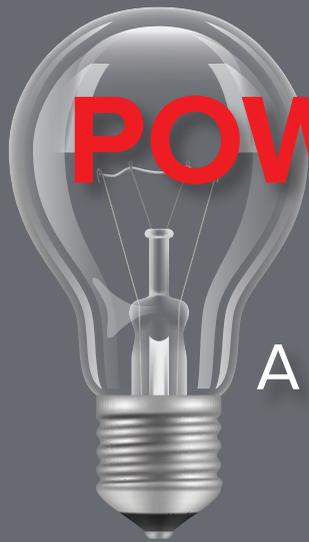


HOLMES-WAYNE ELECTRIC COOPERATIVE
2018 ANNUAL REPORT



POWER

WITH

A

PURPOSE



2019 ANNUAL MEETING OF MEMBERS

Thursday, June 27

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.

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 nonperishable item.



Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative

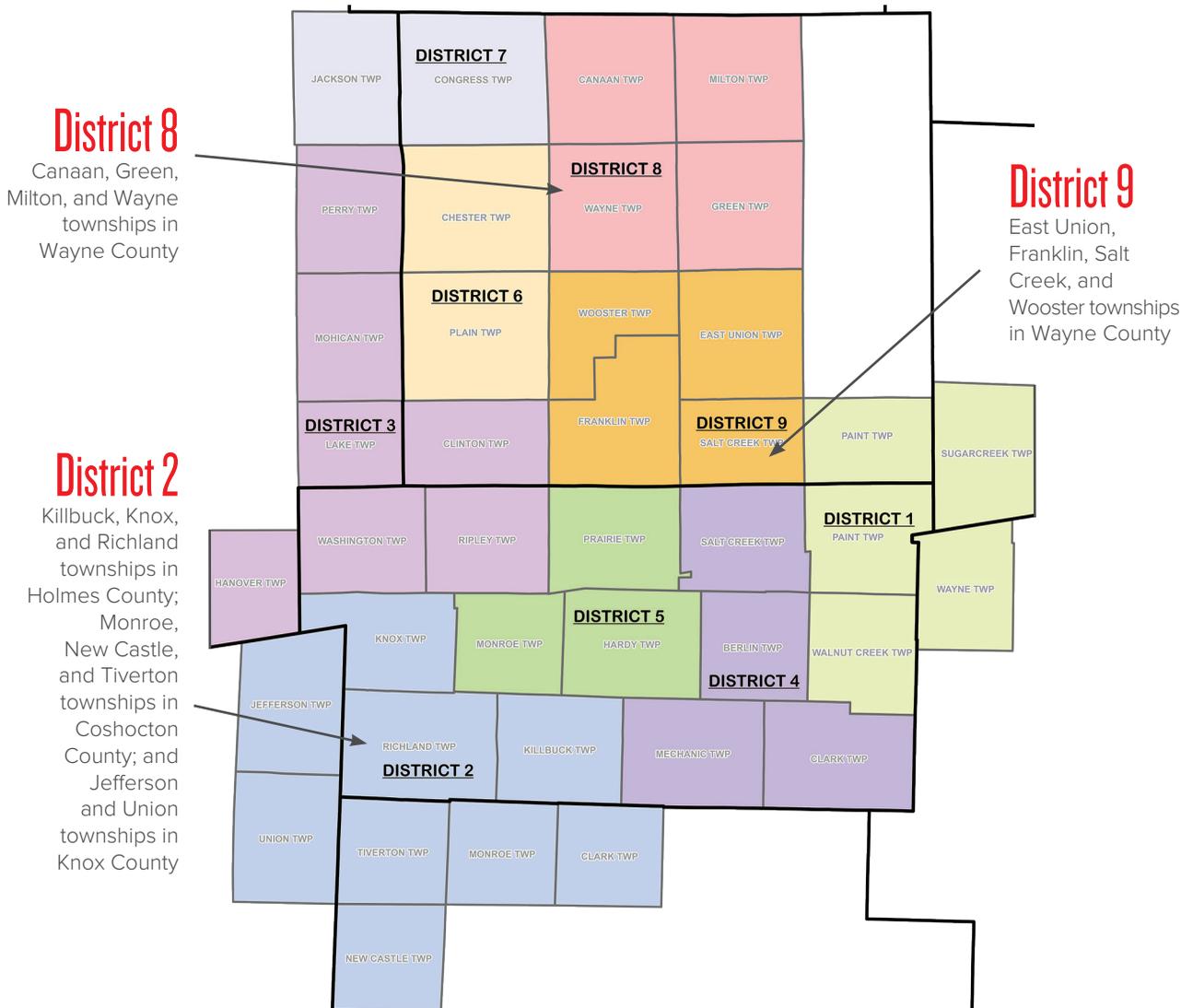
Activities of the evening:

BUSINESS MEETING

1. Meeting called to order
2. Invocation
3. Minutes approved as in annual report
4. Chairman's report
5. Financial report for 2018
6. Operation Round Up Foundation financial report for 2018
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

2019 BOARD OF TRUSTEES ELECTION



Candidate information is presented as provided by each candidate.

