

Certified Public Accountants
& Consultants



Pioneer Electric Cooperative, Inc.
June 30, 2022
Financial Statements

Pioneer Electric Cooperative, Inc.

Index

	<u>Page</u>
Independent auditor's report	1 - 2
Balance sheets	3 - 4
Statements of revenue	5
Statements of changes in equity	6
Statements of cash flows	7
Notes to financial statements	8 - 13
Single Audit	
Schedule of expenditures of federal awards	14
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	15 - 16
Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance	17 - 19
Schedule of findings and questioned costs	20 - 21

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Pioneer Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of June 30, 2022 and 2021, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2022, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 16, 2022

Pioneer Electric Cooperative, Inc.
Balance Sheets
At June 30, 2022 and 2021

Assets

	2022	2021
Utility Plant		
Electric plant in service	\$ 87,670,615	\$ 86,416,217
Construction work-in-progress	236,212	199,789
	87,906,827	86,616,006
Less accumulated provision for depreciation	33,126,789	32,381,235
Net utility plant	54,780,038	54,234,771
 Other Assets and Investments		
Restricted cash	1,237,070	1,279,445
Investments in associated organizations	15,825,570	15,415,542
Investments in land and buildings	1,239,261	1,171,204
Notes receivable - economic development loans	63,597	95,847
Total other assets and investments	18,365,498	17,962,038
 Current Assets		
Cash and cash equivalents	8,539,265	5,994,378
Accounts receivable		
Customers, less provision for doubtful accounts of \$51,240 in 2022 and \$60,508 in 2021	1,112,369	1,031,991
Federal Emergency Management Agency		710,348
Other	337,153	385,474
Unbilled revenue	1,607,432	1,418,324
Materials and supplies	516,959	345,157
Prepays	171,934	179,544
Total current assets	12,285,112	10,065,216
 Deferred Assets		
NRUCFC conversion fees	4,555,834	4,804,408
Other	68,187	117,769
Total deferred assets	4,624,021	4,922,177
Total assets	\$ 90,054,669	\$ 87,184,202

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

Equities and Liabilities

	2022	2021
Equities		
Patronage capital	\$ 29,175,678	\$ 29,986,522
Other equities	769,878	717,079
Total equities	29,945,556	30,703,601
 Noncurrent Liabilities		
Notes payable, net of current maturities	46,982,318	44,771,483
Capital lease obligations, net of current maturities	1,233,025	1,270,540
NRUCFC conversion fees, net of current portion	4,307,260	4,555,834
Postemployment benefit obligation, net of current portion	14,323	16,278
Total noncurrent liabilities	52,536,926	50,614,135
 Current Liabilities		
Current maturities on notes payable	1,936,688	1,752,369
Current maturities on capital lease obligations	341,795	303,167
Current portion of NRUCFC conversion fees	248,574	248,574
Current portion of postemployment benefit obligation	4,566	4,556
Accounts payable		
Purchased power	1,391,103	1,143,979
Trade	2,252	221,498
Customer deposits	1,515,683	1,480,206
Accrued liabilities		
Taxes	368,411	165,453
Other	563,115	546,664
Total current liabilities	6,372,187	5,866,466
 Deferred Credits		
Deferred revenue	1,200,000	
Total deferred credits	1,200,000	
Total equities and liabilities	\$ 90,054,669	\$ 87,184,202

