



# HOLMES-WAYNE ELECTRIC COOPERATIVE ANNUAL REPORT



## ★ STAR-SPANGLED SERVICE ★

### 2017 Annual Meeting of Members

**Thursday, June 29 • West Holmes High School • 10901 State Route 39, Millersburg, Ohio**  
All Holmes-Wayne Electric Cooperative members are invited to attend the meeting and dinner.

**Health and Information Fair - 5 p.m. • Dinner - 5:45 p.m. • Business Meeting - 6:30 p.m.**



In early June, all HWEC members will receive in the mail a trustee election ballot and an RSVP form for the Annual Meeting dinner. The voting ballot and RSVP form can be returned in the provided postage-paid envelope or online at [www.hwecoop.com](http://www.hwecoop.com).



Each membership (household or business) in attendance at the conclusion of this Annual Meeting will receive a \$10 credit to be applied toward their August electric bill.

We also will host a food drive at the Annual Meeting. Please feel free to bring a non-perishable item.

#### Activities of the Evening

- |   |   |
|---|---|
| 1. Dinner   | 8. President's report                                       |
| 2. Meeting called to order                                    | 9. Guest speaker  |
| 3. Invocation   | 10. Scholarship winners presentation                        |
| 4. Minutes approved as in annual report                       | 11. Results of trustee election and swearing in of trustees |
| 5. Chairman's report  | 12. Unfinished business                                     |
| 6. Financial report for 2016                                  | 13. New business  |
| 7. Operation Round Up<br>Foundation financial report for 2016 | 14. Adjournment   |

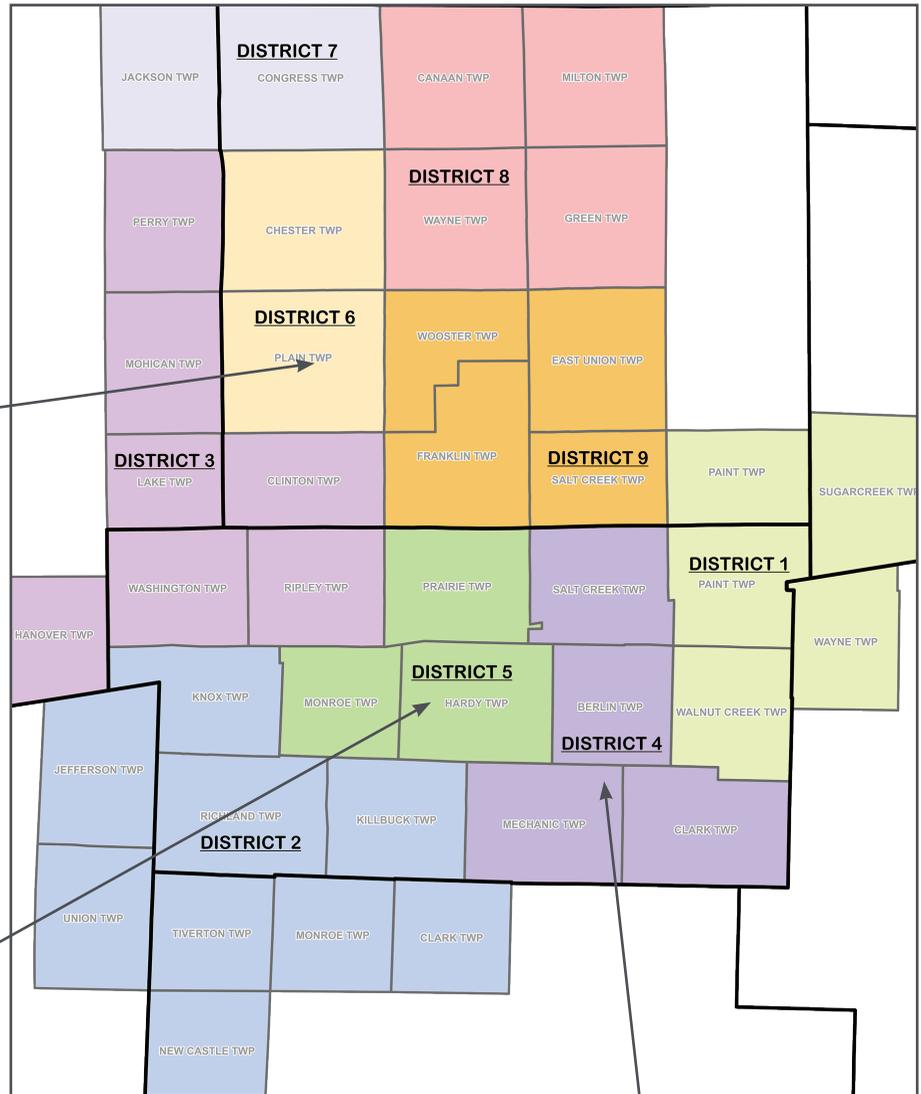


# 2017 BOARD OF TRUSTEES ELECTION

**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.

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 4

## KEN CONRAD

**Name:** Kenneth Conrad  
**Home address:** 6383 County Road 19, Millersburg, OH  
**E-mail address:** kconrad@hwecoop.com  
**Number of years as HWEC member:** 58 years



