PIONEER ELECTRIC COOPERATIVE, INC.

JUNE 30, 2015

FINANCIAL STATEMENTS

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

INDEX

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Pioneer Electric Cooperative, Inc.
Greenville, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Pioneer Electric Cooperative, Inc., which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of revenue and patronage capital, and cash flows for the years then ended, and the related notes to 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Electric Cooperative, Inc. as of June 30, 2015 and 2014, 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.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 9, 2015

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

BALANCE SHEETS
AT JUNE 30, 2015 AND 2014

ASSETS

	2015	2014
UTILITY PLANT:		
Electric plant in service	$ 69,044,195	$ 66,130,745
Construction work-in-progress	125,307	1,695,579
	69,169,502	67,826,324
Less: Accumulated provision for depreciation	22,800,689	22,131,667
Net utility plant	46,368,813	45,694,657
OTHER ASSETS AND INVESTMENTS:		
Restricted cash	1,336,802	1,155,919
Investments in associated organizations	13,085,776	12,615,336
Investment in land and buildings	1,019,156	1,141,485
Notes receivable	274,093	404,341
Total other assets and investments	15,715,827	15,317,081
CURRENT ASSETS:		
Cash and cash equivalents	2,757,932	3,292,856
Accounts receivable:		
Customers, less provision for doubtful accounts of $92,858 and $58,436 for 2015 and 2014, respectively	1,258,756	1,209,169
Unbilled revenue	1,418,324	1,418,324
Other	232,413	222,190
Inventories	321,801	307,306
Prepaids	138,638	125,957
Other current and accrued assets	19,498	30,622
Total current assets	6,147,362	6,606,424
DEFERRED ASSETS:		
NRUCFC conversion fees	6,344,747	6,619,284
Prepaid pension	1,351,791	1,843,352
Total deferred assets	7,696,538	8,462,636
Total assets	$ 75,928,540	$ 76,080,798

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

LIABILITIES AND OTHER CREDITS

	2015	2014
EQUITIES:		
Patronage capital	$ 39,507,602	$ 38,372,147
Retained deficit	(21,965,864)	(21,965,864)
Other equities	218,065	136,380
Total equities	17,759,803	16,542,663
LONG-TERM DEBT:		
Notes payable	47,923,525	49,181,865
Less: Current maturities	1,634,805	1,318,293
Total long-term debt	46,288,720	47,863,572
CURRENT LIABILITIES:		
Current maturities on long-term debt	1,634,805	1,318,293
Current portion of NRUCFC conversion fees	271,931	274,537
Current portion of postretirement benefits	34,891	37,770
Accounts payable:		
Purchased power	1,250,442	1,312,577
Trade	222,383	118,270
Customer deposits	1,114,677	1,052,358
Accrued liabilities:		
Taxes	651,286	603,994
Other	473,854	437,054
Total current liabilities	5,654,269	5,154,853
OTHER LONG-TERM LIABILITIES:		
NRUCFC conversion fees, net of current maturities	6,072,816	6,344,747
Postretirement benefits, net of current maturities	152,932	174,963
Total other long-term liabilities	6,225,748	6,519,710
Total liabilities and other credits	$ 75,928,540	$ 76,080,798

PIONEER ELECTRIC COOPERATIVE, INC.

STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015		2014	
OPERATING REVENUES	$ 29,026,046	100.00%	$ 29,208,751	100.00%
OPERATING EXPENSES:				
Cost of power	15,047,649	51.84%	14,868,815	50.90%
Distribution - operations	1,405,206	4.84%	1,358,170	4.65%
Distribution - maintenance	3,352,939	11.55%	2,025,381	6.93%
Consumer accounts	1,354,643	4.67%	1,319,685	4.52%
Energy marketing and communications	165,288	0.57%	127,723	0.44%
Administrative and general	2,049,870	7.06%	1,871,438	6.41%
Depreciation	2,613,759	9.00%	2,549,422	8.73%
Taxes	187,694	0.65%	173,144	0.59%
Total operating expenses	26,177,048	90.18%	24,293,778	83.17%
OPERATING MARGINS	2,848,998	9.82%	4,914,973	16.83%
G & T AND OTHER CAPITAL CREDITS	628,622	2.16%	837,702	2.86%
NET OPERATING MARGINS	3,477,620	11.98%	5,752,675	19.70%
INTEREST EXPENSE	2,060,509	7.10%	2,098,084	7.18%
NON-OPERATING MARGINS:				
Interest income	46,795	0.16%	75,751	0.26%
Other income	17,644	0.06%	76,085	0.26%
Total non-operating margins	64,439	0.22%	151,836	0.52%
NET MARGINS FOR THE YEAR	1,481,550	5.10%	3,806,427	13.03%
PATRONAGE CAPITAL AT BEGINNING OF YEAR	38,372,147		34,396,631	
RETIREMENT OF CAPITAL CREDITS	(539,031)			
UTILITY TAX REFUND	192,936		169,089	
PATRONAGE CAPITAL AT END OF YEAR	$ 39,507,602		$ 38,372,147	

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

PIONEER ELECTRIC COOPERATIVE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net margins	$ 1,481,550	$ 3,806,427
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	2,613,759	2,549,422
Amortization of deferred charges	491,561	491,561
Bad debt expense	32,996	27,650
G & T and other capital credits	(628,622)	(837,702)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	(92,806)	28,182
Unbilled revenue		26,750
Materials and supplies	(14,495)	105,963
Prepaids	(12,681)	(39,602)
Other current and accrued assets	11,124	11,598
Accounts payable	41,978	(7,223)
Consumer deposits	62,319	41,078
Accrued liabilities	59,182	(236,335)
Net cash from operating activities	4,045,865	5,967,769
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchase of property and equipment, net of salvage and cost of removal	(2,978,349)	(3,000,221)
Principal payments received on other notes receivable	217,548	148,016
Proceeds from investments	158,182	562,904
Net cash used for investing activities	(2,602,619)	(2,289,301)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Principal payments on notes payable	(1,258,340)	(1,408,371)
Payments on NRUCFC conversion fees	(274,537)	(283,884)
Increase in membership fees and other equity	274,621	163,193
Retirement of capital credits	(539,031)	
Net cash used for financing activities	(1,797,287)	(1,529,062)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(354,041)	2,149,406
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,448,775	2,299,369
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,094,734	$ 4,448,775
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Restricted cash	$ 1,336,802	$ 1,155,919
Unrestricted cash	2,757,932	3,292,856
Totals	$ 4,094,734	$ 4,448,775
Cash paid for interest	$ 2,067,141	$ 2,105,073
Non-cash capital and related investing activities:		
Note receivable for sale of building	$ 87,300	

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of business - Pioneer Electric Cooperative, Inc. (the Cooperative) distributes electric power to consumers in rural central Alabama.

Basis of accounting - The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service (RUS). As a result, the application of accounting principles generally accepted in the United States of America by the Cooperative differs in certain respects from the application of those principles by non-regulated enterprises. Such differences primarily concern the recognition of gains and losses on the retirement of assets.

Recognition revenue - Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer.

Cash equivalents - The Cooperative considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Taxes - The Cooperative collects gross receipts taxes from its members on behalf of the State of Alabama. Revenue is presented net of taxes collected in the statement of income and patronage capital.

Accounts receivable - The Cooperative extends credit to its customers who are primarily located in central Alabama. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables do not accrue interest. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received.

Inventories - Electric materials and supplies are priced at average historical cost. Cost is determined by the cumulative average of all costs on a first-in, first-out (FIFO) basis.