Pioneer Electric Cooperative, Inc.
Statements of Revenue
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
Operating Revenue				
Electric revenue	\$ 27,429,847	98.60%	\$ 28,408,816	99.21%
Other	390,279	1.40%	227,363	0.79%
Total operating revenue	<u>27,820,126</u>	<u>100.00%</u>	<u>28,636,179</u>	<u>100.00%</u>
Operating Expenses				
Cost of power	13,902,884	49.97%	12,832,653	44.81%
Distribution - operations	1,559,382	5.61%	1,407,292	4.91%
Distribution - maintenance	3,600,376	12.94%	3,992,219	13.94%
Consumer accounts	1,153,600	4.15%	875,264	3.06%
Energy marketing and communications	358,049	1.29%	260,498	0.91%
Administrative and general	2,245,349	8.07%	2,145,953	7.49%
Depreciation and amortization	3,198,058	11.50%	3,199,822	11.17%
Taxes	105,153	0.38%	108,328	0.38%
Total operating expenses	<u>26,122,851</u>	<u>93.91%</u>	<u>24,822,029</u>	<u>86.68%</u>
Operating Margins	1,697,275	6.09%	3,814,150	13.33%
G & T and Other Capital Credits	<u>533,504</u>	<u>1.92%</u>	<u>468,054</u>	<u>1.63%</u>
Net Operating Margins	<u>2,230,779</u>	<u>8.01%</u>	<u>4,282,204</u>	<u>14.96%</u>
Interest Expense	<u>1,987,471</u>	<u>7.14%</u>	<u>2,020,087</u>	<u>7.05%</u>
Nonoperating Margins				
Interest income	40,593	0.15%	44,936	0.16%
Other income	44,396	0.16%	1,379,377	4.82%
Total nonoperating margins	<u>84,989</u>	<u>0.31%</u>	<u>1,424,313</u>	<u>4.98%</u>
Net Margins for the Year	<u>\$ 328,297</u>	<u>1.18%</u>	<u>\$ 3,686,430</u>	<u>12.89%</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, 2022 and 2021

	<u>Other</u>	<u>Patronage Capital</u>	<u>Total</u>
Balance at June 30, 2020	\$ 623,148	\$ 27,361,970	\$ 27,985,118
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>
Net margin		328,297	328,297
Patronage gains	52,799		52,799
Utility tax refund		141,479	141,479
Retirement of capital credits		(1,280,620)	(1,280,620)
Balance at June 30, 2022	<u>\$ 769,878</u>	<u>\$ 29,175,678</u>	<u>\$ 29,945,556</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From (Used For) Operating Activities		
Net margins	\$ 328,297	\$ 3,686,430
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	3,198,058	3,199,822
Bad debt recovery	(83,946)	(54,902)
G & T and other capital credits	(533,504)	(468,054)
Paycheck Protection Program loan forgiveness		(891,015)
Deferral of revenue	1,200,000	
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
Accounts receivable	311,243	(986,730)
Unbilled revenue	(189,108)	
Materials and supplies	(171,802)	(7,404)
Prepays	7,610	(81,010)
Other accrued assets	49,582	20,952
Accounts payable	27,878	965,456
Consumer deposits	35,477	154,129
Accrued liabilities	217,464	(21,150)
Net cash from operating activities	<u>4,397,249</u>	<u>5,516,524</u>
Cash Flows From (Used For) Investing Activities		
Net additions of property and equipment	(3,170,367)	(2,789,574)
Proceeds from investments	55,419	109,752
Maturity of certificate of deposit		251,513
Economic development loans - net	32,250	
Net cash used for investing activities	<u>(3,082,698)</u>	<u>(2,428,309)</u>
Cash Flows From (Used For) Financing Activities		
Principal payments on notes payable	(1,804,846)	(1,682,225)
Principal payments on capital lease obligations	(323,271)	(247,380)
Proceeds from notes payable	4,200,000	
Payments on NRUCFC conversion fees	(248,574)	(242,109)
Increase in membership fees and other equity	113,404	130,718
Retirement of capital credits	(748,752)	(821,871)
Net cash from (used for) financing activities	<u>1,187,961</u>	<u>(2,862,867)</u>
Increase in Cash and Cash Equivalents	2,502,512	225,348
Cash and Cash Equivalents at Beginning of Year	<u>7,273,823</u>	<u>7,048,475</u>
Cash and Cash Equivalents at End of Year	<u>\$ 9,776,335</u>	<u>\$ 7,273,823</u>
Reconciliation of Cash and Cash Equivalents		
Restricted cash	\$ 1,237,070	\$ 1,279,445
Unrestricted cash	8,539,265	5,994,378
Totals	<u>\$ 9,776,335</u>	<u>\$ 7,273,823</u>
Supplemental Cash Flows Information		
Cash paid for interest	\$ 2,000,174	\$ 2,020,087
Noncash Financing Transactions		
Recovery of bad debt from capital credit retirement	\$ 66,667	\$ 58,071
Return of capital to members through accounts receivable credit	384,327	218,723
Gains on retirement of unclaimed credits	80,874	132,718
Equipment purchased under capital lease	324,384	565,505

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, 2022 and 2021

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.

