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May 31, 2018

Chairman David Jones, Tennessee Public Utilities Commission
c/o Sharla Dillon, Dockets and Records Manager
502 Deaderick St., 4th Floor
Nashville, Tennessee 37243

Re: *Docket No. 18-00020: Application of SVE Connect, LLC for a State-Issued Certificate of Franchise Authority*

Dear Chairman Jones:

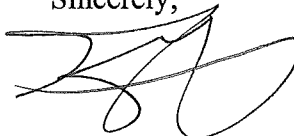
In February 2018, SVE Connect, LLC ("SVEC") filed the above-reference application for a state-issued certificate of franchise authority. By letter dated March 8, the Commission asked SVEC to provide additional information showing SVEC has the requisite managerial, financial, and technical qualifications set forth in Tenn. Code Ann. § 7-59-305(d)(2) as well as SVEC's plan to comply with the requirements of § 7-59-311.

Earlier today, I electronically filed SVEC's *Evidence of Managerial, Financial, and Technical Qualifications*, and all accompanying exhibits, by emailing a Portable Document Format (PDF) copy to tpuc.docketroom@tn.gov. In accordance with Tenn. Comp. R. & Regs. 1220-1-1-.03, I have enclosed the original and four hard copies of these documents to complete this electronic filing.

In addition, please find enclosed an original and four copies of *SVEC's Section 311 Plan* and accompanying exhibit. Consistent with state law and the Commission's rules, these documents have been clearly marked as containing "proprietary information" and are not subject to open records laws. On the instruction of the Commission's Dockets and Records Manager, these confidential documents were withheld from electronic filing and the original and four hard copies are enclosed herein in lieu of a separate paper filing.

Should you require anything further, please do not hesitate to contact me.

Sincerely,



Robert Christopher Guth
Senior Tax Attorney

Enclosures

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
Nashville, Tennessee

In re: *Application of SVE Connect, LLC for a State-Issued Certificate of Franchise Authority*

Docket No. 18-00020

EVIDENCE OF MANAGERIAL, FINANCIAL, AND TECHNICAL QUALIFICATIONS

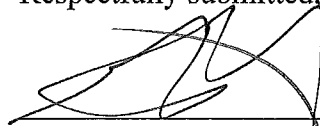
SVE Connect, LLC submits the following as evidence that it meets the requisite technical, financial, and managerial qualifications to provide video or cable service, as set forth in Tenn. Code Ann. § 7-59-305(d)(2):

Exhibit D: Managerial Officer Biographies

Exhibit E: Technical Officer Biographies

Exhibit F: Sequachee Valley Electric Cooperative and Subsidiary
Consolidated Financial Statements for Years Ended June 30, 2017 and 2016

Respectfully submitted,



Robert C. Guth (No. 31142)

BASS, BERRY & SIMS PLC

150 Third Avenue South, Suite 2800

Nashville, Tennessee 37201

(615) 742-7819

EXHIBIT D

Application of SVE Connect for a State-Issued Certificate of Franchise Authority

Managerial Officer Biographies

Michael Partin, CEO, received his degree in Political Science and Economics at Middle Tennessee State University. Mike served as Executive of Grundy County from 1993 to 1998 where he worked to recruit industry and promote the progression of Grundy County. He joined Sequachee Valley Electric Cooperative in December of 1998 as Vice-President of Marketing and Business Development and held that position until January of 2010. Mike was promoted to Chief Operating Officer in 2010 and remained until accepting the promotion to President and CEO of SVEC. Mike has served on numerous boards and committees both on the state and national level to promote the interest of Sequachee Valley Electric's Co-op membership.

Danny Kirkendoll, Chief Operating Officer, graduated from the University of Tennessee at Chattanooga with a BSE in Electrical Engineering. He joined Sequachee Valley Electric Cooperative in May of 1991 as an Assistant Engineer. He was promoted to Director of Engineering in November of 1993 before assuming his current role of Vice-President of Engineering and Operations in July of 2015.

Floyd A Hatfield, Jr., Vice President Administrative Services, graduated from Tennessee Technology University with a BS in Accounting. He joined Sequachee Valley Electric Cooperative in October 2002. Prior to joining SVEC, he served on the Board of Directors for 16 years. He previously worked as CFO of High Country Archery for 12 years.

Michael (Mike) Birdwell, Manager of Ancillary Services, is a 1989 graduate of Grundy County High School. He began his career in building and grounds work at Ben Lomand Telephone Cooperative. Over time, he worked for Ben Lomand as an installer, cable splicer, district manager, and in 2015, was named the District Operations Manager and Economic Development Manager. He joined Sequachee Valley Electric Cooperative in 2018 as the Manager of Ancillary Services where he oversees the inception of SVE Connect, a broadband subsidiary of SVEC.

EXHIBIT E

Application of SVE Connect for a State-Issued Certificate of Franchise Authority

FiberRise Communications, LLC's Officer Biographies

SVE Connect, LLC will contract with FiberRise Communications, LLC ("FiberRise") – an independent fiber infrastructure consulting firm – to support the deployment of SVE Connect's fiber network infrastructure. The following officer biographies are provided as evidence of FiberRise's technical qualifications:

Chad Dieselberg, Chief Technology Officer, holds numerous patents, real world experience operating and designing fiber broadband systems, outside plant engineering, central office technician and engineering designs. He has over 20+ years of direct fiber experience, holds a B.S. in Math, a B.S. in Computer Science. Chad designed one of the nation's earliest FTTH systems while working with a rural service provider in the mid 2000's.

Noah Southerland, Chief Operations Officer, helped launch one of the largest FTTH Gigabit projects in the nation while working at ADTRAN. He has extensive networking, application, and business expertise and holds an M.S., and MBA from Auburn. Noah has over ten years of fiber and communication experience.

Tommy Harmon, Chief Executive Officer, has twenty-five years of communication experience working with electric utilities and broadband operators. He began working for electric cooperatives in 2010 while working with North Alabama Electric Cooperative as they launched their FTT(x) project. This was one of a handful of early electric cooperatives entering the fiber space. He holds a BA, and has served in numerous engineering and business leadership roles.

Additional team members include outside plant and networking engineers and software developers, most of whom hold engineering degrees and real world operating experience.

EXHIBIT F

Application of SVE Connect for a State-Issued Certificate of Franchise Authority

**Sequachee Valley Electric Cooperative and Subsidiary
Consolidated Financial Statements for Years Ended June 30, 2017 and 2016**

[Exhibit begins on following page.]

**SEQUACHEE VALLEY ELECTRIC
COOPERATIVE AND SUBSIDIARY**

South Pittsburg, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
ANNUAL REPORT TO MEMBERS**

INTRODUCTION

The Sequachee Valley Electric Cooperative is a non-profit, member owned Cooperative, organized under the laws of the State of Tennessee for the primary purpose of providing electric energy to its members at the lowest cost possible consistent with south economy and good management.

ADMINISTRATION

Each member of the Cooperative is entitled to participate in the election of the Board of Directors, which is charged with the responsibility of formulating the general policies of the Cooperative. The Directors elect a President/CEO who is in direct charge of the operations and is accountable only to the Directors. Only one hundred members are required to be present to constitute a quorum at the member meetings.

