



Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 

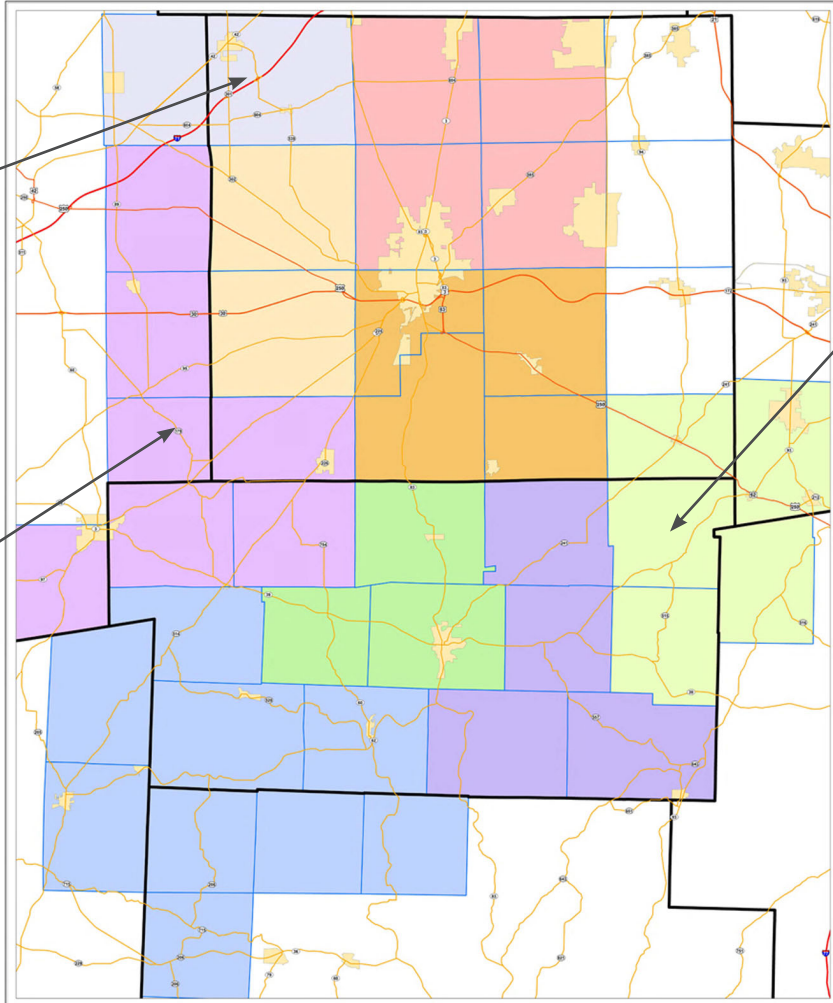
Due to the continuing COVID-19 pandemic, the Holmes-Wayne Electric Cooperative Board of Trustees has canceled the 2021 public annual meeting. The election of candidates will remain the same, and results of the election will be published on HWEC's website on June 24, 2021, and in the August edition of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

HOLMES-WAYNE ELECTRIC COOPERATIVE 2020 ANNUAL REPORT

2021 BOARD OF TRUSTEES ELECTION

District 7
Congress Township in Wayne County and Jackson Township in Ashland County

District 3
Perry, Mohican, Lake, and Hanover townships in Ashland County, Washington and Ripley townships in Holmes County, and Clinton Township in Wayne County



District 1
Paint and Walnut Creek townships in Holmes County, Paint Township in Wayne County, Wayne Township in Tuscarawas County, and Sugarcreek Township in Stark County

Candidate information is presented as provided by each candidate.

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

District I



Randy Sprang

Name: Randy Sprang (Incumbent)
Home address: 1601 County Road 200, Dundee, OH 44624
Email address: rsprang@hwecoop.com
Number of years as a member of the cooperative: 44
Cooperative voting district: 1
Education and specific degree: High School Graduate, West Holmes High School - 1972

Current employment or employment history: Retired from the Ohio Agriculture Research and Development Center in Wooster, OH after 37 years of service. I continue to work there as a seasonal employee.

Leadership and community activities: I have been on the HWEC board of trustees for 18 years. I am currently serving as board chairman. I have also served as a Paint Township Trustee for the past 27 years.

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

Any additional information you feel is essential for members to be aware of: I have successfully completed 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 4 grandchildren.



