

PIONEER ELECTRIC COOPERATIVE, INC.

JUNE 30, 2012

FINANCIAL STATEMENTS

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Pioneer Electric Cooperative, Inc. (the Cooperative) as of June 30, 2012 and 2011 and the related statements of revenue and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jackson Thornton & Co. PC

Montgomery, Alabama
August 28, 2012

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

BALANCE SHEETS
AT JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
UTILITY PLANT:		
Electric plant in service	\$ 62,758,321	\$ 60,256,670
Construction work in progress	490,832	321,964
	<u>63,249,153</u>	<u>60,578,634</u>
Less: Accumulated provision for depreciation	19,856,345	19,009,210
Net utility plant	<u>43,392,808</u>	<u>41,569,424</u>
OTHER ASSETS AND INVESTMENTS:		
Restricted cash	918,058	1,400,145
Investments in associated organizations	11,593,389	10,639,444
Investment in land and buildings	1,141,485	1,141,485
Notes receivable	826,361	438,106
Other		
Total other assets and investments	<u>14,479,293</u>	<u>13,619,180</u>
CURRENT ASSETS:		
Cash and cash equivalents	959,323	2,754,499
Accounts receivable:		
Customers, less provision for doubtful accounts of \$94,615 and \$101,389 for 2012 and 2011, respectively	1,115,032	1,264,485
Unbilled revenue	2,072,841	2,099,083
Other	129,769	34,569
Inventories	571,965	332,545
Prepaid purchased power		3,348,085
Prepays	112,480	95,699
Other current and accrued assets	14,962	22,215
Total current assets	<u>4,976,372</u>	<u>9,951,180</u>
DEFERRED ASSETS:		
NRUCFC conversion fees	<u>7,190,167</u>	<u>1,344,970</u>
Total assets	<u>\$ 70,038,640</u>	<u>\$ 66,484,754</u>

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

LIABILITIES AND OTHER CREDITS

	<u>2012</u>	<u>2011</u>
EQUITIES:		
Patronage capital	\$ 32,470,178	\$ 30,112,440
Retained deficit	(23,652,373)	(23,652,373)
Other equities	150,943	161,098
Total equities	<u>8,968,748</u>	<u>6,621,165</u>
LONG-TERM DEBT:		
Notes payable	49,990,837	50,604,396
Less: Current maturities	692,527	656,443
Total long-term debt	<u>49,298,310</u>	<u>49,947,953</u>
CURRENT LIABILITIES:		
Current maturities on long-term debt	692,527	656,443
Current portion of NRUCFC conversion fees	215,250	85,590
Current portion of postretirement benefits	67,774	67,774
Accounts payable:		
Purchased power	1,363,644	
Trade	197,791	179,041
Line of credit		5,000,000
Customer deposits	962,380	915,241
Accrued liabilities:		
Taxes	643,076	1,032,323
Other	412,504	435,587
Total current liabilities	<u>4,554,946</u>	<u>8,371,999</u>
OTHER LONG-TERM LIABILITIES:		
NRUCFC conversion fees	6,974,917	1,259,380
Postretirement benefits	241,719	284,257
Total other long-term liabilities	<u>7,216,636</u>	<u>1,543,637</u>
Total liabilities and other credits	<u>\$ 70,038,640</u>	<u>\$ 66,484,754</u>

PIONEER ELECTRIC COOPERATIVE, INC.

STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>		<u>2011</u>	
OPERATING REVENUES:				
Electric revenue	\$ 28,234,555	100.00%	\$ 29,433,973	100.00%
Total operating revenues	<u>28,234,555</u>	<u>100.00%</u>	<u>29,433,973</u>	<u>100.00%</u>
OPERATING EXPENSES:				
Cost of power	14,654,727	51.90%	15,553,306	52.84%
Distribution - operations	1,564,622	5.54%	1,208,677	4.11%
Distribution - maintenance	2,592,514	9.18%	2,289,684	7.78%
Consumer accounts	1,079,053	3.82%	1,258,051	4.27%
Energy marketing and communications	223,815	0.79%	250,022	0.85%
Administrative and general	1,842,278	6.52%	1,987,894	6.75%
Depreciation	2,332,276	8.26%	2,032,784	6.91%
Taxes	70,956	0.25%	250,153	0.85%
Total operating expenses	<u>24,360,241</u>	<u>86.26%</u>	<u>24,830,571</u>	<u>84.36%</u>
OPERATING MARGINS	3,874,314	13.74%	4,603,402	15.64%
G & T AND OTHER CAPITAL CREDITS	<u>1,190,414</u>	<u>4.21%</u>	<u>1,284,407</u>	<u>4.36%</u>
NET OPERATING MARGINS	<u>5,064,728</u>	<u>17.95%</u>	<u>5,887,809</u>	<u>20.00%</u>
INTEREST EXPENSE	<u>3,049,775</u>	<u>10.79%</u>	<u>3,286,034</u>	<u>11.16%</u>
NON-OPERATING MARGINS:				
Interest income	185,425	0.66%	246,750	0.84%
Other income (expense)	<u>(60,206)</u>	<u>(0.21%)</u>	<u>34,028</u>	<u>0.12%</u>
Total non-operating margins	<u>125,219</u>	<u>0.45%</u>	<u>280,778</u>	<u>0.96%</u>
NET MARGINS FOR THE YEAR	<u>2,140,172</u>	<u>7.61%</u>	<u>2,882,553</u>	<u>9.80%</u>
PATRONAGE CAPITAL AT BEGINNING OF YEAR	30,112,440		27,040,124	
UTILITY TAX REFUND	<u>217,566</u>		<u>189,763</u>	
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 32,470,178</u>		<u>\$ 30,112,440</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, 2012 AND 2011
 Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net margins	\$ 2,140,172	\$ 2,882,553
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	2,332,276	2,032,784
Bad debt expense	49,734	45,303
G & T and other capital credits	(1,190,414)	(1,284,407)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	4,519	2,220
Unbilled revenue	26,242	128,604
Materials and supplies	(239,420)	(29,987)
Prepays	(16,781)	9,414
Prepaid purchased power	3,348,085	(867,686)
Other current and accrued assets	7,253	186,008
Accounts payable	1,382,394	159,385
Consumer deposits	47,139	63,312
Accrued liabilities	(454,868)	316,149
Net cash from operating activities	<u>7,436,331</u>	<u>3,643,652</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Purchase of property and equipment, net of salvage and cost of removal	(4,155,660)	(5,071,775)
Increase in other notes receivable	(475,000)	
Principal payments received on other notes receivable	86,745	82,670
Proceeds from investments	236,469	16,263
Net cash used for investing activities	<u>(4,307,446)</u>	<u>(4,972,842)</u>
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Principal payments on notes payable	(613,559)	(577,183)
Proceeds from line of credit		1,150,000
Payments made on line of credit	(5,000,000)	
Increase in membership fees and other equity	207,411	177,910
Net cash from (used for) financing activities	<u>(5,406,148)</u>	<u>750,727</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(2,277,263)	(578,463)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,154,644</u>	<u>4,733,107</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,877,381</u>	<u>\$ 4,154,644</u>
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Restricted cash	\$ 918,058	\$ 1,400,145
Unrestricted cash	<u>959,323</u>	<u>2,754,499</u>
Totals	<u>\$ 1,877,381</u>	<u>\$ 4,154,644</u>
Cash paid for interest	<u>\$ 3,049,229</u>	<u>\$ 3,286,034</u>

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

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of business - Pioneer Electric Cooperative, Inc. (the Cooperative) distributes electric power to consumers in rural central Alabama.

Basis of accounting - The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Utilities Service, RUS. As a result, the application of accounting principles generally accepted in the United States of America by the Cooperative differs in certain respects from the application of those principles by nonregulated enterprises. Such differences primarily concern the recognition of gains and losses on the retirement of assets.

Recognition revenue - Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer.

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

Taxes - The Cooperative collects gross receipts taxes from its members on behalf of the State of Alabama. Revenue is presented net of taxes collected in the statement of income and patronage capital.

Accounts receivable - The Cooperative extends credit to its customers who are primarily located in central Alabama. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables do not accrue interest. Trade receivables are written-off when deemed uncollectible. Recoveries of trade receivables previously written-off are recorded when received.

