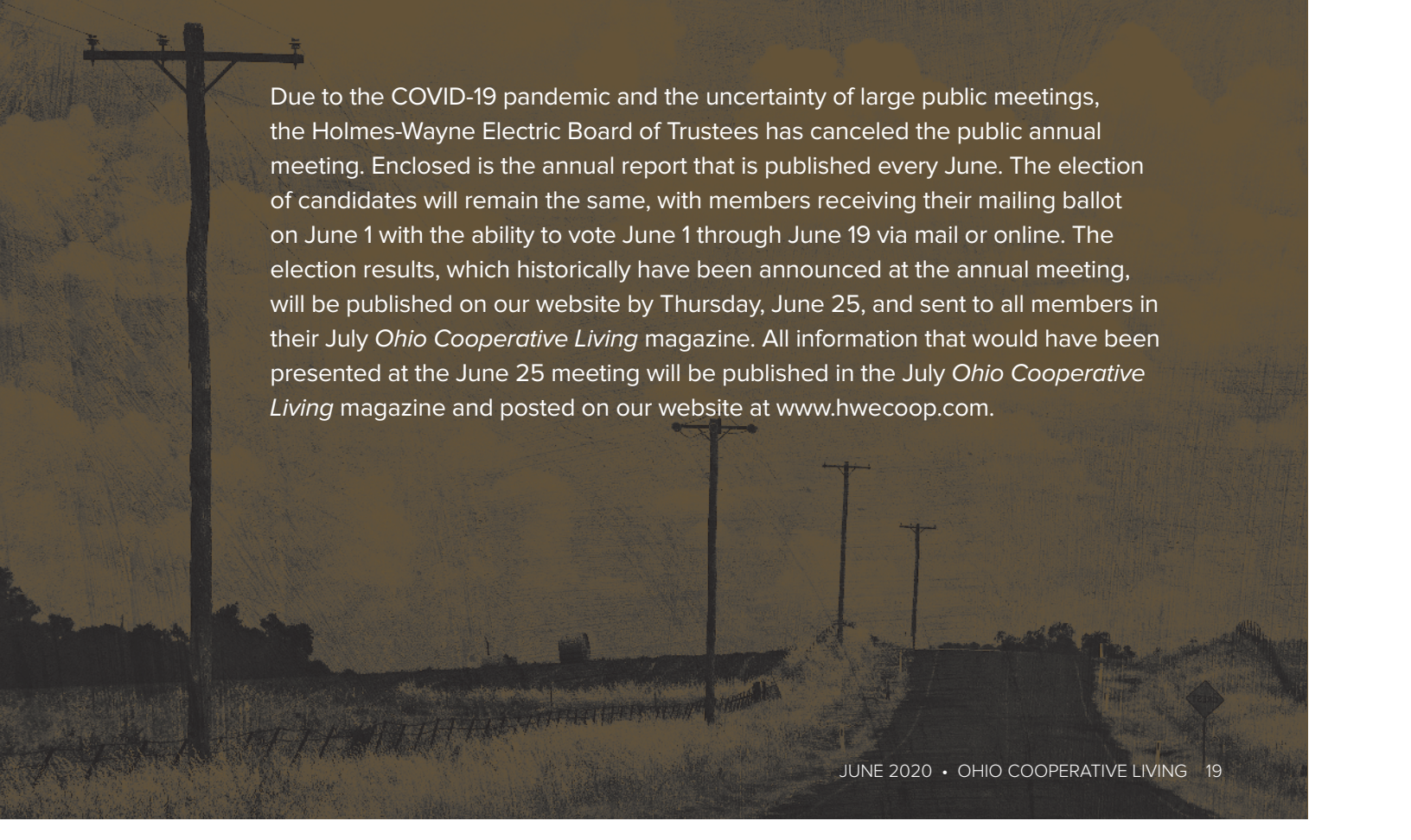




## HOLMES-WAYNE ELECTRIC COOPERATIVE 2019 ANNUAL REPORT

# Celebrating 85 years

*Remembering the past, envisioning the future*



Due to the COVID-19 pandemic and the uncertainty of large public meetings, the Holmes-Wayne Electric Board of Trustees has canceled the public annual meeting. Enclosed is the annual report that is published every June. The election of candidates will remain the same, with members receiving their mailing ballot on June 1 with the ability to vote June 1 through June 19 via mail or online. The election results, which historically have been announced at the annual meeting, will be published on our website by Thursday, June 25, and sent to all members in their July *Ohio Cooperative Living* magazine. All information that would have been presented at the June 25 meeting will be published in the July *Ohio Cooperative Living* magazine and posted on our website at [www.hwecoop.com](http://www.hwecoop.com).

