



Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 



HOLMES-WAYNE ELECTRIC COOPERATIVE 2021 ANNUAL REPORT

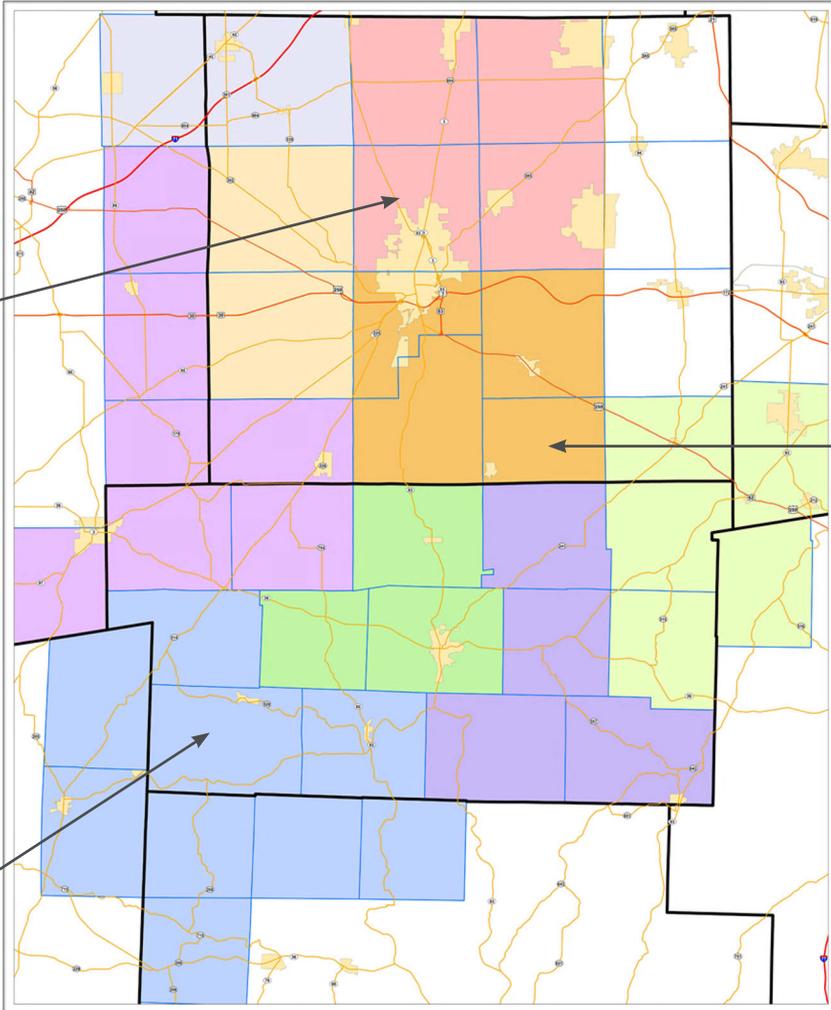
Due to the COVID-19 pandemic, the Holmes-Wayne Electric Cooperative Board of Trustees has canceled the 2022 public annual meeting. The election of candidates will remain the same, and results of the election will be published on HVEC's website on June 30, 2022, and in the August edition of *Ohio Cooperative Living*. All key information, including messages from the president/CEO and trustee chairman, that would have been presented at the meeting will be published in the August *Ohio Cooperative Living* magazine and posted on our website at www.hwecoop.com.

2022

BOARD OF TRUSTEES ELECTION

District 8

Canaan, Green, Milton, and Wayne townships in Wayne County



District 9

East Union, Franklin, Salt Creek, and Wooster townships in Wayne County

District 2

Killbuck, Knox, and Richland townships in Holmes County; Monroe, New Castle, and Tiverton townships in Coshocton County; and Jefferson and Union townships in Knox 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 2



Lisa Grassbaugh

Name: Lisa A. Grassbaugh

Home address: 13845 State Route 520, Glenmont, Ohio 44628

Email address: lisaag1985@gmail.com

Number of years as a member of the cooperative: 20

Cooperative voting district: 2

Education and specific degree: West Holmes High School, Kent State University —

Bachelor of Arts, finance and management, LUTCF certification — licenses includes series 7, 6, 63, life and health. I have also had many continuing education and specialty classes in the areas of financial planning, ethics, insurance, privacy and security training in regard to handling of emails, web use, transferring of information, etc.

Current employment or employment history: Landy, Hamilton & Associates, a private wealth advisory practice of Ameriprise Financial Services, LLC. Office located at the Killbuck Savings Bank. I have 32 years of experience in the retail field as a financial advisor focusing primarily on insurance, investments, and financial planning.

Leadership and community activities: Holmes County Jr. Fair Dairy Committee member and treasurer; Holmes-Wayne Electric Cooperative Foundation Operation Round Up board member, secretary; West Holmes Boys Soccer concession coordinator 2020–2021.

