Certified Public Accountants
& Consultants

JACKSON THORNTON

Pioneer Electric Cooperative, Inc.
June 30, 2019
Financial Statements

Pioneer Electric Cooperative, Inc.

Index

JACKSON
THORNTON

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, 2019 and 2018, 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, 2019 and 2018, 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 11, 2019

Pioneer Electric Cooperative, Inc.
Balance Sheets
At June 30, 2019 and 2018

Assets

	2019	2018
Utility Plant		
Electric plant in service	$ 79,192,939	$ 76,009,781
Construction work-in-progress	169,782	915
	79,362,721	76,010,696
Less accumulated provision for depreciation	28,686,947	26,882,139
Net utility plant	50,675,774	49,128,557
Other Assets and Investments		
Restricted cash	1,363,402	1,404,970
Investments in associated organizations	14,655,565	14,264,046
Investments in land and buildings	1,251,894	1,363,772
Noted receivable - economic development loans	111,972	
Total other assets and investments	17,382,833	17,032,788
Current Assets		
Cash and cash equivalents	2,312,904	2,134,163
Accounts receivable		
Customers, less provision for doubtful accounts of $37,712 in 2019 and $27,240 in 2018	1,397,706	1,220,559
Unbilled revenue	1,418,324	1,418,324
Other	265,362	269,677
Materials and supplies	446,037	306,382
Prepaids	80,462	133,103
Total current assets	5,920,795	5,482,208
Deferred Assets		
NRUCFC conversion fees	5,295,091	5,548,509
Other	190,754	256,399
Total deferred assets	5,485,845	5,804,908
Total assets	$ 79,465,247	$ 77,448,461

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

Equities and Liabilities

	2019	2018
Equities		
Patronage capital	$ 25,313,689	$ 24,115,055
Other equities	546,903	477,574
Total equities	25,860,592	24,592,629
Long-Term Debt		
Mortgage notes payable	44,707,820	43,818,689
Capital lease obligations	78,172	112,422
Less current maturities	1,343,506	1,440,912
Total long-term debt	43,442,486	42,490,199
Current Liabilities		
Current maturities on long-term debt	1,343,506	1,440,912
Current portion of NRUCFC conversion fees	248,574	253,418
Current portion of postemployment benefits	9,321	12,600
Accounts payable		
Purchased power	1,175,417	1,173,361
Trade	167,384	185,958
Customer deposits	1,173,541	1,189,505
Accrued liabilities		
Taxes	479,969	198,261
Other	461,731	511,242
Total current liabilities	5,059,443	4,965,257
Other Liabilities		
NRUCFC conversion fees, net of current maturities	5,046,517	5,295,091
Postemployment benefits, net of current maturities	56,209	105,285
Total other liabilities	5,102,726	5,400,376
Total liabilities and equities	$ 79,465,247	$ 77,448,461

Pioneer Electric Cooperative, Inc.
Statements of Revenue
For the Years Ended June 30, 2019 and 2018

	2019		2018	
Operating Revenue	$ 28,280,990	100.00%	$ 28,654,958	100.00%
Operating Expenses				
Cost of power	13,387,969	47.34%	13,810,444	48.20%
Distribution - operations	1,229,321	4.35%	1,479,610	5.16%
Distribution - maintenance	3,204,404	11.33%	2,786,246	9.72%
Consumer accounts	1,167,720	4.13%	1,369,474	4.78%
Energy marketing and communications	292,420	1.03%	320,465	1.12%
Administrative and general	2,253,326	7.97%	2,403,737	8.39%
Depreciation and amortization	2,932,383	10.37%	2,796,730	9.76%
Taxes	116,573	0.41%	101,405	0.35%
Total operating expenses	24,584,116	86.93%	25,068,111	87.48%
Operating Margins	3,696,874	13.07%	3,586,847	12.52%
G & T and Other Capital Credits	497,224	1.76%	429,488	1.50%
Net Operating Margins	4,194,098	14.83%	4,016,335	14.02%
Interest Expense	1,851,842	6.55%	1,867,552	6.52%
Nonoperating Margins				
Interest income	56,978	0.20%	43,013	0.15%
Other income	43,998	0.16%	112,680	0.39%
Total nonoperating margins	100,976	0.36%	155,693	0.54%
Net Margins for the Year	$ 2,443,232	8.64%	$ 2,304,476	8.04%

