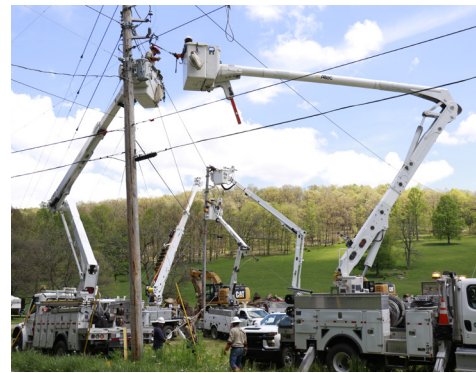




Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 



2023 ANNUAL REPORT

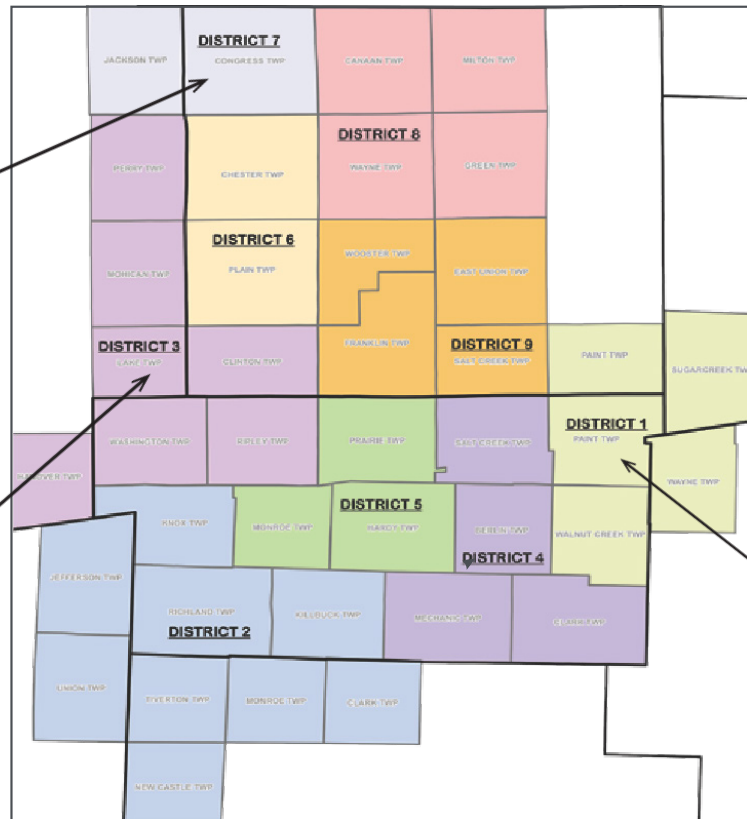
2024 Board of Trustees Election: Districts

District 7

Congress Township in Wayne County and Jackson Township in Ashland County

District 3

Perry, Mohican, Lake, and Hanover townships in Ashland County, Washington and Ripley townships in Holmes County, and Clinton Township in Wayne County



District 1

Paint and Walnut Creek townships in Holmes County, Paint Township in Wayne County, Wayne Township in Tuscarawas County, and Sugarcreek Township in Stark County

Candidate information is presented as provided by each candidate.

HWEC Code of Regulations requires a nominating committee consisting of one member from each of the nine districts to select a minimum of one and maximum of three candidates for the election process.



District 1



Timothy Boggs

Name: Timothy Boggs

Homes Address: 30 Taylor Street,
West Salem, OH 44827

Email Address:
timelessglassblock@gmail.com

Number of years as HVEC member: 24

Cooperative Voting District No: 7

Education and specific degree:

Northwestern graduate

Current employment or employment history: Owner of Timeless Glass Block, LLC, registered business in 2017. Worked at Tru-Fit Products in Medina as a machinist 2007-2020. Work at Median Glass Block in Medina from 2000-2007 when they filed for bankruptcy.

Leadership and community activities: Northwestern High School girl's soccer coach, 2023-present. Ohio Striker United Soccer, 2014-present. West Salem Village Councilman, 2022-present, 2015-2018

Why are you interested in becoming a member of the HVEC Board of Trustees or serving another term? I feel that I can bring fresh ideas and value to the program. Serving for the village of West Salem as council, I have some knowledge of Holmes-Wayne workings. One of the Holmes-Wayne buildings is located close to town hall.

Any additional information you feel is essential for members to be aware of: Resident of West Salem since 1988. Graduated from Northwestern in 1993. Married in 1995. 3 kids. The best way to help my community is being actively involved to improve for the future.

Family: Wife, Bobbi Boggs, daughter Nekoda (27), twins sons Jeshua and Micah (25)

District 1



David Tegtmeier

Name: David Tegtmeier (incumbent)

Home address: 11360 Franchester Rd.
West Salem, Ohio 44287

E-mail Address: dt egtmeier@hwecoop.com

Number of years as HVEC member: 41

Cooperative Voting District No: 7

Education and specific degree: Graduate
of Northwestern High School, Associate's
Degree in Computer Programming from

North Central Technical College.

Current employment or employment history: Self-employed farmer, retired from Ashland University as a senior audio/visual technician, previously employed by First Merit/Peoples Federal and served in the U.S. Air Force.

Leadership and community activities: Served on Congress Township committees, very active member of St. Peter Lutheran Church in New Pittsburg, member of Wayne County Farm Bureau and NRA.

Why are you interested in becoming a member of the HVEC Board of Trustees or serving another term: I continue to use my knowledge gained over the past nine years while serving on the HVEC Board.