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

TRUSTEE ELECTIONS

DISTRICT 2



Matthew Rohr

Name: Matthew Rohr
Home address: 3741 Township Road 55, Killbuck, OH 44637
Email address: rohrfarms@gmail.com
Number of years as HWEC member: 26
Education: 1980 West Holmes High School graduate
Current employment or employment history: Owner and operator of Rohr

Construction for 35 years. Owner and operator of Triple R Farms for 25 years.

Leadership and community activities: I have donated time and labor to a number of community projects including the WHHS soccer field press box, Deer Run baseball field press box, and Jr. Fair Board offices at the new Holmes County Fairgrounds. Member of the United Methodist Church in Millersburg.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I am interested in contributing to the continued success of Holmes-Wayne Electric Co-op. HWEC is an important organization, and I would like to use my knowledge of this community, business, and agriculture to help serve its members.

Any additional information you feel is essential for members to be aware of: I have lived and worked in and served this community my entire life. I am familiar with the geography of this area, its resources, and its people.

Spouse, children, and/or grandchildren: Wife: Amy; children: Nicholas, Carolyn, and Hannah.



William Grassbaugh

Name: William Grassbaugh
Incumbent
Home address: 3433 County Road 75, Glenmont, OH 44628
Email address: wpg1395@centurylink.net
Number of years as HWEC member: 45
Education: Killbuck High School graduate. Tool and die training at General Motors.
Current employment or

employment history: Eight years employed by General Motors; 45 years self-employed dairy and grain farmer. Currently retired from crop production but continue to work on the farm making repairs and installing and constructing many conservation improvements.

Leadership and community activities: I serve on the church council and cemetery committee at St. Peter and Paul Church in Glenmont.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I am proud to be a part of one of the best cooperatives in Ohio and would like to continue to see it grow and benefit our community.

Any additional information you feel is essential for members to be aware of: I have attended many training classes and earned the Credentialed Cooperative Director Certificate and Board Leadership Certificate.

Spouse, children, and/or grandchildren: Wife: Carol; children: Lisa and Kevin; grandchildren: Trent, Tyler, Taryn, and John.

PROPOSED AMENDMENT TO CODE OF REGULATIONS

This year's ballot will include the following proposed amendment to the Code of Regulations of the cooperative, adding new Article III – Section 14 to the Code of Regulations:

SECTION 14 Trustee or Former Trustee as Employee.

No person shall be hired as an employee of the Cooperative who has been a Trustee of the Cooperative within three (3) years of date of hire or whose close relative has been a Trustee of the Cooperative within three (3) years of the date of hire. Close relative means the relationship of spouse,

father, mother, brother, sister, son and daughter (or the spouse of any of the foregoing) existing by reason of blood (step children and in-laws) or adoption.

Your Board of Trustees favors the above amendment to the Code of Regulations and encourages you to **vote in favor** of the proposed amendment.

TRUSTEE ELECTIONS

DISTRICT 8

Name: Emily McDermott

Home address: 1526 Sterling Road, Creston, OH 44217

Email address: emcdermott28@gmail.com

Number of years as HWEC member: 9

Education and specific degree: The University of Toledo – Bachelor of Business Administration – finance and marketing.

Current employment or employment history: June 2010–present: Westfield Insurance; personal lines market underwriter II. May 2009–June 2010: Target; executive team leader. November 2018–present: Flex Yoga Wooster; children’s yoga instructor.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I would like to become a member of the HWEC board to help to promote the co-op and carry out the mission and the seven cooperative principles of the co-op. I would also like to be more involved in my community, and HWEC has a daily impact on all its member-owners. I would also like to broaden my knowledge on a variety of topics through networking with others in my community.

Spouse and children: Spouse: Mark; children: Derek and Mallory.



Emily McDermott

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

wish to be more involved in my local community. I have admired the work/writings I have observed/read from HWEC.

Any additional information you feel is essential for members to be aware of: Strong faith with family and community as top priorities. Driven to meet/exceed challenge. Try to maintain a sense of humor while working intently.

Spouse, children, and/or grandchildren: Married to Kelly for eight years, two children — Gianna and Hayes (5-year-old twins).

Name: Barry Jolliff
Incumbent

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

Email address: bjolliff@sssnet.com; bjolliff@hwecoop.com

Number of years as HWEC member: 23

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

Current employment or employment history: I have owned Teamwork and Teampay, LLC, since 1999, where I teach team building and leadership seminars, social recreation, and dance workshops, and I call square dances. I’ve taught agriculture and education classes at The Ohio State University/Agricultural Technical Institute for the last 10 years. Prior to that, I worked for the OSU Extension in Wayne and Lake counties in 4-H and youth development for 16 years, and I taught in Medina City Schools for three years. I have been a board member of Holmes-Wayne Electric since 2007, serving as secretary/treasurer since 2012. I’ve represented Holmes-Wayne on the board of Ohio’s Electric Cooperatives since 2012.

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



Barry Jolliff

Name: Chris Clark

Home address: 3375 Aspen Drive, Wooster, OH 44691

Email address: chris.clark@bentleymills.com

Number of years as HWEC member: 13

Education and specific degree: Bachelor’s degree in pre-law (business administration). Ongoing sales and marketing training. Working as a business partner for a new online sales organization.

Current employment or employment history: Textile industry: account executive, Bentley Mills – 11 years. Sales representative, Mohawk Industries – nine years.

