



## HOLMES-WAYNE ELECTRIC COOPERATIVE 2017 ANNUAL REPORT

Investing *today*  
for an even  
brighter *tomorrow*

### 2018 ANNUAL MEETING OF MEMBERS

**Thursday, June 28**

**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 HWECC 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.



Holmes-Wayne  
Electric Cooperative, Inc.

A Touchstone Energy Cooperative 

Activities of the evening:

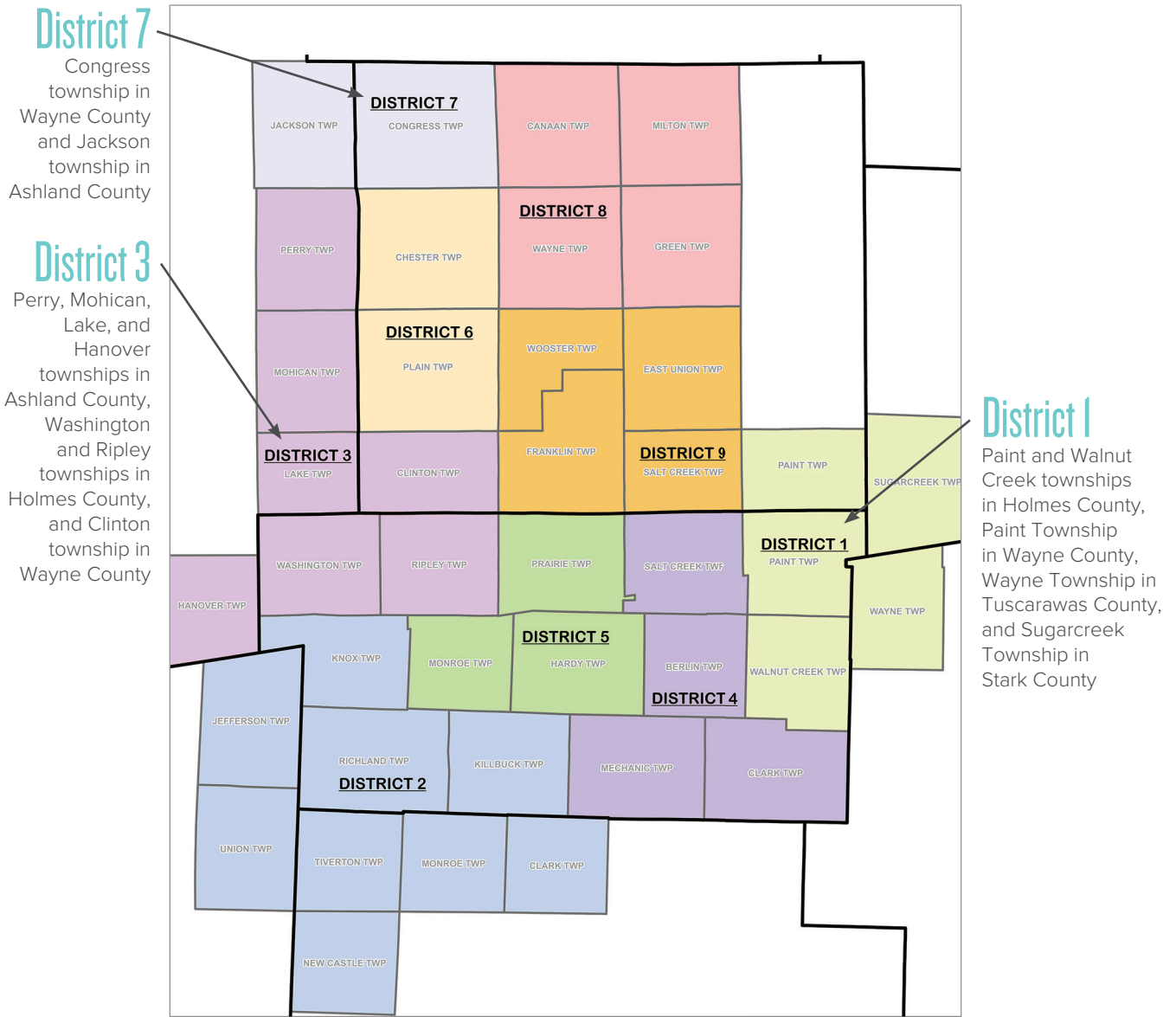
### **BUSINESS MEETING**

1. Meeting called to order
2. Invocation
3. Minutes approved as in annual report
4. Chairman's report
5. Financial report for 2017
6. Operation Round Up Foundation financial report for 2017
7. President's report
8. Guest speaker
9. Scholarship winners presentation
10. Results of trustee election and swearing in of trustees
11. Unfinished business
12. New business
13. Adjournment

## TRUSTEE ELECTIONS

# 2018

## BOARD OF TRUSTEES ELECTION



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.

