Certified Public Accountants
& Consultants

JACKSON THORNTON

Pioneer Electric Cooperative, Inc.
June 30, 2020
Financial Statements

JACKSON THORNTON

Pioneer Electric Cooperative, Inc.

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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. (the Cooperative), which comprise the balance sheets as of June 30, 2020 and 2019, 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, 2020 and 2019, 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.

Change in Accounting Principle
As discussed in Note 1 to the financial statements, the Cooperative adopted new accounting guidance FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

Jackson Thornton & Co. PC

Montgomery, Alabama
September 8, 2020

Pioneer Electric Cooperative, Inc.
Balance Sheets
At June 30, 2020 and 2019

Assets

	2020	2019
Utility Plant		
Electric plant in service	$ 84,201,827	$ 79,192,939
Construction work-in-progress	242,742	169,782
	84,444,569	79,362,721
Less accumulated provision for depreciation	30,607,164	28,686,947
Net utility plant	53,837,405	50,675,774
Other Assets and Investments		
Restricted cash	1,321,724	1,363,402
Investments in associated organizations	15,057,240	14,655,565
Investments in land and buildings	1,171,204	1,251,894
Notes receivable - economic development loans	95,847	111,972
Total other assets and investments	17,646,015	17,382,833
Current Assets		
Cash and cash equivalents	5,726,751	2,312,904
Certificates of deposit	251,513	
Accounts receivable		
Customers, less provision for doubtful accounts of $60,908 in 2020 and $37,712 in 2019	1,125,573	1,397,706
Other	237,402	265,362
Unbilled revenue	1,418,324	1,418,324
Materials and supplies	337,753	446,037
Prepaids	98,534	80,462
Total current assets	9,195,850	5,920,795
Deferred Assets		
NRUCFC conversion fees	5,046,517	5,295,091
Other	138,721	190,754
Total deferred assets	5,185,238	5,485,845
Total assets	$ 85,864,508	$ 79,465,247

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

Equities and Liabilities

	2020	2019
Equities		
Patronage capital	$ 27,361,970	$ 25,313,689
Other equities	623,148	546,903
Total equities	27,985,118	25,860,592
Noncurrent Liabilities		
Notes payable, net of current maturities	46,525,801	43,364,314
Capital lease obligations, net of current maturities	1,028,735	43,571
NRUCFC conversion fees, net of current portion	4,797,943	5,046,517
Postemployment benefit obligation, net of current portion	27,283	56,209
Total noncurrent liabilities	52,379,762	48,510,611
Current Liabilities		
Current maturities on notes payable	1,680,276	1,343,506
Current maturities on capital lease obligations	226,847	34,601
Current portion of NRUCFC conversion fees	248,574	248,574
Current portion of postemployment benefit obligation	9,215	9,321
Accounts payable		
Purchased power	120,854	1,175,417
Trade	279,167	167,384
Paycheck Protection Program loan	891,015	
Customer deposits	1,326,077	1,173,541
Accrued liabilities		
Taxes	253,423	479,969
Other	464,180	461,731
Total current liabilities	5,499,628	5,094,044
Total equities and liabilities	$ 85,864,508	$ 79,465,247

Pioneer Electric Cooperative, Inc.
Statements of Revenue
For the Years Ended June 30, 2020 and 2019