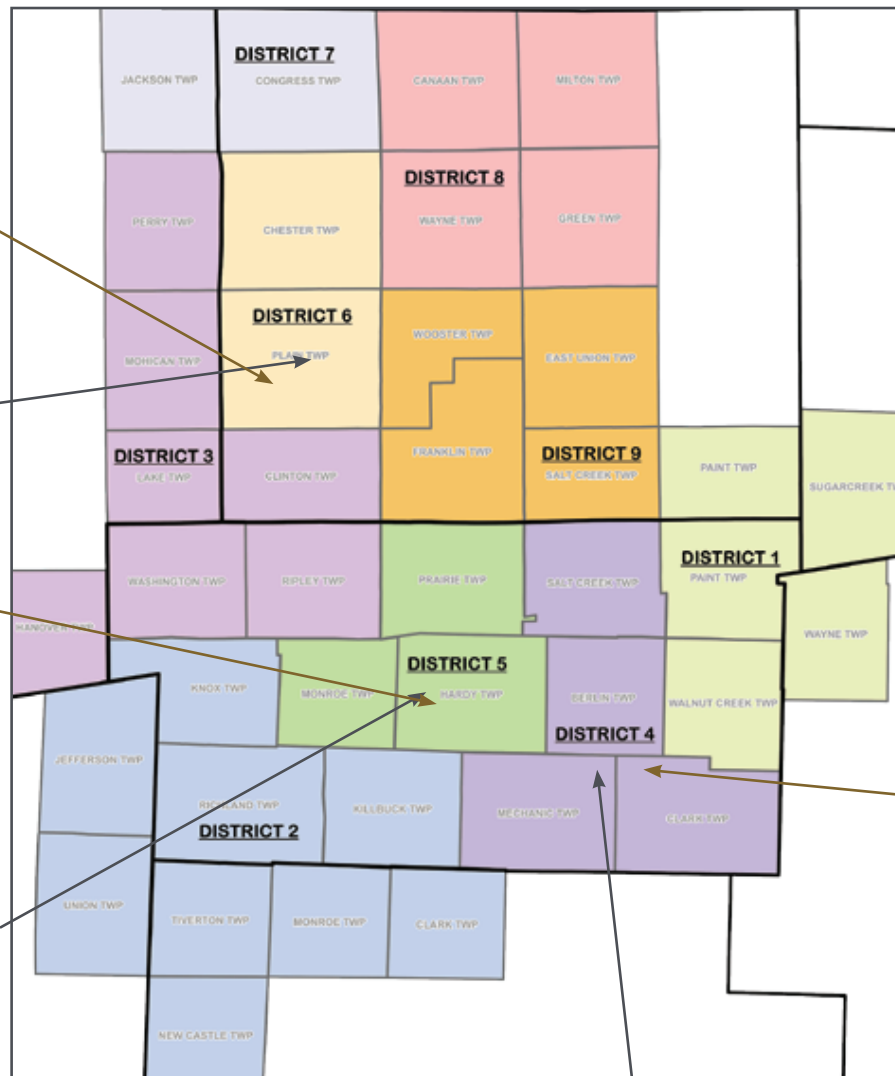


## TRUSTEE ELECTIONS

# 2020 BOARD OF TRUSTEES ELECTION

**District 6**  
Chester and  
Plain townships  
in Wayne County

**District 5**  
Hardy, Monroe,  
and Prairie  
townships in  
Holmes County



**District 4**  
Berlin, Clark,  
Mechanic, and  
Salt Creek  
townships in  
Holmes County

Candidate information is presented as provided by each candidate.

The 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.

# Celebrating 85 years: Remembering the past, envisioning the future

## TRUSTEE ELECTIONS

### DISTRICT 4



Ken Bromund

**Name:** Ken Bromund

**Home address:** 1817 State Route 83; Unit 315, Millersburg, OH 44654

**Email address:** kbromund@bromundbyler.com

**Number of years as HWEC member:** 35

**Education and specific degree:** Bachelor of Science degree in business from Miami University; certified public accountant; certified financial planner

**Current employment or employment history:** Bromund & Byler, Inc — CPA (37 years); Raymond James financial advisor (18 years); certified financial planner

**Leadership and community activities:** Windows of Hope — former treasurer

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** Serving the community. The learning experience and the opportunity to apply my education and business experience of 37 years.



Arnie Oliver

**Name:** Arnie Oliver

**Home address:** 1817 State Route 83; Unit 432, Millersburg, OH 44654

**Email address:** arnicidium@yahoo.com

**Number of years as HWEC member:** 21

**Education and specific degree:** Bachelor's degree, public administration, George Mason University, 1991; Master of Arts, urban planning, University of Akron, 1993

**Current employment or employment**

**history:** Holmes County planning director (1998–present); city planner — Roanoke Planning District Commission (1994–1998); economic development assistant — City of Akron (1992–1994)

**Leadership and community activities:** Holmes County Economic Development Council, current president; Historic Downtown Millersburg, Inc., chair business enhancement committee; Eastern Ohio Development Alliance, chair business development committee; Ohio Mid-Eastern Governments Association, board member; Millersburg Tree Commission, board member; Knohoco Community Action Commission, board member, past president; Lake Buckhorn Property Owners Association, past board member; Holmes County Community Improvement Corporation, vice president

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** Over the past 25 years, my career has afforded me the opportunity to participate in a variety of community organizations and initiatives. In my experience, I have found that I derive the most satisfaction from the activities that have the greatest potential to better our community. I believe that service on the board of directors of Holmes-Wayne Electric Cooperative is just such an opportunity. The provision of reliable electric service has tremendous potential to better our community, as it is fundamental to ensuring safety, enabling economic development, and

otherwise enhancing the lives of our community members. As a customer of HWEC and a longtime community member, I know that HWEC has established a reputation in the local community as the electric service provider of choice. I would appreciate the opportunity to serve on the board and would work hard to find ways to use my experience to help HWEC achieve its mission of enhancing the quality of life of our community by providing safe, reliable, competitively priced electric service.

**Any additional information you feel is essential for members to be**

**aware of:** As a board member, I would strive to learn, work hard, and be open to new ideas, as we collaborate to provide unsurpassed service to our members. I believe that my experience would enable me to provide value to HWEC in several ways. For example, I have applied for and received grants to fund the completion of various community improvement projects, including the construction of water systems, parks, sidewalks, storm sewers, roads, and building renovations. If selected for the board, I would be a dependable and stalwart participant and would seek creative ways to apply my career and life experience to the betterment of the organization.

**Spouse, children, and grandchildren:** Spouse: Ginny; children: Teddy and Jackson



Randy Ramsey

**Name:** Randy Ramsey

**Home address:** 1817 State Route 83; Unit 468, Millersburg, OH 44654

**Email address:** rramz61@gmail.com

**Number of years as HWEC member:** 37

**Education and specific degree:**

Malone University — B.A. management; Kent State University — A.A.S. law enforcement; Hiland High School — diploma

**Current employment or employment**

**history:** Owner, Jackson Street Antiques, Millersburg (current); owner, Antique Emporium, Millersburg; sales, Village Motors, Inc., Millersburg; Holmes County manager, Ohio Department of Transportation

**Leadership and community activities:** Holmes County Chamber of Commerce, member; Historic Downtown Millersburg, member; Holmes County Sheriffs Reserve, member

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** As a member of the Holmes-Wayne Electric Cooperative, I will strive to ensure that the members continue to enjoy affordable electric service. I will also focus on maintaining and improving the cooperative's infrastructure to ensure reliability.

**Any additional information you feel is essential for members to be**

**aware of:** My background in both public and private sector management, along with my education prepared me for service on the board of trustees. I am an effective problem solver and work well with others. My businesses have always been profitable, and during my tenure as county manager, Holmes County was consistently among the most cost-effective operations in the state of Ohio.