Henry Beachy

Name: Henry Beachy
Home address: 10154 Lower Trail Road, Dundee, OH 44624
Email address: henry@holmesrentalandsales.com
Number of years as a member of the cooperative: 35
Cooperative voting district: 1
Current employment or employment history:

Grew up on a farm, owned & operated the farm until 2008. Founder of Holmes Rental Station, Inc. with three locations in Sugarcreek, Millersburg, and Mount Vernon. Had this business for 24 years now two of our sons are taking this over and our oldest son is taking over the farm.

Leadership and community activities: Started Holmes Rental and took it to 3 locations and 45 employees. Did not participate in many community activities.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I have always enjoyed being involved in business management and decision making.

Any additional information you feel is essential for members to be aware of: My wife and I are active members of the Agape Fellowship Church in Berlin. I served 10 years on the leadership team.

Spouse, children and/or grandchildren: Wife, Dora. We have been married for 45 years. 3 sons, 2 daughters, and 11 grandchildren.



Matt Johnson

Name: Matt Johnson
Home address: 1844 Township Road 675, Dundee, OH 44624
Email address: mjohnson@palmer.net
Number of years as a member of the cooperative: 14
Cooperative voting district: 1

Education and specific degree: Bachelor of Science, civil engineering, University of Kentucky; Master of Science, civil engineering, University of Kentucky

Current employment or employment history: I have been employed by Palmer Engineering for 21 years. For the past 14 years, I have served as the manager of Palmer Engineering's Eastern Ohio operations. My position involves managing bridge, roadway, and other infrastructure engineering projects throughout eastern Ohio.

Leadership and community activities: I currently serve as a ruling elder at Zion Reformed Church, as the sexton of the Winesburg Westlawn Cemetery, as a member of the Winesburg Parks & Recreation Association, as a member of the board of directors of the Cuyahoga Valley Section of the American Society of Highway Engineers, and as the Vice President of the Holmes County Republican Party Central Committee.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? As an engineer involved in the decision and construction of infrastructure, I appreciate the importance of reliable, cost-effective electricity; I also appreciate the important contributions our co-op makes to the community through education, scholarships, and encouraging wise, sustainable development. I would like to apply my background and skills to assist the co-op in these missions.

Spouse, children and/or grandchildren: Wife, Holley who is the Executive Director of the Holmes Center for the Arts. Children - Gus, Phinehas, and Lydia who are all students in the East Holmes District.

TRUSTEE ELECTIONS

District 3



Jackie McKee

Name: Jackie McKee (Incumbent)
Home address: 8249 State Route 754, Shreve, OH 44676
Email address: jmckee1220@aol.com
Number of years as a member of the cooperative: 38
Cooperative voting district: 3

Education and specific degree: Graduate of University of Akron/Wayne College in business management and accounting.

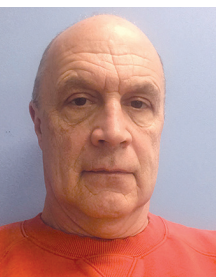
Current employment or employment history: Currently serving 22nd year as Holmes County Auditor. Served 8 years as Ripley Township Fiscal Officer prior.

Leadership and community activities: Farm Bureau member and past director for 9 years, past 4-H advisor, member of Wooster Methodist Church, member of Holmes County Chamber of Commerce, serve on executive committee of County Auditor 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 believe in the cooperative model and membership representation. I appreciate working with an organization that practices good management and has a commitment to the community. My background and experience will allow me to ensure the mission of HWEC continues by providing its members reliable and affordable electric service.

Any additional information you feel is essential for members to be aware of: I have attended educational classes to advance my industry knowledge and better serve the HWEC membership. I have obtained the National Rural Electric Cooperative Association Credentialed Cooperative Director Certification, the Board Leadership Certificate and most recently the Director Gold Credential.

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



Jonathan Edmondson

Name: Jonathan Edmondson
Home address: 3106 County Road 529, Loudonville, OH 44842
Email address: Jonathan_Edmondson@tcenergy.com
Number of years as a member of the cooperative: 35+
Cooperative voting district: 3

Education and specific degree: High School Graduate, Loudonville High School; Tech Training at old NCTC in Mansfield
Current employment or employment history: Currently working at TC Energy (old Columbia Gas) for 25 years. Worked at Mansfield Plumbing from 1975-1995 as a Tool & Die Maker

Leadership and community activities: NRA Member. Looking to get more involved in community activities when I retire this year.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? Going to retire this year and will have time to invest.

Any additional information you feel is essential for members to be aware of: Have a lot to learn about HWEC. But willing to give it my best.

Spouse, children and/or grandchildren: Wife, Doreen; children – Kenneth, Marcia, LeighAnn; grandchildren – Emlyn, Ruth, Charolette, Henry, Leo and Mave.