## TRUSTEE ELECTIONS

### DISTRICT I



Matthew Johnson

**Name:** Matthew Johnson

**Home address:** 1844 TR 675,  
Dundee, OH 44624

**E-mail address:** mjohnson@  
palmernet.com

**Number of years as member  
of the cooperative:** 10

**Education:** Bachelor of Science  
and Master of Science, civil  
engineering — University of  
Kentucky.

**Current employment or  
history:** I have worked as a

structural engineer for Palmer Engineering since my college graduation. I am currently the manager of Palmer Engineering's northeast Ohio office, and I oversee all of Palmer's Ohio bridge design and inspection.

**Leadership and community activities:** Youth baseball coach, Winesburg Park Board, director of the Cuyahoga Valley section of the American Society of Highway Engineers, Winesburg Cemetery Board, and elder at Zion Reformed Church.

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** As an engineer, I have a very strong interest in maintaining our local and national infrastructure. As a member of our local energy co-op, I feel obliged to offer my technical services and knowledge to improve the already-excellent service provided by HWEC to my neighbors.

**Spouse, children, and/or grandchildren:** Wife, Holley; children — Gus, Phinehas, and Lydia.



Randy Sprang

**Name:** Randy Sprang  
**Incumbent**

**Home address:** 1601 CR 200,  
Dundee, OH 44624

**E-mail address:** rsprang@  
hwecoop.com

**Number of years as member  
of the cooperative:** 40

**Education:** Graduate of West  
Holmes High School, class  
of 1972.

**Current employment or  
history:** Retired from the Ohio  
Agriculture Research and

Development Center (OARDC) in Wooster, Ohio, after 37 years of service. I continue to work as a seasonal employee at OARDC. I am also a Paint Township trustee. I have served in the role for 24 years.

**Leadership and community activities:** Member of HWEC Board of Trustees for the past 12 years. I have served as board chairman the past six years.

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

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

**Spouse, children, and/or grandchildren:** Wife, Bonnie; children — Brian, Cliff (Missy), Dan (Lacey); and four grandchildren.





## TRUSTEE ELECTIONS

### DISTRICT 3

**Name:** Brenda S. Eberly

**Home address:** 2234 CR 37,  
Jeromesville, OH 44840

**E-mail address:**  
emeraldquest3@gmail.com

**Number of years as member of  
the cooperative:** 18

**Education:** BSBA with a minor  
in finance, Ashland University.

**Current employment or  
history:** I have been the owner/  
operator of Emerald Quest  
Dairy Farm from 2000 to the  
present. Prior to this, I worked as  
the production manager at Shady Lane Farm.

**Leadership and community activities:** Farm Credit,  
Advisory Council; Wayne Ashland County Dairy Board,  
secretary; Grace Brethren Church member; Holstein  
Association (state and national) member.

**Why are you interested in becoming a member of the  
HWEC Board of Trustees or serving another term?** I  
reflect on the philanthropy of HWEC in their programs  
of Operation Round Up® and scholarships for members'  
sons and daughters who are high school seniors. I  
would like to be a part of the board of a co-op that gives  
so much to the community.

**Any additional information you feel is essential for  
members to be aware of?** I would be a vigilant steward of  
continued quality of service at a competitive cost to all of  
my fellow co-op members.



Brenda Eberly

**Name:** Shannon R. Flinner

**Home address:** 8040 Critchfield  
Rd., Shreve, OH 44676

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

**Number of years as member of  
the cooperative:** 13

**Education:** High school diploma

**Current employment or history:**  
I am currently self-employed.

**Leadership and community  
activities:** Clinton Township  
trustee since 2014.



Shannon Flinner

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

am excited for the opportunity to be involved in our  
community electric co-op. I look forward to contributing to  
the future goals of Holmes-Wayne Electric Cooperative.

**Spouse, children, and/or grandchildren:** Wife, Jessica;  
children — Madalynn, Bryanna, Breidyn, and Teiryn.

**Name:** Jackie McKee  
**Incumbent**

**Home address:** 8249 SR 754,  
Shreve, OH 44676

**E-mail address:** jmckee1220@  
aol.com

**Number of years as member of  
the cooperative:** 35

**Education:** Graduate of  
University of Akron/Wayne  
College in business and  
accounting.

**Current employment or  
history:** Currently serving 20th  
year as Holmes County Auditor. Served two terms as  
Ripley Township fiscal officer prior.

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

**Why are you interested in becoming a member of the  
HWEC Board of Trustees or serving another term?** I  
am grateful for the opportunity to serve cooperative  
members as a trustee. I appreciate working with an  
organization that practices good management and  
has a concern for the community. My background and  
experience will allow me to ensure the mission of HWEC  
continues by providing its members the best possible  
electric service at the lowest cost.