I like supporting various activities like Operation Roundup, Honor Trip, the scholarship program, etc. I feel privileged to have had the opportunity to serve as a trustee. It has been an informative and fulfilling time. I like the cooperative business model because it works. As a member/owner like you, we can be very proud to be part of an organization that is one of Ohio's best electric cooperatives when it comes to rates, safety, reliability and growth. I believe being a member of the HVEC Board of Trustees is part of my civic duties.

Any additional information you feel is essential for members to be aware of: There are seven cooperative principles with one being education of members and employees. With this in mind, I have obtained the Credentialed Cooperative Director Certificate, Board Leadership Certificate and Director Gold Certificate. I recently had the privilege to be a guardian for a veteran on the Honor Trip to Washington D.C.

Family: Wife, Rita; sons Luke and Mark; daughter Jill (Dennis) with granddaughters, Savanna and Lacey.



TRUSTEE ELECTIONS

District 3



Jackie McKee

Name: Jackie McKee (incumbent)

Homes Address: 8249 State Route 754,
Shreve, OH 44676

Email Address: jmckee1220@aol.com

Number of years as a HWECE member: 41

Cooperative Voting District No: 3

Education and specific degree: Graduate
from the University of Akron/Wayne College
in business management and accounting.

Current employment or employment history: Currently serving 25th
year as Holmes County Auditor. Served 8 years as Ripley Township Fiscal
Officer prior.

Leadership and community activities: Farm Bureau member and
past director for 9 years, past 4-H advisor, member of Wooster
Methodist Church, member of Holmes County Chamber of Commerce,
serve on executive committee of County Auditor Association of Ohio,
past president of Northeast Auditors Association.

Why are you interested in becoming a member of the HWECE Board of Trustees or serving another term?

I am grateful for the opportunity to serve cooperative members as a trustee. I believe in the cooperative model and membership representation. I appreciate working with an organization that practices good management and has a commitment to the community. My background and experience will allow me to ensure the mission of HWECE continues and to assist navigating the cooperative through changing times.

Any additional information you feel is essential for members to be aware of:

I continue to attend educational classes to advance my industry knowledge and better serve the HWECE membership. I have obtained the National Rural Electric Cooperative Association Credentialed Cooperative Director Certification, the Board Leadership Certificate, and the Director Gold Credential.

Family: Husband, Dale; children – Joel (Brittney) McKee, Jessica (Joey) Franklin; grandchildren – Kade, Korbin, Josie, and Jagger.

MINUTES FROM THE 2023 ANNUAL MEETING

The Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at Harvest Ridge on Thursday, June 29, 2023.

The business meeting was called to order by the Chairman of the Board of Trustees, Randy Sprang. It was moved and seconded to approve the agenda. Motion carried.

Randy Sprang reported on behalf of the Board of Trustees:

- Rising costs of supplies/equipment resulted in a rate adjustment effective the May 2023 billing cycle. The board will work to maintain costs and keep rates as low as possible.
- In 2022, the cooperative paid \$1,582,919 in KWH tax to the State of Ohio, and \$1,407,177 in property taxes that benefited 12 local school districts and local governments.
- This month, \$1,343,008 of patronage capital credits were returned to HWECE members. This is a reminder of the principles on which the cooperative was built.
- The annual report provided today displays the board's commitment to investing our members' dollars in the best manner possible. We are focused on maintaining reliable, affordable service, while actively participating in and giving back to the community.

AJ Knapp of REA & Associates reviewed the Auditor's Report for 2022, which resulted in a clean, unqualified opinion.

Daniel Mathie, Attorney for Critchfield, Critchfield, and Johnston, LTD, and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. Members of the cooperative who were enrolled in Operation Round Up donated over \$83,000 in 2022 to local community members and organizations.

John Porter, Vice-President of Operations, delivered the Chairman's speech on behalf of Glenn Miller:

- HWECE experienced its most devastating weather event on June 14th, 2022. Powerful straight-line winds tore throughout our service territory knocking out power to 13,209 members (75% of our meters) and 10 of our 18 substations experience transmission outages. Incredibly, power was fully restored within 9 days.
- Even with the challenges presented by the storm, 2022 was another successful year for the cooperative. HWECE remained financially strong, maintained a high level of member satisfaction, and provided safe and exceptionally reliable electricity to our members.
- Your board approved the current four-year work plan totaling \$23,077,200 allowing continued investment in line rebuilding, substation testing, pole replacements, and other equipment replacements.

District 7



Matt Johnson

University of Kentucky

Name: Matt Johnson

Homes Address: 1844 Township Road 6756, Dundee, OH 44624

Email Address: mjohnson@palmer.net

Number of years as a HWEC member: 17

Cooperative Voting District No: 1

Education and specific degree: Bachelor of Science, civil engineering, University of Kentucky Master of Science, civil engineering,

Current employment or employment history: I have worked as a structural engineer for Palmer Engineering since 1999. In 2007, I started Palmer's eastern Ohio office and I've been managing Palmer's operations in eastern Ohio since that time.

Leadership and community activities: I serve as a ruling elder at Zion Reformed Church in Winesburg. I'm a board member of the Winesburg Parks and Recreation Association, and I'm president of the Cuyahoga Valley Section of the American Society of Highway Engineers.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? Having access to affordable, reliable electricity is a necessity for our co-op members. I'd like to use my experience in designing, managing, and maintaining public infrastructure, as well as my background in business management, to benefit HWEC.