Why are you interested in becoming a member of the HWEC Board of Trustees? I would be proud to be a member of the board of trustees. I admire the cooperative's proficiency in delivering cost-efficient electricity to the residences and supporting community programs such as Operation Round Up and the Honor Trip. It is notable that the employees of HWEC are dedicated and are willing to reach out to help neighbors when needed while being supported by a community-driven organization. More importantly, I am willing to put forth the effort necessary to learn what is needed to be an asset to the board and the cooperative. I believe my finance background will add an additional point of view that will be beneficial to discussions.

Any additional information you feel is essential for members to be aware of: I grew up in Glenmont on a dairy farm, which has provided a hardworking foundation but more importantly, a love and respect for our diverse area.

Children: I have one son, John. He is a member of 4-H, FFA, and plays soccer.

District 2



Christopher Markley

Name: Christopher Markley

Home address: 8707 Township Road 92, Killbuck, Ohio 44637

Email address: cmm9078@yahoo.com

Number of years as a member of the cooperative: 10

Cooperative voting district: 2

Education and specific degree: High school graduate — West Holmes High School, Fire

training — Ohio State Fire Academy, Paramedic training — Aultman College, associate degree, fire science — Eastern Gateway Community College

Current employment or employment history: I am currently employed, and have been for 14 years, by Holmes Fire District #1 in Millersburg. My current role there is lieutenant, and I oversee several different operations. I am also employed as a firefighter/paramedic at the Killbuck Township Fire Department, a deputy sheriff at the Holmes County Sheriff's Office, and a firefighter/paramedic with the City of Fairlawn.

Leadership and community activities: I currently hold the role of my fire department's union president as well as the department's firefighter association union president. I still go on volunteer fire/EMS calls with Killbuck Fire Department outside of staffing hours to help out the community members in their time of need.

Why are you interested in becoming a member of the HWEC Board of Trustees? I look forward to being able to help service my community in an organization that is invaluable to our residents. HWEC has a history of great service, and I hope to continue that mission on behalf of those residents in my district.

Any additional information you feel is essential for members to be aware of: I am very familiar with budgets, numbers, and policies. I have helped secure hundreds of thousands of dollars in grants for the local fire departments, which has helped alleviate the use of taxpayer money. I have also written and implemented several different policies for these agencies, which has helped me reduce confusion and errors, all while increasing performance. Being familiar with these things allows me to make good, educated decisions that will benefit our community.

Spouse, children: Spouse, Michelle; children, Alex, Charolette, Jewel, and Annie.

District 8



Barry Jolliff

Name: Barry Jolliff

Home address: 760 E Hutton Road, Wooster, Ohio 44691

Email address: bjolliff@sssnet.com

Number of years as a member of the cooperative: 26

Cooperative voting district: 8

Education and specific degree: Master's degree, agricultural education, The Ohio

State University, 1985; bachelor's degree in early and middle childhood education, The Ohio State University, 1982; Northwestern High School, West Salem, Ohio. National Rural Electric Cooperative Association (NRECA) Credentialed Cooperative Director Program, 2014; NRECA Board Leadership Program, 2015.

Current employment or employment history: Employed part-time, Bent Nail Architectural Millwork, Lodi, Ohio. I have also owned Teamwork & Teampay, LLC, since 1999, where I teach team-building and leadership seminars, social recreation, and dance workshops, and I call square dances. I've taught agriculture and education classes at The Ohio State University/Agricultural Technical Institute for the last several years. Prior to that, I worked for the OSU Extension in Wayne and Lake Counties in 4-H and youth development for 16 years, and I taught in Medina City Schools for three years. I have been a board member of Holmes-Wayne Electric since 2007, serving as secretary/treasurer since 2012. I've represented Holmes-Wayne on the board of Ohio Electric Cooperatives since 2012.

Leadership and community activities: I have been on the board of directors for Buckeye Leadership Workshop for over 30 years. This board hosts and presents a leadership workshop each spring to teach leadership skills through recreation. I have been a 4-H advisor for over 20 years in Wayne County. I play piano and work with youth at the Church of Cross in Wooster.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? Over the last several years, I have worked diligently to become an educated and informed board member of the Holmes-Wayne Electric Cooperative. The HWEC board has elected me as their representative to serve on the Ohio Rural Electric Cooperatives Board of Directors and also elected me as their secretary and treasurer. I enjoy working with the board, the co-op staff, and also the members. I have lived in Wayne County almost all my life, and I appreciate having the opportunity to serve my family, friends, and neighbors as part of the HWEC Board of Trustees.

Spouse, children, and grandchildren: My wife is Dr. Amy Jolliff. She is a family practice physician in Wooster. She is also the Wayne County coroner. We have three children. Christy (Jonathan) and their two children live in Wooster. Christy teaches for Wooster City Schools. Jonathan works as a counselor at the Village Network. Jesse lives and works in Columbus, Ohio. Becky will graduate with a second degree this spring as a physical therapy technician. She currently lives in Eugene, Oregon.