**Spouse, children, and grandchildren:** Wife: Lorraine, three adult children, and three grandchildren

## TRUSTEE ELECTIONS

In addition to the candidates selected by the nominating committee, the following individual submitted a petition, per the cooperative's Code of Regulations, and has obtained enough signatures to qualify as a candidate in District 4.



Chris Young

**Name:** Chris Young, P.E., P.S.

**Home address:** 2860 TR 128 Millersburg, OH 44654

**Email address:** youngcivileng@gmail.com

**Number of years as HVEC member:** 17

**Education and specific degree:** The Ohio State University, Bachelor of Science in civil engineering (1995); Stark Technical College, associate degree in civil engineering technology (1992); Registered Professional Engineer (#64075) and Surveyor (#8197) in the State of Ohio

**Current employment or employment history:** Holmes County Engineer/Highway Department, county engineer (2001–present). Responsible for the planning, budgeting, maintenance, and construction for 250 miles of roads and 286 bridges. Holmes County Sewer District, county sanitary engineer (2008–present). Manage the sewer district's six treatment plants and collection systems for the county commissioners. Over 30 years of experience in construction, engineering, and surveying on both private and public works projects.

**Leadership and community activities:** Member of the Ohio Public Works Commission, District 14 Committee; member of the American Society of Civil Engineers and charter member of the Structural Engineering Institute; member of the National Association of County

Engineers; member of the County Engineers Association of Ohio; member of the Professional Land Surveyors of Ohio; member of the American Public Works Association; Board of Directors, County Engineers Association of Ohio (2014–2018)

**Why are you interested in becoming a member of the HVEC Board of Trustees or serving another term?** The area served by the Holmes Wayne Electric Cooperative is a very special place that enjoys a deep sense of community and a very strong entrepreneurial spirit. The people and the businesses of the community will continue to thrive as a result of good infrastructure, strategic planning, and smart growth. I feel that the quality of life in our community is in large part due to the hard work that has built a strong local economy. This strong local economy requires reliable and affordable electricity. As a professional engineer and father, I wish to help our community remain strong and prosperous for future generations by serving on HVEC Board of Trustees.

**Any additional information you feel is essential for members to be aware of:** As the Holmes County engineer and sanitary engineer, I am responsible for budgeting and management, including maintenance and construction of the county's critical infrastructure when it comes to roads, bridges, and sanitary sewer. I feel my collective experience and thorough understanding of critical infrastructure will directly translate into serving as an effective trustee on the HVEC board.

**Spouse, children, and grandchildren:** Spouse: Diane; children: Matthew and Nathan

## DISTRICT 5



Ronnie R. Schlegel

**Name:** Ronnie R. Schlegel  
**Incumbent**

**Home address:** 8011 Township Road 323, Holmesville, OH 44633

**Email address:** ronnierschlegel@gmail.com

**Number of years as HVEC member:** 48

**Education and specific degree:** High school graduate, Waynedale; University of Akron, Wayne General College; NRECA CCD Certificate, Director Gold Credential; Dale Carnegie Sales Training Certificate

**Current employment or employment history:** G&R Schlegel Farms, Rayco, Reberland Equipment, Shearer Equipment, North Central Ag Equipment, Ohio Ag Equipment manager, retired

**Leadership and community activities:** Former 4-H advisor (10 years); former 4-H county committee chairman; Farm Bureau member, previous advisory council member; member, Holmesville Methodist Church; previous member of Holmes County Fairgrounds and Expo Committee; past board member Federal Land Bank Association; current United Way board member

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

I firmly believe in the cooperative business model and in membership representation. I have very strong ties and commitment to the communities served by HVEC. I feel my 35 years of service on the board, my maturity, my training, and my experience give me insight and the ability to represent the member and help guide the cooperative.

**Any additional information you feel is essential for members to be aware of:** In my role as a business owner and later in my employment at area businesses, I have been exposed to a wide variety of business models, along with their procedures and policies. This, along with continued training I have taken from NRECA as well as other outside institutions, has given me the tools, experience, and knowledge to serve on the HVEC Board of Directors.

**Spouse, children, and grandchildren:** Wife: Sandy (47 years); married daughters Merci and Charity; five grandchildren; five great-grandchildren

**Name:** Jon Croup

**Home address:** 9461 Township Road 301, Millersburg, OH 44654

**Email address:** croupj@msn.com

**Number of years as HVEC member:** 27

**Education and specific degree:** Bachelor of Science degree in geology — Eastern Illinois University, 1986



# Celebrating 85 years: Remembering the past, envisioning the future

## TRUSTEE ELECTIONS



Jon Croup

**Current employment or employment history:** Retired, Holmes County General Health District, May 1988–July 2019; current: Croup Design & Consulting, LLC, August 2019–present

**Leadership and community activities:** Millersburg youth baseball council member & director; Cub Scout Pack 357 den leader; Millersburg youth baseball coach; Holmes County Little League council member, Holmes County Sewage

Appeals board member; Ohio Environmental Health Association former member; Northeast Ohio OEHA, past director.

**Why are you interested in becoming a member of the HWECE Board of Trustees or serving another term?** I support the principles of the Holmes Wayne Electric Cooperative and believe periodic change is essential and beneficial to the growth and well-being of the cooperative and board of trustees.

**Spouse, children, and grandchildren:** Wife: Debra; children: Jaron and Adam.



Cormac Irwin

**Name:** Cormac Irwin

**Home address:** 5068 Country Road 51, Big Prairie, OH 44611

**Email address:** cjirwin@valkyrie.net

**Number of years as HWECE member:** 22

**Education and specific degree:** High school — Olney Friends School, Barnesville, Ohio; A.A.S. in dairy science, OSU ATI

**Current employment or employment**

**history:** Field service technician/AI, Cobra/Select Sires (15 years); former partner/owner of Hyland Acres Jerseys

**Leadership and community activities:** 4-H advisor for the Nashville Jolly Farmers

**Why are you interested in becoming a member of the HWECE Board of Trustees or serving another term?** I am a supporter of the cooperative business model and would like to be a contributing part of the team that guides HWECE.