The Directors and Officers at June 30, 2017 were:

DIRECTORS

<u>NAME</u>	<u>ADDRESS</u>
Michael Jordan	Tracy City, Tennessee
Richard Barnes	Kimball, Tennessee
Judy Fults	Altamont, Tennessee
Bob Sherrill	South Pittsburg, Tennessee
Billy Gaston	Dunlap, Tennessee
Roger Powell	Whitwell, Tennessee
John Nale	Pikeville, Tennessee
Travis Smith	Pikeville, Tennessee
Daniel Davenport	Dunlap, Tennessee
Jerry Don Thomas	Monteagle, Tennessee
Bobby Gravitt, Jr.	Jasper, Tennessee

OFFICERS AND GENERAL MANAGER

<u>NAME</u>	<u>POSITION</u>
Michael Jordan	Chairman
Richard Barnes	Vice Chairman
Judy Fults	Secretary/Treasurer
Michael Partin	President/CEO

The home office of the Cooperative is located in South Pittsburg, Tennessee. For operating convenience, service centers are located in the following cities:

Tracy City, Tennessee
Dunlap, Tennessee
Pikeville, Tennessee
South Pittsburg, Tennessee
Whitwell, Tennessee



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Officers of
Sequachee Valley Electric Cooperative and Subsidiary

We have audited the accompanying consolidated financial statements of Sequachee Valley Electric Cooperative (a Tennessee Cooperative) and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of revenue and expenses, consolidated changes in equity and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sequachee Valley Electric Cooperative and Subsidiary, as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 27-29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain other additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole. The supplementary information on pages 30-32 has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Sequachee Valley Electric Cooperative and Subsidiary'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 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 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 Sequachee Valley Electric Cooperative and Subsidiary's internal control over financial reporting and compliance.

Johnson, Niskey & Meacham, P.C.

November 10, 2017
Chattanooga, Tennessee

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016**

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u>
ELECTRIC PLANT		
Plant in service, at cost	\$ 183,034,263	\$ 164,622,593
Construction work-in-progress	<u>2,626,027</u>	<u>12,597,273</u>
	185,660,290	177,219,866
Less accumulated depreciation	<u>81,907,348</u>	<u>78,271,869</u>
Net electric plant	<u>103,752,942</u>	<u>98,947,997</u>
OTHER ASSETS AND INVESTMENTS		
Nonutility property, net	706,098	648,579
Receivables from conservation loans	1,539,439	1,570,697
Economic development loans, net	129,440	188,683
Other assets	771,247	801,864
Investments in associated organizations	<u>786,307</u>	<u>743,876</u>
Total other assets and investments	<u>3,932,531</u>	<u>3,953,699</u>
CURRENT ASSETS		
Cash and cash equivalents	4,282,710	3,642,645
Other investments - current	158,721	159,211
Accounts receivable, (net of allowance for doubtful accounts of \$836,617 and \$787,022)	6,802,252	6,752,879
Other accounts receivable	200,154	136,868
Economic development loans, current	59,005	99,828
Material and supplies	1,207,031	1,161,734
Prepaid R&S pension plan	239,383	227,380
Other current assets	271,259	273,545
Interest and rent receivable	<u>870,636</u>	<u>617,062</u>
Total current assets	<u>14,091,151</u>	<u>13,071,152</u>
DEFERRED CHARGES	<u>1,951,627</u>	<u>2,295,632</u>
TOTAL ASSETS	<u>\$ 123,728,251</u>	<u>\$ 118,268,480</u>

(The accompanying notes are an integral part of these consolidated statements.)

EQUITIES AND LIABILITIES

	<u>2017</u>	<u>2016</u>
EQUITIES		
Earnings reinvested in system assets	\$ 72,523,893	\$ 68,508,241
Other equities	546,914	633,496
	<u>73,070,807</u>	<u>69,141,737</u>
 LONG-TERM LIABILITIES		
Notes payable		
Rural utilities service mortgage notes	29,371,885	19,893,061
CoBank	1,512,933	1,795,853
National rural utilities CFC	1,470,782	1,738,971
	<u>32,355,600</u>	<u>23,427,885</u>
Advances from Tennessee Valley Authority for Conservation Loans	-	1,607,333
Postretirement benefit obligation	2,198,983	2,247,540
Deferred income taxes	93,000	-
	<u>34,647,583</u>	<u>27,282,758</u>
Total long-term liabilities		
 CURRENT LIABILITIES		
Line of credit	600,000	5,800,000
Current portion of long-term debt	1,227,352	1,349,860
Accounts payable		
Due Tennessee Valley Authority for purchased power	5,271,125	5,770,873
Other accounts payable	2,045,108	2,283,639
Member deposits	3,284,705	3,217,420
Accumulated annual leave	376,745	396,275
Accumulated sick leave	1,628,197	1,638,533
Other current and accrued liabilities	1,192,406	976,019
	<u>15,625,638</u>	<u>21,432,619</u>
Total current liabilities		
 DEFERRED CREDITS	<u>384,223</u>	<u>411,366</u>
 TOTAL EQUITIES AND LIABILITIES	<u>\$ 123,728,251</u>	<u>\$ 118,268,480</u>

(The accompanying notes are an integral part of these consolidated statements.)

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE	\$ 89,683,641	\$ 85,327,084
OPERATING EXPENSES		
Operations		
Cost of power	64,496,362	61,592,314
Cost of other revenue	574,578	609,656
Distribution	4,265,211	3,912,814
Customer accounting, collection, and information and sales	3,160,405	3,547,616
Administrative and general	2,186,673	2,310,380
Maintenance	4,162,142	4,473,969
Depreciation and Amortization	5,754,053	5,434,251
Total operating expenses	<u>84,599,424</u>	<u>81,881,000</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	5,084,217	3,446,084
INTEREST EXPENSE	<u>1,316,331</u>	<u>1,212,451</u>
OPERATING MARGINS AFTER INTEREST EXPENSE	<u>3,767,886</u>	<u>2,233,633</u>
NONOPERATING MARGIN		
Interest income	99,732	49,248
Other nonoperating income	<u>220,247</u>	<u>131,310</u>
Total nonoperating margin	<u>319,979</u>	<u>180,558</u>
INCOME TAXES	<u>158,795</u>	<u>36,499</u>
NET MARGIN	<u>\$ 3,929,070</u>	<u>\$ 2,377,692</u>

(The accompanying notes are an integral part of these consolidated statements.)

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>EARNINGS REINVESTED IN SYSTEM ASSETS</u>			<u>OTHER EQUITIES</u>	<u>TOTAL EQUITIES</u>
	<u>ASSIGNED</u>	<u>ASSIGNABLE</u>	<u>TOTAL</u>		
2015,	\$ 63,304,604	\$ 3,033,630	\$ 66,338,234	\$ 425,811	\$ 66,764,045
for the year	3,033,630	(3,033,630)	-	-	-
ended June 30,	<u>-</u>	<u>2,170,007</u>	<u>2,170,007</u>	<u>207,685</u>	<u>2,377,692</u>
2016,	66,338,234	2,170,007	68,508,241	633,496	69,141,737
for the year	2,170,007	(2,170,007)	-	-	-
year ended	<u>-</u>	<u>4,015,652</u>	<u>4,015,652</u>	<u>(86,582)</u>	<u>3,929,070</u>
2017,	<u>\$ 68,508,241</u>	<u>\$ 4,015,652</u>	<u>\$ 72,523,893</u>	<u>\$ 546,914</u>	<u>\$ 73,070,807</u>

(The accompanying notes are an integral part of these consolidated statements.)