**Any additional information you feel is essential for  
members to be aware of?** I have attended educational  
classes to learn the industry and to better prepare myself  
as a trustee. I have obtained the National Rural Electric  
Cooperative Director Certification and most recently  
completed the Board Leadership Certificate.

**Spouse, children, and/or grandchildren:** Husband,  
Dale; children — Joel (Brittney), Jessica (Joey) Franklin;  
grandchildren — Kade, Korbin, and Josie.



Jackie McKee

## TRUSTEE ELECTIONS

### DISTRICT 7



Roger Johnson

**Name:** Roger Johnson

**Home address:** 190 E. Buckeye St., West Salem, OH 44287

**E-mail address:** johnsonr1950@gmail.com

**Number of years as member of the cooperative:** 42

**Education:** Graduated from Cloverleaf High School in 1969

**Current employment or history:** Alloy Fabricator, 1969 to 1985; Premium Building Products, 1985 to 2016; retired 2016.

**Leadership and community activities:** Just started fifth term as councilman in West Salem; referee high school soccer for 22 years; in charge of the Running School House Community Campus.

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** I think that I can offer new ideas and help solve some of the old problems, helping to bring Holmes-Wayne into the future.

**Any additional information you feel is essential for members to be aware of?** I was a sheet metal engineer for 16 years and a fabricator and machinist for 31 years.

**Spouse, children, and/or grandchildren:** Wife, Barb; three children; and nine grandchildren.



David Tegtmeier

**Name:** David Tegtmeier  
**Incumbent**

**Home address:** 11360 Franchester Rd., West Salem, OH 44287

**E-mail address:** drteg@frontier.com

**Number of years as member of the cooperative:** 35

**Education:** Graduate of Northwestern High School; associate degree in computer programming from North Central Technical College.

**Current employment or history:** Employed at Ashland University as a senior audio/visual technician; self-employed part-time farmer; partner of Sunsational Oil, LLC; previously employed by First Merit/Peoples Federal; and served in the U.S. Air Force.

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

**Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term?** I feel privileged to have had the opportunity to serve as trustee for the past three years. It has been an informative and fulfilling time. I like the cooperative business model because it works. As a member-owner like you, we can be very proud to be part of an organization that is one of Ohio's best electric cooperatives when it comes to rates, safety, reliability, and growth. There are seven cooperative principles, with one being education of members and employees. With this in mind, I have obtained the Credentialed Cooperative Director Certificate and will certainly continue with the training classes available to trustees if reelected.

**Spouse, children, and/or grandchildren:** Wife, Rita; son, Luke (Kathrine); daughter, Jill (Dennis), with granddaughter, Savanna; and son, Mark.



## ANNUAL REPORT

# 2017

## ANNUAL MEETING MINUTES

June 29, 2017

The Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 29, 2017.

The business meeting was called to order by the 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 30, 2016, Annual Meeting as presented. Motion carried.

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

- The board and cooperative staff live and work in the community and are actively involved in supporting your community by volunteering time and resources. This year, we are proud to coordinate the second annual Holmes-Wayne Community Honor Trip. The funds raised for this event are through employee donations, potluck safety meals, board donations, and community donations.
- 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 Electrification (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 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 COPA program, which is Co-op Owners for Political Action.

- Sprang personally thanked the 357 Holmes-Wayne Electric Cooperative members who have already taken the step to join COPA.
- Capital credits totaling \$1,144,557.95 were retired in 2017. This is a reminder of the principles on which the cooperative was built.
- In 2017, the board increased the scholarship amount distributed to local high school seniors. This year, a total of \$15,000 was awarded to 10 high school students.
- Members were invited to participate in the annual tour of the Cardinal Power Plant in Brilliant, Ohio.
- As a board, every decision in the boardroom 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.

Zac Morris of REA & Associates reviewed the Auditor's Report for 2016, which resulted in a clean 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 \$56,000 in 2016 to local community members and organizations, and over \$530,000 since the beginning of the program 10 years ago.

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 404 miles in the Hefferline, Moreland, Alpine, Trail, and Sugar creek substation areas. In 2018, these same areas will be sprayed to minimize growth until the next trimming cycle.