**Education and specific degree:** Clark High School 1955. Served in the U.S. Army 1958-1960.  
**Current employment or employment history:** Self-employed lifetime farmer & livestock trucking 48 years.  
**Leadership and community activities:** Member of Clark Community Church as Elder & Trustee, Mechanic Township Trustee – 12 years, Holmes County Fair Board – 12 years  
**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** I have obtained the credentialed Cooperative Director Certificate, Board Leadership Certificate, and successfully completed the Director Gold Program. Holmes-Wayne Electric Cooperative management staff is one of the best in the state. I am privileged to have served on our board. Being semi-retired, I believe that I have the knowledge and time to continue being an effective board member.

**Spouse, children, and grandchildren:** Wife: Mary (59 years). Children: Karen, Kaye, and Raye. Grandchildren: Mindy, Kristy, Amie, Zach, and Allison. Great Grandchildren: Noah, Myah, Callahan, Grayson, Jordyn, and Piper.

## PAUL LAHM

**Name:** Paul Lahm  
**Home address:** 2516 State Rte. 83, Millersburg, OH 44654  
**E-mail address:** insuranceguy@roadrunner.com  
**Number of years as HWEC member:** 20



**Education and specific degree:** College Graduate – Information Technology. P&C Insurance Agent. Certified Insurance Counselor  
**Current employment or employment history:** Insurance Agent — Self-Employed  
**Leadership and community activities:** Holmes County Historical Society, Holmes County Catholic Church Council  
**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** Serving the community and county.  
**Any additional information you feel is essential for members to be aware of:** Life-long resident of Holmes County.

## RANDALL RAMSEY

**Name:** Randall (Randy) Ramsey  
**Home address:** 1817 S.R. 83, Unit 468, Millersburg, OH 44654  
**E-mail address:** rlrantz61@gmail.com  
**Number of years as HWEC member:** 31



**Education and specific degree:** Malone College, 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, Ohio, 2015 - present.  
Owner, Antique Emporium, Millersburg, Ohio, 2011 - 2016  
Sales, Village Motors, Millersburg, Ohio, 2008 – 2011  
Transportation Administrator, (Holmes County Manager, Ohio Department of Transportation) 1997 – 2007 (Retired)  
**Leadership and community activities:** Current

member of the Holmes County Chamber of Commerce. Responsible for all operations management and budgeting for the O.D.O.T. Holmes County Garage. Served on the county infrastructure committee. Worked as part of a group to develop a safety incentive program that saved over \$700,000 in workers compensation claims statewide. Worked with the Holmes County Engineer and Township Trustees on joint projects.  
**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** I am interested in the long-term success of the co-op, and helping to ensure that electric costs for the membership are as low as possible, while maintaining the integrity of the system.  
**Any additional information you feel is essential for members to be aware of:** I have a background in both public and private sector management. My approach is and always has been very conservative. My business is sound, and while I was Holmes County Manager, our operation was among the most cost-effective in Ohio.  
**Spouse, children, and grandchildren:** Wife Lori. 3 grown children: Ryan, Christina, and Maria. 1 grandson: Rowan

# DISTRICT 5

## **RONNIE SCHLEGEL**

**Name:** Ronnie R. Schlegel

**Home address:**

8011 T.R. 323,  
Holmesville, OH 44633

**E-mail address:**

ronnierschlegel@gmail.com

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

**Education and specific degree:**

High School Graduate, Waynedale  
University of Akron, Wayne General College  
NRECA CCD  
Dale Carnegie Sales Training Certificate

**Current employment or employment history:**

G&R Schlegel Farms, Rayco, Reberland Equipment,  
Sheerer Equipment (John Deere), North Central  
Ag Equipment. Currently Millersburg, Ohio Ag  
Equipment Store Manager.

I have always worked or been employed in Holmes,  
Wayne, and Ashland Counties.

**Leadership and community activities:** Former

4-H Advisor (10 yrs), Former 4-H County Committee  
Chairman, Farm Bureau member, and past board



member. Member of Holmesville Methodist Church. Previously member of the County Fairgrounds and Expo Committee. Past board member of Federal Land Bank Association.

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

I firmly believe in the cooperative business model. I have very strong ties and commitments to the communities served by HWEC. I feel that my 32 years of service on the board, my maturity, my training, and my experience give me the insight and the ability to represent the membership and help guide the cooperative.

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

In my roles as a business owner and later in my employment at area businesses, I have been exposed to a variety of business models and their procedures and policies. This, along with the continued training I have taken from NRECA as well as outside businesses and educational institutions, has given me the tools, experience, and knowledge to help guide HWEC.

**Spouse, children, and grandchildren:** Wife Sandy (44 yrs). Married daughters Merci and Charity. 5 grandchildren. 5 great-grandchildren.