Electric plant - The Cooperative's costs associated with electric plant additions and improvements are capitalized based upon the RUS guidelines established in Bulletin 1767B-2. This results in the capitalization of direct costs such as labor and materials expense and also includes capitalization of indirect costs including labor, material charges, taxes, insurance, transportation, depreciation, pensions, and other related expenses. These costs are accumulated in work-in-process accounts and are capitalized to the proper plant accounts at the completion of the construction activity. Certain special equipment additions, as defined by RUS, are capitalized when purchased along with an estimated installation charge. The cost of depreciable property, when retired, is computed at the average unit cost along with removal costs less salvage. The net retirement cost is charged to accumulated depreciation. Maintenance and repairs, including minor items of property, are charged to maintenance expense as incurred.

Income tax status - The Cooperative is exempt from income taxes under Internal Revenue Code Section 501(c)(12).

Management evaluated the Cooperative's tax positions and concluded that the Cooperative had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Cooperative is no longer subject to income tax examinations by the federal, state, or local tax authorities for years before 2011.

Investments - Investments in associated organizations represent cooperative capital credits from the Cooperative's suppliers and lenders. Investments in associated organizations are recorded at cost plus allocated equities. Investments in land and buildings are carried at historical cost.

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

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS:

The Cooperative maintains cash and cash equivalents in various banks located in Alabama, which at times may exceed federally insured limits. The Cooperative has approximately $7,500 and $1,070,000 in uninsured cash at multiple financial institutions at June 30, 2015 and 2014. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted funds relate to industrial development revolving loan programs. Restricted balances were as follows:

	2015	2014
Intermediary relending program	$ 500,757	$ 515,995
RUS revolving loan fund	337,646	310,770
REDLG	410,054	262,422
RBEG revolving loan fund	88,345	66,732
Total restricted funds	$ 1,336,802	$ 1,155,919

NOTE 3 - UTILITY PLANT AND DEPRECIATION:

Listed below are the major classes of electric plant as of June 30, 2015 and 2014:

	2015 PLANT BALANCES	2014 PLANT BALANCES	ANNUAL DEPRECIATION RATE
Distribution plant	$ 56,789,123	$ 54,081,655	3.20 - 4.00%
General plant:			
Land and rights	243,797	243,797	
Structures and improvements	4,896,580	4,820,611	2.05%
Office furniture and equipment	2,508,997	2,454,813	7.00 - 14.28%
Transportation equipment	1,155,642	1,022,218	17.00%
Power-operated equipment	2,433,955	2,509,063	6.72 - 17.00%
Communication equipment	577,370	559,857	8.00%
Other miscellaneous equipment	438,731	438,731	6.00 - 12.00%
Totals	$ 69,044,195	$ 66,130,745	

Electric plant is depreciated on a straight-line basis.

NOTE 4 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS:

Investments in associated organizations consisted of the following at June 30, 2015 and 2014:

	2015	2014
PowerSouth patronage capital	$ 8,480,227	$ 8,157,753
NRUCFC patronage capital	1,702,394	1,630,833
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
Other investments in associated organizations	687,639	611,234
Totals	$ 13,085,776	$ 12,615,336

NOTE 5 - EQUITIES:
At June 30, 2015 and 2014 equities consisted of:

	2015	2014
Equities at beginning of year	$ 16,406,283	$ 12,430,767
Retirement of capital credits	(539,031)	
Utility tax refund	192,936	169,089
Net margins	1,481,550	3,806,427
Equities at end of year	$ 17,541,738	$ 16,406,283
Patronage capital	$ 39,507,602	$ 38,372,147
Retained earnings (deficit)	(21,965,864)	(21,965,864)
Equities at end of year	$ 17,541,738	$ 16,406,283
Memberships and other equities:		
Donated capital	$ 22,979	$ 21,471
Retired capital credits - gain	195,086	114,909
Total other equities	$ 218,065	$ 136,380

In 2005, the Cooperative was a lender to a company under common control. The company under common control could not satisfy its debt and was liquidated. Upon dissolution of the company under common control, the Cooperative recognized losses on its investment in that company. The deficit retained earnings are reflective of this loss.