Leadership and community activities: Top 4 performer with Bentley Mills in 2017, ’18, and ’19 – \$4.5 million annually. Increased volume/revenue by over 25% in 2018. Continuous education in relationship development and consulting volunteer work in Wayne County.



Chris Clark

TRUSTEE ELECTIONS

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? Over the past 11 years, I have worked diligently to become an educated and informed board member of Holmes-Wayne Electric Cooperative. The HWEC board has elected me as their representative to serve on the Ohio Rural Electric Cooperatives Board of Directors and also elected me as their secretary and treasurer. I enjoy working with the board, the co-op staff, and members. I have lived in Wayne County almost all my life, and I appreciate having the opportunity to serve my family, friends, and neighbors as part of the HWEC Board of Trustees.

Spouse, children, and/or grandchildren: My wife of thirty years is Dr. Amy Jolliff. She is a family practice physician in Wooster. She is also the Wayne County coroner. We have three children, and our family is growing. Christy is married to Jonathan Tolbert, and they blessed us with our first grandchild on Thanksgiving Day. Christy teaches for Wooster City Schools. Jonathan works as a counselor at the Village Network. Jesse is a student at OSU, studying business. Becky has a BS degree from OSU and is currently working on a second degree in Eugene, Oregon for physical therapy. Two wire-haired dachshunds complete the family.

DISTRICT 9

Name: Galen Miller

Home address: 8205 James Road, Wooster, OH 44691

Email address: millergg77@hotmail.com

Number of years as HWEC member: 14

Education and specific degree: College of Wooster – Bachelor of Arts, business economics

Current employment or employment history:

Community Development Group Ltd., owner/president, real estate investment company, 2010–present; Welcome Home Realty, Realtor, 2008–present; Stahl, Arbortech product manager, chip body manufacturer, 2008–2010; Rayco Manufacturing, national sales, stump cutter and brush shipper manufacturer, 2000–2008.

Leadership and community activities: Partner at NewPointe Community Church. Member of core team that started the Wooster campus.



Galen Miller

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? To give back to the community by using my knowledge and experiences to help provide direction to this not-for-profit that serves thousands of members.

Name: David Mann

Incumbent

Home address: 9743 Munson Road, Shreve, OH 44676

Email address: munsonknobfarm@gmail.com

Number of years as HWEC member: 49

Education: 1968 graduate of Triway High School

Current employment or employment history:

Retired from City of Wooster Maintenance Department with 27 years' service; currently farm the family farm, raising beef cattle, corn, hay, and soybeans.

Leadership and community activities:

Lifelong resident of Franklin Township and served six years in the Ohio Air Force National Guard. I have been a Franklin Township Trustee for 27 years and served on the Wayne County Planning Commission from 2000 to 2015; I was chairman from 2007 to 2012. I am a charter member and vice president of the Moreland Community Historical Society; chairman of the Moreland Cemetery Association; board chairman of the South-Central Fire District; and a member and administrative council chairman of the Moreland United Methodist Church.



David Mann

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

I have served on the HWEC Board of Trustees for 18 years and have successfully completed the Credentialed Cooperative Director Program, the Board Leadership Program, and the Director Gold Program, so I am confident I have the experience and knowledge to work with the board and management to keep HWEC one of the best cooperatives in the state.

Spouse, children, and/or grandchildren: Married to Karen for 49 years; have five children, 14 grandchildren, and seven great-grandchildren.

ANNUAL REPORT

2018 ANNUAL MEETING MINUTES

JUNE 28, 2018

The annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 28, 2018.

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 29, 2017, annual meeting as presented. Motion carried.

Randy Sprang, Chairman of the Board of Trustees, reported on behalf of the Board of Trustees:

- The board recently approved a \$23 million work plan. The vital initiatives of this four-year work plan include: enhancement of system reliability, providing service load availability for future growth, and investing in cost-saving technology benefiting all members.
- In addition to investing wisely for the future of our members, your board is also dedicated to investing in the safety of our membership, staff, and community. In 2017, two sets of portable traffic lights were purchased for field personnel to utilize when working along busy roads. This not only helps protect HWEC personnel but also those driving in the area.
- The board and cooperative staff live and work in the community and are actively involved in supporting your community, volunteering time and resources. This year we are proud to coordinate the third annual Holmes-Wayne Community Honor Trip. The funds are raised for this event through employee donations, potluck safety meals, board donations, and community donations. Earlier this year, HWEC was awarded the Cooperative Purpose Award for coordination of this trip. This national award recognizes cooperatives for meaningful contributions to the community and for exemplifying the purpose of cooperatives.
- 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 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 congressmen 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) Co-op Owners for Political Action program.
- Randy Sprang personally thanked the 369 Holmes-Wayne Electric Cooperative members who have already taken the step to join COPA.
- Retirement of capital credits was \$1,160,611.87 in 2018. This is a reminder of the principles on which the cooperative was built.
- In 2018, \$15,000 was awarded to 10 high school students through our annual scholarship program.
- Members were invited to participate in the annual tour of the Cardinal Power Plant in Brilliant, Ohio.
- Holmes-Wayne scored an 88 in the American Consumer 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.
- As a board, we are always committed to continuous improvement. Through innovativeness, passion, and hard work, we will continue 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.

Chris Roush of REA & Associates reviewed the Auditor's Report for 2017, which resulted in a clean, unqualified opinion.