**Spouse, children, and grandchildren:** Wife: Jody; children: Anna, Laura, and Sarah

## DISTRICT 6



Jonathan Berger

**Name:** Jonathan Berger

**Home address:** 8200 Lattasburg Road, Wooster, OH 44691

**Email address:** JDJDBERGER@gmail.com

**Number of years as HWECE member:** 30+

**Education and specific degree:** Graduated Northwestern High School 1978; B.S. in agriculture, OSU 1982

**Current employment or employment history:** Self-employed farmer

**Leadership and community activities:** Member of St. Peter Lutheran Church, New Pittsburgh; Wayne County Beef Advisory Committee; Operation Round Up Board at Holmes-Wayne Electric Cooperative.

**Why are you interested in becoming a member of the HWECE Board of Trustees or serving another term?** It has been a rewarding experience to serve two terms on the board of Holmes-Wayne Electric Cooperative. Looking at the data from Buckeye Power, which furnishes electricity to the 24 Ohio cooperatives, we can see that Holmes-Wayne sits near the top in all aspects of reliability, safety, and value per dollar spent. Those facts along with the positive culture and professional application of accumulated knowledge by the staff, linemen, and fellow board members makes serving on the board an enjoyable experience.

**Spouse, children, and grandchildren:** Wife: Debbie; daughter Jessica (Craig) Nolletti with grandchildren Dominic, Macy and Lilly; son David (Stefanie) with grandson Ronan; son David (Anna) with grandson Finn.



Larry Hurn

**Name:** Larry Hurn

**Home address:** 4204 N. Firestone Road, Wooster, OH 44691

**Email address:** larryh59@embarqmail.com

**Number of years as HWECE member:** 45

**Education and specific degree:** High school graduate; numerous schools on phone systems (Rolm, Tre, Siemens, Mitel, IBM, Nortel, etc.)

**Current employment or employment history:** Retired from Century Link Telephone Company, 39 years; four years United States Navy

**Leadership and community activities:** Member of the Northview Alliance Church — served as trustee for over six years.

**Why are you interested in becoming a member of the HWECE Board of Trustees or serving another term?** To give back to the community and see the co-op grow.

## ANNUAL REPORT

# 2019 ANNUAL MEETING MINUTES

JUNE 27, 2019

The Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 27, 2019.

The business meeting was called to order by Vice-Chairman of the Board of Trustees, David Mann. It was moved and seconded to approve the agenda. Motion carried.

It was moved and seconded to approve the minutes of the June 28, 2018 Annual Meeting as presented. Motion carried.

- Randy Sprang, Chairman of the Board of Trustees, reported on behalf of the Board of Trustees:
- This month, \$1,160,611.87 of patronage capital credits were returned to HWEC members. This is a reminder of the principles on which the cooperative was built.
- HWEC continues to empower members by providing multiple avenues to manage electric consumption and bill payments. Our online 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.
- Members looking to reduce their energy consumption are invited to contact our on-staff Energy Advisor, Kenny DePriest, to schedule an energy assessment.
- The board and cooperative staff live and work in the community and are actively involved in supporting your community volunteering time and resources. This year we are proud to coordinate the fourth annual Holmes-Wayne Community Honor Trip. The funds raised for this event are through employee donations, potluck safety meals, board donations, and community donations.
- In 2019, \$15,000 was awarded to 10 high school students through our annual scholarship program.
- Over 7,200 HWEC members have chosen to have their monthly bill rounded up to the nearest dollar. This spare change is placed into the Operation Round Up Foundation and distributed to those in need in our community. Since its inception in 2006, over \$660,000 has been donated back to the community.

- Your board is committed to keeping our communities safe. We are a resource for any electric safety concerns you may have. We offer great tips in our monthly magazine, *Ohio Cooperative Living*, on our Facebook and our website.
- As a board, we continue to work with members and your cooperative staff to improve the quality of life in our communities. This commitment made 85 years ago continues in 2019 and will remain our strategic plan moving forward. We look forward to serving and growing this great community we are honored to serve.

AJ Knapp of REA & Associates reviewed the Auditor's Report for 2018, 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 \$59,000 in 2018 to local community members and organizations.

Glenn Miller, CEO of the Cooperative, reported on the accomplishments during the past year and future plans:

- 2018 was a busy year. We introduced a new website, rebuilt 19 miles of line, replaced 403 poles, trimmed trees for 385 miles, and sprayed vegetation control on 983 miles of right-of-way, all while adding 191 new services.
- Work continues on our current work plan, totaling \$23.1 million, allowing continued investment in line rebuilding, substation testing, pole replacements, and other equipment replacements and upgrades.
- Tree trimming and vegetation control remains a priority as tree limbs on power lines continue to be the number one source of power outages. In 2019, \$1,850,000 has been budgeted for trimming and dead tree takedowns. 397 miles will be trimmed in Buckhorn, Drake Valley, Killbuck, and Stillwell substation areas.
- 191 new services were added in 2018 for a total of 18,663 services at year's end. Your cooperative has a very good mix of commercial and residential members. Revenues are approximately 55% residential and 45% commercial. This growth and load mix enables us to keep our rates low.

## Celebrating 85 years: Remembering the past, envisioning the future

- Your member services department continues to streamline work practices, resulting in increased efficiencies and cost savings to you, the members. We offer several convenient ways to help you stay connected with us, allowing you to choose which way works best for you.
- From a community standpoint, your cooperative continues to prosper. In 2018, we visited seven school districts to provide safety demonstrations, career day education, or energy efficiency information. We also brought valuable safety information to the Amish community through two local events, reaching out to four counties. We proudly coordinated our third Veterans Honor Trip with the Shreve American Legion and Rolling Thunder.
- Our line personnel not only continued their 24/7 dedication to HWEC members but brought the lights back on to residents of North Carolina twice in 2018 with the storms of Hurricane Michael and Hurricane Florence.
- In 2018, the Cooperative paid \$1,503,071 in kWh tax to the State of Ohio, and \$1,160,126 in property taxes that benefit 12 local school districts and local governments.
- Holmes-Wayne has one of the lowest electric service rates in the state out of 25 cooperatives.
- Glenn Miller stated, “As we move forward, our continued goal is to provide member service excellence at all levels of the organization and by each of our staff, offering our members real value and working to improve the quality of life in the community we service. It is important to us; it’s one of the many ways we set ourselves apart from other utilities.”