NOTE 6 - NOTES PAYABLE AND LINES OF CREDIT:

DESCRIPTION	2015	2014
Mortgage notes payable - NRUCFC; fixed interest rates of 4.60%; notes due June 2041; secured by all assets.	$ 39,951,506	$ 38,463,283
Mortgage notes payable - CoBank; fixed interest rates from 2.44% to 3.93%; notes due at December 2040; secured by all assets.	7,440,855	10,150,468
Notes payable - RUS; 1.00% interest; intermediary relending program; principal and interest due in installments until August 2030; secured by related economic development loans.	531,164	568,114
Total long-term notes payable	$ 47,923,525	$ 49,181,865

The Cooperative has covenants with its lenders relating to certain financial ratios.

Estimated maturities on long-term liabilities for the next five years are as follows:

June 30, 2016	$ 1,634,805
June 30, 2017	1,677,733
June 30, 2018	1,644,064
June 30, 2019	1,440,380
June 30, 2020	1,488,406

Lines of credit - The Cooperative has two lines of credit with NRUCFC on which it may borrow up to $12,500,000. One line of credit totals $5,000,000 and may be used only for electric capital or operating needs. The other line of credit totals $7,500,000 and may be used only for expenditures reimbursable by FEMA. As of June 30, 2015 and 2014, there were no outstanding balances outstanding on these lines of credit.

The Cooperative has an available unsecured line of credit with CoBank on which it may borrow up to a total of $5,000,000. The balance outstanding was $-0- at June 30, 2015 and 2014.

The NRUCFC loan conversion fees are payable in quarterly payments, over a period of 30 years. These conversion fees have no carrying cost. The related deferred asset is being amortized over a period of 30 years. Amortization expense related to this deferred asset was $274,537 and $283,884 for 2015 and 2014, respectively.

NOTE 7 - ACCOUNTING FOR PENSIONS:

The Cooperative is a participating employer in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is 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 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.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the I&FS Committee approved an option to allow participants in the RS Plan to make a prepayment and reduce future required contributions. In 2013, the Cooperative made a prepayment of $2,457,803 to the RS Plan. The Cooperative is amortizing this amount over five years. Amortization expense was $491,561 in both 2015 and 2014.

The prepayment amount was calculated by NRECA as the Cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The Cooperative estimates that the prepayment will reduce RS Plan billings by 25% for 15 years from the date of the prepayment. However changes in interest rates, asset returns, and other RS Plan experience differences from expectations, plan assumption changes, and other factors may have an impact on the differential in billings and the 15 year period.

The Cooperative's contributions to the RS Plan in 2015 and in 2014 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $680,870 in 2015 and $665,536 in 2014.

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% funded at January 1, 2014 and January 1, 2013 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.

The Cooperative has a 401(k) plan for its employees. The total expense related to the 401(k) plan for the Cooperative was $50,149 and $55,935 for 2015 and 2014, respectively.

NOTE 8 - COMMITMENTS:
Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from PowerSouth until December 31, 2050. The rates paid for such purchases are subject to periodic review.

The Cooperative has a contract to purchase land for industrial development adjacent to the South Dallas Industrial Park at a minimum amount of $74,000 per year from 2016 to 2020. The total remaining commitment is $370,000.

NOTE 9 - CONTINGENCIES:
The Cooperative is a defendant in various lawsuits related to payment of capital credits. The Cooperative is vigorously contesting such lawsuits and denies all liability in these cases. In the opinion of the Cooperative's legal counsel, the likelihood of a favorable or unfavorable outcome to this litigation cannot be determined at this time, and therefore, an estimate of loss associated with such litigation, if any, cannot be determined.

NOTE 10 - SUBSEQUENT EVENTS:
The Cooperative has evaluated subsequent events through September 9, 2015, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2015, have been incorporated into these financial statements.