Daniel Mathie, attorney for Critchfield, Critchfield, and Johnston, LTD, and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. Members of the cooperative who were enrolled in Operation Round Up donated over \$52,000 in 2017 to local community members and organizations, and over \$590,000 since the beginning of the program 12 years ago.

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

- Tie line construction between HWEC's 18 substations is complete; there are now 203 miles of tie lines throughout the system. This has improved overall reliability and has proved to be a good investment. Last year, members had power 99.93% of the time.
- HWEC has begun a new four-year work plan totaling \$23.1 million in investment. This work plan features 126 miles of line

rebuilding. Transformer capacity increases will be completed at the Trail, Killbuck, and Stillwell substations.

- In 2004, we began a strategic tree-trimming program. This year we will trim another 406 miles in Mohicanville, Clear Creek, West Salem, North Wayne, and Golden Corners. In 2019, 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.
- 207 new services were added in 2017 for a total of 18,549 services at year's end. Your cooperative has a very good mix of commercial and residential members. Revenues are approximately 55% residential and 45% commercial. This growth and load mix enables us to keep our rates low.
- Last month, we introduced our new website. We are very excited about this new website; it is very user friendly.
- Members continue to utilize SmartHub, our mobile option that allows you to submit 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.
- Your cooperative continues to prosper in the area of community service. HWEC nominated a local food pantry for the national "Who Powers You" award. We are pleased to announce that The Lord's Pantry, located in West Salem, placed second in the country and received \$2,000 for their worthy cause.
- 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.
- Our staff is committed to helping others in need beyond just our service territory. Four HWEC linemen traveled to Georgia and four to New Hampshire to help with power restoration caused by hurricane damage. Class A lineman Josh Johnson traveled to Guatemala along with 16 other linemen from co-ops across the state to participate in "Project Ohio." They worked tirelessly on their 17-day journey to provide electricity to a village for the very first time. The village consisted of 142 homes and 816 residents.
- We continue to be active in promoting energy efficiency and safety by visiting local schools, appearing at safety fairs, and talking with youth in 4-H, Scout troops, and various other groups.
- In 2017, the cooperative paid \$1,422,000 in kWh tax to the state of Ohio, and \$1,121,000 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.

- Glenn Miller stated, "You the members are key to the success of the co-op. We appreciate your valuable feedback to not only improve services but information on outages and vegetation management to reduce outages. It is our continued goal to provide you with clean, safe, reliable electricity with member service excellence."

Guest speaker Kurt Helfrich, general counsel and assistant secretary for Ohio's Electric Cooperatives and Buckeye Power, Inc., provided a recap of the accomplishments of Ohio's Electric Cooperatives in 2017:

- Contributed \$60,000 to economic development agencies in and around their service territories to assist with site certification for business development.
- Returned \$32 million in capital credits to members.
- Contributed \$1.7 million to neighbors in need through electric round-up programs.
- Assisted in relief efforts after hurricanes Harvey and Irma: 72 operations employees from 19 Ohio co-ops assisted with restoring power in Georgia after Hurricane Irma; six weeks later, another 50 employees from 11 co-ops were deployed to New Hampshire after a devastating storm.
- Throughout Ohio, co-ops supported their communities by coordinating Honor Trips for veterans, tackling service projects for members in need, and supporting first responders.
- Opened a state-of-the-art indoor training center for the Central Ohio Lineworker Training program. This center allows our linemen to train hands-on, year-round.
- After a successful 50-year partnership with American Electric Power, Ohio's Electric Cooperatives has taken over operational duties of the Cardinal Power Plant. Cardinal has become one of the cleanest coal-fired plants in the world.

Mr. Helfrich assured members that under the leadership of Ohio's Electric Cooperatives, co-op members can expect a safe, reliable, affordable, and environmentally responsible supply of electricity well into the future.

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:

- Randy Sprang – District 1; Jackie McKee – District 3; David Tegtmeier – District 7

Attorney Daniel Mathie administered the oath to all trustees elected.

There was no unfinished business.

There was no new business.

Upon motion made and seconded, the meeting was adjourned.

OPERATION ROUND UP



2018 OPERATION ROUND UP SUMMARY

HWEC members give a piece of their heart all year

In January 2006, Holmes-Wayne Electric Cooperative (HWEC) introduced a community service program called Operation Round Up (ORU). This program allows HWEC 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.

HWEC members have given over \$650,000 back to the community since ORU's inception. This is an amazing testament to our members' generosity for 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 HWEC CEO Glenn Miller.

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

The following is a summary of the 2018 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.