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margin	\$ 3,929,070	\$ 2,377,692
Adjustments to reconcile net margin to net cash provided by operating activities		
Depreciation expense (includes \$485,896 and \$394,731 recorded to transportation expense)	6,304,135	5,881,313
Amortization expense	344,005	320,573
Provision for doubtful accounts	49,595	130,049
Gain on disposal of equipment	(11,537)	-
Deferred income taxes	93,000	-
Net (increase) decrease in operating assets		
Accounts receivable	(130,996)	(62,607)
Materials and supplies	(45,297)	(179,915)
Interest and rents receivable	(253,574)	(36,876)
Prepaid R&S pension plan	(12,003)	(6,777)
Other assets	32,903	(37,128)
Other investments	490	(312)
Net increase (decrease) in operating liabilities		
Accounts payable	(738,279)	756,950
Customer deposits	67,285	165,628
Accumulated annual and sick leave	(29,866)	91,868
Postretirement obligation	(48,557)	199,559
Other current and accrued liabilities	216,387	39,367
Net cash provided by operating activities	<u>9,766,761</u>	<u>9,639,384</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to electric plant	(10,703,771)	(14,883,572)
Removal costs of electric plant	(481,602)	(541,468)
Salvage	164,931	243,724
Cash paid for nonutility property	(169,755)	(5,521)
Proceeds from disposal of equipment	35,135	-
Payments received from development loans	100,066	103,711
Net change in investments in associated organizations	(42,431)	(40,029)
Net change in deferred credits	(27,143)	(50,069)
Net cash used by investing activities	<u>(11,124,570)</u>	<u>(15,173,224)</u>

(The accompanying notes are an integral part of these consolidated statements.)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(5,200,000)	5,800,000
Proceeds from long-term debt	11,700,000	-
Payments on long-term debt	(2,894,793)	(1,409,549)
Net change in advances for conservation loans	<u>(1,607,333)</u>	<u>144,559</u>
Net cash provided by financing activities	<u>1,997,874</u>	<u>4,535,010</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 640,065	 (998,830)
 CASH		
Beginning	<u>3,642,645</u>	<u>4,641,475</u>
 Ending	 <u>\$ 4,282,710</u>	 <u>\$ 3,642,645</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 1,357,388	\$ 1,214,168
Cash paid for income taxes	\$ 102,294	\$ 59,105

(The accompanying notes are an integral part of these consolidated statements.)

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Sequachee Valley Electric Cooperative is a non-profit Cooperative, organized under the laws of the State of Tennessee for the primary purpose of providing electric energy to its members. The Cooperative operates primarily in the southeast Tennessee counties of Bledsoe, Grundy, Marion, and Sequatchie, but also in portions of Van Buren, Rhea, Cumberland, Franklin, Coffee and Hamilton counties. During the year ended June 30, 2000, Sequachee Valley Services, Inc. (SV Services, a "C" corporation) was incorporated in the state of Tennessee. SV Services is wholly owned by Sequachee Valley Electric Cooperative and was organized to sell nonelectric products and services. SV Services is one hundred percent owner of the stock of Blalock Propane, Inc. (currently SV Propane).

Principles of consolidation

The consolidated financial statements include the accounts of Sequachee Valley Electric Cooperative and its wholly owned subsidiary, Sequachee Valley Services, Inc. All material intercompany transactions have been eliminated.

Basis of accounting

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations. The Cooperative utilizes the Federal Regulatory Commissions Uniform System of Accounts for electric borrowers of the Rural Utilities Service.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories, consisting of materials and supplies used in construction and maintenance, are stated at the lower of average cost or market using the weighted average method for determining inventory cost. A perpetual inventory is maintained by the Cooperative with a physical inventory being taken annually.

Electric plant

Electric plant is stated at original cost. Such cost includes applicable general and administrative costs and payroll-related costs such as pensions, taxes and other fringe benefits.

The Cooperative provides depreciation at rates which are designed to amortize the cost of the depreciable plant over its estimated useful life. Composite straight-line depreciation has been applied using the following rates:

Transmission	4.0% - 5.0%
Distribution system	2.5% - 10.0%
General plant	2.0% - 8.0%

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Electric plant (continued)

When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

The Cooperative charges maintenance and repairs, including the cost of renewals of minor items of property, to maintenance expense accounts. Replacements of property (exclusive of minor items of property) are charged to the electric plant accounts.

Nonutility property

Nonutility property consists of land owned by both the Cooperative and Subsidiary. It also includes the Subsidiary's property, plant and equipment recorded at cost. Depreciation is computed using an accelerated method based on the estimated useful lives of the respective assets for tax purposes and straight-line for book purposes.

Revenue recognition and accounts receivable

The Cooperative recognizes revenue as service is rendered to customers. Recorded revenue recognizes an estimate of unbilled revenue for service rendered but not billed to customers that amounted to approximately \$3,877,738 and \$4,014,979 at June 30, 2017 and 2016, respectively.

The billing rate schedules of the Cooperative contain provisions to either increase or decrease the consumers' billings from the base level billing schedules dependent upon the wholesale power cost from Tennessee Valley Electric Cooperative (TVA) of electric energy purchased for resale. The Cooperative provides for uncollectible accounts monthly, based on a percentage of sales, which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts. Generally, the Cooperative considers all accounts receivable past due after thirty days.

Sequachee Valley Electric Cooperative uses the allowance for bad debts method of valuing doubtful accounts receivable, which is based on historical experience, coupled with a review of the current status of existing receivables.

Cash and cash equivalents

The Cooperative considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Income taxes

The Cooperative has been determined by the Internal Revenue Service to be a tax-exempt organization under section 501(c) 12 of the Internal Revenue Code. Income taxes for the Subsidiary are provided for the tax effects of transactions reported in the consolidated financial statements.

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of credit risk

Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables.

The Cooperative and its Subsidiary maintain cash in bank deposit accounts which, at times, may exceed federally insured limits. The Cooperative and its Subsidiary have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk on cash and cash equivalents.

Credit is extended to customers generally without collateral requirements, however, deposits are obtained from certain residential customers, and a surety bond or letter of credit is obtained from commercial or industrial accounts. In addition, formal shut-off procedures are in place.

Reclassifications

Certain prior amounts have been reclassified to conform to current year presentations.

(2) ELECTRIC PLANT

Electric plant is summarized by major classifications as follows:

	<u>2017</u>	<u>2016</u>
Transmission	\$ 3,877,784	\$ 3,877,784
Distribution system	158,813,796	146,484,567
General plant	<u>20,342,683</u>	<u>14,260,242</u>
	183,034,263	164,622,593
Construction work-in-progress	<u>2,626,027</u>	<u>12,597,273</u>
	185,660,290	177,219,866
Less accumulated depreciation	<u>81,907,348</u>	<u>78,271,869</u>
	<u>\$ 103,752,942</u>	<u>\$ 98,947,997</u>

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(3) NONUTILITY PLANT

Nonutility property is summarized by major classifications as follows:

	<u>2017</u>	<u>2016</u>
Propane tanks	\$ 1,131,382	\$ 1,135,626
Building	73,303	73,303
Furniture and fixtures	43,001	43,001
Vehicles	433,284	286,915
Major tools and equipment	<u>21,390</u>	<u>21,390</u>
	1,702,360	1,560,235
Less accumulated depreciation	<u>1,299,817</u>	<u>1,215,211</u>
	402,543	345,024
Land	<u>303,555</u>	<u>303,555</u>
	<u>\$ 706,098</u>	<u>\$ 648,579</u>

(4) INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consist of the following:

	<u>2017</u>	<u>2016</u>
National Rural Utilities Cooperative Finance Corporation		
Membership fee	\$ 1,000	\$ 1,000
Patronage Capital	69,493	72,339
CoBank E-stock	192,489	175,322
Federated patronage	264,396	240,620
Other	<u>258,929</u>	<u>254,595</u>
	<u>\$ 786,307</u>	<u>\$ 743,876</u>

(5) CASH, CASH EQUIVALENTS AND INVESTMENTS

The Cooperative maintains a General Checking Account at Citizens Tri-County Bank in Dunlap, Tennessee, as well as checking accounts utilized by the branch offices for depositing cash collections.