- In 2015, we added an ash tree removal program to be proactive in taking down trees that have been affected by the emerald ash borer in areas that are not in the current year tree-trimming program cycle. This helped to reduce outages that may have been caused by the affected trees.
- 195 new services were added in 2016 for a total of 18,412 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.
- Members continue to utilize SmartHub, our mobile option that allows you to report meter readings, report outages, and pay bills through our website and all mobile devices. Members can now schedule payments while traveling, and utilize the automatic payment process to avoid scheduling a payment every month.
- This year, we will sponsor the second annual Holmes-Wayne Community Honor trip, allowing 24 veterans from our local community to enjoy an all-expenses-paid trip to Washington, D.C. This trip, coordinated with the Shreve American Legion, will take place in August.
- Our staff remains active in the community by participating in answering phones for the Share-A-Christmas program, Touch-A-Truck Day in Wayne County, Reality Days in local schools, and parades and concession stands at local ballgames.
- We continue to be active in promoting energy efficiency and safety by visiting local schools and safety fairs and talking with youth in 4-H and Scout troops.
- In 2016, the cooperative paid \$1,447,000 in kilowatt-hour tax to the State of Ohio, and \$1,064,000 in property taxes that benefit 12 local school districts and local governments.
- Holmes-Wayne has one of the lowest electric service rates in the state out of 25 cooperatives.
- Holmes-Wayne scored an 88 in the American Customer Satisfaction Survey. Scoring was excellent or good in all 18 categories and exceeded the national average in all 18 categories. The average score for cooperatives our size across the state is 80, investor-owned utilities' average 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, and those costs are currently in your wholesale power costs.
- Buckeye Power now has one of the cleanest coal-fired plants in the country.
- As a member-owned company, we feel it is our responsibility to make you aware of your options to keep power safe, clean, and affordable. We will continue to remain vigilant to protect your interests.

Guest speaker Pat O'Loughlin, president and CEO of Ohio's Electric Cooperatives, HWEC's statewide services organization, reported that significant investments have been made to guarantee power generated by Buckeye Power is cleaner than ever, and that reliability continues to improve. Even with these investments and improvements, Buckeye expects to keep the power supply portion of your rates stable for at least the next few years. He noted that Buckeye has been active in local community projects, including growing and expanding training and education programs, partnering with local communities to promote economic development, and working with state and national legislatures advocating for common-sense solutions to energy and environmental issues. With this current activity, O'Loughlin assured members that the primary focus of Ohio's Electric Cooperatives continues to be providing safe, reliable electric service at a fair price. He encouraged members to stay informed on 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:

- Ken Conrad – District 4, Ronnie Schlegel – District 5, and Jonathan Berger – District 6.

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.

## OPERATION ROUND UP

# 2017 OPERATION ROUND UP SUMMARY



## Serving our local community's needs through member support

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

HWE members have given over \$590,000 back to the community since ORU's inception. This is an amazing testament to our members' generosity toward our community. It's an honor to assist our community and improve our neighborhoods.

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

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

The following is a summary of the 2017 distribution. If you would like to learn more about the program or how to participate, please call the office toll-free at 866-674-1055.



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



Assist a family with loss of furniture from fire — Millersburg	\$1,000.00
Assist a family with bed for child — West Salem	\$234.00
The Lord's Pantry — West Salem	\$1,000.00
Assist an individual with medical equipment — Holmesville	\$876.52
Adaptive Sports Program — Sled hockey charity game — Wooster	\$1,000.00
Farmers & Hunters Feeding the Hungry — Holmes County	\$1,000.00
Assist an individual with a bed — Wooster	\$249.00
National Alliance on Mental Illness — Wayne & Holmes County	\$300.00
Assist an individual with medical equipment — Wooster	\$1,500.00
Assist an individual with a bed — Wooster	\$249.00
Cystic Fibrosis Foundation Walk — Holmes County	\$500.00
Special Olympics — Field of Dreams — Wooster	\$250.00
Assist an individual with a bed — Millersburg	\$234.00
Community Tennis Court Construction — Wayne County	\$1,000.00
Assist a family with beds — Wooster	\$936.00
Moreland Historical Society, community historical building — restorations	\$1,000.00
Assist a family with beds — Wooster	\$468.00
The Risers — One Eighty — assist with addiction treatment	\$500.00
Assist an individual with a bed — Wooster	\$274.00
Assist a family with beds — Wooster	\$508.00
Assist a family with disabled child — Wooster	\$900.00
Hope for This Step — Suicide and overdose awareness and prevention	\$500.00
Assist an individual with air-conditioning unit — Lakeville	\$359.09
Adaptive Sports Program — 3-on-3 wheelchair basketball tournament — Wooster	\$1,000.00
Assist a family with bed for child — Holmesville	\$234.00
Farmers & Hunters Feeding the Hungry — Wayne County	\$1,000.00
Assist a family with beds — Wooster	\$508.00
Assist a family with a bed — Wooster	\$468.00
Holmes County Home & Senior Center — processing of donated fair animals	\$2,500.00
Assist an individual with a gas stove — Millersburg	\$470.75
Assist a family with bunk beds — Wooster	\$826.85
Assist a family with transportation for medical treatments — Millersburg	\$250.00
Camp Ohio 4-H Camp — camp improvements	\$200.00
Assist a family with beds — Shreve	\$419.00
Assist a family with transportation for medical appointments — Millersburg	\$250.00
Assist a family with a bed for a child — Wooster	\$259.00
Share-A-Christmas	\$1,000.00
Shop With A Teacher — Millersburg	\$100.00
Assist a family with beds — Wooster	\$493.00
West Salem Outreach & Food Pantry	\$1,000.00
Light House Love Center — Holmes County	\$1,000.00
Salvation Army — Holmes County	\$1,000.00
Meals on Wheels — Holmes County Senior Center	\$1,000.00