Family: Wife, Holley Johnson. Children – Gus (19 years old), Phin (17), and Lydia (14)

District 7



Randy Sprang

Name: Randy Sprang (incumbent)

Homes Address: 1601 County Road 200, Dundee, OH 44624

Email Address: rsprang@hwecoop.com

Number of years as a HWEC member: 47

Cooperative Voting District No: 1

Education and specific degree: High School Graduate, West Holmes High School - 1972

Current employment or employment history:

Retired from the Ohio Agriculture Research and Development Center in Wooster, OH after 37 years of service. I am currently working there as a seasonal employee. I have also been a Paint Township Trustee for 30 years.

Leadership and community activities: Member of Holmes-Wayne Electric Cooperative for 20 years. I have served as the board chairman since 2012.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I believe my experience and knowledge of being a board member will continue to benefit the members of Holmes-Wayne Electric Cooperative.

Any additional information you feel is essential for members to be aware of: I have successfully completed the Credentialed Cooperative Director Certificate, the Board Leadership Certificate and the Director Gold Certificate from the National Rural Electric Cooperative Association.

Family: Wife, Bonnie. Children Brian, Cliff (Missy), Dan (Lacey), and 4 grandchildren Cooper, Cali, Quinn and Willow.

- The operations team completed a tremendous amount of work in the filed upgrading the distribution network, which included rebuilding 10.1 miles of line, replacing 1,008 poles, trimming trees for 390.7 miles (32,191 trees), spraying vegetation control for 413.6 miles, and adding 300 new services. Along with energizing the new Winesburg substation and preparing for an additional substation in Holmesville.
 - This year in the 4-year tree trimming cycle program Davey Tree Services will trim 422 miles of line in our Killbuck, Stillwell, Drake Valley, and Buckhorn substation areas. Protec Terra will apply spray in the Clear Creek, Golden Corners, Mohican, North Wayne, and West Salem substation area.
 - We continue to be active in promoting energy efficiency and safety by visiting local schools, participation in safety fairs, and talking with youth in 4-H and scout troops.
 - HWEC continues to empower members by providing multiple avenues to manage electric consumption and bill payments. Our on-line and mobile application, Smart Hub, allows members to track electric consumption, report outages, and pay their bill from a mobile phone or tablet. Other convenient options include scheduling payments when traveling and paperless billing.
 - In 2022, your member service team fielded more than 28,000 phone calls, processed 7971 services order, and over 107,000 payments.
 - Members were encouraged to visit HWEC's new and refreshed website at www.hwecoop.com.
 - John Porter stated "Our management team is blessed to work with individuals who take a lot of pride in the work they do each day. At the heart of our achievements is you – the members that we proudly service. I am thankful for the positive impact we continue to make despite challenges we face with increased cost of materials, power supply, and more."
 - Daniel Mathie, Attorney from Critchfield, Critchfield, and Johnston, LTD, reported the results of the election:
 - Chris Young – District 4, Ronnie Schlegel – District 5, Jonathan Berger – District 6
- Attorney Daniel Mathie administered the oath to all Trustees elected. There was no unfinished business.
- There was no new business.
- Upon motion made and seconded, the meeting was adjourned.

2023 Operation Round Up summary: Pennies add up to more than \$950,000

Operation Round-Up Foundation plays a pivotal role in fostering positive social change, building community resilience, and enhancing the quality of life for residents in our service territory.

In 2023, more than \$43,500 was distributed in grants to individuals and organizations within our community. Since the establishment of ORU in 2006, the foundation has given close to \$950,000 in collective efforts for those in need.

So how do you get involved? You join the more than 7,200 HVEC members who have their electric bills rounded to the nearest dollar. That's right, the most it would cost you is 99 cents per month or, on average, \$6 a year. You can be part of our team that is supporting and enhancing the well-being of our friends and neighbors.

A five-member board evaluates applications and distributes funds based on the foundation's mission and community needs. Through your collaborative efforts, we are making a difference right here at home!



**In 2023, more than \$43,500
was distributed in grants to
individuals and organizations
within our community.**



The Operation Round Up Board, pictured from left to right:
(front) Michelle Wood, Glenn Miller,
(back) Jonathan Berger, Matt Johnson, and Dan Mathie.