District 9



Gary Graham

Name: Gary Graham

Home address: 6927 Non Paniel Road, Wooster, Ohio 44691

Email address: moose6281@gmail.com

Number of years as a member of the cooperative: 20

Cooperative voting district: 9

Education and specific degree: The Ohio State University — Ph.D., natural resources

in natural resources management, Miami University — Master of Science, natural resources management, University of Akron — Bachelor of Science, secondary education, University of Akron/Wayne College — Associate of Science.

Current employment or employment history: The past 27 years I've worked for Ohio State University Extension as a specialist in agricultural and natural resources. Currently, I'm an assistant professor stationed in the Holmes County office, Millersburg. I also serve as the state specialist for maple syrup production serving the Ohio, national, and international maple production community. Before this I was a mechanic for Triway Local Schools, a John Deere dealership, and a family truck repair business with Bill Graham.

Leadership and community activities: Fredericksburg Presbyterian Church: long-range planning team, leader of safety team, Sunday school teacher; Served as chair (seven years) for international gathering of university and extension specialists for the North American Maple Syrup Council meetings. Also served on multiple teams with this international group of maple producers; inducted into the North American Maple Hall of Fame for 20 years of service to the international maple syrup producer's community; board member representing Ohio on the International Maple Syrup Institute board of directors; editor of Ohio Maple Producers Association newsletter (11 years) and ex officio board member for 21 years; chair/team member of numerous local and state committees and teams for the Ohio State University Extension; board of directors, Wayne County Agricultural Society (fair board, 9 years).

Why are you interested in becoming a member of the HWEC Board of Trustees? I believe in the HWEC mission. HWEC provides service to a large area with diverse topographic conditions and member demographics. After becoming a member 20 years ago, I was impressed with the quality of service compared to previous electrical providers. Every interaction I've had with an HWEC employee or Trustee has been a positive one. The politeness, cooperation, and eagerness to serve its members, from the office staff to the linemen, makes it a great organization. I want to be a part of keeping that going. I'm willing to serve as a trustee to assist the members of District 9 and all HWEC members and employees.

District 9



Name: Beau Mastrine
Home address: 4975 S. Honeytown Road, Wooster, OH 44691
Email address: beaumastrine@gmail.com
Number of years as a member of the cooperative: 18
Cooperative voting district: 9

Education and specific degree: Ohio State University, ATI – Associate of Applied Science, landscape contracting and construction. Ohio State University, ATI – Associate of Applied Science, turfgrass management.

Current employment or employment history: 2019–present: The College of Wooster; director of facility budgets and project administration. 2004–2019: The College of Wooster; director of grounds. 2001–2004: The College of Wooster; ground supervisor. 1998–2001: The College of Wooster; campus groundskeeper. 1997–1998: Flory & Son, Inc; general laborer. Spring 1997–winter 1999: Cleveland Indians; groundkeeper. Spring 1996–summer 1996: Gibbs Landscape Company (Smyrna, GA); assistant crew leader.

Leadership and community activities: Certified Ground Manager; Ohio Turfgrass Foundation (1998–2019); Professional Grounds Management Society (2006–present); PGMS-CGM mentor/review committee & LMOA committee (2013–present); Ohio Sports Turf Management Association (2009-2019); Ohio Landscape Association (2012–2019); The Ohio State University, Agricultural Technical Institute – Hawks Nest Golf Course Task Force (2018–2019); graduate of Leadership Wooster (2015); member of The College of Wooster Emergency Response Team; member of The College of Wooster First Responder Group; volunteer for Junior Achievement; St. Peter’s Church of Christ Property Maintenance Committee; St. Peter’s Church of Christ consistory member, St Peter’s Church of Christ Safety Committee; Wayne County Schools Career Center Buildings and Grounds Advisory Committee (2004–present); Wayne County Historical Society Buildings and Grounds Committee (2005–2006); Waynedale Flag Football, president; youth sports coach, baseball and football.

Why are you interested in becoming a member of the HWEC Board of Trustees? As a life-long resident of Wayne County, I see this as a way to further my civic duties for the community that I live in.

Spouse, children: Spouse, Holly; children, Jax and Tripp.

District 9



Name: Christopher Finney
Home address: 1760 West Moreland Road, Wooster, Ohio 44691
Email address: cfinney@sssnet.com
Number of years as a member of the cooperative: 17
Cooperative voting district: 9

Education and specific degree: Ohio Northern University – Bachelor of Science, mathematics/minor, business administration, University of Akron – Master of Business Administration, University of Akron Law School – Juris Doctorate.

Current employment or employment history: Attorney with Logee, Hostetler, Stutzman & Lehman, LLC, in Wooster, Ohio, since 2004. Auditor with the Ohio Auditor of State, Columbus Region, from 1998–2000.