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(5) CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Cash and cash equivalents as of June 30, 2017 and 2016 consist of the following amounts:

	<u>2017</u>	<u>2016</u>
Citizens Tri-County Bank	\$ 3,796,001	\$ 3,188,449
Mountain Valley Bank	28,591	17,393
First Farmers Bank	105,627	105,198
First Volunteer Bank	20,207	10,697
CFC commercial paper	102,199	101,715
Tower Community Bank	17,082	6,680
Certificates of deposits – cash equivalents	208,121	207,631
Working cash	2,982	2,982
Petty cash	<u>1,900</u>	<u>1,900</u>
	<u>\$ 4,282,710</u>	<u>\$ 3,642,645</u>

The Cooperative invests in certificates of deposit with financial institutions whose accounts are insured by an Agency of the Federal Government. Carrying values and market values are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ 366,842	\$ 366,842	\$ 366,842	\$ 366,842
Less: Cash equivalents	<u>208,121</u>	<u>208,121</u>	<u>207,631</u>	<u>207,631</u>
Total other investments - current	<u>\$ 158,721</u>	<u>\$ 158,721</u>	<u>\$ 159,211</u>	<u>\$ 159,211</u>

From time to time, the Cooperative maintains cash balances in financial institutions that may be in excess of FDIC coverage. The Cooperative's policy is to diversify cash amounts across multiple financial institutions in efforts to keep the exposure to risk of excess cash concentrations minimal. As of June 30, 2017, the Cooperative had cash balances at financial institutions in excess of FDIC coverage of approximately \$723,000.

(6) DETAIL OF INVESTMENT IN SUBSIDIARY

Sequachee Valley Services, Inc. is a wholly owned subsidiary providing propane and propane accessories. This investment is accounted for on the consolidated method.

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(6) DETAIL OF INVESTMENT IN SUBSIDIARY (continued)

The following schedule details the Cooperative's investment in Sequachee Valley Services, Inc.:

Original cost of investment	\$ 50,000
Book value of investment as of June 30, 2016	683,496
Investment Advances as of June 30, 2017	-
Dividends as of June 30, 2017	-
Undistributed gain/(loss) as of June 30, 2017	<u>(86,582)</u>
Book value of investment as of June 30, 2017	<u>596,914</u>
Accumulated gain/(loss) in excess of original investment	<u>\$ 546,914</u>

(7) DEFERRED CHARGES

Deferred charges consist of the following:

	<u>2017</u>	<u>2016</u>
Deferred pension costs	\$ 40,892	\$ 51,116
Penalty on early payoff of debt	40,990	43,707
Prepayment of R&S pension plan	1,869,745	2,185,758
Other	<u>-</u>	<u>15,051</u>
	<u>\$ 1,951,627</u>	<u>\$ 2,295,632</u>

(8) LONG-TERM DEBT

At June 30, 2017 and 2016, long-term debt consists of the following, respectively:

	<u>2017</u>	<u>2016</u>
Payable to Rural Utilities Service, with variable and fixed interest rates from 2.764% to 4.847% due in monthly and quarterly payments	\$ 30,165,392	20,722,173
Payable to National Rural Utilities Cooperative Finance Corporation, variable and fixed interest rates from 6.45% to 6.85%, due in quarterly payments	814,786	874,005
Payable to CoBank, fixed interest rate of 2.78% due in monthly payments	1,830,479	2,172,780

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(8) LONG-TERM DEBT (continued)

	<u>2017</u>	<u>2016</u>
Payable to National Cooperative Services Corporation, variable and fixed interest notes from 1.45% to 4.65%, due in quarterly payments	<u>772,295</u>	<u>1,008,787</u>
	33,582,952	24,777,745
Less current maturities	<u>1,227,352</u>	<u>1,349,860</u>
	<u>\$ 32,355,600</u>	<u>\$ 23,427,885</u>

Long-term debt maturities are as follows:

For the year ended June 30, 2018	\$ 1,227,352
2019	1,744,908
2020	1,802,276
2021	1,861,767
2022	1,923,459
Thereafter	<u>25,023,190</u>
	<u>\$ 33,582,952</u>

Interest expense on long-term debt was \$1,229,237 in 2017 and \$1,125,739 in 2016, respectively.

The long-term notes are secured by a first lien on the electric plant in service and substantially all inventories owned or hereafter acquired by the Cooperative under a Supplemental Mortgage and Security Agreement entered into by Sequachee Valley Electric Cooperative, the Rural Utilities Service, the National Rural Utilities Cooperative Finance Cooperative, and CoBank National Bank. Advances by CoBank are also secured by a lien on all stock of the Bank owned by the Cooperative and investments.

Certain mortgage covenants place various limitations on the availability of earnings subject to distribution to the members.

Accrued interest on long-term debt at June 30, 2017 and 2016 amounted to \$5,613 and \$21,964, respectively.

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(8) LONG-TERM DEBT (continued)

Rural Utilities Service

At various times during the period from May 2003 until March 2011, the Cooperative borrowed funds from the Federal Financing Bank, guaranteed by the United States of America, acting through the Rural Utilities Service. Loan guarantee commitments were made for the purpose of financing future system extensions and additions with specific loan terms determined as proceeds were drawn. Draws were made for a total of \$21,200,000 on these notes, and the total outstanding balances with RUS from these loans are \$16,249,898 at June 30, 2017 and \$16,638,858 at June 30, 2016. No additional funds were available for withdrawal on these commitments as of June 30, 2017 and 2016.

On September 1, 2016, the Federal Financing Bank, guaranteed by the United States of America, acting through the Rural Utilities Service, extended a loan guarantee of \$17,000,000 to the Cooperative. Loan guarantee commitments were made for the purpose of financing future system extensions and additions with specific loan terms determined as proceeds were drawn. On December 21, 2016, the Cooperative borrowed \$11,700,000 from this commitment. As of June 30, 2017, there was \$5,300,000 of additional funds available for withdrawal on this commitment. The loan guarantee commitment expires on September 30, 2021, and any funds not drawn before this date will no longer be available for draws under this commitment.

The Cooperative maintains a cushion of credit balance on the associated notes payable with Rural Utilities Service. Cushion of credit payments are voluntary, unscheduled payments in excess of amounts currently due, and earn interest at a rate of 5 percent per annum. These amounts, along with any amounts of interest accrued, are held by Rural Utilities Service through the term of any amounts due to Rural Utilities Service, and are payable to the Cooperative at which point all Rural Utilities Service debts have been paid. As of June 30, 2017 and 2016, the Cooperative had cushion of credit amounts totaling \$1,919,865 and \$466,481, respectively.

National Cooperative Services Corporation/ National Rural Utilities Cooperative Finance Corporation

On October 15, 2010, the Cooperative borrowed \$2,221,487 from the National Cooperative Services Corporation (NCSC), to payoff \$2,216,932 in principal and \$4,555 in interest due to the Rural Utilities Service. The original loans carried a 5.0% interest rate, and were refinanced at rates between 1.45% and 4.65%. Payments of interest and principal are due quarterly. The final payment will be due on July 31, 2024.