2023 Operation Round Up grants

Assist family - beds for children - Wooster	\$370.00
Adaptive Sports Program - Sled hockey - Wooster	\$1,000.00
Assist individual - medical condition - Millersburg	\$250.00
National Alliance for Mental Illness -Wayne & Holmes Counties	\$500.00
Assist elderly couple with home repair needs - Glenmont	\$510.38
Assist family - beds for children - Wooster	\$370.00
Assist elderly individual with home repair needs - Glenmont	\$663.47
Millersburg Food Run - support local food pantry	\$350.00
One Eighty - Assist with addiction treatment programs	\$500.00
Farmers and Hunters Feeding the Hungry - Coshocton - processing for donated deer	\$750.00
United Way of Wayne and Holmes Counties -Imagination Library	\$500.00
Pomerene Hospital Lifting Hearts Bereavement	\$1,000.00
Adaptive Sports 5K Fundraiser	\$500.00
Assist family fostering - beds for children - Millersburg	\$690.00
Pomerene Hospital Auxiliary	\$500.00
Development Disabilities Camp	\$1,000.00
Habitat for Humanity - childrens beds	\$690.00
Wayne County First Responders -Appreciation gifts	\$800.00
Nashville Elementary weekend food bags	\$500.00
Wayne County Agencies - processing of donated fair animals	\$2,495.98
Christ's Cupboard -personal car pantry - Killbuck	\$1,000.00
Womens abuse center - Holmes County	\$500.00
Assist individual - home need - Millersburg	\$106.99
Food Fellowship Pantry -Wayne County	\$1,000.00
Wayne County Farm Bureau - Toy Drive	\$500.00
West Holmes Middle School -Shop with a Teacher	\$250.00
Night to Shine - special needs event	\$500.00
Wayne & Holmes County - bereavement items for loss of child	\$1,000.00
Share-A-Christmas - Holmes County	\$1,000.00
West Salem Outreach & Food Pantry	\$1,000.00
Love Center Food Pantry -Holmes County	\$1,000.00
Salvation Army- Wayne County	\$1,000.00
Salvation Army-Holmes County	\$1,000.00
Town & Country Fire & Rescue - West Salem Toy Drive	\$1,000.00
Christian Children's Home	\$1,000.00
Meals and More- West Salem	\$1,000.00
Holmes County Council on Aging - Darb Snyder Community Center	\$1,000.00
OneEighty - Holmes-County	\$1,000.00
OneEighty - Wayne County	\$1,000.00
American Red Cross - Wayne County	\$1,000.00
Lifecare Hospice of Wayne and Holmes County	\$1,000.00
Viola Startzman Health Clinic -Wooster	\$1,000.00
Church of God - Food Pantry - Millersburg	\$1,000.00

OPERATION ROUND UP

2023

Operation Round Up grants *(continued)*

Meals Together - Wooster Methodist Church	\$1,000.00
Glenmont Food Pantry	\$1,000.00
Shreve Community Church - Food Pantry	\$1,000.00
Mohican Area Community Fund	\$250.00
Goodwill Industries of Wayne & Holmes Counties, Inc.	\$1,000.00
The Lord's Pantry -West Salem	\$1,000.00
New Leaf Center - Mount Eaton	\$1,000.00
ACUMC Food Pantry	\$500.00
Community Christmas Outreach - ACUMC Church	\$500.00
Nick Amster Workshop -Wayne County	\$1,000.00
Hillsdale CARES	\$500.00
People to People Ministries	\$1,000.00
Total	\$43,546.82

Operation Round Up annual distributions:

2023 – \$43,546.81
 2022 – \$83,052.19
 2021 – \$45,761.00
 2020 – \$58,722.90
 2019 – \$62,101.43
 2018 – \$59,807.74
 2017 – \$52,659.98
 2016 – \$56,137.27
 2015 – \$49,449.70
 2014 – \$48,216.56
 2013 – \$63,099.06
 2012 – \$51,343.99
 2011 – \$63,289.93
 2010 – \$59,670.87
 2009 – \$38,794.38
 2008 – \$38,279.61
 2007 – \$37,596.26
 2006 – \$31,986.93
TOTAL \$944,071.39



2023 INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Opinion

We have audited the financial statements of Holmes-Wayne Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2023 and 2022, the related statements of revenue and expense, patronage capital and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2023 and 2022, 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 (GAAS) 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matter

During the years ended December 31, 2023 and 2022, the Cooperative received \$0 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 for the period of one year from the date of this report, or within one year after the date that the financial statements are available to be issued, when applicable.

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 GAAS and Government Auditing Standards will always detect a material misstatements when it exists.

February 20, 2024 • Board of Trustees Holmes-Wayne Electric Cooperative, Inc. Millersburg, Ohio 44654

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 GAAS 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.

Other reporting required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2024 on our consideration of Holmes-Wayne Electric Cooperative, Inc.'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 to solely 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 Holmes-Wayne Electric Cooperative Inc.'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 Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Millersburg, OH

2023 Balance sheets

As of December 31, 2023 and 2022

ASSETS

UTILITY PLANT:

	2023	2022
Electric plant in service	\$ 108,278,302	\$105,205,760
Construction work in progress	2,185,213	282,188
	<u>110,463,515</u>	<u>105,487,948</u>
Less: provision for accumulated depreciation	28,139,617	25,914,524
Net utility plant	82,323,898	79,573,424

OTHER ASSETS AND INVESTMENTS:

Investments in associated organizations	2,263,348	2,256,404
Patronage capital from associated organizations	20,410,836	19,688,804
Total other assets and investments	<u>22,674,184</u>	<u>21,945,208</u>

CURRENT ASSETS:

Cash and cash equivalents	579,517	652,362
Accounts receivable, net of allowance	5,930,187	5,902,263
Other receivable	-	2,300,000
Materials and supplies	1,351,194	1,302,929
Other current assets	214,441	216,795
Total current assets	<u>8,075,339</u>	<u>10,374,349</u>
Total assets	<u>\$ 113,073,421</u>	<u>\$ 111,892,981</u>

EQUITIES AND LIABILITIES

EQUITY:

	2022	2021
Patronage capital	\$ 46,279,125	\$ 44,081,628
Other equities	2,214,077	2,101,964
Accumulated other comprehensive loss	(12,962)	(17,462)
Total equity	<u>48,480,240</u>	<u>46,166,130</u>

LONG-TERM LIABILITIES:

Mortgage notes payable	55,575,228	52,842,439
Deferred credits	7,350	8,603
Postretirement benefit obligation	677,059	643,048
Total long-term liabilities	<u>56,259,637</u>	<u>53,494,090</u>

CURRENT LIABILITIES:

Current maturities of mortgage notes payable	2,259,000	2,182,000
Line of credit	-	4,500,000
Accounts payable	3,489,550	3,120,473
Postretirement benefit obligation, current portion	35,100	15,800
Accrued taxes	1,753,806	1,636,972
Customers' deposits	117,790	128,875
Other current liabilities	678,298	648,641
Total current liabilities	<u>8,333,544</u>	<u>12,232,761</u>
Total equities and liabilities	<u>\$ 113,073,421</u>	<u>\$ 111,892,981</u>

(The accompanying notes are an integral part of this statement.)