Barb Landis

Name: Barb Landis
Home address: 14734 Township Road 453, Lakeville, OH 44634
Email address: ribaco@yahoo.com
Number of years as a member of the cooperative: 19
Cooperative voting district: 3

Education and specific degree: High School Graduate, Northwestern High School; Bachelor of Science, nursing; Master of Business Administration

Current employment or employment history: Retired from Wooster Community Hospital

Leadership and community activities: Teach young adult Sunday School & previously served on church council (various positions) at St. John Lutheran. Coordinate Helping Hands Food Pantry (Loudonville). Master gardener – volunteer at Big Prairie Memorial Park. Before pandemic volunteered at Nashville Elementary. Member of Mohican Quilt Club.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I believe in serving the community in which I live.

Spouse, children and/or grandchildren: Husband, Richard; 3 sons; grandchildren & great grandchildren.

District 7



David Tegtmeier

Name: David Tegtmeier (Incumbent)
Home address: 11360 Franchester Road, West Salem, OH 44287
Email address: drteg@frontier.com
Number of years as a member of the cooperative: 38
Cooperative voting district: 7

Education and specific degree: High School Graduate, Northwestern High

School; Associate degree, computer programming, North Central Technical College

Current employment or employment history: Employed at Ashland University as a senior audio/visual technician.; self employed part-time farmer (soybeans, hay, corn, and wheat), previously employed by First Merit/Peoples Federal; and served in the United State Air Force.

Leadership and community activities: Served on Congress Township committees, active member of St. Peter Lutheran Church in New Pittsburg, member of the 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 a trustee for the past six 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.

Any additional information you feel is essential for members to be aware of: There are seven cooperative principles with one being education of members and employees. I have obtained the credentialed Cooperative Director Certificate and Board Leadership Certificate. If re-elected, I will continue the classes provided by the National Rural Electric Cooperative Association.

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



Michael Haley

Name: Michael Haley
Home address: 11203 Mullinix Road, West Salem, OH 44287
Email address: mhaley@haleybrothers.farm
Number of years as a member of the cooperative: 9
Cooperative voting district: 7

Education and specific degree: Bachelor of Science, agricultural business and applied economics, Ohio State University

Current employment or employment history: Managing Member - Haley Farms; Partner – Haley Bros Partnership

Leadership and community activities: Farm Bureau member, Ohio Cattlemen's Association member, Ohio Simmental Association member, former trustee for Wayne County Farm Bureau.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term? I am a firm believer that cooperatives should have a strong & engaged board of trustees that is member led. As trustee I would strive to keep competitive rates and excellent service to the community as the cooperative plans for future changes in how our electric is provided, distributed, and used.

Spouse, children and/or grandchildren: Wife, Pam; children – Samantha & Charles

2020 MINUTES FROM THE ANNUAL MEETING

Due to the COVID-19 pandemic, the Holmes-Wayne Electric Cooperative Board of Trustees canceled the 2020 public annual meeting. The election of candidates remained the same, and results of the election were published on HWEC's website on June 25, 2020, and in the August edition of *Ohio Cooperative Living*. All key information, including messages from the president/CEO and trustee chairman, that would have been presented at the June 25, 2020, meeting was published in the August *Ohio Cooperative Living* magazine and posted on our website at www.hwecoop.com.

2020 OPERATION ROUND UP SUMMARY



Hearts of our members!

We are honored to share how the big hearts of our Holmes-Wayne Electric Cooperative members are changing our community. Through the HWECE Operation Round Up Foundation, members are using a simple program to change lives. In 2020, the foundation donated over \$58,000 to local individuals, families, and organizations in our community.

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

Can you believe that since the foundation's inception in 2006, over \$750,000 has been distributed back to our