CoBank

On May 30, 2013, the Cooperative borrowed \$3,160,132 from CoBank to finance prepayment of the Retirement Security Plan contributions through the National Rural Electric Cooperative Association. The loan carries a 2.78% interest rate. Payments of interest and principal are due monthly. The final payment will be due on May 20, 2022.

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(9) LINES OF CREDIT

The Cooperative maintains a \$10,000,000 variable interest rate line-of-credit with CoBank. As of June 30, 2017 and 2016, the Cooperative had outstanding balances of \$600,000 and \$5,800,000, respectively.

The Cooperative also maintains a \$5,000,000 variable interest line-of-credit with National Rural Utilities Cooperative Finance Corporation (CFC). As of June 30, 2017 and 2016, the Cooperative had no outstanding balances, respectively.

Interest expense on lines of credit was \$71,316 in 2017 and \$65,462 in 2016, respectively.

(10) INTERMEDIARY RELENDING PROGRAM

During 1997, the Cooperative entered into an intermediary relending program to promote rural economic development. Of their \$1,500,000 limit, the Cooperative has been advanced a total of \$1,436,993 as of June 30, 2017 and 2016. At June 30, 2017 and 2016, the Cooperative owed a remaining \$551,347 and \$660,269, respectively.

(11) CONSERVATION LOANS

The Cooperative had previously entered into an agreement with the Tennessee Valley Authority whereby the Cooperative was authorized to make conservation loans to its customers with the financing of the loans being provided for by the Tennessee Valley Authority.

On April 26, 2017, the Cooperative reached an agreement to purchase this program from the Tennessee Valley Authority. The Cooperative effectively purchased all outstanding conservation loans extended by Tennessee Valley Authority to the Cooperative's customers, and from that date forward authorizes and finances any loans issued through the conservation loan program. The related advances from Tennessee Valley Authority as of June 30, 2016 were \$1,607,333. As of June 30, 2017 and 2016, the balances of conservation loans to customers were \$1,539,439 and \$1,570,697, respectively.

(12) INCOME TAXES

The Cooperative is exempt from federal income taxes under the provisions of Section 501(c) 12 of the Internal Revenue Code, except to the extent of unrelated business income, if any. This code section provides that the exempt status exists only if eighty-five (85) percent of the revenue consists of amounts collected from members for the sole purpose of meeting losses and expenses. The Cooperative files an exempt organization tax return in the U.S. federal jurisdiction and is no longer subject to tax examination by taxing authorities for fiscal year returns before June 30, 2014.

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(12) INCOME TAXES (continued)

SV Services, Inc., the Subsidiary, files a separate tax return prior to consolidation, and the results of their operations are subject to federal income taxation. The provisions recorded at June 30, 2017 and 2016 are \$158,215 and \$36,499, respectively.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740) – Balance Sheet Classification of Deferred Taxes" (ASU 2015-17), which requires Companies report their deferred tax liabilities and deferred tax assets, together as a single noncurrent item on their classified balance sheets. During the 2017 fiscal year, we have elected to adopt ASU 2015-17 and applied it prospectively as allowed by the standard and prior periods have not been retrospectively adjusted. Our adoption of ASU 2015-17 did not have a material impact on our consolidated balance sheets and had no impact on our cash provided by or used in operations for any period presented.

The income tax provision/(benefit) for income taxes reflected in the statement of operations consists of the following components for the years ended June 30, 2017 and 2016, respectively:

	<u>2017</u>	<u>2016</u>
Current income tax provision (benefit)		
Federal	\$ 54,000	\$ 35,000
State	<u>11,215</u>	<u>1,499</u>
	<u>65,215</u>	<u>36,499</u>
Deferred income tax provision (benefit)		
Federal	76,000	-
State	<u>17,000</u>	<u>-</u>
	<u>93,000</u>	<u>-</u>
Total income tax provision (benefit)		
Federal	130,000	35,000
State	<u>28,215</u>	<u>1,499</u>
	<u>\$ 158,215</u>	<u>\$ 36,499</u>

Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The components of deferred income taxes are as follows at June 30, 2017 and 2016, respectively:

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(12) INCOME TAXES (continued)

	<u>2017</u>	<u>2016</u>
Deferred tax assets	\$ -	\$ -
Deferred tax liabilities	<u>(93,000)</u>	<u>-</u>
Total deferred taxes	<u>\$ (93,000)</u>	<u>\$ -</u>

The deferred tax liability results from the differences in treatment of depreciation of property and equipment for federal and state tax reporting purposes.

As of June 30, 2017 and 2016, the Cooperative and Subsidiary did not have any uncertain tax provisions, and they do not expect this to change significantly over the next 12 months. The Cooperative and Subsidiary will recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense. As of June 30, 2017 and 2016, respectively, the Cooperative and Subsidiary have not accrued interest or penalties related to uncertain tax positions.

(13) PENSION PLAN

All eligible employees of the Cooperative, defined as those who have performed one year of service and 1,000 hours, participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan, available to all member Cooperatives of the NRECA under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's monthly contributions to the RS Plan in 2017 and 2016 represented less than 5 percent of the total contributions made to the plan by all participating employers, and were as follows:

	<u>2017</u>	<u>2016</u>
Past service pension cost	\$ 10,224	\$ 10,223
Amortization of prepaid contributions	316,013	316,013
Current payments to plan	<u>934,092</u>	<u>668,546</u>
	<u>\$ 1,260,329</u>	<u>\$ 994,782</u>

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(13) PENSION PLAN (continued)

On May 31, 2013, the Cooperative voluntarily prepaid contributions of \$3,160,132 to the NRECA. The prepayment was the equivalent of approximately 2.5 times the 2013 annual required contribution and should result in an approximate 25% reduction in the required contributions beginning in 2013. The reduced contributions (relative to the contributions that otherwise would have been payable had the co-op not made the prepayment), are expected to continue for approximately 15 years. In accordance with the guidance provided by the Rural Utilities Service to its borrowers, the Cooperative created a deferred debit (See Note 7) and will amortize it over 10 years, which represents the remaining service lives of all plan participants. Amortization of this amount began in June 2013. Amortization of the prepaid contribution referred to above was for twelve months in 2017 and 2016.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was over 80 percent funded at January 1, 2016 and January 1, 2015 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition to the above retirement plan, the Cooperative offers a 401(k) savings plan sponsored by the National Rural Electric Cooperative Association. Individuals must be employed for twelve months and obtain 1,000 cumulative hours over twelve consecutive months to become eligible for the Plan. For the years ending June 30, 2017 and 2016, the Cooperative's match was 2.5% of the employee's base salary. For an employee to receive the contribution, the employee is required to contribute an elective contribution equal to 1.5% of the employee's base compensation. The Cooperative contributed \$117,663 in 2017 and \$109,019 in 2016 to the 401(k) Pension Plan, respectively.

(14) POSTRETIREMENT BENEFITS

The Cooperative provides medical and dental benefits to all formerly full-time regular employees who retire from the Cooperative between the ages of 62 and 65. The Cooperative will pay 87% of the cost of health insurance for the retiree and dependent spouse. They also pay 100% of the cost of dental insurance for the retiree and 50% of the cost of dental insurance for the dependent spouse. In addition to the aforementioned health and insurance premiums, the Cooperative will provide up to \$4,000 of deductible payments per retiree and up to \$4,000 per dependent spouse. The Cooperative pays covered benefits as they are incurred. There were eight retirees receiving benefits during the year ended June 30, 2017 and six retirees receiving benefits during the year ended June 30, 2016, respectively. The Plan is unfunded.