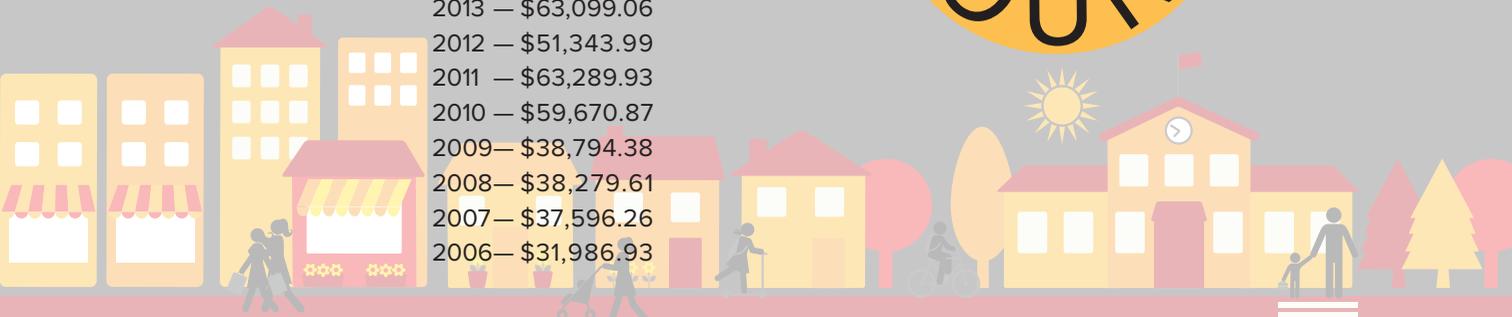
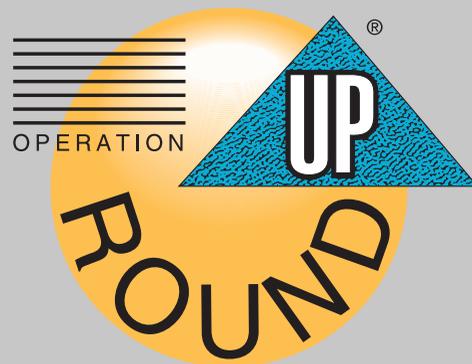
The Operation Round Up Board, pictured from left to right: (front) Glenn Miller, Lisa Grassbaugh, (back) Jonathan Berger, Dan Mathie, and Matt Johnson.

Assist family with beds for children — Millersburg	\$1,020.00
Adaptive Sports Program, sled hockey — Wooster	\$1,000.00
Assist special needs individual with bed — Wooster	\$255.00
Farmers and Hunters Feeding the Hungry — Wayne County	\$1,000.00
Assist with residential needs — Creston	\$890.00
Assist individual with heating and transportation for medical appointments — Wooster	\$540.75
National Alliance for Mental Illness — Wayne and Holmes counties	\$500.00
Apple Creek United Methodist Food Pantry	\$1,000.00
Assist family with beds for children — Wooster	\$280.00
The YMCA of Wooster Summer Camp	\$1,500.00
Special Olympics, Field of Dreams — Wooster	\$250.00
Kean Elementary, community picnic tables — Wooster	\$1,430.00
Assist a family with transportation for medical appointments — Killbuck	\$250.00
Assist family with beds for children — Wooster	\$267.50
Assist family with beds for children — Wooster	\$267.50
Holmes Fire District #1 — medical equipment	\$2,500.00
Assist individual with bed — Wooster	\$280.00
Hope for This Step, suicide and overdose awareness and prevention	\$500.00
Assist a family with transportation for medical appointments — Brinkhaven	\$250.00
Assist individual with medical needs — Millersburg	\$374.11
Assist family with beds for children — Big Prairie	\$535.00
Farmers and Hunters Feeding the Hungry — Coshocton and Tuscarawas counties	\$1,250.00
Assist family with bed and school supplies for grandchild — Millersburg	\$805.00
Holmes County Home and Senior Center, processing of donated fair animals	\$2,500.00
Camp Ohio 4-H Camp, camp improvements	\$200.00
Assist family with beds for children — Millersburg	\$510.00
Helping Hands Food Pantry — Loudonville	\$1,000.00
Assist family with heating and transportation for medical appointments — Millersburg	\$736.65
Wayne County Food Pantries and Agencies, processing of donated fair animals	\$2,640.63
Adaptive Sports Program, wheelchair basketball — Wooster	\$1,000.00
Assist family with medical needs with home repairs — Sugarcreek	\$991.52
Assist a family with transportation for medical appointments — West Salem	\$500.00
Assist disabled family with home repairs — Millersburg	\$1,772.80
Assist veteran with heating — Wooster	\$2,205.00
Ashland/Wayne Young Ag Professionals, holiday toy drive	\$250.00
Assist family with bed for grandchild — Wooster	\$280.00
Shop With a Teacher — Millersburg	\$100.00
Assist with residential needs — Wooster	\$600.00
Assist a family with transportation for medical appointments — Creston	\$250.00
Assist special needs individual with bed — Wooster	\$280.00
Assist a family with transportation for medical appointments — Millersburg	\$2,796.28
Share-A-Christmas — Holmes County	\$1,000.00
West Salem Outreach and Food Pantry	\$1,000.00
Light House Love Center — Holmes County	\$1,000.00
Salvation Army — Wayne County	\$1,000.00
Salvation Army — Holmes County	\$1,000.00
Town and Country Fire and Rescue — West Salem Toy Drive	\$1,000.00