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

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



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

OPERATION ROUND UP

Assist individual with medical condition – West Salem	\$500
Adaptive Sports Program, sled hockey – Wooster	\$1,000
Assist family with bed for child – Millersburg	\$213.76
Assist a family with transportation for medical appointments – Wooster	\$500
National Alliance for Mental Illness – Wayne and Holmes counties	\$500
YMCA, after-school program – Wooster	\$1,000
Camp fees for children with disabilities – Wooster	\$500
Assist individual with home needs for a medical condition – West Salem	\$1,062.87
Assist family with beds for children – Millersburg	\$510
West Salem Outreach and Food Pantry, emergency funds for COVID	\$1,000
Light House Love Center, emergency funds for COVID – Millersburg	\$1,000
St. Stephans Church Meals and More, emergency funds for COVID – West Salem	\$1,000
Millersburg Church of God Food Pantry, emergency funds for COVID	\$1,000
Wooster Methodist Meals Together Inc., emergency funds for COVID	\$1,000
Glenmont Food Pantry, emergency funds for COVID	\$1,000
Shreve United Methodist Food Pantry, emergency funds for COVID	\$1,000
The Lord’s Pantry, emergency funds for COVID – West Salem	\$1,000
Apple Creek United Methodist Church Food Pantry, emergency funds For COVID	\$1,000
Assist family with beds for children – Millersburg	\$510
Assist family with basic needs after house fire – Big Prairie	\$1,500
Pomerene Health Auxiliary	\$1,000
OneEighty, assist with addiction treatment programs	\$500
United Way, Imagination Library, books for children	\$500
Assist individual with home needs – Wooster	\$381.27
Holmes County Sheriff and Millersburg Police Dept., K9 unit and trauma equipment	\$1,000
Pomerene Health Foundation	\$500
Holmes County Home and Senior Center – processing of donated fair animals	\$2,500
Adaptive Sports Program, wheelchair basketball – Wooster	\$1,000
Ashland/Wayne Young Ag Professionals, holiday toy drive	\$250
American Red Cross – Festival of Trees Fundraiser	\$1,500
West Salem Police Auxiliary	\$1,000
Holmes County Center for Arts	\$1,500
The Lord’s Pantry – West Salem	\$1,000
Wayne County Agencies – processing of donated fair animals	\$2,500
Assist family with beds for children – Wooster	\$280
Assist individual with home needs for a medical condition – Wooster	\$2,000
Assist family with beds for children – Wooster	\$765
Share-A-Christmas – Holmes County	\$1,000
West Salem Outreach and Food Pantry	\$1,000
Light House Love Center – Holmes County	\$1,000
Salvation Army – Wayne County	\$1,000
Salvation Army – Holmes County	\$1,000
Town and Country Fire & Rescue, West Salem Toy Drive	\$1,000
Christian Children’s Home – Wooster	\$1,000
Meals and More – West Salem	\$1,000

OPERATION ROUND UP

Meals on Wheels – Holmes County Senior Center	\$1,000
OneEighty, domestic violence, substance abuse, and mental health services – Holmes County	\$1,000
OneEighty, domestic violence, substance abuse, and mental health services – Wayne County	\$1,000
American Red Cross	\$1,000
Hospice – Holmes and Wayne counties	\$1,000
Viola Startzman Health Clinic – Wooster	\$1,000
Church of God, food pantry – Millersburg	\$1,000
Meals Together, Wooster Methodist Church – Wooster	\$1,000
Glenmont Food Pantry	\$1,000
Shreve United Methodist Church, food pantry	\$1,000
Mohican Area Community Fund	\$250
Goodwill Industries of Wayne and Holmes Counties Inc.	\$1,000
The Lord's Pantry – West Salem	\$1,000
New Leaf Center, clinic for special needs children – Mount Eaton	\$1,000
Apple Creek United Methodist Church Food Pantry	\$500
Community Christmas Outreach – ACUMC Church	\$500
Nick Amster Workshop – Wayne County	\$1,000
Hillsdale CARES food drive	\$500
TOTAL	\$58,722.90



Operation Round Up annual distribution

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



2020 AUDITOR'S REPORT

February 17, 2021

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, 2020 and 2019, and the related statements of revenue and expense, patronage capital and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2020 and 2019, 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, 2020 and 2019, the Cooperative received \$1,000,000 and \$0, respectively, 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 17, 2021 on our consideration of Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Holmes-Wayne Electric Cooperative Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Millersburg, OH

2020 BALANCE SHEETS

AS OF DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
UTILITY PLANT:		
Electric plant in service	\$ 93,220,999	\$87,983,228
Construction work in progress	3,473,729	1,820,559
	<u>96,694,728</u>	<u>89,803,787</u>
Less: provision for accumulated depreciation	23,149,366	22,110,054
Net utility plant	73,545,362	67,693,733
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	309,971	464,956
Investments in associated organizations	2,227,264	2,253,680
Patronage capital from associated organizations	20,028,896	19,887,678
Total other assets and investments	22,566,131	22,606,314
CURRENT ASSETS:		
Cash and cash equivalents	705,784	321,711
Accounts receivable, net of allowance	5,214,324	4,516,427
Materials and supplies	1,018,005	1,031,892
Other current assets	123,322	178,537
Total current assets	<u>7,061,435</u>	<u>6,048,567</u>
Total assets	<u>\$ 103,172,928</u>	<u>\$ 96,348,614</u>