2023

Statements of Revenue and Expense

For the years ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES	\$ 51,817,166	\$ 50,712,896
OPERATING EXPENSES:		
Cost of purchased power	31,013,926	32,197,552
Operations	4,632,167	4,255,721
Maintenance	4,494,421	3,766,290
Consumer accounts	1,228,854	1,149,234
Customer service and informational expense	104,677	103,933
Administrative and general	2,164,354	2,056,921
Depreciation	3,200,653	3,032,724
Tax expense	1,528,110	1,582,919
Interest - other	3,763	3,967
Other deductions	16,316	3,790
Total cost of electric service	48,387,241	48,153,051
Operating margins before fixed charges	3,429,925	2,559,845
FIXED CHARGES , interest on long-term debt	1,873,551	1,815,236
Operating margins after fixed charges	1,556,374	744,609
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits, Buckeye Power, Inc.	1,767,498	1,543,008
Other credits	199,412	119,285
	1,662,293	1,662,293
Net operating margins	3,523,284	2,406,902
NON-OPERATING MARGINS:		
Interest income	76,893	45,196
Other income	60,880	24,602
Gain on disposition of property	504	272
	138,277	70,070
Net margins	\$ 3,661,561	\$ 2,476,972

(The accompanying notes are an integral part of this statement.)

2023

Patronage Capital

For the years ended December 31, 2023 and 2022

	2023	2022
PATRONAGE CAPITAL , beginning of year	\$ 44,081,628	\$ 42,953,874
Net margins	3,661,561	2,476,972
Retirement of capital credits	(1,464,064)	(1,349,218)
PATRONAGE CAPITAL , end of year	\$ 46,279,125	\$ 44,081,628

(The accompanying notes are an integral part of this statement.)

2023

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 3,661,561	\$ 2,476,972
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	3,200,653	3,032,724
Amortization of retirement security plan prepayment	-	154,985
Non-cash capital credits received	(1,977,907)	(1,674,065)
(Increase) decrease in assets:		
Accounts receivable, net	2,272,076	(2,856,010)
Other current assets	2,354	(40,694)
Increase (decrease) in liabilities:		
Accounts payable	369,077	(299,124)
Accrued taxes	116,834	119,864
Customers' deposits	(11,085)	(855)
Other current liabilities	29,657	17,046
Deferred credits	(1,253)	7,248
Postretirement benefit obligation	53,311	(62,595)
Total adjustments	<u>4,053,717</u>	<u>(1,601,476)</u>
Net cash provided by operating activities	7,715,278	875,496
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(5,951,127)	(5,300,587)
Increase (decrease) in materials and supplies	(48,265)	64,148
Investments in associated organizations	(7,719)	(18,716)
Proceeds from redemption of capital credits	1,255,875	1,541,570
Return of investment in associated organizations	<u>775</u>	<u>12,500</u>
Net cash used in investing activities	(4,750,461)	(3,701,085)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) proceeds on line of credit	(4,500,000)	4,000,000
Proceeds from mortgage notes payable	5,000,000	2,500,000
Principal payments on mortgage notes payable	(2,190,211)	(2,095,924)
Patronage capital credits retired	(1,464,064)	(1,349,218)
Retired capital credits unclaimed	47,462	4,529
Donated capital received	64,651	57,811
Actuarial gain on postretirement benefits	<u>4,500</u>	<u>107,338</u>
Net cash (used) provided by financing activities	(3,037,662)	3,224,536
Net (decrease) increase in cash and cash equivalents	(72,845)	398,947
CASH AND CASH EQUIVALENTS, beginning of year	<u>652,362</u>	<u>253,415</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 579,517</u>	<u>\$ 652,362</u>

(The accompanying notes are an integral part of this statement.)

2023

Notes to the financial statements

NOTE A: ORGANIZATION

Holmes-Wayne Electric Cooperative, Inc. (the Cooperative) is a non-profit corporation operating on a cooperative basis. Its primary purpose is to provide electric power and energy to its membership which includes individuals as well as commercial and industrial businesses.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**General**

The Cooperative's accounting policies conform to generally accepted accounting principles of the United States of America following the accounting procedures common to rural electrical cooperatives and as recommended by the Rural Utilities Service (RUS).

Uninsured Risk

The Cooperative maintains its cash and cash equivalents balances in multiple financial institution located in central Ohio. Deposits in interest-bearing and non-interest-bearing accounts are collectively insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 at each FDIC-insured depository institution. As a result, the Cooperative may have balances that exceed the insured limit.

Estimates

The preparation of financial statements in conformity with accounting principles general accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant, Equipment and Depreciation

The Cooperative records improvements and additions to the distribution plant at cost using continuing property records. Retirements are removed from the asset and accumulated depreciation accounts at a standard cost, which approximates original cost, which is updated periodically.

The general plant and equipment is recorded at cost based on the unit method. Any retirements or disposals of general plant and equipment are removed at cost from the asset and accumulated depreciation.