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, 2019 and 2018

	Other	Retained Deficit	Patronage Capital	Total
Balance at June 30, 2017	$ 404,121	$ (21,965,864)	$ 43,588,072	$ 22,026,329
Net margin			2,304,476	2,304,476
Patronage gains	73,453			73,453
Reclass deficit balance per settlement agreement		21,965,864	(21,965,864)	
Utility tax refund			329,850	329,850
Retirement of capital credits			(141,479)	(141,479)
Balance at June 30, 2018	477,574		24,115,055	24,592,629
Net margin			2,443,232	2,443,232
Patronage gains	69,329			69,329
Retirement of capital credits			(1,244,598)	(1,244,598)
Balance at June 30, 2019	$ 546,903	$ -	$ 25,313,689	$ 25,860,592

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, 2019 and 2018
Increase (Decrease) in Cash and Cash Equivalents

	2019	2018
Cash Flows From (Used For) Operating Activities		
Net margins	$ 2,443,232	$ 2,304,476
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	2,932,383	2,796,730
Amortization of deferred charges		368,670
Bad debt expense	(21,151)	14,743
G & T and other capital credits	(497,224)	(429,488)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
Accounts receivable	(515,081)	(93,008)
Materials and supplies	(139,655)	(6,753)
Prepaids	52,641	11,177
Other accrued assets	65,645	124,195
Accounts payable	(193,645)	26,234
Consumer deposits	(15,964)	(21,353)
Accrued liabilities	179,842	(256,299)
Net cash from operating activities	4,291,023	4,839,324
Cash Flows From (Used For) Investing Activities		
Net additions of property and equipment	(4,049,055)	(4,497,987)
Purchase of investment property		(330,170)
Sale of investment property	112,875	
Proceeds from investments	104,708	99,494
Economic development loans - net	(111,972)	
Net cash used for investing activities	(3,943,444)	(4,728,663)
Cash Flows From (Used For) Financing Activities		
Principal payments on long-term debt	(1,245,119)	(1,386,424)
Proceeds from long-term debt	2,100,000	
Payments on NRUCFC conversion fees	(253,418)	(260,015)
Increase in membership fees and other equity	69,329	403,303
Retirement of capital credits	(881,198)	(141,479)
Net cash used for financing activities	(210,406)	(1,384,615)
Increase (Decrease) in Cash and Cash Equivalents	137,173	(1,273,954)
Cash and Cash Equivalents at Beginning of Year	3,539,133	4,813,087
Cash and Cash Equivalents at End of Year	$ 3,676,306	$ 3,539,133
Supplemental Cash Flows Information		
Restricted cash	$ 1,363,402	$ 1,404,970
Unrestricted cash	2,312,904	2,134,163
Totals	$ 3,676,306	$ 3,539,133
Cash paid for interest	$ 1,851,842	$ 1,892,958
Noncash Financing Transactions		
Recovery of bad debt from capital credit retirement	47,270	
Return of capital to members through accounts receivable credit	316,130	
Accounts payable for capital assets	177,127	

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, 2019 and 2018

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.

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.

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 electric revenue and cost - The Cooperative distributes electric power to consumers in central Alabama. Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer.

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 had 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.

New accounting pronouncements - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was issued to provide a framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance in current accounting principles generally accepted in the United States of America. ASU 2014-09 is effective for reporting periods beginning after December 15, 2018. The Cooperative is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Cooperative is currently evaluating the effect that the standard will have on the financial statements.