Christian Children's Home — Wooster	\$1,000.00
Meals and More — West Salem	\$1,000.00
Meals on Wheels — Holmes County Senior Center	\$1,000.00
OneEighty, domestic violence, substance abuse, and mental health services — Holmes County	\$1,000.00
OneEighty, domestic violence, substance abuse, and mental health services — Wayne County	\$1,000.00
American Red Cross — Wayne County	\$1,000.00
Hospice — Holmes and Wayne counties	\$1,000.00
Viola Startzman Health Clinic — Wooster	\$1,000.00
Church of God, food pantry — Millersburg	\$1,000.00
Meals Together, Wooster Methodist Church — Wooster	\$1,000.00
Glenmont Food Pantry	\$1,000.00
Shreve United Methodist Church, food pantry	\$1,000.00
Mohican Area Community Fund	\$250.00
Goodwill Industries of Wayne and Holmes Counties, Inc.	\$1,000.00
58:12 Rescue, domestic violence safe home — Holmes County	\$1,000.00
The Lord's Pantry — West Salem	\$1,000.00
New Leaf Center, clinic for special needs children — Mount Eaton	\$1,000.00
Apple Creek United Methodist Church Food Pantry	\$500.00
Apple Creek United Methodist Church, community Christmas outreach	\$500.00
Nick Amster Workshop — Wayne County	\$1,000.00
TOTAL	\$59,807.74

Operation Round Up Annual Distribution

2018	— \$59,807.74
2017	— \$52,659.98
2016	— \$56,137.27
2015	— \$49,449.70
2014	— \$48,216.56
2013	— \$63,099.06
2012	— \$51,343.99
2011	— \$63,289.93
2010	— \$59,670.87
2009	— \$38,794.38
2008	— \$38,279.61
2007	— \$37,596.26
2006	— \$31,986.93



2018 AUDITOR'S REPORT

February 20, 2019
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, 2018 and 2017, 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 December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

During the years ended December 31, 2018 and 2017, the Cooperative received \$0 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019 on our consideration of Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Holmes-Wayne Electric Cooperative Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Rea & Associates, Inc.

Millersburg, OH

2018 BALANCE SHEETS

AS OF DECEMBER 31, 2018 AND 2017

ASSETS

UTILITY PLANT:

	2018	2017
Electric plant in service	\$85,153,131	\$81,468,491
Construction work in progress	595,300	280,696
	<u>85,748,431</u>	<u>81,749,187</u>
Less: provision for accumulated depreciation	20,609,870	19,065,191
Net utility plant	65,138,561	62,683,996

OTHER ASSETS AND INVESTMENTS:

Retirement security plan prepayment	619,942	774,927
Investments in associated organizations	2,247,441	2,234,820
Patronage capital from associated organizations	19,444,701	17,774,844
Total other assets and investments	22,312,084	20,784,591

CURRENT ASSETS:

Cash and cash equivalents	1,004,032	654,427
Accounts receivable, net of allowance	4,663,895	5,102,197
Materials and supplies	872,793	767,838
Other current assets	137,686	136,823
Total current assets	<u>6,678,406</u>	<u>6,661,285</u>
Total assets	<u>\$ 94,129,051</u>	<u>\$90,129,872</u>

EQUITIES AND LIABILITIES

EQUITY:

	2018	2017
Patronage capital	\$38,638,584	\$35,786,947
Other equities	1,893,058	1,777,822
Accumulated other comprehensive loss	(143,700)	(148,700)
Total equity	40,387,942	37,416,069

LONG-TERM LIABILITIES:

Mortgage notes payable	46,332,380	45,400,446
Deferred credits	32,332	44,954
Postretirement benefit obligation	556,582	525,100
Total long-term liabilities	46,921,294	45,970,500

CURRENT LIABILITIES:

Current maturities of mortgage notes payable	1,554,000	1,522,000
Line of credit	0	700,000
Accounts payable	3,240,467	2,562,770
Postretirement benefit obligation, current portion	17,400	13,200
Accrued taxes	1,346,727	1,314,828
Customers' deposits	173,265	188,250
Other current liabilities	487,956	442,255
Total current liabilities	<u>6,819,815</u>	<u>6,743,303</u>
Total equities and liabilities	<u>\$ 94,129,051</u>	<u>\$90,129,872</u>

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

2018 STATEMENTS OF REVENUE

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:	\$ 43,261,269	\$41,158,266
OPERATING EXPENSES:		
Cost of purchased power	26,981,029	25,911,701
Operations	3,420,141	3,451,808
Maintenance	2,404,294	2,175,859
Consumer accounts	1,006,096	972,596
Customer service and informational expense	95,678	72,390
Administrative and general	1,793,839	1,712,928
Depreciation	2,589,666	2,490,430
Tax expense	1,503,071	1,421,856
Interest - other	5,497	5,950
Other deductions	1,849	5,437
Total cost of electric service	<u>39,801,160</u>	<u>38,220,955</u>
Operating margins before fixed charges	3,460,109	2,937,311
FIXED CHARGES , interest on long-term debt	1,681,387	1,694,720
Operating margins after fixed charges	1,778,722	1,242,591
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	2,242,152	1,763,009
Other credits	81,086	78,381
	<u>2,323,238</u>	<u>1,841,390</u>
Net operating margins	4,101,960	3,083,981
NON-OPERATING MARGINS:		
Interest income	54,843	44,841
Other expense	471	(289)
(Loss) gain on disposition of property	(18,296)	4,325
	<u>37,018</u>	<u>48,877</u>
Net margins	<u>\$ 4,138,978</u>	<u>\$ 3,132,858</u>