	2020		2019	
Operating Revenues				
Revenues from customers	$ 28,243,498	97.71%	$ 28,100,646	99.36%
Other	662,076	2.29%	180,344	0.64%
Total operating revenues	28,905,574	100.00%	28,280,990	100.00%
Operating Expenses				
Cost of power	13,185,449	45.62%	13,387,969	47.34%
Distribution - operations	1,047,294	3.62%	1,229,321	4.35%
Distribution - maintenance	3,612,465	12.50%	3,204,404	11.33%
Consumer accounts	1,213,763	4.20%	1,167,720	4.13%
Energy marketing and communications	267,225	0.92%	292,420	1.03%
Administrative and general	2,347,068	8.12%	2,253,326	7.97%
Depreciation and amortization	3,063,044	10.60%	2,932,383	10.37%
Taxes	125,532	0.43%	116,573	0.41%
Total operating expenses	24,861,840	86.01%	24,584,116	86.93%
Operating Margins	4,043,734	13.99%	3,696,874	13.07%
G & T and Other Capital Credits	520,168	1.80%	497,224	1.76%
Net Operating Margins	4,563,902	15.79%	4,194,098	14.83%
Interest Expense	1,948,892	6.74%	1,851,842	6.55%
Nonoperating Margins				
Interest income	76,749	0.27%	56,978	0.20%
Other income	86,848	0.30%	43,998	0.16%
Total nonoperating margins	163,597	0.57%	100,976	0.36%
Net Margins for the Year	$ 2,778,607	9.62%	$ 2,443,232	8.64%

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, 2020 and 2019

	Other	Patronage Capital	Total
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
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	$ 623,148	$ 27,361,970	$ 27,985,118

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, 2020 and 2019

	2020	2019
Cash Flows From (Used For) Operating Activities		
Net margins	$ 2,778,607	$ 2,443,232
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	3,063,044	2,932,383
Bad debt expense	(3,012)	(21,151)
G & T and other capital credits	(520,168)	(497,224)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities		
Accounts receivable	67,599	(515,081)
Materials and supplies	108,284	(139,655)
Prepaids	(18,072)	52,641
Other accrued assets	52,033	65,645
Accounts payable	(942,780)	(193,645)
Consumer deposits	152,536	(15,964)
Accrued liabilities	(253,129)	179,842
Net cash from operating activities	4,484,942	4,291,023
Cash Flows From (Used For) Investing Activities		
Net additions of property and equipment	(4,672,903)	(4,049,055)
Sale of investment property	80,690	112,875
Proceeds from investments	118,493	104,708
Purchase of certificates of deposit	(251,513)	
Economic development loans - net	16,125	(111,972)
Net cash used for investing activities	(4,709,108)	(3,943,444)
Cash Flows From (Used For) Financing Activities		
Principal payments on notes payable	(1,418,683)	(1,245,119)
Principal payments on capital lease obligations	(125,788)	
Proceeds from notes payable	4,916,940	2,100,000
Proceeds from Paycheck Protection Program loan	891,015	
Payments on NRUCFC conversion fees	(248,574)	(253,418)
Increase in membership fees and other equity	350,257	69,329
Retirement of capital credits	(768,832)	(881,198)
Net cash from (used for) financing activities	3,596,335	(210,406)
Increase in Cash and Cash Equivalents	3,372,169	137,173
Cash and Cash Equivalents at Beginning of Year	3,676,306	3,539,133
Cash and Cash Equivalents at End of Year	$ 7,048,475	$ 3,676,306
Supplemental Cash Flows Information		
Restricted cash	$ 1,321,724	$ 1,363,402
Unrestricted cash	5,726,751	2,312,904
Totals	$ 7,048,475	$ 3,676,306
Cash paid for interest	$ 1,948,892	$ 1,851,842
Noncash Financing Transactions		
Recovery of bad debt from capital credit retirement	45,023	47,270
Return of capital to members through accounts receivable credit	190,483	316,130
Accounts payable for capital assets		177,127
Equipment purchased under capital lease	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, 2020 and 2019

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 customers - As of July 1, 2019, the Cooperative adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as modified (ASC 606), using the retrospective method. The Cooperative evaluated and determined that ASC 606 did not have a material effect on the financial statements.

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

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.

Reclassification - Certain reclassifications have been made to the 2019 financial statements in order to conform to the 2020 presentation.