EQUITIES AND LIABILITIES

	<u>2020</u>	<u>2019</u>
EQUITY:		
Patronage capital	\$ 40,768,367	\$ 39,205,932
Other equities	1,986,371	1,957,151
Accumulated other comprehensive loss	(131,100)	(137,400)
Total equity	<u>42,623,638</u>	<u>41,025,683</u>
LONG-TERM LIABILITIES:		
Mortgage notes payable	51,601,975	47,651,744
Deferred credits	16,456	29,878
Postretirement benefit obligation	648,239	605,199
Total long-term liabilities	<u>52,266,670</u>	<u>48,286,821</u>
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,909,000	1,680,000
Line of credit	1,000,000	-
Accounts payable	3,200,264	3,286,422
Postretirement benefit obligation, current portion	20,100	12,200
Accrued taxes	1,424,510	1,373,109
Customers' deposits	145,585	164,670
Other current liabilities	583,161	519,709
Total current liabilities	<u>8,282,620</u>	<u>7,036,110</u>
Total equities and liabilities	<u>\$ 103,172,928</u>	<u>\$ 96,348,614</u>

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

2020 STATEMENTS OF REVENUE AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES	\$ 43,569,945	\$ 41,847,466
OPERATING EXPENSES:		
Cost of purchased power	26,283,419	25,848,206
Operations	3,852,430	3,626,566
Maintenance	3,402,338	2,955,734
Consumer accounts	1,057,688	1,058,066
Customer service and informational expense	99,640	103,240
Administrative and general	1,871,262	1,870,098
Depreciation	2,785,256	2,693,439
Tax expense	1,482,179	1,486,274
Interest - other	4,683	5,081
Other deductions	1,000	2,597
Total cost of electric service	<u>40,839,895</u>	<u>39,649,301</u>
Operating margins before fixed charges	2,730,050	2,198,165
FIXED CHARGES , interest on long-term debt	1,728,851	1,717,200
Operating margins after fixed charges	<u>1,001,199</u>	<u>480,965</u>
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits, Buckeye Power, Inc.	1,351,484	1,228,289
Other credits	45,222	55,415
	<u>1,396,706</u>	<u>1,283,704</u>
Net operating margins	2,397,905	1,764,669
NON-OPERATING MARGINS:		
Interest income	48,068	57,521
Other income	92,291	53,387
Gain on disposition of property	5,219	19,317
	<u>145,578</u>	<u>130,225</u>
Net margins	<u>\$ 2,543,483</u>	<u>\$ 1,894,894</u>

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

2020 PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
PATRONAGE CAPITAL , beginning of year	\$ 39,205,932	\$ 38,638,584
Net margins	2,543,483	1,894,894
Retirement of capital credits	(981,048)	(1,327,546)
PATRONAGE CAPITAL , end of year	<u>\$ 40,768,367</u>	<u>\$ 39,205,932</u>

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

2020 STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 2,543,483	\$ 1,894,894
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,785,256	2,693,439
Amortization of retirement security plan prepayment	154,985	154,986
Non-cash capital credits received	(1,823,612)	(1,298,254)
(Increase) decrease in assets:		
Accounts receivable, net	(697,897)	147,468
Other current assets	55,215	(40,851)
Increase (decrease) in liabilities:		
Accounts payable	(86,158)	45,955
Accrued taxes	51,401	26,382
Customers' deposits	(19,085)	(8,595)
Other current liabilities	63,452	31,753
Deferred credits	(13,422)	(2,454)
Postretirement benefit obligation	50,940	43,417
Total adjustments	<u>521,075</u>	<u>1,793,246</u>
Net cash provided by operating activities	3,064,558	3,688,140
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(8,636,885)	(5,248,611)
Decrease (increase) in materials and supplies	13,887	(159,099)
Investments in associated organizations	(7,255)	(6,843)
Proceeds from redemption of capital credits	1,682,394	855,277
Return of investment in associated organizations	33,671	604
Net cash used in investing activities	<u>(6,914,188)</u>	<u>(4,558,672)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds on line of credit	1,000,000	-
Proceeds from mortgage notes payable	5,950,000	3,000,000
Principal payments on mortgage notes payable	(1,770,769)	(1,554,636)
Patronage capital credits retired	(981,048)	(1,327,546)
Retired capital credits (claimed) unclaimed	(24,963)	14,491
Donated capital received	54,183	49,602
Actuarial gain on postretirement benefits	6,300	6,300
Net cash provided by financing activities	<u>4,233,703</u>	<u>188,211</u>
Net increase (decrease) in cash and cash equivalents	384,073	(682,321)
CASH AND CASH EQUIVALENTS, beginning of year	<u>321,711</u>	<u>1,004,032</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 705,784</u>	<u>\$ 321,711</u>