Leadership and community activities: Member of Wayne County Bar Association, chairperson of public records committee, member of the Ohio State Bar Association. Served as president/vice president of Westwood Ruritan Club, Wooster, Ohio, from 2009–2020.

Why are you interested in becoming a member of the HWEC Board of Trustees? I feel I can use my experience as an attorney and auditor to review the cooperative’s financial statements and other information in order to make informed decisions for the board and to oversee the cooperative’s management and to present and explain the cooperative’s issues and policies to the members of my district.

Any additional information you feel is essential for members to be aware of: I am also a certified public accountant (inactive).

Spouse, children: Spouse: Tammy; children, Ruth, Luke, John, and Jude.

2021 MINUTES FROM THE ANNUAL MEETING

Due to the COVID-19 pandemic, the Holmes-Wayne Electric Cooperative Board of Trustees canceled the 2021 public annual meeting. The election of candidates remained the same, and results of the election were published on HWEC’s website on June 24, 2021, and in the August edition of *Ohio Cooperative Living*. All key information, including messages from the president/CEO and trustee chairman, that would have been presented at the June 24, 2021, meeting was published in the August *Ohio Cooperative Living* magazine and posted on our website at www.hwecoop.com.



2021 OPERATION ROUND UP SUMMARY

We are honored to share how the big hearts of our Holmes-Wayne Electric Cooperative members are changing our community. Through the HWEC Operation Round Up Foundation, members are using a simple program to change lives. In 2021, the foundation donated over \$45,000 to local individuals, families, and organizations in our community.

So, how does the foundation work? Over 7,200 HWEC members have chosen to have their monthly electric bill rounded up to the next dollar. That spare change is placed into the Operation Round Up Foundation. A five-member community board reviews the applications and selects distributions based on the mission of the foundation.

Can you believe that since the foundation's inception in 2006, over \$795,000 has been distributed back to our local counties? The program is successful because the

donation is not a large burden on anyone, and it stays local. This is the same concept of how your electric cooperative was founded. Local community members came together to bring electricity to the rural area. Now, through Operation Round Up, we are helping each other out during difficult and unexpected medical emergencies, house fires, and situations that have fallen through the cracks of other agencies.

We take care of our own! If you want to join this program, it's easy. Just give us a call toll-free at 866-674-1055. We can easily enroll you in the program. Also, if you are aware of someone in need, you can find our application on our website at hwecoop.com or you can give us a call. Thank you for your continued commitment to our great community!