Note 2 - Cash and Cash Equivalents

The Cooperative maintains cash and cash equivalents in various banks located in Alabama, which at times may exceed federally insured limits. The Cooperative has 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:

	2020	2019
Intermediary relending program	$ 343,049	$ 384,729
RUS revolving loan fund	388,585	388,585
REDLG	460,993	460,993
RBEG revolving loan fund	129,097	129,095
Total restricted funds	$ 1,321,724	$ 1,363,402

Note 3 - Receivables and Contract Assets

Receivables and contract assets from contracts with customers for the year ended June 30, 2020 and 2019 were as follows:

	2020	2019	
	End of Year	End of Year	Beginning of Year
Receivables			
Customers	$ 1,125,573	$ 1,397,706	$ 1,220,559
Contract Assets			
Unbilled revenue	1,418,324	1,418,324	1,418,324
Total receivables and contract assets	$ 2,543,897	$ 2,816,030	$ 2,638,883

Note 4 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at June 30, 2020 and 2019:

	2020	2019
PowerSouth Energy Cooperative patronage capital	$ 9,917,226	$ 9,614,732
NRUCFC patronage capital	2,089,916	2,017,022
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
Other investments in associated organizations	834,582	808,295
Totals	$ 15,057,240	$ 14,655,565

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, 2020 and 2019:

	Plant Balances		Annual
	2020	2019	Depreciation Rate
Distribution plant	$ 70,393,295	$ 66,597,314	3.20 - 4.40%
General plant			
Land and rights	240,473	243,797	
Structures and improvements	5,112,257	5,066,818	2.05%
Office furniture and equipment	2,561,351	2,475,165	7.00 - 14.28%
Transportation equipment	1,483,601	1,361,391	17.00%
Power operated equipment	3,457,658	2,498,977	6.72 - 17.00%
Communication equipment	550,592	550,592	8.00%
Other miscellaneous equipment	402,600	398,885	6.00 - 12.00%
Totals	$ 84,201,827	$ 79,192,939	

Electric plant is depreciated on a straight-line basis.

Note 6 - Notes Payable and Lines of Credit

Notes payable - Notes payable at June 30, 2020 and 2019 consisted of the following:

Description	2020	2019
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.	$ 47,761,059	$ 44,327,453
Notes payable - RUS; 1.00% interest; intermediary relending program; principal and interest due in installments until August 2030; secured by related economic development loans.	341,720	380,367
Note payable - Thompson Tractor Co., Inc.; 0.00% interest; note due November 2024; secured by related transportation equipment.	103,298	
Less current maturities	(1,680,276)	(1,343,506)
Total notes payable	$ 46,525,801	$ 43,364,314

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

For the Years Ending	Amount
June 30, 2021	$ 1,680,276
June 30, 2022	1,752,369
June 30, 2023	1,827,673
June 30, 2024	1,911,522
June 30, 2025	1,982,504

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

The Cooperative had approved but unadvanced loan funds of $18,100,000 and $22,900,000 with NRUCFC as of June 30, 2020 and 2019, respectively.

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, 2020 and 2019.

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, 2020 and 2019.

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 $248,574 and $253,418 for 2020 and 2019, respectively.

Note 7 - 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, 2020, the Cooperative had deposits with PowerSouth totaling $1,000,000, and a liability for purchased power of $1,120,854. At June 30, 2019, the Cooperative had a liability for purchased power of $1,175,417.

Note 8 - 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. The Cooperative will seek loan forgiveness in fiscal year 2021. The Cooperative anticipates there may be further guidance issued by the Small Business Administration (SBA), the U.S. Department of the Treasury, the bank, and other regulators related to the Program which could impact the loan and loan forgiveness. Any of the loan amount not forgiven under the Program will be due June 4, 2022 with interest at 1.0%. The loan is unsecured and does not require personal guarantees.

Note 9 - 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 2020 and in 2019 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 $743,926 in 2020 and $815,324 in 2019.

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, 2020 and January 1, 2019 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 $63,134 and $61,123 for 2020 and 2019, respectively.

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 $35,019 to the Foundation for the year ended June 30, 2020.

Note 12 - Subsequent Events

The Cooperative has evaluated subsequent events through September 8, 2020, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2020, have been incorporated into these financial statements.