# DISTRICT 6

## JONATHAN BERGER

**Name:** Jonathan Berger

**Home address:**  
8200 Lattasburg Rd.,  
Wooster, OH 44691

**E-mail address:**  
JDJDDBERGER@gmail.com

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

**Education and specific degree:** Graduate NW High School. B.S. In Agriculture, OSU.

**Current employment or employment history:** Self-employed raising and direct marketing beef and pork.

**Leadership and community activities:** Chair of Pastoral call committee, St. Peter Lutheran Church, 2015-16, and other church activities. Occasional classroom guest speaker regarding marketing and small farm sustainability.

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** My first term of serving on the Holmes-Wayne Electric board has been an enjoyable and educational experience. Growing up on the farm, our family was instilled with a strong appreciation of cooperative values, but my knowledge of the electric business didn't extend very far beyond the meter prior to participation on your board. Stepping into a position amidst an experienced team of board, staff, and employees has allowed me the opportunity of a smooth transition into my own of helping to guide our cooperative as I best see it, helping the members in both the near and long term. It has been an informative and rewarding experience. If the members/owners of HWEC choose to have me continue my service to the co-op, I will commit to keeping myself informed and make decisions representing their interests to the best of my ability.

**Any additional information you feel is essential for members to be aware of:** As owners and part of the team of HWEC, we can all be proud of the culture of hard work, safety, reliability, and efficiency that exists within our cooperative. The generosity our members turn into action, which I have been able to witness firsthand as a member of the Operation Round Up Committee, is a testimony to our members' belief in cooperative principle number 7, Concern for Community. Along with our primary duty of providing safe and reliable electricity, it is just one more way that together we can collectively make a positive difference for those in need in our local area.

**Spouse, children, and grandchildren:** Wife Debbie, daughter Jessica (Craig) with grandchildren Dominic and Macy, sons Daniel (Anna) and David (Stef).



## JIM SILVER

**Name:** Jim Silver

**Home address:** 3575 Silver Rd., Wooster, OH 44691

**E-mail address:**  
jrsilver@embarqmail.com

**Number of years as HWEC member:** 30

**Education and specific degree:** The Ohio State University – Agri-business – Mech & Systems, 1981  
Wooster High School, 1977

Designations: Professional Farm Mutual Manager (PFMM) & Farm Mutual Director Certification (FMDC)

**Current employment or employment history:** Pike Mutual Insurance Company – 1997 to present as Secretary/Treasurer – Manager.

Pike Mutual Insurance — is co-op by nature since 1878.

**Leadership and community activities:** Ohio Association of Mutual Insurance Companies – Past President, Secretary/Treasurer, and current member 20 yrs.  
Secretary – Executive Committee Boy Scout Troop 65.  
Lions Club member 25 yrs.  
Past President Wayne County Co-op Council.

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** To help continue to provide the best service to the members of HWEC. I believe this organization is one of if not the best co-op organization that brings an excellent service for a most fair price to its members.

**Spouse, children, and grandchildren:** Wife Linda



# 2016 ANNUAL MEETING MINUTES

## **Holmes-Wayne Electric Cooperative, Inc. Minutes of Annual Meeting**

**June 30, 2016**

The Annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 30, 2016.

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 25, 2015, Annual Meeting as presented. Motion carried.

Randy Sprang, chairman of the board of trustees, reported on behalf of the board of trustees:

- Retirement of capital credits of over \$1,246,981 in 2016. This is a reminder of the principles on which the cooperative was built.
- The board and cooperative staff live and work in the community and are actively involved in supporting your community volunteering time and resources. New activities this year included sponsorship of the first Veterans Honor Trip and assistance with the development of Harvest Ridge, the new location of the Holmes County Fairgrounds.
- Beyond the local community, the cooperative took an international role. HWEC Class A lineman Steve Asbury spent more than 2 weeks in La Soledad, Guatemala, bringing lights to the rural village for the first time.
- Your board is committed to legislative communication with lawmakers about the facts of our industry and the impact of legislation on you, the members of the cooperative.
- The board of trustees and leadership staff at Holmes-Wayne Electric Cooperative contribute to the Action Committee for Rural Communication (ACRE®), which supports congressional candidates of both parties who share public policy goals that are consistent with the mission of member-owned electric cooperatives. Half of the contributions to ACRE are returned to statewide associations for use in state elections to express our concerns regarding proposed energy and environmental policies and the devastating impact this would have on our members.

- Our members also have the opportunity to let their congressman know they are concerned about maintaining affordable electricity, and they are committed to promoting policies that will secure the future of our electric cooperative and our community by joining the ACRE Co-op Owners for Political Action® program.
- Randy Sprang personally thanked the 359 Holmes-Wayne Electric Cooperative members who have already taken the step to join Co-op Owners.
- As a board, every decision in the board room is based on you, the member. Holmes-Wayne Electric Co-op was established to safely provide reliable, competitively priced electricity to our member-owners to enhance the quality of life in the communities we serve. We were established in this mission, and we will continue to thrive based on this simple but powerful philosophy.

AJ Knapp of REA & Associates reviewed the Auditor's Report for 2015, which resulted in a clean, unqualified opinion.