Depreciation is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined by the use of functional composite rates as follows:

Distribution Plant	3.2%
General Plant:	
Structure and improvements	2.0 - 5.0 %
Office furniture and equipment	10.0%
Computer equipment	25.0%
Transportation equipment	14.0%
Power operating equipment	12.0%
Communications equipment	10.0%
Other general plant	10.0%

Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no

ready market and are included in the financial statements as long-term assets. These investments, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year. No portion of the current allocation is paid in cash.

Leases

The Cooperative applies Accounting Standards Codification (ASC) 842 in the accounting for leases. The Cooperative determines if a contract contains a lease when the contract conveys the right to control the use of identified assets for a period in exchange for consideration. Upon identification and commencement of a lease, the Cooperative establishes a right-of-use (ROU) asset and a lease liability. The total lease term is determined by considering the initial term per the lease agreement, which is adjusted to include any renewal or termination options that the Cooperative is reasonably certain to exercise. The Cooperative does not recognize ROU assets and lease liabilities for leases with a term of 12 months or less. As a result of evaluating any contracts that may contain a lease, management of the Cooperative determined that ASC 842 does not have material impact on the Cooperative and therefore no ROU assets or lease liabilities are included in the financial statements.

Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which (1) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model and (2) provides for recording credit losses on available for sale debt securities through an allowance account. The update requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. The guidance is effective for the Cooperative beginning January 1, 2023, with earlier adoption permitted.

The Cooperative adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

Statements of Cash Flows

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Net cash flows from operating activities include cash payments for interest of \$1,877,583 and \$1,819,902 for the years ended December 31, 2023 and 2022, respectively. There were no payments for federal income taxes for 2023 or 2022.

NOTE C: REVENUE

Revenue from the sale of electricity is recorded monthly based on consumer electricity consumption. The Cooperative bills monthly for all consumers. Commercial consumers with capacity in excess of 15 KW have "Demand" meters and are billed based upon automated meter readings taken at the end of each calendar month. All other consumers are billed based upon self-read meter readings. Substantially all of the cooperative's consumers are located in Holmes and Wayne counties.

The Cooperative derives its revenues primarily from sales of electricity. For such revenues, the Cooperative recognizes revenues in an amount derived from the electricity delivered to customers.

The Cooperative calculates revenue earned but not yet billed based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month. Differences between actual and estimated unbilled revenue are immaterial.

The performance obligation in all arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as the Cooperative delivers or sells the electricity. The Cooperative records revenue for all of those sales based upon the volume delivered, which corresponds to the amount that the Cooperative has a right to invoice.

There are no material initial incremental costs of obtaining a contract in any of the arrangements. The Cooperative does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. The Cooperative does not have any material significant payment terms because it receives payment at or shortly after the point of sale.

The Cooperative also has various other sources of revenue including billing, collection, other administrative charges, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing.

The Cooperative had an accounts receivable balance, net of allowance, of \$5,346,253 as of January 1, 2022.

NOTE D: ACCOUNTS RECEIVABLE

The Cooperative operates in the electric cooperative industry and its accounts receivable are primarily derived from consumer electricity consumption. Effective January 1, 2023, at each balance sheet date, the Cooperative recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Cooperative's historical losses based on the aging of

receivables. This estimate is adjusted for management's assessment of current conditions and reasonable and supportable forecasts regarding future events.

The Cooperative believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Cooperative's customers have remained constant since the Cooperative's inception.

The Cooperative writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Cooperative's accounting policy election. The total amount of write-offs was not material to the financial statements as a whole for the year ended December 31, 2023.

NOTE E: OTHER RECEIVABLE

The Cooperative applied for funding from the Ohio State Disaster Relief Program related to restoration costs incurred from a windstorm that occurred in June 2022. The funding was received in 2023 and was recorded as other receivable on the balance sheet as of December 31, 2022.

NOTE F: UTILITY PLANT

Listed below are the major classes of the electric plant as of December 31:

	<u>2023</u>	<u>2022</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	97,047,235	94,611,657
General Plant	10,982,936	10,345,972
Electric Plant in Service	108,278,302	105,205,760
Construction Work in Progress	2,185,213	282,188
Total Utility Plant at Cost	<u>\$110,463,515</u>	<u>\$ 105,487,948</u>

NOTE G: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on December 31:

	<u>2023</u>	<u>2022</u>
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 619,833	\$ 620,608
NRUCFC member capital securities	200,000	200,000
Equity contribution with Buckeye Power, Inc.	1,209,981	1,209,981
NRUCFC membership	1,000	1,000
Cooperative Response Center membership	12,500	12,500
Heartland Emergency Equipment, Ltd.	220,034	212,315
Total investments in associated organizations	<u>\$ 2,263,348</u>	<u>\$ 2,256,404</u>

NOTE H: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

Patronage Capital from associated organizations consisted of the following on December 31:

	<u>2023</u>	<u>2022</u>
Patronage Capital from Associated Organizations:		
Buckeye Power, Inc.	\$ 19,254,337	\$18,675,524
NRUCFC	218,157	207,035
National Information Solutions Cooperative	118,510	121,031
Federated Rural Electric Insurance Exchange	196,064	188,624
Cooperative Response Center membership	12,262	12,262
United Utility Supply Cooperative Corporation	611,506	484,328
Total patronage capital from associated organizations	<u>\$ 20,410,836</u>	<u>\$ 19,688,804</u>

NOTE I: LEASES

The Cooperative leases land and a postage machine that expire in various years through 2027. Termination of the leases is generally prohibited unless there is a violation under the lease agreement. Rent expense for the years ended December 31, 2023 and 2022 was \$6,968.

