PIONEER ELECTRIC COOPERATIVE, INC.

JUNE 30, 2013

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, 2013 and 2012, 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, 2013 and 2012, 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 28, 2013

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

BALANCE SHEETS
AT JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
UTILITY PLANT:		
Electric plant in service	$ 65,054,436	$ 62,758,321
Construction work in progress	1,125,047	490,832
	66,179,483	63,249,153
Less: Accumulated provision for depreciation	21,219,509	19,856,345
Net utility plant	44,959,974	43,392,808
OTHER ASSETS AND INVESTMENTS:		
Restricted cash	1,041,448	918,058
Investments in associated organizations	12,340,538	11,593,389
Investment in land and buildings	1,141,485	1,141,485
Notes receivable	552,357	826,361
Total other assets and investments	15,075,828	14,479,293
CURRENT ASSETS:		
Cash and cash equivalents	1,257,921	959,323
Accounts receivable:		
Customers, less provision for doubtful accounts of $92,442 and $94,615 for 2013 and 2012, respectively	1,256,645	1,115,032
Unbilled revenue	1,445,074	2,072,841
Other	230,546	129,769
Inventories	413,269	571,965
Prepaids	86,355	112,480
Other current and accrued assets	42,220	14,962
Total current assets	4,732,030	4,976,372
DEFERRED ASSETS:		
NRUCFC conversion fees	6,903,168	7,190,167
Prepaid pension	2,334,913	
Total deferred assets	9,238,081	7,190,167
Total assets	$ 74,005,913	$ 70,038,640

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

LIABILITIES AND OTHER CREDITS

	2013	2012
EQUITIES:		
Patronage capital	$ 36,083,140	$ 32,470,178
Retained deficit	(23,652,373)	(23,652,373)
Other equities	142,276	150,943
Total equities	12,573,043	8,968,748
LONG-TERM DEBT:		
Notes payable	50,590,236	49,990,837
Less: Current maturities	1,273,775	692,527
Total long-term debt	49,316,461	49,298,310
CURRENT LIABILITIES:		
Current maturities on long-term debt	1,273,775	692,527
Current portion of NRUCFC conversion fees	283,884	215,250
Current portion of postretirement benefits	41,681	67,774
Accounts payable:		
Purchased power	1,258,225	1,363,644
Trade	179,845	197,791
Customer deposits	1,011,280	962,380
Accrued liabilities:		
Taxes	776,399	643,076
Other	458,924	412,504
Total current liabilities	5,284,013	4,554,946
OTHER LONG-TERM LIABILITIES:		
NRUCFC conversion fees	6,619,284	6,974,917
Postretirement benefits	213,112	241,719
Total other long-term liabilities	6,832,396	7,216,636
Total liabilities and other credits	$ 74,005,913	$ 70,038,640

PIONEER ELECTRIC COOPERATIVE, INC.

STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013		2012	
OPERATING REVENUES:	$ 28,130,911	100.00%	$ 28,234,555	100.00%
OPERATING EXPENSES:				
Cost of power	13,942,623	49.56%	14,654,727	51.90%
Distribution - operations	1,303,525	4.63%	1,564,622	5.54%
Distribution - maintenance	2,230,922	7.93%	2,592,514	9.18%
Consumer accounts	1,121,108	3.99%	1,079,053	3.82%
Energy marketing and communications	206,115	0.73%	223,815	0.79%
Administrative and general	1,890,525	6.72%	1,842,278	6.52%
Depreciation	2,516,318	8.95%	2,332,276	8.26%
Taxes	438,803	1.56%	70,956	0.25%
Total operating expenses	23,649,939	84.07%	24,360,241	86.26%
OPERATING MARGINS	4,480,972	15.95%	3,874,314	13.74%
G & T AND OTHER CAPITAL CREDITS	996,975	3.53%	1,190,414	4.21%
NET OPERATING MARGINS	5,477,947	19.48%	5,064,728	17.95%
INTEREST EXPENSE	2,132,293	7.58%	3,049,775	10.79%
NON-OPERATING MARGINS:				
Interest income	78,067	0.28%	185,425	0.66%
Other income (expense)	4,721	0.02%	(60,206)	(0.21%)
Total non-operating margins	82,788	0.30%	125,219	0.45%
NET MARGINS FOR THE YEAR	3,428,442	12.22%	2,140,172	7.59%
PATRONAGE CAPITAL AT BEGINNING OF YEAR	32,470,178		30,112,440	
UTILITY TAX REFUND	184,520		217,566	
PATRONAGE CAPITAL AT END OF YEAR	$ 36,083,140		$ 32,470,178	

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, 2013 AND 2012
Increase (Decrease) in Cash and Cash Equivalents