Daniel Mathie, attorney from Critchfield, Critchfield, and Johnston, LTD, and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. Members of the cooperative who are enrolled in Operation Round Up donated over \$49,000 in 2015 to local community members and organizations, and over \$480,000 since the beginning of the program 10 years ago. Dan Mathie thanked Harold Neuenschwander for the wisdom and insight he provided over the years he has been on the Operation Round Up board. Matt Johnson will be replacing Harold. Dan noted the 10th anniversary celebration booth at the safety and information fair.

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

- In 2004, we began a strategic tree-trimming program. This year, we will trim another 404 miles in West Millersburg, Ripley, and Reedsburg substation areas. In 2017, these same areas will be sprayed to minimize growth until the next trimming cycle.
- Last year, we added an ash tree removal program in order to be proactive in taking down trees that have been affected by the Emerald Ash Borer in areas not in the current year tree-trimming program cycle. This helped to reduce outages that may have been caused by the affected trees.

- 174 new services were added in 2015 for a total of 18,304 services at year's end. We have seen substantial growth in the commercial load this year, with a good mix of 55 percent residential and 45 percent commercial members. This growth enables us to keep our rates low.
- Last year, additional technologies were added providing customers more ways to communicate with us. Facebook was added, and SmartHub was introduced. SmartHub allows our members to report meter readings, outages, and pay bills through our website and all mobile devices.
- Over the last 12 years, cooperative employees have raised and donated \$113,000 to the American Cancer Society Relay for Life fund. This year, we changed our focus. We will sponsor and coordinate the first local Honor Bus trip, allowing 24 veterans from our local community to enjoy an all-expenses-paid trip to Washington, D.C.
- Our staff remains active in the community by participating in answering phones for the Share a Christmas program and Touch-a-Truck Day in Wayne County, Reality Days in local schools, and parades and concession stands at local ball games.
- The cooperative has paid \$1.44 million in kWh tax to the state of Ohio, and \$1,042,000 in property taxes that benefit 12 local school districts and local governments.
- We continue to be active in promoting energy efficiency and safety by visiting local schools and safety fairs, as well as talking with 4-H youth and Scout troops.
- Holmes-Wayne has one of the lowest electric service rates in the state out of 25 electric cooperatives.
- Holmes-Wayne scored an 87 in the American Consumer Satisfaction Index survey. Scoring was excellent or good in all 18 categories and exceeded the national average in all 18 categories. The average score for cooperatives across the state is 80. Investor-owned utilities' average score is 75, and municipal-owned utilities' average is 73.
- Over the past 10 years, the cost to generate power

has increased mostly because of EPA-imposed regulations on your generation facility, Buckeye Power. Buckeye Power currently has complied with all current regulations. For the second time in 10 years, the power generation cost is not projected to increase for next year.

- Buckeye Power now has one of the cleanest coal-fired plants — Cardinal Plant — in the country.
- If the current proposed EPA regulations on existing coal-fired plants are put into law, it will increase the cost of your monthly bill.
- Glenn Miller stated, "As a member-owned company, we feel it is our responsibility to make you aware of the options you have to keep your power safe, clean, and affordable. We will continue to remain vigilant to protect your interests."

Guest speaker Craig Grooms, vice president of market operations at Buckeye Power and Ohio Rural Electric Cooperatives, Inc. provided an overview of Buckeye Power and its generation resources. He also addressed current issues in the industry, specifically the increased transition from coal to natural gas, and increased regulatory activity at all levels of the government. With this current activity, Mr. Grooms assured members that the primary focus of Ohio's Electric Cooperatives continues to be providing safe, reliable electric at a fair price. He encouraged members to stay informed on these issues faced by electric cooperatives.

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

Attorney Daniel Mathie administered the oath to all the trustees elected.

There was no unfinished business.

There was no new business.

Upon motion made and seconded, the meeting was adjourned.





# OVER A **HALF MILLION** DONATED TO OUR COMMUNITY



In January 2006, Holmes-Wayne Electric Cooperative, Inc. introduced a new community service program called Operation Round Up. This program allowed for HWEC members to round up their monthly electric bills to the next even dollar. The spare change was placed into a foundation to be distributed to those in need within our community.

**Eleven years later, members of HWEC have given more than half a million dollars back to the community. This is an amazing testament to our members' generosity and concern for our community.**

Applicants for assistance must live within the local community, and all applications are reviewed by a

five-member board. A special thanks to the following board members for volunteering their time: President Dan Mathie; Vice President Jonathan Berger; Secretary Lisa Grassbaugh; and Directors Matt Johnson and Glenn Miller.

As your local electric provider, we again want to thank you for allowing us to administer such a worthy program. It is an honor to assist the needs of those in our community and to improve our neighborhoods. On pages 20G and 20H is a summary of the 2016 distributions. If you would like to learn more about the program or how to participate in Operation Round Up, please call the office toll free at 866-674-1055.