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(14) POSTRETIREMENT BENEFITS (continued)

An actuary revalued the plan during the fiscal year ended June 30, 2014 with a valuation date of June 30, 2014. As is consistent with the Cooperative's prior policy, they recognized all gains and losses from prior actuarial valuations as part of net periodic benefit cost in the year they were valued as opposed to recording such a gain or loss through other comprehensive income and then amortizing it. As no valuation has been completed since June 30, 2014, the service cost and interest costs have been estimated based on the last study. A new actuarial study is expected to be performed for the next fiscal year.

Changes in the accumulated postretirement benefit obligation are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 2,247,540	\$ 2,047,981
Net periodic benefit cost		
Service cost for benefits earned	23,563	142,936
Interest cost on benefit obligation	15,711	96,448
Loss from change in actuarial assumptions	<u>-</u>	<u>-</u>
Total net periodic benefit cost	39,274	239,384
Less benefits paid during the year	<u>(87,831)</u>	<u>(39,825)</u>
Balance at end of year	<u>\$ 2,198,983</u>	<u>\$ 2,247,540</u>

Estimated future benefit payments are as follows:

For the year ended June 30, 2018	\$ 100,000
2019	65,000
2020	65,000
2021	65,000
2022	65,000
2023-2027	290,000

The indexing rate for the cost of health insurance premiums was indexed as follows: an 7.0% increase for 2018 and a 6.0% increase for 2019 and for all years thereafter. The indexing rate for dental benefits remains at 3.0% for each future year. The weighted average discount rate used in present value calculations was 4.0%.

(15) EARNINGS REINVESTED IN SYSTEM ASSETS

As of June 30, 2017, the Cooperative had earnings reinvested in system assets of \$72,523,893, compared with \$68,508,241 at June 30, 2016. The balance represents the accumulation of net margin since the Cooperative was organized.

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(16) COMPENSATED ABSENCES

The Cooperative records the earned sick leave which has been accumulated in accordance with union and other employee contracts as a liability. For the years ended June 30 2017 and 2016, the accumulated sick leave liability amounted to \$1,628,197 and \$1,638,533, respectively.

The Cooperative records the annual leave earned by employees as a liability. For the years ended June 30, 2017 and 2016, the accumulated annual leave liability amounted to \$376,745 and \$396,275, respectively.

(17) DEFERRED CREDITS

Deferred credits are as follows:

	<u>2017</u>	<u>2016</u>
NRECA deferred compensation	\$ <u>384,223</u>	\$ <u>411,366</u>

(18) COMMITMENTS

On October 1, 1997, the Cooperative entered into a five-year, perpetually rolling "Power Contract" with the Tennessee Valley Authority. The Cooperative may cancel future contracts with five years notice. Under the terms of the contract, the Cooperative is to purchase its entire power requirements from the Tennessee Valley Authority. Purchased power totaled \$64,496,362 in 2017 and \$61,592,314 in 2016.

(19) SVECARES

The Cooperative collects money and provides administrative services for SVECares, a charitable organization benefiting residents who live in Sequatchie Valley or other regions of the Cooperative's service area, at no charge to that organization.

(20) INSURANCE COVERAGE

As of June 30, 2017, the Cooperative had the following insurance coverage in effect:

All Risk Blanket	
Buildings and personal property	\$ 55,359,095
Damage to owned automobiles	\$ 2,000,000
Property damage	\$ 2,000,000
Personal injury	\$ 2,000,000
Advertising injury	\$ 2,000,000

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(20) INSURANCE COVERAGE (continued)

Medical payments		
Each person	\$	1,000
Each occurrence	\$	10,000
Crime coverage		
Each person	\$	500,000
Each occurrence	\$	4,000,000
Workers' Compensation		
Each accident	\$	500,000
Each limit	\$	500,000
Each Employee	\$	500,000
Commercial Umbrella		
Occurrence limit	\$	10,000,000
Aggregate limit	\$	10,000,000
Retain limit	\$	10,000
Directors, officers, managers liability and corporate indemnification policy		
Occurrence limit	\$	7,000,000
Aggregate limit	\$	7,000,000
Flood insurance		
Buildings	\$	500,000
Contents	\$	500,000

The Cooperative carries commercial insurance for the risks of losses to which it is exposed. These risks include commercial general liability, property and casualty, workers' compensation, and employee health and accident. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

(21) SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 10, 2017, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SEQUACHEE VALLEY ELECTRIC COOPERATIVE AND SUBSIDIARY
SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS
JUNE 30, 2017 AND 2016

	JUNE 30, 2017				JUNE 30, 2016
	SVEC	SV SERVICES, INC.	ELIMINATIONS	CONSOLIDATED	CONSOLIDATED
	\$ 183,034,263	\$ -	\$ -	\$ 183,034,263	\$ 164,622,593
	2,626,027	-	-	2,626,027	12,597,273
	185,660,290	-	-	185,660,290	177,219,866
	81,907,348	-	-	81,907,348	78,271,869
	103,752,942	-	-	103,752,942	98,947,997
MENTS					
	298,555	407,543	-	706,098	648,579
ns	1,539,439	-	-	1,539,439	1,570,697
current	129,440	-	-	129,440	188,683
	454,163	317,084	-	771,247	801,864
tions	786,307	-	-	786,307	743,876
	50,000	-	(50,000)	-	-
	3,257,904	724,627	(50,000)	3,932,531	3,953,699
	3,425,653	857,057	-	4,282,710	3,642,645
	158,721	-	-	158,721	159,211
	6,774,326	27,926	-	6,802,252	6,752,879
	995,032	451	(795,329)	200,154	136,868
rent	59,005	-	-	59,005	99,828
	1,118,387	88,644	-	1,207,031	1,161,734
	239,383	-	-	239,383	227,380
	269,055	2,204	-	271,259	273,545
	877,000	-	(6,364)	870,636	617,062
	13,916,562	976,282	(801,693)	14,091,151	13,071,152
	1,951,627	-	-	1,951,627	2,295,632
	<u>\$ 122,879,035</u>	<u>\$ 1,700,909</u>	<u>\$ (851,693)</u>	<u>\$ 123,728,251</u>	<u>\$ 118,268,480</u>