Assist a family with transportation for medical treatments — Shreve	\$250.00
Assist a family with beds for children — Killbuck	\$510.00
New Leaf Center — clinic for special children	\$1,000.00
Salvation Army — Wayne County	\$1,000.00
Town & Country Fire & Rescue — West Salem Toy Drive	\$1,000.00
Christian Children's Home — Wooster	\$1,000.00
Meals and More — West Salem	\$1,000.00
One Eighty — Holmes County	\$1,000.00
One Eighty — Wayne County	\$1,000.00
American Red Cross — Wayne County	\$1,000.00
Hospice — Holmes and Wayne County	\$1,000.00
Viola Stutzman Health Clinic — Wooster	\$1,000.00
Church of God — Food pantry — Millersburg	\$1,000.00
Meals Together — Wooster Methodist	\$1,000.00
Glenmont Food Pantry	\$1,000.00
Shreve United Methodist Church — Food pantry	\$1,000.00
Mohican Area Community Fund	\$250.00
Goodwill Industries of Wayne & Holmes Counties, Inc	\$1,000.00
58:12 Rescue — Domestic violence safe home — Holmes County	\$1,000.00
Assist a family with beds — Wooster	\$702.00
Assist an individual with medical equipment — Wooster	\$1,500.00
Assist an individual with medical equipment	\$2,235.00
Wayne County Food Pantries & Agencies — processing of donated fair animals	\$2,396.77
<b>Total</b>	<b>\$52,659.98</b>

### Operation Round Up Annual Distribution

2017 — \$52,659.98  
 2016 — \$56,137.27  
 2015 — \$49,449.70  
 2014 — \$48,216.56  
 2013 — \$63,099.06  
 2012 — \$51,343.99  
 2011 — \$63,289.93  
 2010 — \$59,670.87  
 2009 — \$38,794.38  
 2008 — \$38,279.61  
 2007 — \$37,596.26  
 2006 — \$31,986.93



## ANNUAL REPORT

# 2017 AUDITOR'S REPORT

February 20, 2018

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 Dec. 31, 2017 and 2016, 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes-Wayne Electric Cooperative, Inc., as of Dec. 31, 2017 and 2016, 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 Dec. 31, 2017 and 2016, the Cooperative received \$0 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

### Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated Feb. 20, 2018, 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, 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.

*Kea & Associates, Inc.*

Millersburg, OH



## ANNUAL REPORT

# 2017 BALANCE SHEETS

As of December 31, 2017 and 2016

### ASSETS

#### UTILITY PLANT:

	2017	2016
Electric plant in service	\$81,468,491	\$78,979,654
Construction work in progress	280,696	634,706
	<u>81,749,187</u>	<u>79,614,360</u>
Less: provision for accumulated depreciation	19,065,191	18,453,523
Net utility plant	<u>62,683,996</u>	<u>61,160,837</u>

#### OTHER ASSETS AND INVESTMENTS:

Retirement security plan prepayment	774,927	929,912
Investments in associated organizations	2,234,820	2,231,324
Patronage capital from associated organizations	<u>17,774,844</u>	<u>16,427,757</u>
Total other assets and investments	<u>20,784,591</u>	<u>19,588,993</u>

#### CURRENT ASSETS:

Cash and cash equivalents	654,427	1,065,225
Accounts receivable, net of allowance	5,102,197	4,508,921
Materials and supplies	767,838	762,568
Other current assets	<u>136,823</u>	<u>165,405</u>
Total current assets	<u>6,661,285</u>	<u>6,502,119</u>
Total assets	<u><u>\$90,129,872</u></u>	<u><u>\$87,251,949</u></u>

### EQUITIES AND LIABILITIES

#### EQUITY:

	2017	2016
Patronage capital	\$35,786,947	\$33,941,996
Other equities	1,777,822	1,702,577
Accumulated other comprehensive loss	<u>(148,700)</u>	<u>(274,400)</u>
Total equity	<u>37,416,069</u>	<u>35,370,173</u>

#### LONG-TERM LIABILITIES:

Mortgage notes payable	45,400,446	45,043,502
Deferred credits	44,954	3,207
Postretirement benefit obligation	<u>525,100</u>	<u>561,408</u>
Total long-term liabilities	<u>45,970,500</u>	<u>45,608,117</u>