## Operation Round Up Annual Distribution

- 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



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



# 2016 OPERATION ROUND UP SUMMARY

Assist a family with beds for children — Killbuck	\$702
Ashland County Cancer Association	\$299.95
Adaptive Sports Program — Hockey Sleds — Wooster	\$1,000
Helping Hands Food Pantry — Loudonville	\$1,000
Assist family with transportation for medical treatments — Millersburg	\$500
Assist individual medical emergency — Millersburg	\$250
Assist a family with beds for children — Killbuck	\$468
Assist family with transportation for medical treatments — Burbank	\$250
Moca House Recovery Program for Mental Health — Wooster	\$500
Farmers & Hunters Feeding the Hungry — Wayne County	\$1,000
Special Olympics — Field of Dreams — Wooster	\$250
58:12 Rescue — Domestic Violence Safe Home — Holmes County	\$2,500
Cystic Fibrosis Foundation Walk — Holmes County	\$500
Assist family with home needs for medical purpose for child — Creston	\$775
Assist individual with home needs for medical purpose — Killbuck	\$500
Assist a family with transportation for medical treatments — Killbuck	\$250
The Risers — One Eighty Agency — assist with addiction treatment	\$500
Assist family with transportation for medical treatments — Holmesville	\$250
Assist family with home needs for medical purpose for child — Wooster	\$2,497
Community Tennis Court Renovation — Holmes County	\$1,000
Assist individual with transportation for medical treatments — Shreve	\$250
Mohican Area Community Fund	\$250
Shreve United Methodist Church — Food Pantry	\$1,000
Glenmont Food Pantry	\$1,000
Meals Together — Wooster Methodist Church	\$1,000
Viola Startzman Health Clinic	\$1,000
Church of God — Food Pantry — Millersburg	\$1,000



# 2016 OPERATION ROUND UP SUMMARY

Assist individual with transportation for medical treatments — Shreve	\$250
Hope for This Step — Suicide and overdose awareness and prevention	\$500
Melissa Schultz Nature Preserve	\$500
Assist family with home needs for medical purpose — Glenmont	\$600
Assist a family with transportation for medical treatments — Millersburg	\$550
Adaptive Sports Program — Wooster	\$1,000
Holmes County Senior Center — processing of donated fair animals	\$1,184.40
Assist a family with transportation for medical treatments — Wooster	\$500
Holmes County Home — processing of donated fair animals	\$1,315.60
Farmers & Hunters Feeding the Hungry — Holmes County	\$1,000
Assist family loss of home from fire — Shreve	\$650
Assist disabled individual with medical emergency — Holmesville	\$486
Wayne County Food Pantry & Agencies — processing of donated fair animals	\$2,286.68
Farmers & Hunters Feeding the Hungry — Coshocton County	\$500
Love Center Food Pantry — Freezer project — Holmes County	\$5,000
Camp Ohio — 4-H camp	\$200
Community trash pickup — Holmes County	\$250
YMCA after-school program — Wooster	\$1,000
Assist a family with beds for children — Lakeville	\$468
Assist individual with transportation for medical treatments — Shreve	\$250
Assist family with wheelchair ramp — Lakeville	\$1,320
Assist a family with bed for a child — Wooster	\$234
Shop with a Teacher — Millersburg	\$100
Assist a family with beds for children — Wooster	\$548.64
Wayne County Underwater Search and Rescue	\$250
Lifting Hearts Bereavement Program	\$1,000
Assist a family with beds for children — Shreve	\$702
Meals on Wheels — Holmes County Senior Center	\$1,000
One Eighty — Every Woman's House — Holmes County	\$1,000
One Eighty — Every Woman's House — Wayne County	\$1,000
American Red Cross — Wayne County	\$1,000
Meals and More — West Salem	\$1,000
Hospice — Holmes & Wayne counties	\$1,000
Share-A-Christmas — Holmes County	\$1,000
West Salem Outreach & Food Pantry	\$1,000
Lighthouse Love Center — Holmes County	\$1,000
Salvation Army — Wayne County	\$1,000
Salvation Army — Holmes County	\$1,000
Town & Country Fire & Rescue Association — West Salem Toy Drive	\$1,000
Christian Children's Home — Wooster	\$1,000
<b>Total</b>	<b>\$56,137.27</b>

# AUDITOR'S REPORT

February 20, 2017  
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, 2016 and 2015, and the related statements of revenue, 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 opinions.

### 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, 2016 and 2015, 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 Matters

During the years ended December 31, 2016 and 2015, the Cooperative received \$0 and \$6,756,989 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary graphs included on pages 19 through 25 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2017, 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 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 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

# BALANCE SHEETS

## AS OF DECEMBER 31, 2016 AND 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
UTILITY PLANT:		
Electric plant in service	\$ 78,979,654	\$ 75,931,593
Construction work in progress	<u>634,706</u>	<u>923,333</u>
	79,614,360	76,854,926
Less: provision for accumulated depreciation	<u>18,453,523</u>	<u>17,814,953</u>
Net utility plant	61,160,837	59,039,973
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	929,912	1,084,898
Investments in associated organizations	2,231,324	2,228,682
Patronage capital from associated organizations	<u>16,427,757</u>	<u>16,507,347</u>
Total other assets and investments	19,588,993	19,820,927
CURRENT ASSETS:		
Cash and cash equivalents	1,065,225	608,444
Accounts receivable, net of allowance	4,508,921	4,121,171
Materials and supplies	762,568	927,084
Other current assets	<u>165,405</u>	<u>98,986</u>
Total current assets	<u>6,502,119</u>	<u>5,755,685</u>
Total assets	<u>\$ 87,251,949</u>	<u>\$ 84,616,585</u>

