

Certified Public Accountants
& Consultants



Pioneer Electric Cooperative, Inc.
June 30, 2021
Financial Statements

Pioneer Electric Cooperative, Inc.

Index

	<u>Page</u>
Independent auditor's report	1
Balance sheets	2 - 3
Statements of revenue	4
Statements of changes in equity	5
Statements of cash flows	6
Notes to financial statements	7 - 12

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. (the Cooperative), which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of revenue, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2021 and 2020, 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
August 30, 2021

Pioneer Electric Cooperative, Inc.
Balance Sheets
At June 30, 2021 and 2020

Assets

	2021	2020
Utility Plant		
Electric plant in service	\$ 86,416,217	\$ 84,201,827
Construction work-in-progress	199,789	242,742
	86,616,006	84,444,569
Less accumulated provision for depreciation	32,381,235	30,607,164
Net utility plant	54,234,771	53,837,405
Other Assets and Investments		
Restricted cash	1,279,445	1,321,724
Investments in associated organizations	15,415,542	15,057,240
Investments in land and buildings	1,171,204	1,171,204
Notes receivable - economic development loans	95,847	95,847
Total other assets and investments	17,962,038	17,646,015
Current Assets		
Cash and cash equivalents	5,994,378	5,726,751
Certificate of deposit		251,513
Accounts receivable		
Customers, less provision for doubtful accounts of \$60,508 in 2021 and \$60,908 in 2020	1,031,991	1,125,573
Federal Emergency Management Agency	710,348	
Other	385,474	237,402
Unbilled revenue	1,418,324	1,418,324
Materials and supplies	345,157	337,753
Prepays	179,544	98,534
Total current assets	10,065,216	9,195,850
Deferred Assets		
NRUCFC conversion fees	4,804,408	5,046,517
Other	117,769	138,721
Total deferred assets	4,922,177	5,185,238
Total assets	\$ 87,184,202	\$ 85,864,508

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

Equities and Liabilities

	2021	2020
Equities		
Patronage capital	\$ 29,986,522	\$ 27,361,970
Other equities	717,079	623,148
Total equities	30,703,601	27,985,118
Noncurrent Liabilities		
Notes payable, net of current maturities	44,771,483	46,525,801
Capital lease obligations, net of current maturities	1,270,540	1,028,735
NRUCFC conversion fees, net of current portion	4,555,834	4,797,943
Postemployment benefit obligation, net of current portion	16,278	27,283
Total noncurrent liabilities	50,614,135	52,379,762
Current Liabilities		
Current maturities on notes payable	1,752,369	1,680,276
Current maturities on capital lease obligations	303,167	226,847
Current portion of NRUCFC conversion fees	248,574	248,574
Current portion of postemployment benefit obligation	4,556	9,215
Accounts payable		
Purchased power	1,143,979	120,854
Trade	221,498	279,167
Paycheck Protection Program loan		891,015
Customer deposits	1,480,206	1,326,077
Accrued liabilities		
Taxes	165,453	253,423
Other	546,664	464,180
Total current liabilities	5,866,466	5,499,628
Total equities and liabilities	\$ 87,184,202	\$ 85,864,508

Pioneer Electric Cooperative, Inc.
Statements of Revenue
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
Operating Revenue				
Electric revenue	\$ 28,408,816	99.21%	\$ 28,243,498	97.71%
Other	227,363	0.79%	662,076	2.29%
Total operating revenue	<u>28,636,179</u>	<u>100.00%</u>	<u>28,905,574</u>	<u>100.00%</u>
Operating Expenses				
Cost of power	12,832,653	44.81%	13,185,449	45.62%
Distribution - operations	1,407,292	4.91%	1,047,294	3.62%
Distribution - maintenance	3,992,219	13.94%	3,612,465	12.50%
Consumer accounts	875,264	3.06%	1,213,763	4.20%
Energy marketing and communications	260,498	0.91%	267,225	0.92%
Administrative and general	2,145,953	7.49%	2,347,068	8.12%
Depreciation and amortization	3,199,822	11.17%	3,063,044	10.60%
Taxes	108,328	0.38%	125,532	0.43%
Total operating expenses	<u>24,822,029</u>	<u>86.67%</u>	<u>24,861,840</u>	<u>86.01%</u>
Operating Margins	3,814,150	13.33%	4,043,734	13.99%
G & T and Other Capital Credits	<u>468,054</u>	<u>1.63%</u>	<u>520,168</u>	<u>1.80%</u>
Net Operating Margins	<u>4,282,204</u>	<u>14.96%</u>	<u>4,563,902</u>	<u>15.79%</u>
Interest Expense	<u>2,020,087</u>	<u>7.05%</u>	<u>1,948,892</u>	<u>6.74%</u>
Nonoperating Margins				
Interest income	44,936	0.16%	76,749	0.27%
Other income	1,379,377	4.82%	86,848	0.30%
Total nonoperating margins	<u>1,424,313</u>	<u>4.98%</u>	<u>163,597</u>	<u>0.57%</u>
Net Margins for the Year	<u>\$ 3,686,430</u>	<u>12.89%</u>	<u>\$ 2,778,607</u>	<u>9.62%</u>