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 of 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, 2022 and 2021

Deferred revenue - As a rate-regulated utility, the Cooperative has ratemaking authority to defer revenues to future periods under professional accounting standards ASC 980, *Regulated Operations*. During 2022, the Cooperative obtained approval from its Board of Trustees to defer \$1,200,000 in revenue from 2022 to 2023. This deferral was established to offset anticipated increases in wholesale power cost and other operating expenses. The Cooperative amortizes deferred revenue in accordance with the related ratemaking action.

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.

Recent accounting pronouncements - 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, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is to be applied, as determined by the transition method that the entity elects, with certain practical expedients available. The Cooperative is currently evaluating the effect that the standard will have on those 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 approximately \$1,912,000 and \$1,822,000 of uninsured cash as of June 30, 2022 and 2021, respectively. 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>2022</u>	<u>2021</u>
Intermediary relending program	\$ 258,396	\$ 300,771
RUS revolving loan fund	388,585	388,585
REDLG	460,993	460,993
RBEG revolving loan fund	129,096	129,096
Total restricted funds	<u>\$ 1,237,070</u>	<u>\$ 1,279,445</u>

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 3 - Receivables and Contract Assets from Contracts with Customers

Receivables and contract assets from contracts with customers for the year ended June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Receivables		
Customers beginning of year	\$ 1,031,991	\$ 1,125,573
Customers end of year	1,112,369	1,031,991
Contract Assets		
Unbilled revenue beginning of year	1,418,324	1,418,324
Unbilled revenue end of year	1,607,432	1,418,324

Note 4 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
PowerSouth Energy Cooperative patronage capital	\$ 10,465,140	\$ 10,194,973
NRUCFC patronage capital	2,230,753	2,162,174
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
Other investments in associated organizations	914,161	842,879
Totals	<u>\$ 15,825,570</u>	<u>\$ 15,415,542</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, 2022 and 2021:

	<u>Plant Balances</u>		<u>Annual Depreciation Rate</u>
	<u>2022</u>	<u>2021</u>	
Distribution plant	\$ 73,217,224	\$ 72,418,265	3.20 - 4.40%
General plant			
Land and rights	240,473	240,473	
Structures and improvements	5,127,047	5,118,889	2.05%
Office furniture and equipment	2,801,274	2,766,754	7.00 - 14.28%
Transportation equipment	1,608,585	1,602,175	17.00%
Power operated equipment	3,714,165	3,314,505	6.72 - 17.00%
Communication equipment	555,789	550,592	8.00%
Other miscellaneous equipment	406,058	404,564	6.00 - 12.00%
Totals	<u>\$ 87,670,615</u>	<u>\$ 86,416,217</u>	

Electric plant is depreciated on a straight-line basis.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 6 - Notes Payable and Lines of Credit

Notes payable - Notes payable at June 30, 2022 and 2021 consisted of the following:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Notes payable - NRUCFC; fixed interest rates from 3.59% to 4.60%; notes due at various times up to September 2046; secured by all assets.	\$ 48,601,169	\$ 46,143,592
Notes payable - USDA; 1.00% interest; intermediary relending program; principal and interest due in installments until August 2030; secured by related economic development loans.	263,264	302,299
Note payable - Thompson Tractor Co., Inc.; 0.00% interest; note due November 2024; secured by related transportation equipment.	54,573	77,961
Less current maturities	<u>(1,936,688)</u>	<u>(1,752,369)</u>
Total notes payable	<u>\$ 46,982,318</u>	<u>\$ 44,771,483</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, 2023	\$ 1,936,688
June 30, 2024	2,019,325
June 30, 2025	2,090,023
June 30, 2026	2,169,238
June 30, 2027	2,245,175

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

The Cooperative had approved but unadvanced loan funds of \$13,900,000 with NRUCFC as of June 30, 2022.