### EQUITIES AND LIABILITIES

	<u>2016</u>	<u>2015</u>
EQUITY:		
Patronage capital	\$ 33,941,996	\$ 34,041,070
Other equities	1,702,577	1,613,777
Accumulated other comprehensive income	<u>(274,400)</u>	<u>(274,400)</u>
Total equity	35,370,173	35,380,447
LONG-TERM LIABILITIES:		
Mortgage notes payable	45,043,502	42,368,518
Deferred credits	3,207	3,460
Postretirement benefit obligation	<u>561,408</u>	<u>512,002</u>
Total long-term liabilities	45,608,117	42,883,980
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,506,000	1,791,000
Accounts payable	2,851,888	2,776,677
Postretirement benefit obligation, current portion	13,700	10,900
Accrued taxes	1,258,087	1,196,008
Customers' deposits	204,380	200,185
Other current liabilities	<u>439,604</u>	<u>377,388</u>
Total current liabilities	<u>6,273,659</u>	<u>6,352,158</u>
Total equities and liabilities	<u>\$ 87,251,949</u>	<u>\$ 84,616,585</u>

# STATEMENTS OF REVENUE

## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES	\$ 39,317,970	\$ 38,963,453
OPERATING EXPENSES:		
Cost of purchased power	24,952,333	24,898,620
Operations	3,519,005	3,183,964
Maintenance	2,294,690	2,514,685
Consumer accounts	1,003,038	958,889
Customer service and informational expense	72,036	84,817
Administrative and general	1,670,569	1,569,685
Depreciation	2,395,900	2,306,964
Tax expense	1,446,983	1,440,323
Interest - other	6,125	5,957
Other deductions	<u>7,817</u>	<u>4,634</u>
Total cost of electric service	<u>37,368,496</u>	<u>36,968,538</u>
Operating margins before fixed charges	1,949,474	1,994,915
FIXED CHARGES, interest on long-term debt	<u>1,649,102</u>	<u>1,568,732</u>
Operating margins after fixed charges	300,372	426,183
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	825,639	2,045,176
Other credits	<u>82,535</u>	<u>81,152</u>
Net operating margins	<u>908,174</u>	<u>2,126,328</u>
	1,208,546	2,552,511
NON-OPERATING MARGINS:		
Interest income	45,662	41,300
Other (expense) income	(60)	912
Loss on disposition of property	<u>(14,382)</u>	<u>0</u>
	<u>31,220</u>	<u>42,212</u>
Net margins	<u>\$ 1,239,766</u>	<u>\$ 2,594,723</u>

# STATEMENTS OF PATRONAGE CAPITAL

## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
PATRONAGE CAPITAL, beginning of year	\$ 34,041,070	\$ 32,593,019
Net margins	1,239,766	2,594,723
Retirement of capital credits	<u>(1,338,840)</u>	<u>(1,146,672)</u>
End of year	<u>\$ 33,941,996</u>	<u>\$ 34,041,070</u>

# STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 1,239,766	\$ 2,594,723
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,395,900	2,306,964
Amortization of retirement security plan prepayment	154,986	154,986
Non-cash capital credits received	(904,566)	(2,114,329)
(Increase) decrease in assets:		
Accounts receivable, net	(387,750)	244,297
Other current assets	(66,419)	4,900
Increase (decrease) in liabilities:		
Accounts payable	75,211	533,527
Accrued taxes	62,079	23,192
Customers' deposits	4,195	1,560
Other current liabilities	62,216	(33,873)
Deferred credits	(253)	(389)
Postretirement benefit obligation	52,206	52,033
Total adjustments	<u>1,447,805</u>	<u>1,172,868</u>
Net cash provided by operating activities	2,687,571	3,767,591
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(4,516,764)	(4,697,497)
Decrease (increase) in materials and supplies	164,516	(127,225)
Investments in associated organizations	(3,144)	(11,500)
Proceeds from redemption of capital credits	984,156	664,801
Return of investment in associated organizations	<u>502</u>	<u>472</u>
Net cash used in investing activities	(3,370,734)	(4,170,949)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on line of credit	0	(200,000)
Proceeds from mortgage notes payable	4,200,000	3,900,000
Principal payments on mortgage notes payable	(1,810,016)	(1,706,070)
Patronage capital credits retired	(1,338,840)	(1,146,672)
Retired capital credits unclaimed	52,027	5,781
Donated capital received	<u>36,773</u>	<u>41,988</u>
Net cash provided by financing activities	<u>1,139,944</u>	<u>895,027</u>
Net increase in cash and cash equivalents	456,781	491,669
CASH AND CASH EQUIVALENTS, beginning of year	<u>608,444</u>	<u>116,775</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,065,225</u>	<u>\$ 608,444</u>

# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

## 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.

### Accounts Receivable and Revenues

Revenue from the sale of electricity is recorded monthly based on

consumer electricity consumption. The Cooperative bills monthly for all consumers. A few commercial consumers have "Demand" meters and are billed based upon meter readings made by Cooperative personnel. 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, 2016 and 2015, was \$40,000 in both years. Bad debt expense for 2016 and 2015 was \$21,910 and \$39,649, respectively.