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of period	\$ 101,389	\$ 112,064
Provision charged to income, net of recoveries	49,734	45,303
Accounts written-off	<u>(56,508)</u>	<u>(55,978)</u>
Balance at end of period	<u>\$ 94,615</u>	<u>\$ 101,389</u>

Inventories - Electric materials and supplies are priced at average historical cost. Cost is determined by the cumulative average of all costs on a first-in, first-out (FIFO) basis.

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Electric plant - The Cooperative's costs associated with electric plant additions and improvements are capitalized based upon the RUS guidelines established in Bulletin 1767B-2. This results in the capitalization of direct costs such as labor and materials expense and also includes capitalization of indirect costs including labor, material charges, taxes, insurance, transportation, depreciation, pensions, and other related expenses. These costs are accumulated in work-in-process accounts and are capitalized to the proper plant accounts at the completion of the construction activity. Certain special equipment additions, as defined by RUS, are capitalized when purchased along with an estimated installation charge. The cost of depreciable property, when retired, is computed at the average unit cost along with removal costs less salvage. The net retirement cost is charged to accumulated depreciation. Maintenance and repairs, including minor items of property, are charged to maintenance expense as incurred.

Income tax status - The Cooperative is exempt from income taxes under Internal Revenue Code Section 501(c)(12).

Management evaluated the Cooperative's tax positions and concluded that the Cooperative had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Cooperative is no longer subject to income tax examinations by the federal, state, or local tax authorities for years before 2008.

Investments - Investments in associated organizations represent cooperative capital credits from the Cooperative's suppliers and debt capital. Investments in associated organizations are recorded at cost plus allocated equities. Investments in land and buildings are carried at historical cost.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 - CASH AND CASH EQUIVALENTS:

The Cooperative maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. At June 30, 2012 the Cooperative held \$662,066 in interest-bearing cash and cash equivalents at an Alabama bank. 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.

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Restricted funds related to industrial development revolving loan programs are included in cash and cash equivalents. Restricted balances included in cash and cash equivalents were as follows:

	<u>2012</u>	<u>2011</u>
Intermediary Relending Program	\$ 517,573	\$ 718,558
RUS revolving loan fund	228,040	323,007
REDLG	150,408	244,470
RBEG revolving loan fund	<u>22,037</u>	<u>114,110</u>
 Total restricted funds	 <u>\$ 918,058</u>	 <u>\$ 1,400,145</u>

NOTE 3 - UTILITY PLANT AND DEPRECIATION:

Listed below are the major classes of electric plant as of June 30, 2012 and 2011:

	<u>2012</u> PLANT BALANCES	<u>2011</u> PLANT BALANCES	<u>ANNUAL</u> DEPRECIATION RATE
Distribution plant	\$ 51,161,498	\$ 48,741,873	3.20 - 4.00%
General plant:			
Land and rights	243,797	243,797	
Structures and improvements	4,582,614	4,568,262	2.05%
Office furniture and equipment	2,316,520	2,394,626	7.00 - 14.28%
Transportation equipment	1,083,538	1,014,127	17.00%
Power-operated equipment	2,351,518	2,291,965	6.72 - 17.00%
Communication equipment	559,857	559,857	8.00%
Other miscellaneous equipment	<u>458,979</u>	<u>442,163</u>	6.00 - 12.00%
 Totals	 <u>\$ 62,758,321</u>	 <u>\$ 60,256,670</u>	

Electric plant is depreciated on a straight-line basis.

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 - INVESTMENTS IN ASSOCIATED ORGANIZATIONS:

Investments in associated organizations consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
PowerSouth patronage capital	\$ 6,917,387	\$ 6,213,452
NRUCFC patronage capital	1,561,083	1,374,527
Investment in NRUCFC capital term certificates	2,215,516	2,215,516
NRUCFC member capital securities	400,000	400,000
Other investments in associated organizations	499,403	435,949
	<u>\$ 11,593,389</u>	<u>\$ 10,639,444</u>

NOTE 5 - EQUITIES:

At June 30, 2012 and 2011 equities consisted of:

	<u>2012</u>	<u>2011</u>
Equities at beginning of year	\$ 6,460,067	\$ 3,387,751
Utility tax refund	217,566	189,763
Net margins	2,140,172	2,882,553
	<u>\$ 8,817,805</u>	<u>\$ 6,460,067</u>
Patronage capital	\$ 32,470,178	\$ 30,112,440
Retained earnings (deficit)	(23,652,373)	(23,652,373)
	<u>\$ 8,817,805</u>	<u>\$ 6,460,067</u>
Memberships and other equities:		
Donated capital	\$ 21,471	\$ 21,471
Retired capital credits - gain	125,903	136,057
Other	3,569	3,570
	<u>\$ 150,943</u>	<u>\$ 161,098</u>
Total other equities	<u>\$ 150,943</u>	<u>\$ 161,098</u>

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

In 2005, the Cooperative was a lender to a company under common control. The company under common control could not satisfy its debt and was liquidated. Upon dissolution of the company under common control, the Cooperative recognized losses on its investment in that company. The deficit retained earnings are reflective of this loss.

NOTE 6 - NOTES PAYABLE AND LINES OF CREDIT:

<u>DESCRIPTION</u>	<u>2012</u>	<u>2011</u>
Mortgage notes payable - NRUCFC; fixed interest rates of 4.60%; notes due December 2040; secured by all assets.	\$ 39,887,779	\$ 40,312,038
Mortgage notes payable - CoBank; variable interest rates from 2.56% to 4.50%; notes due at December 2040; secured by all assets.	9,462,496	9,616,108
Notes payable - RUS; 1% interest; Intermediary Relending Program; principal and interest due in installments until August 2030; secured by related Economic Development Loans.	<u>640,562</u>	<u>676,250</u>
Total long-term notes payable	<u>\$ 49,990,837</u>	<u>\$ 50,604,396</u>

The Cooperative has financial covenants with its lenders relating to certain financial ratios. Management is not aware of any violations of these covenants at June 30, 2012.

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

June 30, 2013	\$ 692,527
June 30, 2014	738,237
June 30, 2015	793,683
June 30, 2016	843,799
June 30, 2017	890,390

Lines of credit - The Cooperative has two lines of credit with NRUCFC on which it may borrow up to \$12,500,000. One line of credit totals \$5,000,000 and may be used only for electric capital or operating needs. The other line of credit totals \$7,500,000 and may be used only for expenditures reimbursable by FEMA. As of June 30, 2012 there were no outstanding balances outstanding on these lines of credit.

PIONEER ELECTRIC COOPERATIVE, INC.
GREENVILLE, ALABAMA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

The Cooperative has an available unsecured line of credit with CoBank on which it may borrow up to a total of \$5,000,000. The balance outstanding was \$-0- and \$5,000,000 at June 30, 2012 and 2011, respectively.

The Cooperative has an approved unadvanced loan with NRUCFC in the amount of \$3,000,000 at June 30, 2012. The term of the unadvanced loan is up to 35 years. The Cooperative may draw down proceeds for eligible property additions. As of June 30, 2012 there was no outstanding balance.

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 \$135,942 and \$90,320 for 2012 and 2011, respectively.

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

NOTE 7 - ACCOUNTING FOR PENSIONS:

The employees of the Cooperative participate in the NRECA Retirement and Security Program, a defined benefit pension plan qualified under Section 403(b) and tax exempt under Section 501(a) of the Internal Revenue Code. In this master multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The Cooperative had pension expenses related to this plan of \$881,161 and \$1,062,475 for 2012 and 2011, respectively.

The Cooperative has a 401(k) plan for its employees. The total expense related to the 401(k) plan for the Cooperative was \$53,312 and \$48,824 for 2012 and 2011, respectively.

NOTE 8 - COMMITMENTS:

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from PowerSouth until December 31, 2050. The rates paid for such purchases are subject to periodic review.

The Cooperative has a contract to purchase land for industrial development adjacent to the South Dallas Industrial Park at a minimum amount of \$74,000 per year from 2016 to 2020. The total remaining commitment is \$370,000.

NOTE 9 - SUBSEQUENT EVENTS:

The Cooperative has evaluated subsequent events through August 28, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2012, have been incorporated into these financial statements.