	JUNE 30, 2017			JUNE 30, 2016	
	SVEC	SV SERVICES, INC.	ELIMINATIONS	CONSOLIDATED	CONSOLIDATED
LIABILITIES					
ts	\$ 72,523,893	\$ -	\$ -	\$ 72,523,893	\$ 68,508,241
		596,914	(50,000)	546,914	633,496
	<u>72,523,893</u>	<u>596,914</u>	<u>(50,000)</u>	<u>73,070,807</u>	<u>69,141,737</u>
otes	29,371,885	-	-	29,371,885	19,893,061
	1,512,933	-	-	1,512,933	1,795,853
	<u>1,470,782</u>	<u>-</u>	<u>-</u>	<u>1,470,782</u>	<u>1,738,971</u>
	<u>32,355,600</u>	<u>-</u>	<u>-</u>	<u>32,355,600</u>	<u>23,427,885</u>
Authority	-	-	-	-	1,607,333
	2,198,983	-	-	2,198,983	2,247,540
	<u>-</u>	<u>93,000</u>	<u>-</u>	<u>93,000</u>	<u>-</u>
	<u>34,554,583</u>	<u>93,000</u>	<u>-</u>	<u>34,647,583</u>	<u>27,282,758</u>
	600,000	-	-	600,000	5,800,000
	1,227,352	-	-	1,227,352	1,349,860
for purchased power	5,271,125	-	-	5,271,125	5,770,873
Cooperative	-	792,732	(792,732)	-	-
	2,018,665	29,040	(2,597)	2,045,108	2,283,639
	3,284,705	-	-	3,284,705	3,217,420
	376,745	-	-	376,745	396,275
	1,628,197	-	-	1,628,197	1,638,533
as	<u>1,009,547</u>	<u>189,223</u>	<u>(6,364)</u>	<u>1,192,406</u>	<u>976,019</u>
	<u>15,416,336</u>	<u>1,010,995</u>	<u>(801,693)</u>	<u>15,625,638</u>	<u>21,432,619</u>
	<u>384,223</u>	<u>-</u>	<u>-</u>	<u>384,223</u>	<u>411,366</u>
LIABILITIES	<u>\$ 122,879,035</u>	<u>\$ 1,700,909</u>	<u>\$ (851,693)</u>	<u>\$ 123,728,251</u>	<u>\$ 118,268,480</u>

QUACHEE VALLEY ELECTRIC COOPERATIVE AND SUBSIDIARY
SCHEDULE 2 - CONSOLIDATING STATEMENTS OF REVENUE
AND EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	JUNE 30, 2017				JUNE 30, 2016
	SVEC	SV SERVICES, INC.	ELIMINATIONS	CONSOLIDATED	CONSOLIDATED
	<u>\$ 88,544,061</u>	<u>\$ 1,139,580</u>	<u>\$ -</u>	<u>\$ 89,683,641</u>	<u>\$ 85,327,084</u>
	64,496,362	-	-	64,496,362	61,592,314
	-	574,578	-	574,578	609,656
	4,265,211	-	-	4,265,211	3,912,814
ion, and	3,160,405	-	-	3,160,405	3,547,616
	1,793,930	392,743	-	2,186,673	2,310,380
	4,162,142	-	-	4,162,142	4,473,969
on	5,665,415	88,638	-	5,754,053	5,434,251
es	<u>83,543,465</u>	<u>1,055,959</u>	<u>-</u>	<u>84,599,424</u>	<u>81,881,000</u>
FORE	5,000,596	83,621	-	5,084,217	3,446,084
	<u>1,316,331</u>	<u>24,706</u>	<u>(24,706)</u>	<u>1,316,331</u>	<u>1,212,451</u>
TER	<u>3,684,265</u>	<u>58,915</u>	<u>24,706</u>	<u>3,767,886</u>	<u>2,233,633</u>
J	122,678	1,760	(24,706)	99,732	49,248
	<u>208,709</u>	<u>11,538</u>	<u>-</u>	<u>220,247</u>	<u>131,310</u>
rgin	<u>331,387</u>	<u>13,298</u>	<u>(24,706)</u>	<u>319,979</u>	<u>180,558</u>
	-	158,795	-	158,795	36,499
	<u>\$ 4,015,652</u>	<u>\$ (86,582)</u>	<u>\$ -</u>	<u>\$ 3,929,070</u>	<u>\$ 2,377,692</u>

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
SCHEDULE 3 - SCHEDULE OF LINE MILEAGE**

Year Ended	Line Miles	Average Number of Customers Per Mile
June 30, 1981	1,918	11.2
June 30, 1982	1,942	11.1
June 30, 1983	1,969	11.1
June 30, 1984	1,996	10.9
June 30, 1985	2,025	11.0
June 30, 1986	2,047	11.1
June 30, 1987	2,085	11.1
June 30, 1988	2,110	11.2
June 30, 1989	2,134	11.2
June 30, 1990	2,148	11.4
June 30, 1991	2,168	11.3
June 30, 1992	2,213	11.3
June 30, 1993	2,240	11.4
June 30, 1994	2,316	11.4
June 30, 1995	2,357	11.4
June 30, 1996	2,374	11.6
June 30, 1997	2,439	11.6
June 30, 1998	2,500	11.6
June 30, 1999	2,540	11.6
June 30, 2000	2,552	11.6
June 30, 2001	2,585	11.8
June 30, 2002	2,619	11.9
June 30, 2003	2,653	12.0
June 30, 2004	2,688	12.1
June 30, 2005	2,787	11.9
June 30, 2006	2,761	12.2
June 30, 2007	2,864	11.9
June 30, 2008	2,901	11.8
June 30, 2009	2,931	11.8
June 30, 2010	2,964	11.7
June 30, 2011	2,981	11.7
June 30, 2012	3,000	11.6
June 30, 2013	3,019	11.6
June 30, 2014	3,032	11.5
June 30, 2015	3,045	11.5
June 30, 2016	3,059	11.5
June 30, 2017	3,079	11.5

See independent auditors' report.

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
SCHEDULE 4 - COST OF POWER ANALYSIS**

Year Ended	Cost Per KWH (cents)	Purchased KWH (Thousands)	Cost of Power (Dollars)	Percentage of Cost to Electric Sales
June 30, 1981	3.08	494,831	15,250,074	78.11
June 30, 1982	3.70	484,084	17,850,590	79.74
June 30, 1983	3.77	461,276	17,396,520	79.07
June 30, 1984	3.78	494,924	18,695,932	77.90
June 30, 1985	3.84	482,657	18,542,635	77.33
June 30, 1986	4.02	490,461	19,712,372	76.96
June 30, 1987	4.21	516,194	21,742,737	76.26
June 30, 1988	4.41	536,122	23,669,553	76.80
June 30, 1989	4.33	544,455	23,581,227	77.10
June 30, 1990	4.38	576,653	25,248,099	78.83
June 30, 1991	4.33	583,892	25,260,563	77.93
June 30, 1992	4.36	599,124	26,118,351	79.22
June 30, 1993	4.32	613,827	26,515,216	77.76
June 30, 1994	4.33	678,885	29,397,247	78.44
June 30, 1995	4.31	665,542	28,665,143	77.99
June 30, 1996	4.34	725,371	31,487,619	78.04
June 30, 1997	4.32	695,761	30,057,178	77.60
June 30, 1998	4.53	474,493	33,851,478	79.51
June 30, 1999	4.60	755,476	34,789,372	78.13
June 30, 2000	4.57	775,686	35,481,094	77.56
June 30, 2001	4.63	796,111	36,934,082	75.81
June 30, 2002	4.61	782,981	36,067,922	76.82
June 30, 2003	4.62	825,619	38,151,232	75.66
June 30, 2004	4.87	838,829	40,860,897	78.15
June 30, 2005	5.04	791,343	39,900,929	76.19
June 30, 2006	5.51	836,349	46,090,928	76.34
June 30, 2007	5.86	838,871	49,187,387	76.24
June 30, 2008	6.17	831,619	51,345,248	76.82
June 30, 2009	7.47	811,481	60,648,961	80.22
June 30, 2010	6.59	839,051	55,308,094	76.94
June 30, 2011	7.47	831,917	62,105,942	78.23
June 30, 2012	7.48	779,777	58,304,387	76.48
June 30, 2013	7.51	802,887	60,257,125	76.38
June 30, 2014	7.59	834,900	63,376,834	76.36
June 30, 2015	7.65	851,051	65,097,982	77.06
June 30, 2016	7.49	823,751	61,699,497	75.58
June 30, 2017	7.80	826,828	64,496,362	74.72

See independent auditors' report.

