 2020 and 2019**

**ASSETS AND OTHER DEBITS**

	<u>2020</u>	<u>2019</u>
Utility Plant		
Electric Plant in Service	139,884,772.34	119,093,860.61
Construction Work in Progress	<u>4,010,185.88</u>	<u>16,005,317.85</u>
	143,894,958.22	135,099,178.46
Less: Accumulated Depreciation	<u>( 51,950,772.68)</u>	<u>( 49,562,227.91)</u>
Total Net Utility Plant	<u>91,944,185.54</u>	<u>85,536,950.55</u>
Other Property and Investments		
Nonutility Property - Net	7,680.00	7,680.00
Rural Economic Development Loans Receivable	366,934.30	268,964.46
Other Investments	<u>1,046,538.98</u>	<u>1,032,236.20</u>
Total Other Property and Investments	<u>1,421,153.28</u>	<u>1,308,880.66</u>
Current Assets		
Cash and Cash Equivalents	9,123,141.35	7,517,148.00
Temporary Investments	701,194.14	740,513.18
Accounts Receivable	3,415,404.23	3,777,687.22
Less: Provision for Doubtful Accounts	<u>( 361,254.95)</u>	<u>( 325,241.75)</u>
Other Receivables and Prepayments	3,038,734.42	4,055,056.28
Materials and Supplies	<u>810,367.36</u>	<u>751,738.20</u>
Total Current Assets	<u>16,727,586.55</u>	<u>16,516,901.13</u>
Deferred Assets		
Miscellaneous Deferred Debits	35,153.15	34,142.94
Home Weatherization Program Receivables	<u>941,389.02</u>	<u>938,620.15</u>
Total Deferred Assets	<u>976,542.17</u>	<u>972,763.09</u>
Total Assets and Other Debits	<u>111,069,467.54</u>	<u>104,335,495.43</u>

## LIABILITIES AND OTHER CREDITS

	<u>2020</u>	<u>2019</u>
Members' and Patrons' Equity		
Consumer Memberships	137,625.00	136,720.00
Accumulated Net Revenue	71,664,979.59	69,142,596.83
Accumulated Other Comprehensive Loss:		
Postretirement Benefit Obligation Adjustment	( 3,923,621.00)	( 3,976,774.00)
Total Members' and Patrons' Equity	<u>67,878,983.59</u>	<u>65,302,542.83</u>
 Long-Term Debt		
RUS Mortgage Notes	20,311,285.48	22,558,429.45
Rural Economic Development Loans	400,000.00	400,000.00
CoBank - National Bank for Cooperatives	2,943,342.30	3,365,059.62
Less: Cushion of Credit Deposits - RUS	( 7,325,873.97)	( 15,400,247.10)
TVA Conservation Program Advances	<u>1,003,090.98</u>	<u>973,860.20</u>
Total Long-Term Debt	<u>17,331,844.79</u>	<u>11,897,102.17</u>
 Current Liabilities		
Accounts Payable	5,941,892.56	7,717,762.94
Consumer Deposits	2,623,341.37	2,577,607.83
Accrued Taxes	483,373.62	457,463.94
Accrued Vacation and Sick Leave Pay	724,583.37	698,727.35
Other Current Liabilities	2,875,619.46	4,452,977.42
Long-Term Debt - Current Portion	4,840,778.78	3,454,484.95
Accrued Postretirement Benefit Obligation - Current Portion	<u>451,334.00</u>	<u>430,071.00</u>
Total Current Liabilities	<u>17,940,923.16</u>	<u>19,789,095.43</u>
 Other Liabilities		
Development Loan	8,500.00	8,500.00
Accrued Postretirement Benefit Obligation - Long-Term Portion	<u>7,909,216.00</u>	<u>7,338,255.00</u>
Total Other Liabilities	<u>7,917,716.00</u>	<u>7,346,755.00</u>
 Total Liabilities and Other Credits	<u>111,069,467.54</u>	<u>104,335,495.43</u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditor's Report.

**TENNESSEE 51 JOHNSON  
MOUNTAIN ELECTRIC COOPERATIVE, INC.  
MOUNTAIN CITY, TENNESSEE  
STATEMENTS OF REVENUE AND EXPENSE  
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues	59,730,161.01	61,906,283.45
Operating Expenses		
Cost of Power	42,131,393.75	46,167,327.27
Transmission - Operation	65,295.80	57,887.21
Distribution - Operation	2,963,463.65	2,693,825.79
Distribution - Maintenance	4,726,023.44	4,665,215.95
Consumer Accounts	1,943,148.63	1,860,723.96
Sales	6,730.50	2,969.07
Administrative and General	1,489,998.98	1,538,947.43
Miscellaneous	10,563.70	16,298.43
Depreciation	3,946,718.71	3,713,963.60
Less: Depreciation Distributed to Overhead	<u>( 372,472.81)</u>	<u>( 421,046.89)</u>
Total Operating Expenses	<u>56,910,864.35</u>	<u>60,296,111.82</u>
Operating Revenue	<u>2,819,296.66</u>	<u>1,610,171.63</u>
Interest on Debt	<u>850,511.02</u>	<u>1,025,495.16</u>
Net Operating Revenue	<u>1,968,785.64</u>	<u>584,676.47</u>
Nonoperating Revenues		
Interest on Investments	544,000.47	982,474.86
Net Revenue from Merchandise, Jobbing and Contract Work	1,924.74	9,619.38
Miscellaneous Income	<u>7,671.91</u>	<u>3,012.11</u>
Total Nonoperating Revenues	<u>553,597.12</u>	<u>995,106.35</u>
Net Revenue for Year	<u>2,522,382.76</u>	<u>1,579,782.82</u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditor's Report.