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

Pioneer Electric Cooperative, Inc.
Statements of Changes in Equity
For the Years Ended June 30, 2021 and 2020

	<u>Other</u>	<u>Patronage Capital</u>	<u>Total</u>
Balance at June 30, 2019	\$ 546,903	\$ 25,313,689	\$ 25,860,592
Net margin		2,778,607	2,778,607
Patronage gains	76,245		76,245
Utility tax refund		274,012	274,012
Retirement of capital credits		(1,004,338)	(1,004,338)
Balance at June 30, 2020	<u>623,148</u>	<u>27,361,970</u>	<u>27,985,118</u>
Net margin		3,686,430	3,686,430
Patronage gains	93,931		93,931
Utility tax refund		169,505	169,505
Retirement of capital credits		(1,231,383)	(1,231,383)
Balance at June 30, 2021	<u>\$ 717,079</u>	<u>\$ 29,986,522</u>	<u>\$ 30,703,601</u>

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, 2021 and 2020

	2021	2020
Cash Flows From (Used For) Operating Activities		
Net margins	\$ 3,686,430	\$ 2,778,607
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	3,199,822	3,063,044
Bad debt expense	(54,902)	(3,012)
G & T and other capital credits	(468,054)	(520,168)
Paycheck Protection Program loan forgiveness	(891,015)	
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
Accounts receivable	(986,730)	67,599
Materials and supplies	(7,404)	108,284
Prepays	(81,010)	(18,072)
Other accrued assets	20,952	52,033
Accounts payable	965,456	(942,780)
Consumer deposits	154,129	152,536
Accrued liabilities	(21,150)	(253,129)
Net cash from operating activities	5,516,524	4,484,942
Cash Flows From (Used For) Investing Activities		
Net additions of property and equipment	(2,789,574)	(4,672,903)
Sale of investment property		80,690
Proceeds from investments	109,752	118,493
Purchase of certificate of deposit		(251,513)
Maturity of certificate of deposit	251,513	
Economic development loans - net		16,125
Net cash used for investing activities	(2,428,309)	(4,709,108)
Cash Flows From (Used For) Financing Activities		
Principal payments on notes payable	(1,682,225)	(1,418,683)
Principal payments on capital lease obligations	(247,380)	(125,788)
Proceeds from notes payable		4,916,940
Proceeds from Paycheck Protection Program loan		891,015
Payments on NRUCFC conversion fees	(242,109)	(248,574)
Increase in membership fees and other equity	130,718	233,951
Retirement of capital credits	(821,871)	(652,526)
Net cash (used for) from financing activities	(2,862,867)	3,596,335
Increase in Cash and Cash Equivalents	225,348	3,372,169
Cash and Cash Equivalents at Beginning of Year	7,048,475	3,676,306
Cash and Cash Equivalents at End of Year	\$ 7,273,823	\$ 7,048,475
Reconciliation of Cash and Cash Equivalents		
Restricted cash	\$ 1,279,445	\$ 1,321,724
Unrestricted cash	5,994,378	5,726,751
Totals	\$ 7,273,823	\$ 7,048,475
Supplemental Cash Flows Information		
Cash paid for interest	\$ 2,020,087	\$ 1,948,892
Noncash Financing Transactions		
Recovery of bad debt from capital credit retirement	58,071	45,023
Return of capital to members through accounts receivable credit	218,723	190,483
Gains on retirement of unclaimed credits	132,718	116,306
Equipment purchased under capital lease	565,505	1,303,198

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

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 1 - Summary of Significant Accounting Policies

Nature of business - Pioneer Electric Cooperative, Inc. (the Cooperative) distributes electric power to residential, commercial, and industrial 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 nonregulated enterprises. Such differences primarily concern the recognition of gains and losses on the retirement of assets.