Guest speaker, Doug Miller, Vice President of Statewide Services, Ohio Rural Electric Cooperatives, provided a recap of the accomplishments of Ohio’s Electric Cooperatives in 2018:

- After a 50-year partnership with AEP, Buckeye Power took over operating responsibilities of its three primary power plants. This transition has gone smoothly.
- Buckeye is reducing costs by refinancing some of its long-term debt. With the passage of 2018 Farm Bill, Buckeye was able to refinance \$100 million of long-term debt at lower rates, saving millions in interest expenses.
- *Ohio Cooperative Living*, published by Ohio’s Electric Cooperatives, was recently recognized as the best statewide magazine among its peers, an award that OEC has only won twice in 58 years.

- Safety is a priority at Ohio’s Electric Cooperatives; we continue to support programs such as Speak Up Listen Up and Commitment to Zero Contacts. The trend in workplace injuries continues to decline both here at Holmes-Wayne and statewide.
- Your statewide association continues to operate its state-of-the-art indoor training facility for the Central Ohio Lineworker Training program. COLT has approximately 100 apprentice lineman and 60 journeyman linemen enrolled in the program at any given time.
- Ohio customer satisfaction scores were 9 points higher in 2018 than the national average for investor-owned and municipal utilities. HWEC’s most recent score was another five points higher than the state average.

Robyn Tate, HR/PR representative, presented the Cooperative’s scholarship awards.

Daniel Mathie, Attorney from Critchfield, Critchfield, and Johnston, LTD, reported the results of the election:

- William Grassbaugh — District 2, Barry Jolliff — District 8, David Mann — District 9
- Proposed amendment to the Code of Regulations of the Cooperative adding new Article III – Section 14: No person shall be hired as an employee of the Cooperative who has been a Trustee of the Cooperative within three (3) years of date of hire or whose close relative has been a Trustee of the Cooperative within three (3) years of the date of hire. Close relative means the relationship of spouse, father, mother, brother, sister, son, and daughter (or the spouse of any of the foregoing) existing by reason of blood (step-children and in-laws) or adoption, passed by a vote of 1060 for to 67 against.

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.

Chairman — Randy Sprang Secretary — Barry Jolliff





## OPERATION ROUND UP



# 2019 OPERATION ROUND UP SUMMARY

## Together, HWEC members are a force for good!

In January 2006, Holmes-Wayne Electric Cooperative (HWEC) introduced a community service program called Operation Round Up (ORU). This program allows HWEC member to round up their monthly electric bill to the next even dollar. The spare change is placed into a foundation to be distributed to those in need within our community.

HWEC members have given over \$700,000 back to the community since ORU's inception. This is an amazing testament to our member's generosity for our community. It's an honor to assist our community and improve neighborhoods.

Applicants for assistance must live within the local community, and applications are reviewed by a five-member board. We give special thanks to the following board members for volunteering their time: President Dan Mathie, Vice President Jonathan Berger, Secretary Lisa Grassbaugh, Matt Johnson, and HWEC CEO Glenn Miller.

As your local electric provider, we want to thank you for allowing us to administer such a worthy program.

The following is a summary of the 2019 distribution. If you would like to learn more about the program or how to participate, please call the office toll-free at 866-674-1055.



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



## Celebrating 85 years: Remembering the past, envisioning the future

Assist individual with home needs, medical condition – Wooster	\$500.00
Assist family with beds for children – Creston	\$530.00
Assist family with beds for children – Wooster	\$530.00
National Alliance for Mental Illness – Wayne and Holmes counties	\$500.00
Adaptive Sports Program, sled hockey – Wooster	\$1,000.00
Assist family with beds for children – Millersburg	\$698.89
Camp Ohio 4-H Camp – camp improvements	\$1,500.00
Assist individual with home needs, medical condition – Wooster	\$510.14
Cystic Fibrosis Foundation – Holmes County	\$500.00
Millersburg Food Run, food pantry	\$350.00
Farmers & Hunters Feeding the Hungry – Wayne County	\$1,000.00
Assist special needs individual with bed – Holmesville	\$255.00
Assist special needs individual with bed – Wooster	\$280.00
Assist individual with home needs, medical condition – Wooster	\$889.87
Assist family with disabled child – Wooster	\$1,240.00
Holmes County Farm Bureau – Harvest for Hunger	\$1,000.00
Assist with playground equipment for community park – Wooster	\$1,000.00
Special Olympics; Field of Dreams – Wooster	\$250.00
Assist family with beds for children – Wooster	\$1,070.00
Assist family with home needs – Big Prairie	\$806.97
Assist individual with medical needs – Wooster	\$1,973.76
Assist a family with transportation for medical appointments – Dundee	\$750.00
The Risers, OneEighty – assist with addiction treatment	\$500.00
Pomerene Health Foundation	\$500.00
Hope for this Step – suicide and overdose awareness and prevention	\$500.00
God's Word – back-to-school backpack program	\$500.00
Assist a family with needs after home fire – Jeromesville	\$2,500.00
Assist family with beds for children – Millersburg	\$585.00
Assist individual with home needs, medical condition – Wooster	\$1,700.00
Community leadership camp for youth – Apple Creek	\$300.00
Assist family with bed for child – West Salem	\$140.00
Holmes County Home & Senior Center – processing of donated fair animals	\$2,500.00
Assist with residential needs – Killbuck	\$852.79
Adaptive Sports Program, wheelchair basketball – Wooster	\$1,000.00
Farmers & Hunters Feeding the Hungry – Coshocton County	\$500.00
Camp Ohio 4-H Camp – camp improvements	\$200.00
Wayne County Food Pantries & Agencies – processing of donated fair animals	\$2,184.01
Holmes County Training Center	\$610.00
Disaster Relief Fund for Holmes and Wayne Counties – American Red Cross	\$1,500.00
Lifting Heart Bereavement Program	\$1,000.00
Ashland/Wayne Young Ag Professionals – Holiday Toy Drive	\$250.00
Assist family with beds for children – Creston	\$355.00
Assist family with beds for children – Brinkhaven	\$530.00
Assist family with beds for children – Wooster	\$860.00
Shop with a Teacher – Millersburg	\$150.00
Share-A-Christmas – Holmes County	\$1,000.00
West Salem Outreach and Food Pantry	\$1,000.00
Light House Love Center – Holmes County	\$1,000.00