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

OPERATION ROUND UP

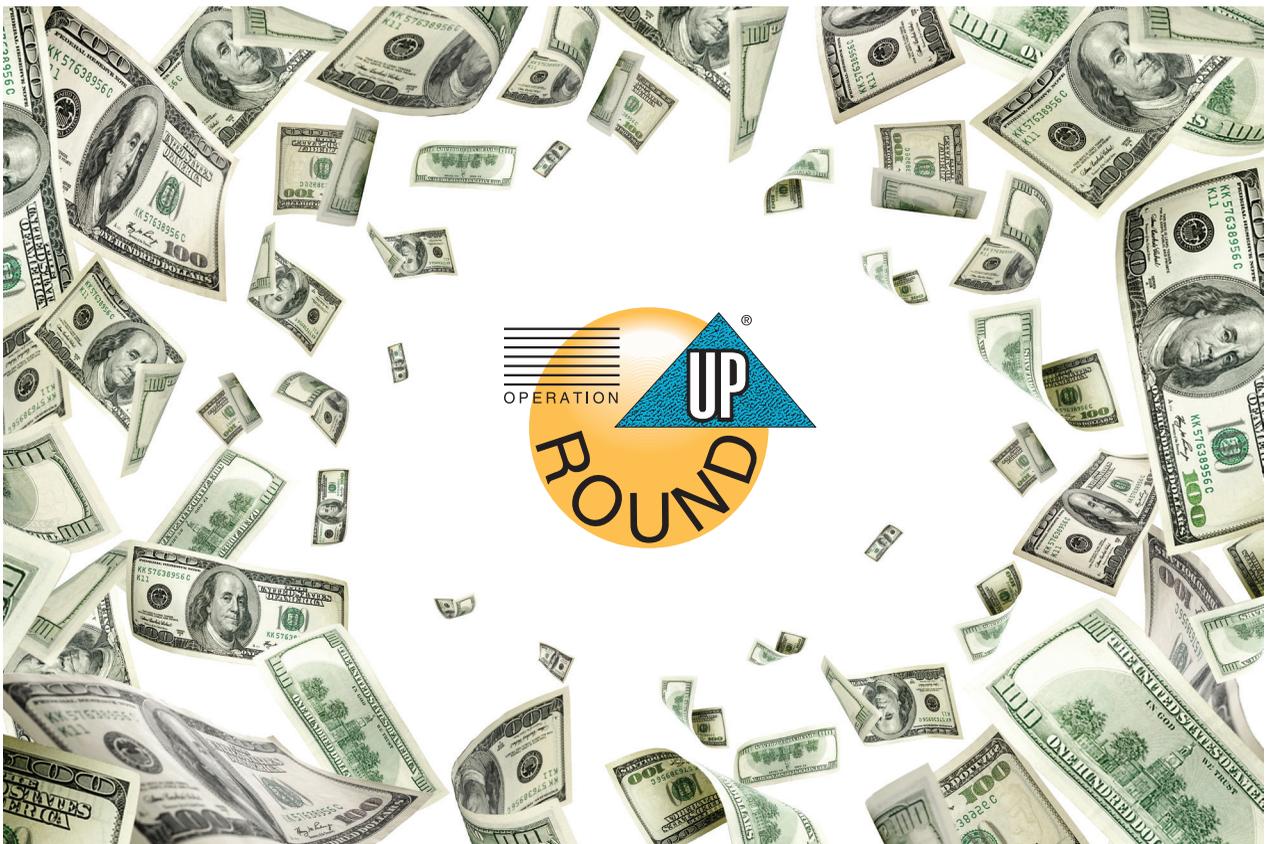
Assist individual with medical condition – Loudonville	\$1,346
Adaptive Sports Program, sled hockey – Wooster	\$1,000
Assist family with beds for children – Wooster	\$1,686
Assist family with beds for children – Millersburg	\$574
National Alliance for Mental Illness – Wayne and Holmes counties	\$500
YMCA, after-school program – Wooster	\$1,000
Camp fees for children with disabilities – Wooster	\$500
Millersburg Food Run, support local food pantry	\$350
OneEighty, assist with addiction treatment programs	\$500
United Way of Holmes and Wayne counties – Dolly Parton’s Imagination Library	\$500
Assist individual with home needs for medical condition – West Salem	\$1,144
Assist family with bed for child – Big Prairie	\$340
Pomerene Health Auxiliary	\$1,000
Pomerene Health Foundation	\$500
Holmesville United Methodist Church, Martha’s Cupboard Food Pantry	\$500
Holmes County Home and Senior Center, processing of donated fair animals	\$2,500
Ashland/Wayne Young Ag Professionals, holiday toy drive	\$250
American Red Cross, Festival of Trees fundraiser	\$1,500
CampOhio youth 4-H camp	\$200
Farmers and Hunters Feeding the Hungry – Coshocton, processing for donated deer	\$500
The Lord’s Pantry, toy drive – West Salem	\$1,000
Wayne County Agencies, processing of donated fair animals	\$2,371
Holmes County Farm Bureau, Harvest for Hunger	\$1,000
West Holmes Middle School, Shop with a Teacher	\$250
Share-A-Christmas – Holmes County	\$1,000
West Salem Outreach and Food Pantry	\$1,000
Light House Love Center – Holmes County	\$1,000
Salvation Army – Wayne County	\$1,000
Salvation Army – Holmes County	\$1,000
Town and Country Fire and Rescue – West Salem Toy Drive	\$1,000
Christian Children’s Home – Wooster	\$1,000
Meals and More – West Salem	\$1,000
Meals on Wheels – Holmes County Senior Center	\$1,000
OneEighty, domestic violence, substance abuse, and mental health services – Holmes County	\$1,000
OneEighty, domestic violence, substance abuse, and mental health services – Wayne County	\$1,000
American Red Cross	\$1,000
Hospice – Holmes and Wayne County	\$1,000
Viola Startzman Health Clinic – Wooster	\$1,000
Church of God , food pantry – Millersburg	\$1,000

OPERATION ROUND UP

Meals Together, Wooster Methodist Church – Wooster	\$1,000
Glenmont Food Pantry	\$1,000
Shreve United Methodist Church, food pantry	\$1,000
Mohican Area Community Fund	\$250
Goodwill Industries of Wayne and Holmes Counties, Inc.	\$1,000
The Lord's Pantry – West Salem	\$1,000
New Leaf Center, clinic for special needs children – Mount Eaton	\$1,000
Apple Creek United Methodist Church Food Pantry and Christmas Outreach	\$1,000
Nick Amster Workshop – Wayne County	\$1,000
Hillsdale CARES food drive	\$500
People to People Ministries	\$1,000
Total	\$45,761

Operation Round Up annual distribution

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



2021 REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

February 17, 2022

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

Opinion

We have audited the financial statements of Holmes-Wayne Electric Cooperative (the Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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.

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.