Utility 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.

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 the lower of cost or market value.

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

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.

Federal Emergency Management Agency receivables related to Hurricane Zeta are recorded at an estimated amount based on total eligible project dollars incurred by the Cooperative.

Materials and supplies - 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.

Recognition of revenue from contracts with customers - The Cooperative has contractual agreements with its customers for the provision electric utility service. Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer. All such revenue is recognized as earned by the Cooperative. Customers are billed on a cycle basis throughout the month. Payment is due from customers within 15 days of the bill date.

The Cooperative has contractual agreements with customers for the attachment of other utility services to existing utility poles owned by the Cooperative. Revenue is recognized monthly over the term of the agreements. Customers are billed annually in arrears. Payment is due within 30 days of the bill date.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

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 statements of revenue.

Income tax status - The Cooperative is exempt from income taxes under Internal Revenue Code Section 501(c)(12). Management has evaluated the Cooperative's tax positions and concluded that the Cooperative has taken no uncertain tax positions that require adjustment to the financial statements.

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.

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 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:

	<u>2021</u>	<u>2020</u>
Intermediary relending program	\$ 300,771	\$ 343,049
RUS revolving loan fund	388,585	388,585
REDLG	460,993	460,993
RBEG revolving loan fund	129,096	129,097
Total restricted funds	<u>\$ 1,279,445</u>	<u>\$ 1,321,724</u>

Note 3 - Receivables and Contract Assets from Contracts with Customers

Receivables and contract assets from contracts with customers for the year ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Receivables		
Customers beginning of year	\$ 1,125,573	\$ 1,397,706
Customers end of year	1,031,991	1,125,573
Contract Assets		
Unbilled revenue beginning of year	1,418,324	1,418,324
Unbilled revenue end of year	1,418,324	1,418,324

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 4 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
PowerSouth Energy Cooperative patronage capital	\$ 10,194,973	\$ 9,917,226
NRUCFC patronage capital	2,162,174	2,089,916
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
Other investments in associated organizations	842,879	834,582
Totals	<u>\$ 15,415,542</u>	<u>\$ 15,057,240</u>

Note 5 - Utility Plant

Listed below are the major classes of utility plant and estimated annual rates used to compute depreciation for financial reporting purposes as of June 30, 2021 and 2020:

	<u>Plant Balances</u>		<u>Annual</u>
	<u>2021</u>	<u>2020</u>	<u>Depreciation Rate</u>
Distribution plant	\$ 72,418,265	\$ 70,393,295	3.20 - 4.40%
General plant			
Land and rights	240,473	240,473	
Structures and improvements	5,118,889	5,112,257	2.05%
Office furniture and equipment	2,766,754	2,561,351	7.00 - 14.28%
Transportation equipment	1,602,175	1,483,601	17.00%
Power operated equipment	3,314,505	3,457,658	6.72 - 17.00%
Communication equipment	550,592	550,592	8.00%
Other miscellaneous equipment	404,564	402,600	6.00 - 12.00%
Totals	<u>\$ 86,416,217</u>	<u>\$ 84,201,827</u>	

Electric plant is depreciated on a straight-line basis.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 6 - Notes Payable and Lines of Credit

Notes payable - Notes payable at June 30, 2021 and 2020 consisted of the following:

<u>Description</u>	<u>2021</u>	<u>2020</u>
Notes payable - NRUCFC; fixed interest rates from 3.60% to 4.60%; notes due at various times up to December 2040; secured by all assets.	\$ 46,143,592	\$ 47,761,059
Notes payable - RUS; 1.00% interest; intermediary relending program; principal and interest due in installments until August 2030; secured by related economic development loans.	302,299	341,720
Note payable - Thompson Tractor Co., Inc.; 0.00% interest; note due November 2024; secured by related transportation equipment.	77,961	103,298
Less current maturities	<u>(1,752,369)</u>	<u>(1,680,276)</u>
Total notes payable	<u>\$ 44,771,483</u>	<u>\$ 46,525,801</u>

Estimated maturities on notes payable for the next five years are as follows:

<u>For the Years Ending</u>	<u>Amount</u>
June 30, 2022	\$ 1,752,369
June 30, 2023	1,827,673
June 30, 2024	1,911,522
June 30, 2025	1,980,555
June 30, 2026	2,045,881

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

The Cooperative had approved but unadvanced loan funds of \$18,100,000 with NRUCFC as of June 30, 2021 and 2020.