Salvation Army – Wayne County	\$1,000.00
Salvation Army – Holmes County	\$1,000.00
Town and Country Fire and Rescue – West Salem Toy Drive	\$1,000.00
Christian Children's Home – Wooster	\$1,000.00
Meals and More – West Salem	\$1,000.00
Meals on Wheels – Holmes County Senior Center	\$1,000.00
OneEighty – domestic violence, substance abuse, and mental health services – Holmes County	\$1,000.00
OneEighty – domestic violence, substance abuse, and mental health services – Wayne County	\$1,000.00
American Red Cross – Wayne County	\$1,000.00
Hospice – Holmes and Wayne counties	\$1,000.00
Viola Startzman Health Clinic – Wooster	\$1,000.00
Church of God, food pantry – Millersburg	\$1,000.00
Meals Together, Wooster Methodist Church – Wooster	\$1,000.00
Glenmont Food Pantry	\$1,000.00
Shreve United Methodist Church Food Pantry	\$1,000.00
Mohican Area Community Fund	\$250.00
Goodwill Industries of Wayne & Holmes Counties, Inc.	\$1,000.00
58:12 Rescue, domestic violence safe home – Holmes County	\$1,000.00
The Lord's Pantry – West Salem	\$1,000.00
New Leaf Center, clinic for special needs children – Mount Eaton	\$1,000.00
Apple Creek United Methodist Church Food Pantry	\$500.00
Community Christmas Outreach, ACUMC Church	\$500.00
Nick Amster Workshop – Wayne County	\$1,000.00
Hillsdale CARES food drive	\$1,000.00
<b>TOTAL</b>	<b>\$62,101.43</b>

## Operation Round Up Annual Distribution

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





## ANNUAL REPORT

# 2019 AUDITOR'S REPORT

February 19, 2020

Board of Trustees

Holmes-Wayne Electric Cooperative, Inc.

Millersburg, Ohio 44654

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Holmes-Wayne Electric Cooperative, Inc. which comprise the balance sheets as of December 31, 2019 and 2018, and 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.

### 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 audit. We conducted our audit 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. 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 Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

During the years ended December 31, 2019 and 2018, 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.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2020 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.*

Millersburg, OH

## ANNUAL REPORT

# 2019 BALANCE SHEETS

AS OF DECEMBER 31, 2019 AND 2018

### ASSETS

#### UTILITY PLANT:

	2019	2018
Electric plant in service	\$ 87,983,228	\$ 85,153,131
Construction work in progress	1,820,559	595,300
	<u>89,803,787</u>	<u>85,748,431</u>
Less: provision for accumulated depreciation	22,110,054	20,609,870
Net utility plant	<u>67,693,733</u>	<u>65,138,561</u>

#### OTHER ASSETS AND INVESTMENTS:

Retirement security plan prepayment	464,956	619,942
Investments in associated organizations	2,253,680	2,247,441
Patronage capital from associated organizations	<u>19,887,678</u>	<u>19,444,701</u>
Total other assets and investments	<u>22,606,314</u>	<u>22,312,084</u>

#### CURRENT ASSETS:

Cash and cash equivalents	321,711	1,004,032
Accounts receivable, net of allowance	4,516,427	4,663,895
Materials and supplies	1,031,892	872,793
Other current assets	<u>178,537</u>	<u>137,686</u>
Total current assets	<u>6,048,567</u>	<u>6,678,406</u>
Total assets	<u>\$ 96,348,614</u>	<u>\$ 94,129,051</u>

### EQUITIES AND LIABILITIES

#### EQUITY:

	2019	2018
Patronage capital	\$39,205,932	\$38,638,584
Other equities	1,957,151	1,893,058
Accumulated other comprehensive loss	<u>(137,400)</u>	<u>(143,700)</u>
Total equity	<u>41,025,683</u>	<u>40,387,942</u>

#### LONG-TERM LIABILITIES:

Mortgage notes payable	47,651,744	46,332,380
Deferred credits	29,878	32,332
Postretirement benefit obligation	<u>605,199</u>	<u>556,582</u>
Total long-term liabilities	<u>48,286,821</u>	<u>46,921,294</u>

#### CURRENT LIABILITIES:

Current maturities of mortgage notes payable	1,680,000	1,554,000
Accounts payable	3,286,422	3,240,467
Postretirement benefit obligation, current portion	12,200	17,400
Accrued taxes	1,373,109	1,346,727
Customers' deposits	164,670	173,265
Other current liabilities	<u>519,709</u>	<u>487,956</u>
Total current liabilities	<u>7,036,110</u>	<u>6,819,815</u>
Total equities and liabilities	<u>\$ 96,348,614</u>	<u>\$ 94,129,051</u>

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



# 2019 STATEMENTS OF REVENUE AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>OPERATING REVENUES</b>	\$ 41,900,331	\$ 43,261,269
<b>OPERATING EXPENSES:</b>		
Cost of purchased power	25,848,206	26,981,029
Operations	3,626,566	3,420,141
Maintenance	2,955,734	2,404,294
Consumer accounts	1,058,066	1,006,096
Customer service and informational expense	103,240	95,678
Administrative and general	1,870,098	1,793,839
Depreciation	2,693,439	2,589,666
Tax expense	1,486,274	1,503,071
Interest – other	5,081	5,497
Other deductions	2,597	1,849
Total cost of electric service	39,649,301	39,801,160
Operating margins before fixed charges	2,251,030	3,460,109
<b>FIXED CHARGES</b> , interest on long-term debt	1,717,200	1,681,387
Operating margins after fixed charges	533,830	1,778,722
<b>PATRONAGE CAPITAL CREDITS:</b>		
Generation and transmission credits, Buckeye Power, Inc.	1,228,289	2,242,152
Other credits	55,815	81,086
	1,284,104	2,323,238
Net operating margins	1,817,934	4,101,960
<b>NON-OPERATING MARGINS:</b>		
Interest income	57,121	54,843
Other expense	522	471
Gain (loss) on disposition of property	19,317	(18,296)
	76,960	37,018
Net margins	\$ 1,894,894	\$ 4,138,978