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

2020 NOTES TO THE FINANCIAL STATEMENTS

NOTE A: ORGANIZATION

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

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Uninsured Risk

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

Estimates

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

Electric Plant, Equipment and Depreciation

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

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

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

Distribution Plant	3.2%
General Plant:	
Structure and improvements	2.0 - 5.0 %
Office furniture and equipment	10.0%
Computer equipment	25.0%
Transportation equipment	14.0%
Power operating equipment	12.0%
Communications equipment	10.0%
Other general plant	10.0%

Investments

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

Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year. No portion of the current allocation is paid in cash.

Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c) (12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

Statements of Cash Flows

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Net cash flows from operating activities include cash payments for interest of \$1,730,240 and \$1,719,627 for the years ended December 31, 2020 and 2019, respectively. There were no payments for federal income taxes for 2020 or 2019.

Workers' compensation

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

NOTE C: REVENUE

Revenue from the sale of electricity is recorded monthly based on consumer electricity consumption. The Cooperative bills monthly for all consumers. Commercial consumers with capacity in excess of 15 kW have "Demand" meters and are billed based upon automated meter readings taken at the end of each calendar month. All other consumers are billed based upon self-read meter readings. Substantially all of the

NOTES TO FINANCIALS

cooperative's consumers are located in Holmes and Wayne counties. The allowance for doubtful accounts at December 31, 2020 and 2019 was \$30,000. Bad debt expense for 2020 and 2019 was \$11,031 and \$19,454, respectively.

The Cooperative derives its revenues primarily from sales of electricity. For such revenues, the Cooperative recognizes revenues in an amount derived from the electricity delivered to customers.

The Cooperative calculates revenue earned but not yet billed based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month. Differences between actual and estimated unbilled revenue are immaterial.

The performance obligation in all arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as the Cooperative delivers or sells the electricity. The Cooperative records revenue for all of those sales based upon the volume delivered, which corresponds to the amount that the Cooperative has a right to invoice.

There are no material initial incremental costs of obtaining a contract in any of the arrangements. The Cooperative does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. The Cooperative does not have any material significant payment terms because it receives payment at or shortly after the point of sale.

The Cooperative also has various other sources of revenue including billing, collection, other administrative charges, rent of utility property, and miscellaneous revenue. It classifies such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing.

NOTE D: UTILITY PLANT

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

	<u>2020</u>	<u>2019</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	82,912,604	78,456,220
General Plant	10,060,264	9,278,877
Electric Plant in Service	93,220,999	87,983,228
Construction Work in Progress	3,473,729	1,820,559
Total Utility Plant at Cost	<u>\$ 96,694,728</u>	<u>\$ 89,803,787</u>

NOTE E: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2020</u>	<u>2019</u>
Investments in Associated Organizations:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 622,020	\$ 628,513
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
Heartland Emergency Equipment, Ltd.	181,763	174,508
CoBank common stock	-	27,128
Total investments in associated organizations	<u>\$ 2,227,264</u>	<u>\$ 2,253,680</u>

NOTE F: PATRONAGE CAPITAL FROM ASSOCIATED ORGANIZATIONS

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

	<u>2020</u>	<u>2019</u>
Patronage Capital from Associated Organizations:		
Rural Electric Supply Cooperative, Inc.	\$ -	\$ 408,096
Buckeye Power, Inc.	19,156,739	19,010,299
NRUCFC	192,583	181,924
National Information Solutions Cooperative	119,084	116,313
Federated Rural Electric Insurance Exchange	161,890	154,393
Cooperative Response Center membership	17,770	16,653
United Utility Supply Cooperative Corporation	380,830	-
Total patronage capital from associated organizations	<u>\$ 20,028,896</u>	<u>\$ 19,887,678</u>

NOTE G: PATRONAGE CAPITAL

At December 31, 2020 and 2019, patronage capital consisted of:

	<u>2020</u>	<u>2019</u>
Assignable	\$ 2,543,483	\$ 1,894,894
Assigned	66,175,102	64,280,208
	68,718,585	66,175,102
Retired	(27,950,218)	(26,969,170)
Total patronage capital	<u>\$ 40,768,367</u>	<u>\$ 39,205,932</u>

The Cooperative's patronage capital balances represent 40 and 41 percent, respectively, of the total assets at December 31, 2020 and 2019. Capital credit retirements in the amount of \$981,048 and \$1,327,546 were paid in 2020 and 2019, respectively.