### 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 \$1,649,393 and \$1,568,016 for the years ended December 31, 2016 and 2015, respectively. There were no payments for federal income taxes for 2016 or 2015.

## NOTE C: UTILITY PLANT

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

	2016	2015
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	70,204,866	67,310,697
General Plant	8,526,657	8,372,765
Electric Plant in Service	78,979,654	75,931,593
Construction Work in Progress	634,706	923,333
Total Utility Plant at Cost	<u>\$ 79,614,360</u>	<u>\$ 76,854,926</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

## DECEMBER 31, 2016 AND 2015

### NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2016</u>	<u>2015</u>
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 630,219	\$ 630,721
NRUCFC member capital securities	200,000	200,000
Equity contribution with Buckeye Power, Inc.	1,209,981	1,209,981
NRUCFC membership Cooperative Response Center membership	1,000	1,000
Rural Electric Supply Cooperative, Inc. membership	12,500	12,500
Heartland Emergency Equipment, Ltd.	50	50
CoBank common stock	150,446	147,302
	<u>27,128</u>	<u>27,128</u>
Total investments in associated organizations	2,231,324	2,228,682

Patronage Capital from Associated Organizations:		
Rural Electric Supply Cooperative, Inc.	389,505	387,072
Buckeye Power, Inc.	15,664,248	15,788,695
NRUCFC	136,922	118,571
National Information Solutions Cooperative	92,981	84,208
Federated Rural Electric Insurance Exchange	131,978	117,861
Cooperative Response Center membership	<u>12,123</u>	<u>10,940</u>
Total patronage capital from associated organizations	<u>16,427,757</u>	<u>16,507,347</u>

Total investments in associated organizations	<u>\$ 18,659,081</u>	<u>\$ 18,736,029</u>
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### NOTE E: PATRONAGE CAPITAL

At December 31, 2016 and 2015, patronage capital consisted of:

	<u>2016</u>	<u>2015</u>
Assignable	\$ 1,239,766	\$ 2,594,723
Assigned	<u>55,768,606</u>	<u>53,173,883</u>
	57,008,372	55,768,606
Retired	<u>(23,066,376)</u>	<u>(21,727,536)</u>
Total patronage capital	<u>\$ 33,941,996</u>	<u>\$ 34,041,070</u>

The Cooperative's patronage capital balances represent 38.9 percent and 40.2 percent of the total assets at December 31, 2016 and 2015, respectively. Capital credit retirements in the amount of \$1,338,840 and \$1,146,672 were paid in 2016 and 2015, respectively.

The Cooperative received donated capital from members totaling \$36,773 and \$41,988 during 2016 and 2015, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2016 and 2015 includes \$19,300,774 and \$17,951,280, 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 F: OTHER EQUITIES

At December 31, 2016 and 2015, other equities consisted of:

	<u>2016</u>	<u>2015</u>
Donated capital	\$ 1,087,139	\$ 1,050,366
Retired capital credits unclaimed	<u>615,438</u>	<u>563,411</u>
Total other equities	<u>\$ 1,702,577</u>	<u>\$ 1,613,777</u>

### NOTE G: 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 2016 and 2015 was \$550,784 and \$502,417, 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 \$125,103 and \$117,455 for the years ended December 31, 2016 and 2015, respectively.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

## DECEMBER 31, 2016 AND 2015

### NOTE H: 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. During 2015, the cooperative refinanced \$6,756,989 in notes with Rural Utility Service to notes with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Following is a summary of outstanding long-term debt as of December 31, 2016 and 2015:

Loan	Fixed Interest Rate	Maturity Date	2016	2015
RUS advance payments unapplied			\$ (86)	\$ (82)
CFC	5.050%	7/28/18	58,423	95,941
CFC	6.250%	3/14/26	331,794	358,488
CFC	6.300%	7/28/29	258,876	272,120
CFC	4.400% - 5.150%	4/29/19	91,673	169,012
CFC	3.400% - 4.850%	3/31/18	777,973	841,935
CFC	1.900%	12/31/16	0	424,125
CFC	2.650% - 4.950%	11/25/39	6,331,742	6,536,169
FFB	4.503%	12/31/31	674,002	704,565
FFB	4.120%	12/31/31	1,272,718	1,332,445
FFB	2.736%	12/31/31	628,347	661,645
FFB	4.269%	12/31/31	340,512	356,280
FFB	4.295%	12/31/31	683,333	714,903
FFB	3.879%	12/31/31	662,621	694,390
FFB	2.009%	1/2/35	701,098	733,001
FFB	2.231%	1/2/35	685,337	715,821
FFB	2.795%	1/2/35	700,219	729,599
FFB	4.550%	1/2/35	753,499	779,708
FFB	4.353%	12/31/34	755,913	782,778
FFB	4.543%	12/31/34	1,829,209	1,892,883
FFB	3.889%	12/31/42	5,320,891	5,435,559
FFB	3.849%	12/31/42	2,658,241	2,715,897
FFB	4.419%	12/31/42	1,882,094	1,919,301
FFB	3.873%	1/2/46	1,870,741	1,904,506
FFB	2.763%	1/2/46	1,290,218	1,318,589
FFB	2.702%	1/2/46	1,197,002	1,223,602
FFB	2.330%	1/2/46	1,556,654	1,593,526
FFB	2.421%	1/2/46	1,146,181	1,172,913
FFB	2.777%	1/2/46	2,186,658	2,234,623
FFB	2.256%	1/2/46	921,099	945,276
FFB	2.331%	12/31/48	984,806	1,000,000
FFB	2.813%	12/31/48	1,972,285	2,000,000
FFB	1.965%	12/31/48	1,865,359	1,900,000
FFB	2.384%	12/31/48	2,360,070	0
FFB	2.308%	12/31/48	<u>1,800,000</u>	<u>0</u>
Total mortgage notes			46,549,502	44,159,518
Less: current portion of mortgage notes			<u>\$ 1,506,000</u>	<u>\$ 1,791,000</u>
Long-term mortgage notes payable			<u>\$ 45,043,502</u>	<u>\$ 42,368,518</u>

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

2017	\$ 1,506,000
2018	1,483,000
2019	1,492,000
2020	1,546,000
2021	1,597,000
Thereafter	<u>38,925,502</u>
	<u>\$ 46,549,502</u>

The Cooperative has available \$2,900,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2016.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

## DECEMBER 31, 2016 AND 2015

### NOTE I: 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, 2016. The interest rate on the line of credit at December 31, 2016 and 2015 was 2.50 percent and 2.90 percent, respectfully, with outstanding balances on the line of \$0 for both years. 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 J: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2016</u>	<u>2015</u>
Consumer energy prepayments	<u>\$ 3,207</u>	<u>\$ 3,460</u>

### NOTE K: 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 \$2,272,033 and \$2,022,196 at December 31, 2016 and 2015, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,596,452 and \$1,706,278 for the years ended December 31, 2016 and 2015, 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 \$142,056 and \$144,984 for the years ended December 31, 2016 and 2015, respectively.

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

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 D.

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 \$50,885 and \$46,849 for the years ended December 31, 2016 and 2015, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$99,914 and \$100,876 for the years ended December 31, 2016 and 2015, respectively.

### NOTE L: 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>2016</u>	<u>2015</u>
APBO, beginning of year	\$ 522,902	\$ 470,869
Service cost	16,400	16,400
Interest cost	24,925	22,453
Amortization	10,100	10,100
Additional expenses	4,888	9,276
Less: actual cash payment	<u>(4,107)</u>	<u>(6,196)</u>
APBO, end of year	575,108	522,902
Less: current portion	<u>(13,700)</u>	<u>(10,900)</u>
APBO, long-term portion	<u>\$ 561,408</u>	<u>\$ 512,002</u>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

## DECEMBER 31, 2016 AND 2015

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

2017	\$	13,700
2018-2022	\$	41,200

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

	<u>Medical</u>	<u>Drugs</u>
2017	6.5%	6.5%
2018	6.0%	6.0%
2019	5.5%	5.5%
2020 and later	5.0%	5.0%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.75 percent.

### NOTE M: 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 multi-employer 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.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years
2. Borrow funds sufficient to make the prepayment in a lump sum, with the repayment of the borrowed amount determined by the loan's amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten-year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the

cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USOA).

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets unless the borrower obtains RUS consent.

RUS will consider any unsecured debt associated with the RS Plan prepayment to be "Permitted Debt" and accordingly it will be excluded from the application of Section 6.13(e).

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 is being accounted for in accordance with the RUS USOA.

### NOTE N: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2017, the date on which the financial statements were issued.

### NOTE O: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 entitled "Revenue from Contracts with Customers (Topic 606)," which may change the Company's method of revenue recognition. In August 2015, the FASB deferred the effective date of the new standard by one year. This new standard is effective for annual reporting periods beginning after December 15, 2017, while allowing nonpublic companies an additional year to implement this new standard. Early implementation is permitted, but not before the original implementation date for periods beginning before December 15, 2016. The provisions of this standard will be applied retrospectively. Management has not yet determined whether this new standard will have a material effect on its financial statements.

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, 2018, while allowing nonpublic companies an additional year to implement this new standard. 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

## DECEMBER 31, 2016 AND 2015

February 20, 2017

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 years ended December 31, 2016, 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 20, 2017.

### 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.

*Lee & Associates, P.C.*  
Millersburg, OH