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, 2022 and 2021.

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, 2022 and 2021.

The NRUCFC loan conversion fees are payable in quarterly payments, over a period of 30 years. The related deferred asset is being amortized over a period of 30 years. Amortization expense related to this deferred asset was \$248,574 and \$242,109 for 2022 and 2021, respectively.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

Note 7 - Capital Lease Obligations

As of the year ended June 30, 2022 and 2021, the Cooperative had outstanding leases for various pieces of equipment. Equipment under capital leases at June 30, 2022 and 2021, included:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 2,423,899	\$ 2,099,515
Less accumulated depreciation	868,471	530,383
	<u>\$ 1,555,428</u>	<u>\$ 1,569,132</u>

Depreciation based on the equipment's useful life using the straight-line method, amounted to \$338,088 and \$253,604 for years ended June 30, 2022 and 2021, respectively.

At June 30, 2022, the future minimum lease payments under capital leases are presented as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 381,066
2024	381,066
2025	370,129
2026	309,494
2027	152,364
Thereafter	<u>88,882</u>
	1,683,001
Less amount representing interest	<u>108,181</u>
Present value of minimum lease payments	1,574,820
Less current maturities	<u>341,795</u>
Noncurrent maturities	<u>\$ 1,233,025</u>

Note 8 - 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 2022 and in 2021 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 \$817,497 in 2022 and \$707,113 in 2021.

Pioneer Electric Cooperative, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

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, 2022 and January 1, 2021 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 \$62,626 and \$61,179 for 2022 and 2021, respectively.

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. Accounting standards allowed for the loan proceeds to be recognized as a loan until forgiven by the lender or to recognize the loan proceeds as income as the expenses triggering forgiveness were incurred. The Cooperative elected to recognize the loan proceeds as income when the loan was forgiven by the lender. The loan was forgiven in 2021 and has been reflected as other income in the Statements of Revenue at June 30, 2021.

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.

Note 10 - 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 11 - 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 \$56,379 and \$10,000 to the Foundation for the years ended June 30, 2022 and 2021, respectively.

Note 12 - Subsequent Events

The Cooperative has evaluated subsequent events through September 16, 2022, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2022, have been incorporated into these financial statements.

Single Audit

**Pioneer Electric Cooperative, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
Department of Homeland Security			
Passed through the Alabama Emergency Management Agency			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
	97.036	000-UO7U0-00	\$ 916,287
Total expenditures of federal awards			<u>\$ 916,287</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pioneer Electric Cooperative, Inc. (the Cooperative) under programs of the federal government for the year ended June 30, 2022. Expenditures reported on the schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Reporting Entity

The Cooperative's reporting entity is fully described in Note 1 to the financial statements.

Note 3 - Indirect Cost Rate

The Cooperative has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note 4 - Subrecipients

There were no awards passed through to subrecipients.

Note 5 - Recognition of Federal Expenditures

The Cooperative incurred \$916,287 of FEMA related expenditures in fiscal year 2021. In accordance with FEMA's Public Assistance Program guidelines, the Cooperative recorded the eligible expenditures in its fiscal year 2022 Schedule of Expenditures of Federal Awards when its project worksheet was approved by FEMA.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pioneer Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of June 30, 2022, and the related statements of revenue, changes in equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 16, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Jackson Thornton & Co. PC

Montgomery, Alabama
September 16, 2022

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pioneer Electric Cooperative, Inc.'s (the Cooperative) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2022. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Cooperative complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Cooperative's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of law, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Cooperative's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Cooperative's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Cooperative's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Cooperative's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Cooperative's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 16, 2022

**Pioneer Electric Cooperative, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*
Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? _____ Yes X No

Identification of major programs:

***Assistance
Listing
Number(s)***

Name of Federal Program

97.036

Department of Homeland Security - Public Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

**Pioneer Electric Cooperative, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022**

Findings related to the financial statements in accordance with *Government Auditing Standards*:

No matters to be reported.

Findings and Questioned Costs for Federal Awards:

No matters to be reported.