#### CURRENT LIABILITIES:

Current maturities of mortgage notes payable	1,522,000	1,506,000
Line of credit	700,000	0
Accounts payable	2,562,770	2,851,888
Postretirement benefit obligation, current portion	13,200	13,700
Accrued taxes	1,314,828	1,258,087
Customers' deposits	188,250	204,380
Other current liabilities	<u>442,255</u>	<u>439,604</u>
Total current liabilities	<u>6,743,303</u>	<u>6,273,659</u>
Total equities and liabilities	<u><u>\$90,129,872</u></u>	<u><u>\$87,251,949</u></u>

# 2017 STATEMENTS OF REVENUE

As of December 31, 2017 and 2016

	2017	2016
<b>OPERATING REVENUES:</b>	\$41,158,266	\$39,317,970
<b>OPERATING EXPENSES:</b>		
Cost of purchased power	25,911,701	24,952,333
Operations	3,451,808	3,519,005
Maintenance	2,175,859	2,294,690
Consumer accounts	972,596	1,003,038
Customer service and informational expense	72,390	72,036
Administrative and general	1,712,928	1,670,569
Depreciation	2,490,430	2,395,900
Tax expense	1,421,856	1,446,983
Interest - other	5,950	6,125
Other deductions	5,437	7,817
Total cost of electric service	38,220,955	37,368,496
Operating margins before fixed charges	2,937,311	1,949,474
<b>FIXED CHARGES</b> , interest on long-term debt	1,694,720	1,649,102
Operating margins after fixed charges	1,242,591	300,372
<b>PATRONAGE CAPITAL CREDITS:</b>		
Generation and transmission credits	1,763,009	825,639
Other credits	78,381	82,535
	1,841,390	908,174
Net operating margins	3,083,981	1,208,546
<b>NON-OPERATING MARGINS:</b>		
Interest income	44,841	45,662
Other expense	(289)	(60)
Gain (loss) on disposition of property	4,325	(14,382)
	48,877	31,220
Net margins	\$3,132,858	\$1,239,766

# 2017 PATRONAGE CAPITAL

As of December 31, 2017 and 2016

	2017	2016
<b>PATRONAGE CAPITAL</b> , beginning of year	\$33,941,996	\$34,041,070
Net margins	3,132,858	1,239,766
Retirement of capital credits	(1,287,907)	(1,338,840)
<b>PATRONAGE CAPITAL</b> , end of year	\$35,786,947	\$33,941,996

## ANNUAL REPORT

# 2017 STATEMENTS OF CASH FLOWS

As of December 31, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$3,132,858	\$1,239,766
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,490,430	2,395,900
Amortization of retirement security plan prepayment	154,985	154,986
Non-cash capital credits received	(1,836,959)	(904,566)
(Increase) decrease in assets:		
Accounts receivable, net	(593,276)	(387,750)
Other current assets	28,582	(66,419)
Increase (decrease) in liabilities:		
Accounts payable	(289,118)	75,211
Accrued taxes	56,741	62,079
Customers' deposits	(16,130)	4,195
Other current liabilities	2,651	62,216
Deferred credits	41,747	(253)
Postretirement benefit obligation	(36,808)	52,206
Total adjustments	2,845	1,447,805
Net cash provided by operating activities	3,135,703	2,687,571
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of utility plant	(4,013,589)	(4,516,764)
(Increase) decrease in materials and supplies	(5,270)	164,516
Investments in associated organizations	(4,030)	(3,144)
Proceeds from redemption of capital credits	489,872	984,156
Return of investment in associated organizations	534	502
Net cash used in investing activities	(3,532,483)	(3,370,734)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on line of credit	700,000	0
Proceeds from mortgage notes payable	1,900,000	4,200,000
Principal payments on mortgage notes payable	(1,527,056)	(1,810,016)
Patronage capital credits retired	(1,287,907)	(1,338,840)
Retired capital credits unclaimed	25,774	52,027
Donated capital received	49,471	36,773
Actuarial gain on postretirement benefits	125,700	0
Net cash (used) provided by financing activities	(14,018)	1,139,944
Net (decrease) increase in cash and cash equivalents	(410,798)	456,781
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,065,225	608,444
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$654,427</u>	<u>\$1,065,225</u>



## ANNUAL REPORT

# 2017 NOTES TO THE FINANCIAL STATEMENTS

### NOTE A: ORGANIZATION

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

### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

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

#### Uninsured risk

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

#### Estimates

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

#### Electric plant, equipment, and depreciation

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

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

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

Distribution plant	3.2%
General plant:	
Structure and improvements	2.0 – 5.0 %
Office furniture and equipment	10.0%
Computer equipment	25.0%
Transportation equipment	14.0%

Power operating equipment	12.0%
Communications equipment	10.0%
Other general plant	10.0%

#### Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no ready market and are included in the financial statements as long-term assets. These investments, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

#### 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 Dec. 31, 2017 and 2016 was \$30,000 and \$40,000, respectively. Bad debt expense for 2017 and 2016 was \$6,931 and \$21,910, 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 \$1,696,243 and \$1,649,393 for the years ended Dec. 31, 2017 and 2016, respectively. There were no payments for federal income taxes for 2017 or 2016.