# 2019 PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>PATRONAGE CAPITAL</b> , beginning of year	\$ 38,638,584	\$ 35,786,947
Net margins	1,894,894	4,138,978
Retirement of capital credits	(1,327,546)	(1,287,341)
<b>PATRONAGE CAPITAL</b> , end of year	\$ 39,205,932	\$ 38,638,584

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

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# 2019 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ 1,894,894	\$ 4,138,978
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,693,439	2,589,666
Amortization of retirement security plan prepayment	154,986	154,985
Non-cash capital credits received	(1,298,254)	(2,337,646)
(Increase) decrease in assets:		
Accounts receivable, net	147,468	438,302
Other current assets	(40,851)	(863)
Increase (decrease) in liabilities:		
Accounts payable	45,955	677,697
Accrued taxes	26,382	31,899
Customers' deposits	(8,595)	(14,985)
Other current liabilities	31,753	45,701
Deferred credits	(2,454)	(12,622)
Postretirement benefit obligation	43,417	35,682
Total adjustments	1,793,246	1,607,816
Net cash provided by operating activities	3,688,140	5,746,794
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of utility plant	(5,248,611)	(5,044,231)
Increase in materials and supplies	(159,099)	(104,955)
Investments in associated organizations	(6,843)	(13,189)
Proceeds from redemption of capital credits	855,277	667,789
Return of investment in associated organizations	604	568
Net cash used in investing activities	(4,558,672)	(4,494,018)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (payments) on line of credit	0	(700,000)
Proceeds from mortgage notes payable	3,000,000	2,500,000
Principal payments on mortgage notes payable	(1,554,636)	(1,536,066)
Patronage capital credits retired	(1,327,546)	(1,287,341)
Retired capital credits unclaimed	14,491	71,021
Donated capital received	49,602	44,215
Actuarial gain on postretirement benefits	6,300	5,000
Net cash provided (used) by financing activities	188,211	(903,171)
Net (decrease) increase in cash and cash equivalents	(682,321)	349,605
<b>CASH AND CASH EQUIVALENTS</b> , beginning of year	1,004,032	654,427
<b>CASH AND CASH EQUIVALENTS</b> , end of year	\$ 321,711	\$ 1,004,032

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



## ANNUAL REPORT

# 2019

## 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.

#### 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 \$1,719,627 and \$1,682,779 for the years ended December 31, 2019 and 2018, respectively. There were no payments for federal income taxes for 2019 or 2018.

### NOTE C: ADOPTION OF NEW ACCOUNTING STANDARD

In May 2014, the FASB issued guidance (Accounting Standards Codification [ASC] 606, Revenue from Contracts with Customers) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive.

The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company adopted ASC 606 with a date of the initial application of January 1, 2019.

The Company applied ASC 606 using the modified retrospective method of adoption, which was applied to all

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contracts for which the company's performance obligations were not completed as of December 31, 2018. The adoption of the revenue standard had no material impact on the company's financial statements as it did not require a change in revenue recognition and there was no adjustment to the opening balance of patronage capital at January 1, 2019. Therefore, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The details of the significant changes and quantitative impact of the changes are discussed below.

As part of the adoption of ASC 606, the Company elected to use the following transition practical expedients:

- Immaterial goods or services practical expedient to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.
- Exemption to not disclose the unfulfilled performance obligation balance for contracts with an original length of one year or less.

Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

See Note D—Revenue Recognition for further discussion of the effects of the adoption of ASC 606 on our significant accounting policies.

### NOTE D: 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 allowance for doubtful accounts at December 31, 2019 and 2018 was \$30,000. Bad debt expense for 2019 and 2018 was \$19,454 and \$23,094, respectively.

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.

### NOTE E: UTILITY PLANT

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

	2019	2018
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	78,456,220	75,491,832
General Plant	9,278,877	9,413,168
Electric Plant in Service	87,983,228	85,153,131
Construction Work in Progress	1,820,559	595,300
Total Utility Plant at Cost	<u>\$ 89,803,787</u>	<u>\$ 85,748,431</u>

### NOTE F: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2019	2018
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 628,513	\$ 629,117
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
Rural Electric Supply Cooperative, Inc. membership	50	50
Heartland Emergency Equipment, Ltd.	174,508	167,665
CoBank common stock	27,128	27,128
Total investments in associated organizations	<u>\$ 2,253,680</u>	<u>\$ 2,247,441</u>

### NOTE G: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	2019	2018
Patronage Capital from Associated Organizations:		
Rural Electric Supply Cooperative, Inc.	\$ 408,096	\$ 403,256
Buckeye Power, Inc.	19,010,299	18,593,684
NRUCFC	181,924	172,329
National Information Solutions Cooperative	116,313	110,153
Federated Rural Electric Insurance Exchange	154,393	149,956
Cooperative Response Center membership	16,653	15,323
Total patronage capital from associated organizations	<u>\$ 19,887,678</u>	<u>\$ 19,444,701</u>

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### NOTE H: PATRONAGE CAPITAL

At December 31, 2019 and 2018, patronage capital consisted of:

	<u>2019</u>	<u>2018</u>
Assignable	\$ 1,894,894	\$ 4,138,978
Assigned	64,280,208	60,141,230
	66,175,102	64,280,208
Retired	(26,969,170)	(25,641,624)
Total patronage capital	<u>\$ 39,205,932</u>	<u>\$ 38,638,584</u>

The Cooperative's patronage capital balances represent 41 percent of the total assets at December 31, 2019 and 2018. Capital credit retirements in the amount of \$1,327,546 and \$1,287,341 were paid in 2019 and 2018, respectively.

The Cooperative received donated capital from members totaling \$49,602 and \$44,215 during 2019 and 2018, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2019 and 2018 includes \$21,946,833 and \$20,776,147, 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 I: OTHER EQUITIES

At December 31, 2019 and 2018, other equities consisted of:

	<u>2019</u>	<u>2018</u>
Donated capital	\$ 1,230,427	\$ 1,180,825
Retired capital credits unclaimed	726,724	712,233
Total other equities	<u>\$ 1,957,151</u>	<u>\$ 1,893,058</u>

### NOTE J: 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 2019 and 2018 was \$657,180 and \$614,295, 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 \$143,275 and \$135,458 for the years ended December 31, 2019 and 2018, respectively.