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:

	2019	2018
Intermediary relending program	$ 384,729	$ 426,297
RUS revolving loan fund	388,585	388,585
REDLG	460,993	460,993
RBEG revolving loan fund	129,095	129,095
Total restricted funds	$ 1,363,402	$ 1,404,970

Note 3 - Investments in Associated Organizations
Investments in associated organizations consisted of the following at June 30, 2019 and 2018:

	2019	2018
PowerSouth Energy Cooperative patronage capital	$ 9,614,732	$ 9,343,057
NRUCFC patronage capital	2,017,022	1,929,233
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
Other investments in associated organizations	808,295	776,240
Totals	$ 14,655,565	$ 14,264,046

Note 4 - 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, 2019 and 2018:

	Plant Balances		Annual
	2019	2018	Depreciation Rate
Distribution plant	$ 66,597,314	$ 63,159,938	3.20 - 4.40%
General plant			
Land and rights	243,797	243,797	
Structures and improvements	5,066,818	5,063,458	2.05%
Office furniture and equipment	2,475,165	2,774,832	7.00 - 14.28%
Transportation equipment	1,361,391	1,320,721	17.00%
Power operated equipment	2,498,977	2,498,977	6.72 - 17.00%
Communication equipment	550,592	550,592	8.00%
Other miscellaneous equipment	398,885	397,466	6.00 - 12.00%
Totals	$ 79,192,939	$ 76,009,781	

Electric plant is depreciated on a straight-line basis.

Note 5 - Equities
At June 30, 2019 and 2018 equities consisted of:

	2019	2018
Patronage capital at beginning of year	$ 24,115,055	$ 21,622,208
Retirement of capital credits	(1,244,598)	(141,479)
Utility tax refund		329,850
Net margins	2,443,232	2,304,476
Patronage capital at end of year	$ 25,313,689	$ 24,115,055
Memberships and other equities		
Donated capital	$ 39,068	$ 22,979
Retired capital credits - gain	507,835	454,595
Total other equities	$ 546,903	$ 477,574

In 2014, a lawsuit was filed against the Cooperative concerning the payment of capital credits. A settlement was reached during 2018. The settlement provided for the correction of overstated patronage capital caused by the retained earnings deficit. This resulted in a decrease to patronage capital in the amount of $21,965,864.

Per the settlement, the Cooperative has also agreed to retire existing patronage capital to members, assuming it can do so without raising rates specifically for the increased payment, in the amount of the average patronage capital retired in 2015, 2016, and 2017, plus $300,000 each year for the next 10 years.

Note 6 - Mortgage Notes Payable and Lines of Credit

Mortgage notes payable - Mortgage notes payable at June 30, 2019 and 2018 consisted of the following:

Description	2019	2018
Mortgage 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.	$ 44,327,453	$ 43,401,373
Notes payable - RUS; 1.00% interest; intermediary relending program; principal and interest due in installments until August 2030; secured by related economic development loans.	380,367	417,316
Total notes payable	$ 44,707,820	$ 43,818,689

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:

For the Years Ending	Amount
June 30, 2020	$ 1,343,506
June 30, 2021	1,403,559
June 30, 2022	1,466,355
June 30, 2023	1,532,022
June 30, 2024	1,572,917

The Cooperative had approved but unadvanced loan funds of $22,900,000 with NRUCFC as of June 30, 2019.

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, 2019 and 2018.

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, 2019 and 2018.

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 $253,418 and $260,015 for 2019 and 2018, respectively.

Note 7 - 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.

At its December 2012 meeting, the I&FS Committee of the NRECA Board of Directors approved an option to allow participants in the RS Plan to make a contribution 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 $0 and $368,670 in 2019 and 2018, respectively.

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 prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, the billing rate for most cooperatives is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the RS Plan. The 25% differential in billing rates is expected to continue for approximately 15 years from January 1, 2013. However, unexpected changes in interest rates, asset returns and other plan experience, 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 2019 and in 2018 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $815,324 in 2019 and $770,015 in 2018.

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, 2019 and January 1, 2018 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.

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 $61,123 and $57,191 for 2019 and 2018, 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, 2055. The rates paid for such purchases are subject to periodic review.

Note 9 - Subsequent Events
The Cooperative has evaluated subsequent events through September 11, 2019, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2019, have been incorporated into these financial statements.