The Cooperative received donated capital from members totaling \$54,183 and \$49,602 during 2020 and 2019, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2020 and 2019 includes \$22,451,975 and \$21,946,833, respectively, reinvested in Buckeye Power, Inc. which has been restricted by action of the Board of Trustees and members of the Cooperative. This patronage capital reinvested in Buckeye Power, Inc. has been separately identified on the books of the Cooperative and will not be available for retirement by the Cooperative until retired in cash by Buckeye Power, Inc.

NOTE H: OTHER EQUITIES

At December 31, 2020 and 2019, other equities consisted of:

	<u>2020</u>	<u>2019</u>
Donated capital	\$ 1,284,610	\$ 1,230,427
Retired capital credits unclaimed	701,761	726,724
Total other equities	<u>\$ 1,986,371</u>	<u>\$ 1,957,151</u>

NOTE I: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2020 and 2019 was \$724,481 and \$657,180, 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 \$153,521 and \$143,275 for the years ended December 31, 2020 and 2019, respectively.

NOTE J: LONG-TERM DEBT

Long-term debt is comprised substantially of mortgage notes payable to the United States of America (RUS & FFB) and supplemental mortgages to NRUCFC. Following is a summary of outstanding long-term debt as of December 31, 2020 and 2019:

Loan	Fixed Interest Rate	Maturity Date	2020	2019
RUS ADVANCE PAYMENTS UNAPPLIED			\$(105)	\$ (100)
CFC	6.250%	3/14/26	206,813	241,022
CFC	6.300%	7/28/29	196,789	213,795
CFC	4.100% - 4.850%	9/23/26	487,521	565,635
CFC	3.550% - 4.950%	11/25/39	5,445,890	5,678,874
FFB	4.503%	12/31/31	535,733	572,592
FFB	4.120%	12/31/31	1,005,417	1,076,297
FFB	2.736%	12/31/31	484,945	522,240
FFB	4.269%	12/31/31	269,645	288,476
FFB	4.295%	12/31/31	541,345	579,087
FFB	3.879%	12/31/31	521,398	558,721
FFB	2.009%	1/2/35	566,293	600,985
FFB	2.231%	1/2/35	555,726	589,187
FFB	2.795%	1/2/35	573,314	606,338
FFB	4.550%	1/2/35	634,421	666,169
FFB	4.353%	12/31/34	634,561	666,829
FFB	4.543%	12/31/34	1,539,969	1,617,077
FFB	3.889%	12/31/42	4,805,994	4,941,853
FFB	3.849%	12/31/42	2,399,681	2,467,868
FFB	4.419%	12/31/42	1,712,064	1,757,239
FFB	3.873%	1/2/46	1,718,677	1,758,767
FFB	2.763%	1/2/46	1,167,046	1,199,049
FFB	2.702%	1/2/46	1,081,738	1,111,662
FFB	2.330%	1/2/46	1,398,735	1,439,527
FFB	2.421%	1/2/46	1,031,369	1,061,062
FFB	2.777%	1/2/46	1,978,320	2,032,460
FFB	2.256%	1/2/46	826,690	851,052
FFB	2.331%	12/31/48	897,713	920,203
FFB	2.813%	12/31/48	1,810,730	1,852,717
FFB	1.965%	12/31/48	1,690,705	1,735,585
FFB	2.384%	12/31/48	2,153,087	2,206,576
FFB	2.308%	12/31/48	1,640,237	1,681,481
FFB	2.791%	12/31/48	1,761,603	1,802,597
FFB	2.936%	12/31/48	947,291	968,822
FFB	2.941%	12/31/52	1,479,366	1,500,000
MORTGAGE NOTES SUBTOTAL			\$ 44,700,721	\$ 46,331,744

NOTES TO FINANCIALS

NOTE J: LONG-TERM DEBT (continued)

MORTGAGE NOTES SUBTOTAL			\$ 44,700,721	\$ 46,331,744
FFB	1.862%	12/31/52	2,949,814	3,000,000
FFB	1.175%	12/31/52	1,961,736	-
FFB	1.071%	12/31/52	1,960,482	-
FFB	1.208%	12/31/52	1,938,222	-
TOTAL MORTGAGE NOTES			53,510,975	49,331,744
LESS: CURRENT PORTION OF MORTGAGE NOTES			1,909,000	1,680,000

LONG-TERM MORTGAGE NOTES PAYABLE			<u>\$ 51,601,975</u>	<u>\$ 47,651,744</u>
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The annual maturities of long-term debt for the next five years are as follows:

2021	\$ 1,909,000
2022	2,446,000
2023	2,005,000
2024	2,131,000
2025	2,182,000
Thereafter	42,837,975
	<u>\$ 53,510,975</u>

The Cooperative has available \$5,550,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2020.