## ANNUAL REPORT

### NOTE C: UTILITY PLANT

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

	2017	2016
Intangible plant	\$248,131	\$248,131
Distribution plant	72,423,354	70,204,866
General plant	8,797,006	8,526,657
Electric plant in service	81,468,491	78,979,654
Construction work in progress	280,696	634,706
Total utility plant at cost	<u>\$81,749,187</u>	<u>\$79,614,360</u>

### NOTE D: ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on Dec. 31:

	2017	2016
Investments in associated organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 629,685	\$ 630,219
NRUCFC member capital securities	200,000	200,000
Equity contribution with Buckeye Power, Inc.	1,209,981	1,209,981
NRUCFC membership	1,000	1,000
Cooperative Response Center membership	12,500	12,500
Rural Electric Supply Cooperative, Inc. membership	50	50
Heartland Emergency Equipment, Ltd.	154,476	150,446
CoBank common stock	27,128	27,128
Total investments in associated organizations	<u>2,234,820</u>	<u>2,231,324</u>
Patronage capital from associated organizations:		
Rural Electric Supply Cooperative, Inc.	384,006	389,505
Buckeye Power, Inc.	16,980,954	15,664,248
NRUCFC	154,901	136,922
National Information Solutions Cooperative	100,965	92,981
Federated Rural Electric Insurance Exchange	139,765	131,978
Cooperative Response Center membership	14,253	12,123
Total patronage capital from associated organizations	<u>17,774,844</u>	<u>16,427,757</u>
Total investments in associated organizations	<u>\$20,009,664</u>	<u>\$18,659,081</u>

### NOTE E: PATRONAGE CAPITAL

At December 31, 2017 and 2016, patronage capital consisted of:

	2017	2016
Assignable	\$3,132,858	\$1,239,766
Assigned	57,008,372	55,768,606
	60,141,230	57,008,372
Retired	(24,354,283)	(23,066,376)
Total patronage capital	<u>\$35,786,947</u>	<u>\$33,941,996</u>

The Cooperative's patronage capital balances represent 39.7 percent and 38.9 percent of the total assets at Dec. 31, 2017 and 2016, respectively. Capital credits retirements in the amount of \$1,287,907 and \$1,338,840 were paid in 2017 and 2016, respectively.

The Cooperative received donated capital from members totaling \$49,471 and \$36,773 during 2017 and 2016, respectively, which is included in the patronage capital retired for the year.

Patronage capital at Dec. 31, 2017 and 2016 includes \$19,480,963 and \$19,300,774, 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 Dec. 31, 2017 and 2016, other equities consisted of:

	2017	2016
Donated capital	\$1,136,610	\$1,087,139
Retired capital credits unclaimed	641,212	615,438
Total other equities	<u>\$1,777,822</u>	<u>\$1,702,577</u>

## ANNUAL REPORT

**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 2017 and 2016 was \$581,252 and \$550,784, 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 \$126,788 and \$125,103 for the years ended Dec. 31, 2017 and 2016, respectively.

**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. Following is a summary of outstanding long-term debt as of Dec. 31, 2017 and 2016:

Loan	Fixed Interest Rate	Maturity Date	2017	2016
RUS advance payments unapplied			\$(90)	\$(86)
CFC	3.000%	7/28/18	19,766	58,423
CFC	6.250%	3/14/26	303,393	331,794
CFC	6.300%	7/28/29	244,778	258,876
CFC	5.150%	4/29/19	18,310	91,673
CFC	4.100% - 4.850%	3/31/18	710,666	777,973
CFC	3.550% - 4.950%	11/25/39	6,121,102	6,331,742
FFB	4.503%	12/31/31	641,690	674,002
FFB	4.120%	12/31/31	1,209,890	1,272,718
FFB	2.736%	12/31/31	593,932	628,347
FFB	4.269%	12/31/31	323,892	340,512
FFB	4.295%	12/31/31	650,047	683,333
FFB	3.879%	12/31/31	629,306	662,621
FFB	2.009%	1/2/35	668,389	701,098
FFB	2.231%	1/2/35	653,993	685,337
FFB	2.795%	1/2/35	669,787	700,219
FFB	4.550%	1/2/35	725,685	753,499
FFB	4.353%	12/31/34	727,484	755,913
FFB	4.543%	12/31/34	1,761,642	1,829,209
FFB	3.889%	12/31/42	5,199,357	5,320,891
FFB	3.849%	12/31/42	2,597,176	2,658,241
FFB	4.419%	12/31/42	1,842,272	1,882,094
FFB	3.873%	1/2/46	1,834,831	1,870,741
FFB	2.763%	1/2/46	1,260,654	1,290,218
FFB	2.702%	1/2/46	1,169,311	1,197,002
FFB	2.330%	1/2/46	1,518,508	1,556,654
FFB	2.421%	1/2/46	1,118,485	1,146,181
FFB	2.777%	1/2/46	2,136,663	2,186,658
FFB	2.256%	1/2/46	898,269	921,099
FFB	2.331%	12/31/48	963,766	984,806
FFB	2.813%	12/31/48	1,933,531	1,972,285
FFB	1.965%	12/31/48	1,822,940	1,865,359
FFB	2.384%	12/31/48	2,310,107	2,360,070
FFB	2.308%	12/31/48	1,761,392	1,800,000
FFB	2.791%	12/31/48	1,881,522	0
Total mortgage notes			46,922,446	46,549,502
Less: current portion of mortgage notes			1,522,000	1,506,000
Long-term mortgage notes payable			<u>\$45,400,446</u>	<u>\$45,043,502</u>