2018 PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PATRONAGE CAPITAL , beginning of year	\$ 35,786,947	\$ 33,941,996
Net margins	4,138,978	3,132,858
Retirement of capital credits	<u>(1,287,341)</u>	<u>(1,287,907)</u>
PATRONAGE CAPITAL , end of year	<u>\$ 38,638,584</u>	<u>\$ 35,786,947</u>

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

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2018 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 4,138,978	\$ 3,132,858
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,589,666	2,490,430
Amortization of retirement security plan prepayment	154,985	154,985
Non-cash capital credits received	(2,337,646)	(1,836,959)
(Increase) decrease in assets:		
Accounts receivable, net	438,302	(593,276)
Other current assets	(863)	28,582
Increase (decrease) in liabilities:		
Accounts payable	677,697	(289,118)
Accrued taxes	31,899	56,741
Customers' deposits	(14,985)	(16,130)
Other current liabilities	45,701	2,651
Deferred credits	(12,622)	41,747
Postretirement benefit obligation	35,682	(36,808)
Total adjustments	<u>1,607,816</u>	<u>2,845</u>
Net cash provided by operating activities	5,746,794	3,135,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(5,044,231)	(4,013,589)
Increase in materials and supplies	(104,955)	(5,270)
Investments in associated organizations	(13,189)	(4,030)
Proceeds from redemption of capital credits	667,789	489,872
Return of investment in associated organizations	568	534
Net cash used in investing activities	<u>(4,494,018)</u>	<u>(3,532,483)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) borrowings on line of credit	(700,000)	700,000
Proceeds from mortgage notes payable	2,500,000	1,900,000
Principal payments on mortgage notes payable	(1,536,066)	(1,527,056)
Patronage capital credits retired	(1,287,341)	(1,287,907)
Retired capital credits unclaimed	71,021	25,774
Donated capital received	44,215	49,471
Actuarial gain on postretirement benefits	5,000	125,700
Net cash used by financing activities	<u>(903,171)</u>	<u>(14,018)</u>
Net increase (decrease) in cash and cash equivalents	349,605	(140,798)
CASH AND CASH EQUIVALENTS , beginning of year	<u>654,427</u>	<u>1,065,225</u>
CASH AND CASH EQUIVALENTS , end of year	<u>\$1,004,032</u>	<u>\$ 654,427</u>

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

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2018 NOTES TO THE FINANCIAL STATEMENTS

NOTE A: ORGANIZATION

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

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Uninsured Risk

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

Estimates

The preparation of financial statements in conformity with accounting principles 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 December 31, 2018 and 2017 was \$30,000. Bad debt expense for 2018 and 2017 was \$23,094 and \$6,931, 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 \$1,682,779 and \$1,696,243 for the years ended December 31, 2018 and 2017, respectively. There were no payments for federal income taxes for 2018 or 2017.

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NOTE C: UTILITY PLANT

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

	2018	2017
Intangible plant	\$ 248,131	\$ 248,131
Distribution plant	75,491,832	72,423,354
General plant	9,413,168	8,797,006
Electric plant in service	85,153,131	81,468,491
Construction work in progress	595,300	280,696
Total utility plant at cost	<u>\$85,748,431</u>	<u>\$ 81,749,187</u>

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	2018	2017
Investments in associated organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 629,117	\$ 629,685
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.	167,665	154,476
CoBank common stock	27,128	27,128
Total investments in associated organizations	<u>2,247,441</u>	<u>2,234,820</u>
Patronage capital from associated organizations:		
Rural Electric Supply Cooperative, Inc.	403,256	384,006
Buckeye Power, Inc.	18,593,684	16,980,954
NRUCFC	172,329	154,901
National Information Solutions Cooperative	110,153	100,965
Federated Rural Electric Insurance Exchange	149,956	139,765
Cooperative Response Center membership	15,323	14,253
Total patronage capital from associated organizations	<u>19,444,701</u>	<u>17,774,844</u>
Total investments in associated organizations	<u>\$ 21,692,142</u>	<u>\$ 20,009,664</u>

NOTE E: PATRONAGE CAPITAL

At December 31, 2018 and 2017, patronage capital consisted of:

	2018	2017
Assignable	\$ 4,138,978	\$ 3,132,858
Assigned	60,141,230	57,008,372
	64,280,208	60,141,230
Retired	(25,641,624)	(24,354,283)
Total patronage capital	<u>\$38,638,584</u>	<u>\$35,786,947</u>

The Cooperative's patronage capital balances represent 41.0 percent and 39.7 percent of the total assets at December 31, 2018 and 2017, respectively. Capital credit retirements in the amount of \$1,287,341 and \$1,287,907 were paid in 2018 and 2017, respectively.