Lines of credit - The Cooperative has one line of credit with NRUCFC on which it may borrow up to \$5,000,000 and it may be used only for electric capital or operating needs. The balance outstanding was \$0 at June 30, 2021 and 2020.

The Cooperative has an available unsecured line of credit with CoBank on which it may borrow up to a total of \$1,000,000. The balance outstanding was \$0 at June 30, 2021 and 2020.

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 \$242,109 and \$248,574 for 2021 and 2020, respectively.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

Note 7 - Capital Lease Obligations

As of the year ended June 30, 2021, the Cooperative had outstanding leases for various pieces of equipment. Equipment under capital leases at June 30, 2021 and 2020, included:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 2,099,515	\$ 1,534,028
Less accumulated depreciation	<u>530,383</u>	<u>276,779</u>
	<u>\$ 1,569,132</u>	<u>\$ 1,257,249</u>

Depreciation based on the equipment's useful life using the straight-line method, amounted to \$253,604 and \$122,892 for years ended June 30, 2021 and 2020, respectively.

At June 30, 2021, the future minimum lease payments under capital leases are presented as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 341,982
2023	329,743
2024	329,743
2025	318,806
2026	258,171
Thereafter	<u>130,983</u>
	1,709,428
Less amount representing interest	<u>135,721</u>
Present value of minimum lease payments	1,573,707
Less current maturities	<u>303,167</u>
Noncurrent maturities	<u>\$ 1,270,540</u>

Note 8 - Purchased Power Payable

The Cooperative has an agreement with PowerSouth Energy Cooperative (PowerSouth) by which the Cooperative maintains an interest-bearing prepaid power account for purchases of electricity. At June 30, 2021, the Cooperative had a liability for purchased power of \$1,143,979. At June 30, 2020, the Cooperative had deposits with PowerSouth totaling \$1,000,000, and a liability for purchased power of \$1,120,854.

Note 9 - Paycheck Protection Program Loan

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the Program). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis. The Cooperative applied for a loan under this Program and received from its bank a loan in the amount of \$891,015 on June 4, 2020. The loan is forgivable if the Cooperative meets certain criteria as established under the Program.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2021 and 2020

On February 3, 2021, the Cooperative's application for forgiveness of their Paycheck Protection Program loan in the amount of \$891,015, in addition to \$6,039 of interest, was approved by the Small Business Administration. Loan forgiveness is subject to audit. Thus, there is a possibility that the loan forgiveness may be reviewed by governmental authorities or others. Such review may result in adjustments to any loan forgiveness. The Cooperative recognized the loan forgiveness as other nonoperating income on the statements of revenue.

Note 10 - Accounting for Pensions

Defined benefit pension plan - The Retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The RS Plan Sponsor's Employer Identification Number is 53-0116145 and the RS 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 contributions to the RS Plan in 2021 and in 2020 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$707,113 in 2021 and \$743,926 in 2020.

For 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 RS Plan was over 80% funded at January 1, 2021 and January 1, 2020 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 RS Plan and may change as a result of plan experience.

401(k) plan - The Cooperative has a 401(k) plan for its employees. The total expense related to the 401(k) plan for the Cooperative was \$61,179 and \$63,134 for 2021 and 2020, respectively.

Note 11 - Commitments

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from PowerSouth until December 31, 2055. The rates paid for such purchases are subject to periodic review.

Note 12 - Related Party

Pioneer Electric Cooperative Charitable Foundation (the Foundation) was formed in 2020 to accumulate and disburse funds for charitable, educational, or other worthy purposes in the service area of the Cooperative. The Foundation is a separate operating and reporting entity. Employees of the Cooperative perform the general and administrative functions of the Foundation for no fee. The Cooperative remitted \$10,000 and \$35,019 to the Foundation for the years ended June 30, 2021 and 2020, respectively.

Note 13 - Subsequent Events

The Cooperative has evaluated subsequent events through August 30, 2021, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2021, have been incorporated into these financial statements.