### NOTE K: 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, 2019 and 2018:

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2019</u>	<u>2018</u>
RUS advance payments unapplied			\$(100)	\$(95)
CFC	6.250%	3/14/26	241,022	273,174
CFC	6.300%	7/28/29	213,795	229,771
CFC	4.100% – 4.850%	9/23/26	565,635	639,956
CFC	3.550% – 4.950%	11/25/39	5,678,874	5,903,759
FFB	4.503%	12/31/31	572,592	607,837
FFB	4.120%	12/31/31	1,076,297	1,144,329
FFB	2.736%	12/31/31	522,240	558,531
FFB	4.269%	12/31/31	288,476	306,523
FFB	4.295%	12/31/31	579,087	615,250
FFB	3.879%	12/31/31	558,721	594,629
FFB	2.009%	1/2/35	600,985	634,989
FFB	2.231%	1/2/35	589,187	621,911
FFB	2.795%	1/2/35	606,338	638,454
FFB	4.550%	1/2/35	666,169	696,511
FFB	4.353%	12/31/34	666,829	697,728
FFB	4.543%	12/31/34	1,617,077	1,690,777
FFB	3.889%	12/31/42	4,941,853	5,072,550
FFB	3.849%	12/31/42	2,467,868	2,533,490
FFB	4.419%	12/31/42	1,757,239	1,800,469
FFB	3.873%	1/2/46	1,758,767	1,797,340
FFB	2.763%	1/2/46	1,199,049	1,230,181



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### NOTE K: LONG-TERM DEBT (continued)

FFB	2.702%	1/2/46	1,111,662	1,140,789
FFB	2.330%	1/2/46	1,439,527	1,479,380
FFB	2.421%	1/2/46	1,061,062	1,090,047
FFB	2.777%	1/2/46	2,032,460	2,085,122
FFB	2.256%	1/2/46	851,052	874,871
FFB	2.331%	12/31/48	920,203	942,177
FFB	2.813%	12/31/48	1,852,717	1,893,543
FFB	1.965%	12/31/48	1,735,585	1,779,593
FFB	2.384%	12/31/48	2,206,576	2,258,807
FFB	2.308%	12/31/48	1,681,481	1,721,786
FFB	2.791%	12/31/48	1,802,597	1,842,466
FFB	2.936%	12/31/48	968,822	989,735
FFB	2.941%	12/31/52	1,500,000	1,500,000
FFB	1.862%	12/31/52	3,000,000	0
Total mortgage notes			49,331,744	47,886,380
Less: current portion of mortgage notes			1,680,000	1,554,000
Long-term mortgage notes payable			<u>\$ 47,651,744</u>	<u>\$ 46,332,380</u>

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

2020	\$1,680,000
2021	1,757,000
2022	1,828,000
2023	1,897,000
2024	1,973,000
Thereafter	<u>40,196,744</u>
	<u>\$ 49,331,744</u>

The Cooperative has available \$11,500,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2019.

### NOTE L: SHORT-TERM DEBT

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2019. The interest rate on the line of credit at December 31, 2019 and 2018 was 3.25 percent and 3.75 percent, respectively, with outstanding balances on the line of \$0, for both 2019 and 2018. 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 M: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2019</u>	<u>2018</u>
Consumer energy prepayments	\$1,773	\$2,036
Construction deposits	28,105	30,296
	<u>\$ 29,878</u>	<u>\$ 32,332</u>

### NOTE N: 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 \$2,188,563 and \$2,209,397 at December 31, 2019 and 2018, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,536,435 and \$1,637,477 for the years ended December 31, 2019 and 2018, 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 \$180,489 and \$162,241 for the years ended December 31, 2019 and 2018, respectively.

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

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The Cooperative has an investment in Heartland Emergency Equipment, Ltd., a limited liability company (LLC). The LLC's members consist of 12 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 F.

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 \$47,534 and \$51,830 for the years ended December 31, 2019 and 2018, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$112,812 and \$105,482 for the years ended December 31, 2019 and 2018, respectively.

## NOTE O: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	2019	2018
Accumulated other comprehensive loss, beginning of year	\$ (143,700)	\$ (148,700)
Actuarial gain on postretirement benefits	6,300	5,000
Accumulated other comprehensive loss, end of year	<u>\$ (137,400)</u>	<u>\$ (143,700)</u>

## NOTE P: 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.

	2019	2018
APBO, beginning of year	\$ 573,982	\$ 538,300
Service cost	31,000	31,000
Interest cost	24,394	22,300
Amortization	(6,300)	(6,300)
Additional expenses	785	2,706
Less: actual cash payments and actuarial adjustment	(6,462)	(14,024)
APBO, end of year	617,399	573,982
Less: current portion	(12,200)	(17,400)
APBO, long-term portion	<u>\$ 605,199</u>	<u>\$ 556,582</u>

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

2020	\$ 12,200
2021	20,100
2022	31,400
2023-2027	352,700

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

## Medical / Drugs

2019	7.50%
2020	7.00%
2021	6.50%
2022	6.25%
2023	6.00%
2024	5.75%
2025	5.50%
2026	5.25%
2027 and later	5.00%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.25 percent.

## NOTE Q: 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 is 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 is 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 R: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 19, 2020, the date on which the financial statements were issued.

## NOTE S: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02 entitled "Leases (Topic 842)," which will change the Company's statement of financial position by adding lease-related assets and liabilities. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2020. Early implementation is permitted, but not before the original implementation date for periods beginning before February 25, 2016. Management has not yet determined whether this new standard will have a material effect on its financial statements.

## ANNUAL REPORT

# 2019 AUDITOR'S REPORT

February 19, 2020

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

### 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, 2019, and the related notes to the financial statements, which collectively comprise Holmes-Wayne Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated February 19, 2020.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting (internal control) to determine 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 Holmes-Wayne Electric Cooperative, Inc.'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 may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holmes-Wayne Electric Cooperative, Inc.'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 determination of financial statement amounts. 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.*

Millersburg, OH