The Cooperative received donated capital from members totaling \$44,215 and \$49,471 during 2018 and 2017, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2018 and 2017 includes \$20,776,147 and \$19,480,963, 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, 2018 and 2017, other equities consisted of:

	2018	2017
Donated capital	\$1,180,825	\$1,136,610
Retired capital credits unclaimed	712,233	641,212
Total other equities	<u>\$1,893,058</u>	<u>\$1,777,822</u>

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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 2018 and 2017 was \$614,295 and \$581,252, 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 \$135,458 and \$126,788 for the years ended December 31, 2018 and 2017, 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 December 31, 2018 and 2017:

Loan	Fixed Interest Rate	Maturity Date	2018	2017
RUS advance payments unapplied			\$ (95)	\$ (90)
CFC	3.000%	7/28/2018	0	19,766
CFC	6.250%	3/14/2026	273,174	303,393
CFC	6.300%	7/28/2029	229,771	244,778
CFC	5.150%	4/29/2019	0	18,310
CFC	4.100% - 4.850%	9/23/2026	639,956	710,666
CFC	3.550% - 4.950%	11/25/2039	5,903,759	6,121,102
FFB	4.503%	12/31/2031	607,837	641,690
FFB	4.120%	12/31/2031	1,144,329	1,209,890
FFB	2.736%	12/31/2031	558,531	593,932
FFB	4.269%	12/31/2031	306,523	323,892
FFB	4.295%	12/31/2031	615,250	650,047
FFB	3.879%	12/31/2031	594,629	629,306
FFB	2.009%	1/2/2035	634,989	668,389
FFB	2.231%	1/2/2035	621,911	653,993
FFB	2.795%	1/2/2035	638,454	669,787
FFB	4.550%	1/2/2035	696,511	725,685
FFB	4.353%	12/31/2034	697,728	727,484
FFB	4.543%	12/31/2034	1,690,777	1,761,642
FFB	3.889%	12/31/2042	5,072,550	5,199,357
FFB	3.849%	12/31/2042	2,533,490	2,597,176
FFB	4.419%	12/31/2042	1,800,469	1,842,272
FFB	3.873%	1/2/2046	1,797,340	1,834,831
FFB	2.763%	1/2/2046	1,230,181	1,260,654
FFB	2.702%	1/2/2046	1,140,789	1,169,311
FFB	2.330%	1/2/2046	1,479,380	1,518,508
FFB	2.421%	1/2/2046	1,090,047	1,118,485
FFB	2.777%	1/2/2046	2,085,122	2,136,663
FFB	2.256%	1/2/2046	874,871	898,269
FFB	2.331%	12/31/2048	942,177	963,766
FFB	2.813%	12/31/2048	1,893,543	1,933,531
FFB	1.965%	12/31/2048	1,779,593	1,822,940
FFB	2.384%	12/31/2048	2,258,807	2,310,107
FFB	2.308%	12/31/2048	1,721,786	1,761,392
FFB	2.791%	12/31/2048	1,842,466	1,881,522
FFB	2.936%	12/31/2048	989,735	0
FFB	2.941%	12/31/2052	1,500,000	0
Total mortgage notes			47,886,380	46,922,446
Less: current portion of mortgage notes			1,554,000	1,522,000
Long-term mortgage notes payable			<u>\$46,332,380</u>	<u>\$45,400,446</u>

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

2019	\$ 1,554,000
2020	1,629,000
2021	1,689,000
2022	1,759,000
2023	1,821,000
Thereafter	39,434,380
	<u>\$ 47,886,380</u>

The Cooperative has available \$14,500,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2018.

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, 2018. The interest rate on the line of credit at December 31, 2018 and 2017 was 3.75 percent and 2.75 percent, respectively, with outstanding balances on the line of \$0 and \$700,000, 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:

	2018	2017
Consumer energy prepayments	\$ 2,036	\$ 2,997
Construction deposits	30,296	41,957
	<u>\$32,332</u>	<u>\$44,954</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 \$2,209,397

and \$2,323,324 at December 31, 2018 and 2017, respectively. The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,637,477 and \$1,326,099 for the years ended December 31, 2018 and 2017, 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 \$162,241 and \$147,558 for the years ended December 31, 2018 and 2017, 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 \$51,830 and \$53,990 for the years ended December 31, 2018 and 2017, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange, of which it is a member and owner. Total premiums paid were \$105,482 and \$106,489 for the years ended December 31, 2018 and 2017, respectively.

NOTE L: ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)

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

	2018	2017
Accumulated other comprehensive loss, beginning of year	\$ (148,700)	\$ (274,400)
Actuarial gain on post-retirement benefits	5,000	125,700
Accumulated other comprehensive gain (loss), end of year	<u>\$ (143,700)</u>	<u>\$ (148,700)</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).

	2018	2017
APBO, beginning of year	\$538,300	\$575,108
Service cost	31,000	28,800
Interest cost	22,300	21,800
Amortization	(6,300)	(5,000)
Additional expenses	2,706	2,515
Less: actual cash payments and actuarial adjustment	(14,024)	(84,923)
APBO, end of year	<u>573,982</u>	<u>538,300</u>
Less: current portion	(17,400)	(13,200)
APBO, long-term portion	<u>\$556,582</u>	<u>\$525,100</u>

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

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

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%

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:

	2018	2017
APBO, beginning of year	\$538,300	\$575,108
Service cost	31,000	28,800
Interest cost	22,300	21,800
Amortization	(6,300)	(5,000)
Additional expenses	2,706	2,515
Less: actual cash payments and actuarial adjustment	(14,024)	(84,923)
APBO, end of year	<u>573,982</u>	<u>538,300</u>
Less: current portion	(17,400)	(13,200)
APBO, long-term portion	<u>\$556,582</u>	<u>\$525,100</u>

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

NOTE O: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2019, 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 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.

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2018 AUDITOR'S REPORT

February 20, 2019

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Holmes-Wayne Electric Cooperative, Inc., as of and for the year ended December 31, 2018, 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, 2019.

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