NOTE J: PATRONAGE CAPITAL

At December 31, 2023 and 2022, patronage capital consisted of:

	<u>2023</u>	<u>2022</u>
Assignable	\$ 3,661,561	\$ 2,476,972
Assigned	74,737,257	72,260,285
	78,398,817	74,737,257
Retired	(32,119,693)	(30,655,629)
Total patronage capital	<u>\$ 46,279,125</u>	<u>\$ 44,081,628</u>

The Cooperative's patronage capital balances represent 41 and 39 percent, of the total assets at December 31, 2023 and 2022, respectively. Capital credit retirements in the amount of \$1,464,064 and \$1,349,218 were paid in 2023 and 2022, respectively.

The Cooperative received donated capital from members totaling \$64,651 and \$57,811 during 2023 and 2022, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2023 and 2022 includes \$24,228,179 and \$23,201,311, respectively, reinvested in Buckeye Power, Inc. which has been restricted by action of the Board of Trustees and members of the Cooperative. This patronage capital reinvested in Buckeye Power, Inc. has been separately identified on the books of the Cooperative and will not be available for retirement by the Cooperative until retired in cash by Buckeye Power, Inc.

NOTE N: LONG-TERM DEBT

Long-term debt is comprised substantially of mortgage notes payable to the United States of America (RUS & FFB) and supplemental mortgages to NRUCFC. Following is a summary of outstanding long-term debt as of December 31, 2023 and 2022:

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2023</u>	<u>2022</u>
RUS ADVANCE PAYMENTS UNAPPLIED			-	\$(109)
CFC	6.250%	3/14/26	90,485	131,689
CFC	6.300%	7/28/29	138,901	159,415
CFC	4.600% - 4.850%	9/23/26	228,283	319,029
CFC	4.400% - 4.950%	11/25/39	4,687,858	4,950,755
FFB	4.503%	12/31/31	414,824	457,045
FFB	4.120%	12/31/31	774,671	854,932
FFB	2.736%	12/31/31	366,821	407,328
FFB	4.269%	12/31/31	208,162	229,580
FFB	4.295%	12/31/31	418,051	461,013

NOTE K: OTHER EQUITIES

At December 31, 2023 and 2022, other equities consisted of:

	<u>2023</u>	<u>2022</u>
Donated capital	\$1,453,787	\$ 1,389,136
Retired capital credits unclaimed	760,290	712,828
Total other equities	<u>\$ 2,214,077</u>	<u>\$2,101,964</u>

NOTE L: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this 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 pension expense for 2023 and 2022 was \$962,890 and \$853,237, respectively.

All employees of Holmes-Wayne Electric Cooperative, Inc. are eligible to participate in the selected pension plan and trust defined contribution benefit plan administered by NRECA. The Cooperative contributes 1 percent of all eligible participants' base salary and wages and matches up to an additional 4 percent of a participant's voluntary contributions. The Cooperative expensed \$180,813 and \$167,946 for the years ended December 31, 2023 and 2022, respectively.

NOTE M: SHORT-TERM DEBT

The short-term line of credit of \$10,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2023 and 2022. The interest rate on the line of credit at December 31, 2023 and 2022 was 7.25 and 5.75 percent, respectively, with outstanding balances on the line of \$0 and \$4,500,000, for 2023 and 2022, respectively. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

The Cooperative also has a corporate charge card agreement in place with US Bank and NRUCFC. The terms of the agreement state that CFC will extend the Cooperative credit, if needed, at CFC's current line of credit rate, payable upon demand by CFC.

NOTE N: LONG-TERM DEBT (continued)

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2023</u>	<u>2022</u>
FFB	3.879%	12/31/31	400,475	442,432
FFB	2.009%	12/31/34	457,998	494,870
FFB	2.231%	12/31/34	450,818	486,621
FFB	2.795%	12/31/34	468,617	504,560
FFB	4.550%	12/31/34	530,226	566,664
FFB	4.353%	12/31/34	529,072	565,886
FFB	4.543%	12/31/34	1,286,941	1,375,420
FFB	3.889%	12/31/42	4,366,361	4,519,437
FFB	3.849%	12/31/42	2,179,202	2,255,935
FFB	4.419%	12/31/42	1,564,386	1,616,125
FFB	3.873%	12/31/45	1,589,054	1,634,233
FFB	2.763%	12/31/45	1,065,744	1,100,588
FFB	2.702%	12/31/45	987,129	1,019,648
FFB	2.330%	12/31/45	1,270,685	1,314,507
FFB	2.421%	12/31/45	937,993	969,982
FFB	2.777%	12/31/45	1,806,895	1,865,868
FFB	2.256%	12/31/45	750,324	776,436
FFB	2.331%	12/31/48	827,125	851,296
FFB	2.813%	12/31/48	1,677,735	1,723,541
FFB	1.965%	12/31/48	1,550,835	1,598,522
FFB	2.384%	12/31/48	1,985,042	2,042,621
FFB	2.308%	12/31/48	1,510,849	1,555,142
FFB	2.791%	12/31/48	1,631,809	1,676,501
FFB	2.936%	12/31/48	878,929	902,510
FFB	2.941%	12/31/52	1,392,118	1,422,251
FFB	1.862%	12/31/52	2,741,902	2,812,742
FFB	1.175%	12/31/52	1,807,610	1,859,691
FFB	1.071%	12/31/52	1,803,958	1,856,783
FFB	1.208%	12/31/52	1,786,722	1,837,935
FFB	2.206%	12/31/52	2,878,110	2,948,442
FFB	2.067%	12/31/52	2,396,670	2,456,573
RUS	3.770%	2/1/58	<u>4,994,838</u>	<u>-</u>
TOTAL MORTGAGE NOTES			57,834,228	55,024,439
LESS: CURRENT PORTION OF MORTGAGE NOTES			<u>2,259,000</u>	<u>2,182,000</u>
LONG-TERM MORTGAGE NOTES PAYABLE			<u>\$ 55,575,228</u>	<u>\$ 52,842,439</u>