	2013	2012
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net margins	$ 3,428,442	$ 2,140,172
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	2,516,318	2,332,276
Bad debt expense	58,876	49,734
G & T and other capital credits	(996,975)	(1,190,414)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	(301,266)	4,519
Unbilled revenue	627,767	26,242
Materials and supplies	158,696	(239,420)
Prepaids	26,125	(16,781)
Deferred assets	(2,334,913)	
Prepaid purchased power		3,348,085
Other current and accrued assets	(27,258)	7,253
Accounts payable	(123,365)	1,382,394
Consumer deposits	48,900	47,139
Accrued liabilities	125,043	(454,868)
Net cash from operating activities	3,206,390	7,436,331
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchase of property and equipment, net of salvage and cost of removal	(4,083,484)	(4,155,660)
Increase in other notes receivable		(475,000)
Principal payments received on other notes receivable	274,004	86,745
Proceeds from investments	249,826	236,469
Net cash used for investing activities	(3,559,654)	(4,307,446)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Principal payments on notes payable	(900,601)	(613,559)
Proceeds from long-term debt	1,500,000	
Payments made on line of credit		(5,000,000)
Increase in membership fees and other equity	175,853	207,411
Net cash from (used for) financing activities	775,252	(5,406,148)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	421,988	(2,277,263)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,877,381	4,154,644
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,299,369	$ 1,877,381
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Restricted cash	$ 1,041,448	$ 918,058
Unrestricted cash	1,257,921	959,323
Totals	$ 2,299,369	$ 1,877,381
Cash paid for interest	$ 2,135,646	$ 3,049,229

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 nonregulated 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.

A summary of the changes in the allowance for doubtful accounts is as follows:

	2013	2012
Balance at beginning of period	$ 94,615	$ 101,389
Provision charged to income, net of recoveries	58,876	49,734
Accounts written-off	(61,049)	(56,508)
Balance at end of period	$ 92,442	$ 94,615

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 2009.

Investments - Investments in associated organizations represent cooperative capital credits from the Cooperative's suppliers and debt capital. 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 time 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:

	2013	2012
Intermediary Relending Program	$ 518,368	$ 517,573
RUS revolving loan fund	271,018	228,040
REDLG	207,433	150,408
RBEG revolving loan fund	44,629	22,037
Total restricted funds	$ 1,041,448	$ 918,058

NOTE 3 - UTILITY PLANT AND DEPRECIATION:
Listed below are the major classes of electric plant as of June 30, 2013 and 2012:

	2013 PLANT BALANCES	2012 PLANT BALANCES	ANNUAL DEPRECIATION RATE
Distribution plant	$ 52,937,797	$ 51,161,498	3.20 - 4.00%
General plant:			
Land and rights	243,797	243,797	
Structures and improvements	4,600,482	4,582,614	2.05%
Office furniture and equipment	2,401,846	2,316,520	7.00 - 14.28%
Transportation equipment	1,011,935	1,083,538	17.00%
Power-operated equipment	2,839,743	2,351,518	6.72 - 17.00%
Communication equipment	559,857	559,857	8.00%
Other miscellaneous equipment	458,979	458,979	6.00 - 12.00%
Totals	$ 65,054,436	$ 62,758,321	

Electric plant is depreciated on a straight-line basis.

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS:
Investments in associated organizations consisted of the following at June 30, 2013 and 2012:

	2013	2012
PowerSouth patronage capital	$ 7,596,333	$ 6,917,387
NRUCFC patronage capital	1,605,530	1,561,083
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
NRUCFC member capital securities	400,000	400,000
Other investments in associated organizations	523,159	499,403
Totals	$ 12,340,538	$ 11,593,389

NOTE 5 - EQUITIES:
At June 30, 2013 and 2012 equities consisted of:

	2013	2012
Equities at beginning of year	$ 8,817,805	$ 6,460,067
Utility tax refund	184,520	217,566
Net margins	3,428,442	2,140,172
Equities at end of year	$ 12,430,767	$ 8,817,805
Patronage capital	$ 36,083,140	$ 32,470,178
Retained earnings (deficit)	(23,652,373)	(23,652,373)
Equities at end of year	$ 12,430,767	$ 8,817,805
Memberships and other equities:		
Donated capital	$ 21,471	$ 21,471
Retired capital credits - gain	117,236	125,903
Other	3,569	3,569
Total other equities	$ 142,276	$ 150,943

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	2013	2012
Mortgage notes payable - NRUCFC; fixed interest rates of 4.60%; notes due December 2040; secured by all assets.	$ 39,191,816	$ 39,887,779
Mortgage notes payable - CoBank; fixed interest rates from 2.44% to 5.60%; notes due at December 2040; secured by all assets.	10,793,902	9,462,496
Notes payable - RUS; 1% interest; Intermediary Relending Program; principal and interest due in installments until August 2030; secured by related Economic Development Loans.	604,518	640,562
Total long-term notes payable	$ 50,590,236	$ 49,990,837

The Cooperative has financial covenants with its lenders relating to certain financial ratios. Management is not aware of any violations of these covenants at June 30, 2013.

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

June 30, 2014	$ 1,273,775
June 30, 2015	1,326,802
June 30, 2016	1,376,832
June 30, 2017	1,426,934
June 30, 2018	1,398,853

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, 2013 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, 2013 and 2012, respectively.

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 $355,633 and $135,942 for 2013 and 2012, respectively.

All mortgage notes payable are secured by the assets of the Cooperative.

NOTE 7 - ACCOUNTING FOR PENSIONS:
The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) 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.

The Cooperative's contributions to the RS Plan in 2013 and in 2012 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $3,197,375 in 2013 and $881,161 in 2012. During 2013, the Cooperative made an advanced funding payment of $2,457,803 to NRECA. Beginning in the year ending June 30, 2013, this amount will be amortized to expense over a period of five years. Amortization expense related to this deferred asset was $122,980 for the year ended June 30, 2013.

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 between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 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 $52,656 and $53,312 for 2013 and 2012, 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.

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 - SUBSEQUENT EVENTS:
The Cooperative has evaluated subsequent events through August 28, 2013, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2013, have been incorporated into these financial statements.