NOTE K: SHORT-TERM DEBT

The short-term line of credit of \$10,000,000 and \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2020 and 2019, respectively. The interest rate on the line of credit at December 31, 2020 and 2019 was 2.45 percent and 3.25 percent, respectively, with outstanding balances on the line of \$1,000,000 and \$0, for 2020 and 2019, 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 L: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2020	2019
Consumer energy prepayments	\$ 1,498	\$ 1,773
Construction deposits	14,958	28,105
	<u>\$ 16,456</u>	<u>\$ 29,878</u>

NOTE M: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Holmes-Wayne Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had

accounts payable due to Buckeye Power, Inc. of \$2,355,205 and \$2,188,563 at December 31, 2020 and 2019, respectively.

The Cooperative purchases material from United Utility Supply Cooperative Corporation, formerly, Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,513,221 and \$1,536,435 for the years ended December 31, 2020 and 2019, 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 \$182,602 and \$180,489 for the years ended December 31, 2020 and 2019, respectively.

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

The Cooperative has an investment in Heartland Emergency Equipment, Ltd., a limited liability company (LLC). The LLC's members consist of 12 rural electric cooperatives. The purpose of the LLC is for the cooperatives to pool resources for the provision and use of emergency substation equipment. The investment balance is disclosed in Note E.

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$43,915 and \$47,534 for the years ended December 31, 2020 and 2019, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$114,730 and \$112,812 for the years ended December 31, 2020 and 2019, respectively.

NOTE N: ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	<u>2020</u>	<u>2019</u>
Accumulated other comprehensive loss, beginning of year	\$ (137,400)	\$ (143,700)
Actuarial gain on postretirement benefits	<u>6,300</u>	<u>6,300</u>
Accumulated other comprehensive loss, end of year	<u>\$ (131,100)</u>	<u>\$ (137,400)</u>

NOTE O: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from the Cooperative. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits, and requires the accrual of the postretirement benefit obligation (including any unfunded portion of the plan).

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a "pay-as-you-go" basis. Therefore, there are no assets available for benefits.

The following table sets forth the plan's accrued postretirement benefit obligation ("APBO") at December 31:

	<u>2020</u>	<u>2019</u>
APBO, beginning of year	\$ 617,399	\$ 573,982
Service cost	31,000	31,000
Interest cost	26,240	24,394
Amortization	(6,300)	(6,300)
Additional expenses	-	785
Less: actual cash payments and actuarial adjustment	<u>-</u>	<u>(6,462)</u>
APBO, end of year	668,339	617,399
Less: current portion	<u>(20,100)</u>	<u>(12,200)</u>
APBO, long-term portion	<u>\$ 648,239</u>	<u>\$ 605,199</u>

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

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:

<u>Medical / Drugs</u>	
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 P: RETIREMENT SECURITY PLAN PREPAYMENT

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option

to allow participating cooperatives in the Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

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

NOTE Q: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 17, 2021, the date on which the financial statements were issued.

NOTE R: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02 entitled "Leases (Topic 842)," which will change the Cooperative's balance sheet by adding lease-related assets and liabilities. This may affect compliance with any contractual agreements and loan covenants. This new standard is effective for annual reporting periods beginning after December 15, 2021 with early implementation permitted. Management has not yet determined whether this new standard will have a material effect on its financial statements.

NOTE S: COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the world. The Cooperative is monitoring the outbreak of COVID-19 and the related business and travel restrictions, as well as changes to behavior intended to reduce its spread and its impact on the Cooperative's employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Cooperative's operations and liquidity is uncertain as of the date of this report. No adjustments have been made to the amounts reported in these financial statements as a result of this matter.

NOTE T: RECLASSIFICATION

Certain amounts previously reported in December 31, 2019 financial statements have been reclassified to conform to the reporting presentation of the financial statements at December 31, 2020.

2020 AUDITOR'S REPORT

February 17, 2021

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, 2020, 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 17, 2021.

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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holmes-Wayne Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Rea & Associates, Inc.

Rea & Associates, Inc.
Millersburg, OH

2020 AUDITOR'S REPORT

February 17, 2021
 Board of Trustees
 Holmes-Wayne Electric Cooperative, Inc.
 Millersburg, Ohio 44654

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Holmes-Wayne Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2020, and the related statements of revenue, patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 15, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of trustees, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Rea & Associates, Inc.

Rea & Associates, Inc.
 Millersburg, OH
 February 15, 2021



Holmes-Wayne
Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 