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
SCHEDULE 5 - REVENUE ANALYSIS**

Year Ended	Sales KWH (Thousands)	Electric Revenue (Dollars)	Average Number of Customers	Annual Bill Per Customer	Annual KWH Use	Revenue Per KWH (Cents)
June 30, 1981	462,361	19,524,575	21,389	913	21,617	4.22
June 30, 1982	457,647	22,384,934	21,529	1,040	21,257	4.89
June 30, 1983	436,237	22,000,629	21,872	1,006	19,945	5.04
June 30, 1984	465,521	24,001,394	21,881	1,097	21,275	5.16
June 30, 1985	455,968	23,977,146	22,332	1,074	20,418	5.26
June 30, 1986	461,755	25,614,173	22,671	1,130	20,368	5.55
June 30, 1987	481,251	28,512,273	23,096	1,235	20,837	5.92
June 30, 1988	502,047	30,820,835	23,542	1,309	21,326	6.14
June 30, 1989	510,273	30,585,600	23,996	1,275	21,265	5.99
June 30, 1990	536,705	32,027,015	24,436	1,311	21,964	5.97
June 30, 1991	546,870	32,414,345	24,558	1,320	22,269	5.93
June 30, 1992	564,767	32,968,913	25,111	1,313	22,491	5.84
June 30, 1993	574,312	34,100,028	25,603	1,332	22,431	5.94
June 30, 1994	636,453	37,475,078	26,494	1,414	24,023	5.89
June 30, 1995	625,727	36,755,560	26,784	1,372	23,362	5.87
June 30, 1996	685,630	40,348,602	27,453	1,470	24,975	5.88
June 30, 1997	662,333	38,735,390	28,170	1,375	23,512	5.85
June 30, 1998	701,123	42,574,991	28,898	1,473	24,262	6.07
June 30, 1999	707,392	43,534,421	29,513	1,475	23,969	6.15
June 30, 2000	735,604	44,682,026	29,962	1,491	24,551	6.07
June 30, 2001	746,332	47,541,771	30,582	1,555	24,404	6.37
June 30, 2002	725,420	46,956,577	31,271	1,502	23,198	6.47
June 30, 2003	784,560	50,425,403	31,884	1,582	24,607	6.43
June 30, 2004	777,825	52,281,975	32,475	1,610	23,952	6.72
June 30, 2005	742,709	52,369,041	33,047	1,585	22,474	7.05
June 30, 2006	787,257	60,379,048	33,503	1,802	23,498	7.67
June 30, 2007	796,522	64,514,218	33,979	1,899	23,442	8.10
June 30, 2008	784,650	66,841,134	34,333	1,947	22,854	8.52
June 30, 2009	763,521	75,607,609	34,558	2,188	22,094	9.90
June 30, 2010	777,428	71,881,091	34,699	2,072	22,405	9.25
June 30, 2011	793,980	79,385,501	34,775	2,283	22,832	10.00
June 30, 2012	737,016	76,239,723	34,775	2,192	21,194	10.34
June 30, 2013	765,008	78,887,712	34,902	2,260	21,919	10.31
June 30, 2014	789,139	82,993,994	34,968	2,373	22,567	10.52
June 30, 2015	801,872	84,480,571	35,001	2,414	22,910	10.54
June 30, 2016	781,669	81,629,929	35,144	2,323	22,242	10.44
June 30, 2017	791,538	86,312,652	35,269	2,447	22,443	10.90

See independent auditors' report.



JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

**To the Board of Directors and Officers of
Sequachee Valley Electric Cooperative and Subsidiary
South Pittsburg, Tennessee**

We have audited, in accordance with the 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, the financial statements of Sequachee Valley Electric Cooperative (a Tennessee Cooperative) and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2017 and June 30, 2016, and the related consolidated statements of revenue and expenses, changes in equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sequachee Valley Electric Cooperative and Subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of Sequachee Valley Electric Cooperative and Subsidiary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, at 2017-01 and 2017-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sequachee Valley Electric Cooperative and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Findings

Sequachee Valley Electric Cooperative and Subsidiary's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Sequachee Valley Electric Cooperative and Subsidiary's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Wickey & Meacham, P.C.

November 10, 2017
Chattanooga, Tennessee



JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors and Officers of
Sequachee Valley Electric Cooperative and Subsidiary
South Pittsburg, Tennessee

We have audited, 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, the consolidated financial statements of Sequachee Valley Electric Cooperative (a Tennessee Cooperative) and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2017 and June 30, 2016, and the related consolidated statements of revenue and expenses, changes in equities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon date November 10, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of Sequachee Valley Electric 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. No reports other than the reports referred to above and our schedule of findings and responses related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Sequachee Valley Electric Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security investments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, section 1733.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Sequachee Valley Electric Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Sequachee Valley Electric Cooperative's accounting and records to indicate that they did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction retirement and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction, except as noted;

Record and properly price the retirement of plant;

Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate controls over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the consolidated financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and credits (See Notes 7 and 18, respectively);

Comply with the requirements for the detailed schedule of investments (See Note 6).

This report is intended solely for the information and use of the board of directors, management, RUS, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Johnson, Wickey & Menckem, P.C.

November 10, 2017
Chattanooga, Tennessee

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

Current year Findings

2017-01 Process for Reviewing and Closing Jobs from Construction in Progress to Plant Condition

In reviewing construction in progress during the current year, we noted that there were several smaller jobs which showed little or no activity but which not been closed into plant at year-end.

Criteria

Management is responsible for maintaining a strong system of internal control over financial reporting. Part of that maintenance process includes reviewing procedures in place to see whether they are achieving intended results. We believe that additional procedures aimed specifically at reviewing jobs in progress with little or no activity need to be implemented.

Effect

Jobs that remain in construction in progress when they are effectively complete could result in misstatement of assets and expenses.

Cause

Lack of routinely following formal written procedures for reviewing jobs in construction in progress with little or no activity caused some jobs in construction in progress to not be properly closed into plant in a timely manner.

Recommendation

A more frequent review of construction in progress with little or no activity is necessary to achieve intended results.

Management's Response

Concur. Management identified the need to establish a written policy and procedure in regards to this matter during the fiscal year ended June 30, 2016. Management continues to be proactive and is developing better procedures to remedy this deficiency and to ensure their processes are adequate to support a strong system of internal controls.

2017-02 Employee Benefit Plan Deferral Election Documentation

Condition

The Cooperative has not required written communications from employees in order to make changes to their employee benefit plan deferral elections.

Criteria

Management is responsible for maintaining a strong system of internal control over financial reporting. Part of that maintenance process includes reviewing procedures in place to see whether they are achieving intended results. We believe that it would strengthen the internal control process to require that all employee changes to benefit deferral elections be submitted in writing and maintained by Human Resources.

Effect

Not requiring written communication of deferral election changes could result in errors in employee paychecks and noncompliance with ERISA regulations.

**SEQUACHEE VALLEY ELECTRIC COOPERATIVE
AND SUBSIDIARY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

Current year Findings (continued)

2017-02 Employee Benefit Plan Deferral Election Documentation (continued)

Cause

A policy requiring written employee requests for change to their employee benefit deferral elections had not been implemented.

Recommendation

A policy should be adopted that requires changes in employee benefit plan deferral elections to be submitted in writing and maintained by Human Resources.

Management's Response

Concur. Management intends to require that changes to deferral elections for benefit plans be made by employees in writing before the change may be initiated, and such requests will be maintained by the Human Resources department.