## ANNUAL REPORT

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

2018	\$1,522,000
2019	1,532,000
2020	1,587,000
2021	1,639,000
2022	1,707,000
Thereafter	38,935,446
	<u>\$46,922,446</u>

The Cooperative has available \$1,000,000 in loan funds from FFB that have not been advanced to the Cooperative as of Dec. 31, 2017.

### 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 Dec. 31, 2017. The interest rate on the line of credit at Dec. 31, 2017 and 2016 was 2.75 percent and 2.50 percent, respectfully, with outstanding balances on the line of \$700,000 and \$0, respectively. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

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

### NOTE J: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2017	2016
Consumer energy prepayments	\$2,997	\$3,207
Construction deposits	41,957	0
	<u>\$44,954</u>	<u>\$3,207</u>

### NOTE K: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a nonprofit 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 \$2,323,324 and \$2,272,033 at Dec. 31, 2017 and 2016, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,326,099 and \$1,596,452 for the years ended Dec. 31, 2017 and 2016, 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 \$147,558 and \$142,056 for the years ended Dec. 31, 2017 and 2016, 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 \$53,990 and \$50,885 for the years ended Dec. 31, 2017 and 2016, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$106,489 and \$99,914 for the years ended Dec. 31, 2017 and 2016, respectively.

### NOTE L: ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)

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

	2017	2016
Accumulated other comprehensive loss, beginning of year	\$(274,400)	\$(274,400)
Actuarial gain on post retirement benefits	125,700	0
Accumulated other comprehensive gain (loss), end of year	<u>\$(148,700)</u>	<u>\$(274,400)</u>

## NOTE M: 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).

APBO, beginning of year	\$575,108	\$522,902
Service cost	28,800	16,400
Interest cost	21,800	24,925
Amortization	5,000	10,100
Additional expenses	(7,485)	4,888
Less: actual cash payments and actuarial adjustment	(84,923)	(4,107)
APBO, end of year	538,300	575,108
Less: current portion	(13,200)	(13,700)
APBO, long-term portion	<u>\$525,100</u>	<u>\$561,408</u>

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

2018	\$ 13,200
2019	17,400
2020	12,200
2021	20,100
2022	31,400
2023–2027	352,700

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

### Medical/ Drugs

2017	7.50%
2018	7.50%
2019	7.50%
2020	7.00%
2021	6.50%
2022	6.25%
2023	6.00%
2024	5.75%
2025	5.50%
2026	5.25%
2027 and later	5.00%

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

## NOTE N: 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 Jan. 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 percent, retroactive to Jan. 1, 2013. The 25 percent 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 Feb. 28, 2013, the Cooperative made a prepayment of \$1,549,855 to the NRECA RS Plan. The Cooperative is amortizing this amount over 10 years. The Cooperative obtained a loan through NRUCFC to finance the RS Plan prepayment. Interest expense associated with the prepayment loan was accounted for in accordance with the RUS USOA.

## NOTE O: SUBSEQUENT EVENTS

Management has evaluated subsequent events through Feb. 20, 2018, the date on which the financial statements were issued.

## NOTE P: 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 Dec. 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 Dec. 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 Dec. 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 Feb. 25, 2016. Management has not yet determined whether this new standard will have a material effect on its financial statements.

## ANNUAL REPORT

# 2017 AUDITOR'S REPORT

February 20, 2018

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 Dec. 31, 2017 and 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 Feb. 20, 2018.

#### Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holmes-Wayne Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Holmes-Wayne Electric Cooperative, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether Holmes-Wayne Electric Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Millersburg, OH