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 17, 2022 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

2021 BALANCE SHEETS

AS OF DECEMBER 31, 2021 AND 2020

ASSETS

	2021	2020
UTILITY PLANT:		
Electric plant in service	\$98,864,172	\$93,220,999
Construction work in progress	2,554,197	3,473,729
	<u>101,418,369</u>	<u>96,694,728</u>
Less: provision for accumulated depreciation	24,112,808	23,149,366
Net utility plant	<u>77,305,561</u>	<u>73,545,362</u>
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	154,985	309,971
Investments in associated organizations	2,250,188	2,227,264
Patronage capital from associated organizations	19,556,309	20,028,896
Total other assets and investments	<u>21,961,482</u>	<u>22,566,131</u>
CURRENT ASSETS:		
Cash and cash equivalents	253,415	705,784
Accounts receivable, net of allowance	5,346,253	5,214,324
Materials and supplies	1,367,077	1,018,005
Other current assets	176,101	123,322
Total current assets	<u>7,142,846</u>	<u>7,061,435</u>
Total assets	<u>\$106,409,889</u>	<u>\$103,172,928</u>

EQUITIES AND LIABILITIES

	2021	2020
EQUITY:		
Patronage capital	\$42,953,874	\$40,768,367
Other equities	2,039,624	1,986,371
Accumulated other comprehensive loss	(124,800)	(131,100)
Total equity	<u>44,868,698</u>	<u>42,623,638</u>
LONG-TERM LIABILITIES:		
Mortgage notes payable	52,569,363	51,601,975
Deferred credit	1,355	16,456
Postretirement benefit obligation	690,043	648,239
Total long-term liabilities	<u>53,260,761</u>	<u>52,266,670</u>
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	2,051,000	1,909,000
Line of credit	500,000	1,000,000
Accounts payable	3,419,597	3,200,264
Postretirement benefit obligation, current portion	31,400	20,100
Accrued taxes	1,517,108	1,424,510
Customers' deposits	129,730	145,585
Other current liabilities	631,595	583,161
Total current liabilities	<u>8,280,430</u>	<u>8,282,620</u>
Total equities and liabilities	<u>\$106,409,889</u>	<u>\$103,172,928</u>

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

2021 STATEMENTS OF REVENUE AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES	\$48,134,283	\$43,569,945
OPERATING EXPENSES		
Cost of purchased power	29,846,701	26,283,419
Operations	4,070,070	3,852,430
Maintenance	2,692,292	3,402,338
Consumer accounts	1,106,350	1,057,688
Customer service and informational expense	103,104	99,640
Administrative and general	1,893,419	1,871,262
Depreciation	2,895,455	2,785,256
Tax expense	1,571,082	1,482,179
Interest - other	4,170	4,683
Other deductions	964	1,000
Total cost of electric service	<u>44,183,607</u>	<u>40,839,895</u>
Operating margins before fixed charges	3,950,676	2,730,050
FIXED CHARGES , interest on long-term debt	<u>1,762,483</u>	<u>1,728,851</u>
Operating margins after fixed charges	2,188,193	1,001,199
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits, Buckeye Power, Inc.	1,123,338	1,351,484
Other credits	117,448	45,222
	<u>1,240,786</u>	<u>1,396,706</u>
Net operating margins	3,428,979	2,397,905
NON-OPERATING MARGINS:		
Interest income	41,777	48,068
Other income	35,606	92,291
Gain on disposition of property	35,338	5,219
	<u>112,721</u>	<u>145,578</u>
Net margins	<u>\$3,541,700</u>	<u>\$2,543,483</u>

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

2021 PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
PATRONAGE CAPITAL , beginning of year	\$40,768,367	\$39,205,932
Net margins	3,541,700	2,543,483
Retirement of capital credits	<u>(1,356,193)</u>	<u>(981,048)</u>
PATRONAGE CAPITAL , end of year	<u>\$42,953,874</u>	<u>\$40,768,367</u>

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

2021 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$3,541,700	\$2,543,483
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,895,455	2,785,256
Amortization of retirement security plan prepayment	154,986	154,985
Non-cash capital credits received	(1,241,815)	(1,823,612)
(Increase) decrease in assets:		
Accounts receivable, net	(131,929)	(697,897)
Other current assets	(52,779)	55,215
Increase (decrease) in liabilities:		
Accounts payable	219,333	(86,158)
Accrued taxes	92,598	51,401
Customers' deposits	(15,855)	(19,085)
Other current liabilities	48,434	63,452
Deferred credits	(15,101)	(13,422)
Postretirement benefit obligation	53,104	50,940
Total adjustments	<u>2,006,431</u>	<u>521,075</u>
Net cash provided by operating activities	5,548,131	3,064,558
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(6,655,654)	(8,636,885)
(Increase) decrease in materials and supplies	(349,072)	13,887
Investments in associated organizations	(23,608)	(7,255)
Proceeds from redemption of capital credits	1,714,402	1,682,394
Return of investment in associated organizations	684	33,671
Net cash used in investing activities	<u>(5,313,248)</u>	<u>(6,914,188)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) proceeds on line of credit	(500,000)	1,000,000
Proceeds from mortgage notes payable	3,050,000	5,950,000
Principal payments on mortgage notes payable	(1,940,612)	(1,770,769)
Patronage capital credits retired	(1,356,193)	(981,048)
Retired capital credits unclaimed (claimed)	6,538	(24,963)
Donated capital received	46,715	54,183
Actuarial gain on postretirement benefits	6,300	6,300
Net cash (used) provided by financing activities	<u>(687,252)</u>	<u>4,233,703</u>
Net (decrease) increase in cash and cash equivalents	(452,369)	384,073
CASH AND CASH EQUIVALENTS, beginning of year	705,784	321,711
CASH AND CASH EQUIVALENTS, end of year	<u>\$253,415</u>	<u>\$705,784</u>