The annual maturities of long-term debt for the next five years are as follows:

2024	2,259,000
2025	2,391,000
2026	2,384,000
2027	2,407,000
2028	2,495,000
Thereafter	<u>45,898,228</u>
	<u>\$ 57,834,228</u>

NOTE O: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2023</u>	<u>2022</u>
Consumer energy prepayments	\$ -	\$ 1,253
Construction deposits	<u>7,350</u>	<u>7,350</u>
	<u>\$ 7,350</u>	<u>\$ 8,603</u>

NOTE P: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Holmes-Wayne Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had

accounts payable due to Buckeye Power, Inc. of \$2,675,209 and \$2,653,739 at December 31, 2023 and 2022, respectively.

The Cooperative purchases material from United Utility Supply Cooperative Corporation, formerly, Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,873,899 and \$2,482,595 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative has an agreement with National Information Solutions Cooperative (NISC), St. Louis, Missouri to participate in data processing services offered by NISC. This contract will continue until terminated by written notice given by either party. The total expense under this agreement was \$213,185 and \$202,430 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note M and N).

The Cooperative has an investment in Heartland Emergency Equipment, Ltd., a limited liability company (LLC). The LLC's members consist of 13 rural electric cooperatives. The purpose of the LLC is for the cooperatives to pool resources for the provision and use of emergency substation equipment. The investment balance is disclosed in Note E.

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$52,261 and \$59,187 for the years ended December 31, 2023 and 2022, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$132,082 and \$122,854 for the years ended December 31, 2023 and 2022, respectively.

NOTE Q: ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the accumulated other comprehensive loss at December 31:

	<u>2023</u>	<u>2022</u>
Accumulated other comprehensive loss, beginning of year	\$ (17,462)	\$ (124,800))
Actuarial gain on postretirement benefits	4,500	159,291
Prior service cost	-	(51,953)
Accumulated other comprehensive loss, end of year	<u>\$ (12,962)</u>	<u>\$ (17,462)</u>

NOTE R: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from the Cooperative. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits and requires the accrual of the postretirement benefit obligation (including any unfunded portion of the plan).

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a "pay-as-you-go" basis. Therefore, there are no assets available for benefits.

The following table sets forth the plan's accrued postretirement benefit obligation ("APBO") at December 31:

	<u>2023</u>	<u>2022</u>
APBO, beginning of year	\$ 658,848	\$ 721,443
Service cost	28,901	26,535
Interest cost	28,939	24,187
Prior service cost	-	51,953
Benefit payments	-	(5,979)
Amortization	(4,529)	-
Less: actual cash payments and actuarial adjustment	-	(159,291)
APBO, end of year	<u>712,159</u>	<u>658,848</u>
Less: current portion	<u>(35,100)</u>	<u>(15,800)</u>
APBO, long-term portion	<u>\$ 677,059</u>	<u>\$ 643,048</u>

Benefits expected to be paid, representing expected future service, are as follows:

2024	\$ 35,100
2025	57,065
2026	80,752
2027	68,410
Thereafter	280,711

The annual health care cost trend rates, which have a significant effect on the amounts reported, are assumed as follows:

<u>Medical / Drugs</u>	
2023	6.63%
2024	6.30%
2025	5.88%
2026	5.53%
2027	5.18%
2028 and later	5.00%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.50 percent.

NOTE S: RETIREMENT SECURITY PLAN PREPAYMENT

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount was a 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 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, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

On February 28, 2013 the Cooperative made a prepayment of \$1,549,855 to the NRECA RS Plan. The cooperative was amortizing this amount over 10 years. The Cooperative obtained a loan through NRUCFC to finance the RS Plan prepayment. Interest expense associated with the prepayment loan was accounted for in accordance with the RUS USOA.

NOTE T: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2024, the date on which the financial statements were issued.

2023 Auditor's Report

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

We have audited, in accordance with the 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 Holmes-Wayne Electric Cooperative, Inc., as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Holmes-Wayne Electric Cooperative, Inc.'s (the Cooperative) basic financial statements, and have issued our report thereon dated February 20, 2024.

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 the 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 Holmes-Wayne Electric Cooperative, Inc.'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 have not been 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Millersburg, OH

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY
REQUIREMENTS FOR ELECTRIC BORROWERS

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 Holmes-Wayne Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2023, and the related statements of revenue, patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2024. In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2024, 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. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of trustees, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Rea & Associates, Inc.

Rea & Associates, Inc.
Millersburg, OH



Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 

2024 Annual Meeting

The Holmes-Wayne Electric Cooperative Annual
Meeting of Members will take place on:

Thursday, June 27, 2024
at 10:00 a.m.

Event Center at Harvest Ridge
8880 OH-39, Millersburg, OH 44654

Agenda

Meeting called to order
Invocation
Chairman's report
Financial report
ORU report
President's report
Results of trustee election and swearing in of trustees
Unfinished business
New business
Adjournment