**TENNESSEE 51 JOHNSON  
MOUNTAIN ELECTRIC COOPERATIVE, INC.  
MOUNTAIN CITY, TENNESSEE  
STATEMENTS OF COMPREHENSIVE INCOME  
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Net Revenue	2,522,382.76	1,579,782.82
Other Comprehensive Income:		
Postretirement Benefit Obligation Adjustment	<u>53,153.00</u>	<u>(2,094,269.00)</u>
Comprehensive Income (Loss)	<u>2,575,535.76</u>	<u>( 514,486.18)</u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditor's Report.

**TENNESSEE 51 JOHNSON  
MOUNTAIN ELECTRIC COOPERATIVE, INC.  
MOUNTAIN CITY, TENNESSEE  
STATEMENTS OF CHANGES IN MEMBERS' AND PATRONS' EQUITY  
For the Years Ended June 30, 2020 and 2019**

	<u>Members' Contributed Capital</u>	<u>Accumulated Net Revenue</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance as of June 30, 2018	135,770.00	67,562,814.01	(1,882,505.00)	65,816,079.01
Increase in Members' Contributed Capital (Net)	950.00			950.00
Net Revenue		1,579,782.82		1,579,782.82
Other Comprehensive Income – Postretirement Benefit Obligation Adjustment	_____	_____	(2,094,269.00)	( 2,094,269.00)
Balance as of June 30, 2019	136,720.00	69,142,596.83	(3,976,774.00)	65,302,542.83
Increase in Members' Contributed Capital (Net)	905.00			905.00
Net Revenue		2,522,382.76		2,522,382.76
Other Comprehensive Income – Postretirement Benefit Obligation Adjustment	_____	_____	53,153.00	53,153.00
Balance as of June 30, 2020	<u>137,625.00</u>	<u>71,664,979.59</u>	<u>(3,923,621.00)</u>	<u>67,878,983.59</u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditor's Report.

**TENNESSEE 51 JOHNSON**  
**MOUNTAIN ELECTRIC COOPERATIVE, INC.**  
**MOUNTAIN CITY, TENNESSEE**  
**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Net Revenue	2,522,382.76	1,579,782.82
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:		
Depreciation	3,946,718.71	3,713,963.60
Change in Postretirement Benefit Obligation Adjustment	53,153.00	( 2,094,269.00)
(Increase) Decrease in Accounts Receivable, Other Receivables and Prepayments	1,414,618.05	( 220,049.36)
Increase (Decrease) in Accounts Payable	( 1,775,870.38)	1,105,854.14
Increase in Consumer Deposits	45,733.54	83,503.06
Increase in Accrued Taxes	25,909.68	17,044.55
Increase in Accrued Vacation and Sick Leave Pay	25,856.02	44,829.82
Increase (Decrease) in Other Current Liabilities	( 1,577,357.96)	4,207,516.22
Increase in Accrued Postretirement Benefit Obligation	<u>592,224.00</u>	<u>2,714,904.00</u>
Net Cash Provided by Operating Activities	<u>5,273,367.42</u>	<u>11,153,079.85</u>
<b>Investing Activities</b>		
Material and Supplies	( 58,629.16)	( 1,316.77)
Rural Economic Development Loans Receivable	( 97,969.84)	( 902.33)
Purchase of Plant	(10,103,488.39)	(15,483,760.09)
Proceeds from the Sale of Plant	10,000.00	
Removal Cost	( 309,637.87)	( 289,195.29)
Home Weatherization Program	( 2,768.87)	( 48,970.86)
Salvage	49,172.56	12,199.46
Temporary Investments	39,319.04	969,031.76
Deferred Debits	( 1,010.21)	( 334.29)
Net Change in Other Investments	<u>( 14,302.78)</u>	<u>( 21,268.16)</u>
Net Cash (Used) by Investing Activities	<u>(10,489,315.52)</u>	<u>(14,864,516.57)</u>
<b>Financing Activities</b>		
Proceeds from Line of Credit		3,000,000.00
Proceeds from Long-Term Debt	5,638,000.00	5,565,000.00
Proceeds from Paycheck Protection Program Loan	1,350,800.00	
Payment of Long-Term Debt Principal	( 8,523,660.17)	( 961,118.81)
Decrease in Cushion of Debt	8,326,665.84	572,466.51
Net Increase in Conservation Advances	29,230.78	29,650.66
Net Increase in Membership Fees	<u>905.00</u>	<u>950.00</u>
Net Cash Provided by Financing Activities	<u>6,821,941.45</u>	<u>8,206,948.36</u>
Change in Cash	<u>1,605,993.35</u>	<u>4,495,511.64</u>
Cash and Cash Equivalents - Beginning of Year	<u>7,517,148.00</u>	<u>3,021,636.36</u>
Cash and Cash Equivalents - End of Year	<u>9,123,141.35</u>	<u>7,517,148.00</u>

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