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

2021 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 institutions 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 generally 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 \$1,763,906 and \$1,730,240 for the years ended December 31, 2021 and 2020, respectively. There were no payments for federal income taxes for 2021 or 2020.

Workers' compensation

During 2020, the Ohio Bureau of Workers' Compensation approved three dividends. The dividend in late April represented a rebate for the 2018 policy year. The dividend in October represented a rebate for the 2019 policy year. The November dividend was not a rebate of premium for any given year. The Cooperative has elected to record rebates of policy years in other income. As such the April and October dividends of \$12,136 and \$10,343, respectively, are recorded in other income. The November dividend of \$35,277 does not relate to any one premium year and is therefore also recorded as other income.

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

NOTES TO FINANCIALS

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, 2021 and 2020 was \$30,000. Bad debt expense for 2021 and 2020 was \$20,347 and \$11,031, 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 D: UTILITY PLANT

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

	2021	2020
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	88,380,639	82,912,604
General Plant	10,235,402	10,060,264
Electric Plant in Service	98,864,172	93,220,999
Construction Work in Progress	2,554,197	3,473,729
Total Utility Plant at Cost	<u>\$ 101,418,369</u>	<u>\$ 96,694,728</u>

NOTE E: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2021	2020
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 621,336	\$ 622,020
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.	205,371	181,763
Total investments in associated organizations	<u>\$ 2,250,188</u>	<u>\$ 2,227,264</u>

NOTE F: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	2021	2020
Patronage Capital from Associated Organizations:		
Buckeye Power, Inc.	\$ 18,620,704	\$ 19,156,739
NRUCFC	200,833	192,583
National Information Solutions Cooperative	126,356	119,084
Federated Rural Electric Insurance Exchange	171,448	161,890
Cooperative Response Center membership	14,622	17,770
United Utility Supply Cooperative Corporation	422,346	380,830
Total patronage capital from associated organizations	<u>\$ 19,556,309</u>	<u>\$ 20,028,896</u>

NOTE G: PATRONAGE CAPITAL

At December 31, 2021 and 2020, patronage capital consisted of:

	2021	2020
Assignable	\$ 3,541,700	\$ 2,543,483
Assigned	68,718,585	66,175,102
	<u>72,260,285</u>	<u>68,718,585</u>
Retired	(29,306,411)	(27,950,218)
Total patronage capital	<u>\$ 42,953,874</u>	<u>\$ 40,768,367</u>

The Cooperative's patronage capital balances represent 40 percent, of the total assets at December 31, 2021 and 2020. Capital credit retirements in the amount of \$1,356,193 and \$981,048 were paid in 2021 and 2020, respectively.

The Cooperative received donated capital from members totaling \$46,715 and \$54,183 during 2021 and 2020, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2021 and 2020 includes \$23,076,730 and \$22,451,975, 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 H: OTHER EQUITIES

At December 31, 2021 and 2020, other equities consisted of:

	<u>2021</u>	<u>2020</u>
Donated capital	\$ 1,331,325	\$ 284,610
Retired capital credits unclaimed	708,299	701,761
Total other equities	<u>\$ 2,039,624</u>	<u>\$ 1,986,371</u>

NOTE I: 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 2021 and 2020 was \$788,159 and \$724,481, 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 \$159,477 and \$153,521 for the years ended December 31, 2021 and 2020, respectively.

NOTE J: 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, 2021 and 2020:

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2021</u>	<u>2020</u>
RUS advance payments unapplied			\$(108)	\$(105)
CFC	6.250%	3/14/26	170,416	206,813
CFC	6.300%	7/28/29	178,686	196,789
CFC	4.100% - 4.850%	9/23/26	405,365	487,521
CFC	3.550% - 4.950%	11/25/39	5,203,247	5,445,890
FFB	4.503%	12/31/31	497,370	535,733
FFB	4.120%	12/31/31	931,888	1,005,417
FFB	2.736%	12/31/31	446,721	484,945
FFB	4.269%	12/31/31	250,086	269,645
FFB	4.295%	12/31/31	502,134	541,345
FFB	3.879%	12/31/31	482,761	521,398
FFB	2.009%	1/2/35	530,986	566,293
FFB	2.231%	1/2/35	521,609	555,726
FFB	2.795%	1/2/35	539,483	573,314
FFB	4.550%	1/2/35	601,428	634,421
FFB	4.353%	12/31/34	601,082	634,561
FFB	4.543%	12/31/34	1,459,844	1,539,969
FFB	3.889%	12/31/42	4,666,263	4,805,994
FFB	3.849%	12/31/42	2,329,568	2,399,681
FFB	4.419%	12/31/42	1,665,462	1,712,064
FFB	3.873%	1/2/46	1,677,545	1,718,677
FFB	2.763%	1/2/46	1,134,408	1,167,046
FFB	2.702%	1/2/46	1,051,232	1,081,738
FFB	2.330%	1/2/46	1,357,245	1,398,735
FFB	2.421%	1/2/46	1,001,149	1,031,369
FFB	2.777%	1/2/46	1,923,099	1,978,320
FFB	2.256%	1/2/46	801,923	826,690
FFB	2.331%	12/31/48	874,860	897,713
FFB	2.813%	12/31/48	1,767,957	1,810,730
FFB	1.965%	12/31/48	1,645,202	1,690,705
FFB	2.384%	12/31/48	2,098,722	2,153,087
FFB	2.308%	12/31/48	1,598,335	1,640,237
FFB	2.791%	12/31/48	1,719,847	1,761,603
FFB	2.936%	12/31/48	925,343	947,291
FFB	2.941%	12/31/52	1,451,407	1,479,366
Mortgage notes subtotal			<u>\$43,012,565</u>	<u>\$44,700,721</u>

NOTES TO FINANCIALS

NOTE J: LONG-TERM DEBT (continued)

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2021</u>	<u>2020</u>
Mortgage notes subtotal			\$43,012,565	\$44,700,721
FFB	1.862%	12/31/52	2,882,141	2,949,814
FFB	1.175%	12/31/52	1,911,108	1,961,736
FFB	1.071%	12/31/52	1,908,996	1,960,482
FFB	1.208%	12/31/52	1,888,477	1,938,222
FFB	2.206%	12/31/52	3,017,076	-
Total mortgage notes			54,620,363	53,510,975
Less: current portion of mortgage notes			2,051,000	1,909,000
Long-term mortgage notes payable			<u>\$ 52,569,363</u>	<u>\$ 51,601,975</u>

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

2022	\$2,051,000
2023	2,122,000
2024	2,198,000
2025	2,257,000
2026	2,240,000
Thereafter	43,752,363
	<u>\$ 54,620,363</u>

The Cooperative has available \$2,500,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2021.

NOTE K: 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, 2021 and 2020. The interest rate on the line of credit at December 31, 2021 and 2020 was 2.45 percent, with outstanding balances on the line of \$500,000 and \$1,000,000, for 2021 and 2020, 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.

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 \$2,123,973 and \$1,513,221 for the years ended December 31, 2021 and 2020, 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 \$197,866 and \$182,602 for the years ended December 31, 2021 and 2020, respectively.

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

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 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 \$42,447 and \$43,915 for the years ended December 31, 2021 and 2020, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$121,328 and \$114,730 for the years ended December 31, 2021 and 2020, respectively.

NOTE L: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2021</u>	<u>2020</u>
Consumer energy prepayments	\$ 1,355	\$ 1,498
Construction deposits	-	14,958
	<u>\$ 1,355</u>	<u>\$ 16,456</u>

NOTE M: 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 \$2,494,602 and \$2,355,205 at December 31, 2021 and 2020, respectively.

NOTE N: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	<u>2021</u>	<u>2020</u>
Accumulated other comprehensive loss, beginning of year	\$ (131,100)	\$(137,400)
Actuarial gain on postretirement benefits	<u>6,300</u>	<u>6,300</u>
Accumulated other comprehensive loss, end of year	<u>\$ (124,800)</u>	<u>\$ (131,100)</u>

NOTE O: 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>2021</u>	<u>2020</u>
APBO, beginning of year	\$ 668,339	\$ 617,399
Service cost	31,000	31,000
Interest cost	28,404	26,240
Amortization	<u>(6,300)</u>	<u>(6,300)</u>
APBO, end of year	721,443	668,339
Less: current portion	<u>(31,400)</u>	<u>(20,100)</u>
APBO, long-term portion	<u>\$ 690,043</u>	<u>\$ 648,239</u>

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

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:

	<u>Medical / Drugs</u>
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 P: 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 USO.

NOTE Q: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 17, 2022, the date on which the financial statements were issued.

On February 3, 2022 the Cooperative drew an additional \$2,500,000 through their loan agreement with the Federal Financing Bank (FFB). This loan matures on December 31, 2052, and has an interest rate of 2.067%.

NOTE R: 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 Cooperative's balance sheet 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, 2021 with early implementation permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements..

2021 AUDITOR'S REPORT

February 17, 2022

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, 2021, 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 17, 2022.

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.

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

2021 AUDITOR'S REPORT

February 17, 2022

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

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, 2021, 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 17, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2022, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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
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