



ANNUAL REPORT  
2018



pa ulding putnam  
ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative





**GEORGE CARTER, PRESIDENT & CEO  
AND JOHN SAXTON, CHAIRMAN**

## 2018 ANNUAL REPORT TO THE MEMBERS

Your electric cooperative continues to perform at a high level. We are consistently ranked in the top 25% of cooperative utilities nationwide in several categories, according to a national report by the Cooperative Finance Corporation (CFC). This isn't possible without the tremendous contributions of a dedicated work force. Nowhere is this more evident than in our safety record. Financial success and reduced outage numbers mean nothing if we do not have a safe working environment for all our employees. More importantly, our employees embrace the culture of safety; understanding safety is each employee's responsibility both for themselves and their coworkers.

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***"The real achievement isn't in reviews or scores; it's in people and actual safety."***

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In 2018, our safety program came under an intensive review by an outside group. This was our Rural Electric Safety Achievement Program (RESAP) onsite observation. This observation is conducted over 3 days and reviews all areas of our safety program, including

work site inspections and interviews with employees. The result was an extremely high score and rave reviews by the observation team.

The real achievement isn't in reviews or scores; it's in people and actual safety. Our safety record speaks for itself: reduced accidents, reduced injuries, and employees who care about safe working habits. The bottom line is two years without a lost time accident. Two full years that all the employees went home safe. That's safety achievement.

The cooperative did have an outstanding year financially, ending the year with total margins (profit) of \$6 million. The main reason for the improved margins were due to two areas. First, increased sales volume due to weather resulted in total revenue being well above budget. Second, our capital credits allocation from Buckeye Power came in over budget. These 2 differences resulted in nearly \$2 million added to the bottom line.

Each year, the cooperative invests between \$6 million and \$7 million in new poles, wires, transformers, and equipment to upgrade and improve the electric system that brings power to your home. It is a never-ending quest to insure the highest level of reliability is maintained. In addition to our normal system

improvements and replacements, 2018 saw your cooperative embark on a new aggressive right-of-way maintenance program. This program is a proactive effort to improve system reliability before major line rebuilds are necessary. We strongly believe that by using this maintenance program, we can reduce outages, reduce line loss, and improve the overall operational efficiency of our system. Combined, these will improve service and lower overall cost in the long term.

This improvement can be seen in the cooperative's line loss. Line loss is a common occurrence. It's simply the difference in what is purchased as wholesale power at our substation and the amount delivered to the end meter. Between the substation and the meter, electricity is lost through the power lines and equipment. Line loss can occur when a tree branch contacts a power line, but most line loss is because of the transformers and other utility equipment. With proper maintenance and improved right-of-way management, line loss can be reduced. In 2018, we saw another reduction to just below 4%. The 4% represents a very low number compared to other utilities; in fact, it ranks us well below the median average for utilities our size. This reduction in line loss amounts to a savings of over a quarter of a million dollars in 2018.

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***"In 2018, your cooperative changed to a new managed right-of-way program. This new program isn't just about tree trimming or removal. It's about managing the right-of-way on a long-term approach."***

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In 2018, the cooperative completed a new 4-year Construction Work Plan (CWP). The CWP is based on a long-range engineering study and is designed to support the strategic goals of the board of trustees. The CWP reviews all areas of our utility plant. We review substation loading; loading on main 3-phase circuits; outages and their causes; age and condition of lines; potential for growth; and economic conditions throughout the cooperative's service territory. This new CWP will cover 2019 through 2022. The CWP will address many areas that need improvement, such as our Cecil substation and the main 3-phase line coming from the substation into Paulding.

The CWP projects new services and planned growth in our system. Some of these projects will be completed and some will not, depending on specific growth. The Herbert Monroe substation is a good example of this. The Monroe substation serves large commercial loads in New Haven, Indiana. As these commercial areas expand, the substation will need to be expanded to serve the load growth.

It is very important for the cooperative to have a good CWP. The CWP is a planning document. Obviously, the CWP can't know precisely how many new members will come onto the system, but we can plan normal growth. We can review our outage numbers and locations and identify weak areas in our system for rebuilds. We can look at where previous growth has caused some facilities to be overloaded or where a stronger tie to another substation might be necessary. The CWP helps us incorporate new technology into our system by planning for a long-term deployment. Items like SCADA (automatic control of equipment and remote monitoring of equipment) can be incorporated into the plan and deployed over several years.

The CWP is also important for financial planning. We can't do accurate financial planning without a good understanding of our plant investment costs. While the construction work plan identifies planned plant investment, the 10-year financial forecast reviews the impacts of the proposed plant investment over time. Your management team and board of trustees work to develop and review the financial forecast to insure rate stability, financial metrics, and overall financial strength is maintained with the new CWP. The cooperative can test various investment, debt levels, and sales volume when formulating a forecast to see impacts and results of the different scenarios. In formulating our financial forecast with our construction work plan, we can determine when possible rate increases would be needed as well as planned long-term debt to finance the investment and meet equity goals. Our new forecast shows we can maintain current rates for the next 3 to 4 years while maintaining an equity level well above our minimum 50%.

Line rebuilds and improved maintenance go a long way to improve system reliability and reduce your outage time; however, they would be incomplete without a good right-of-way management program. In 2018,

your cooperative changed to a new managed right-of-way program. This new program isn't just about tree trimming or removal. It's about managing the right-of-way on a long-term approach. Traditionally, the cooperative had a 4-to 5-year rotation cycle where trees were trimmed around the system. This was fine, but it never really cured the problem of trees getting into the power lines and causing outages.

Our new approach looks at each tree and each segment of line and addresses it in a way to say what's best for that tree or that line segment, so we don't have to come back and address the same issue in a couple years. This new method will use tree removal, tree trimming, growth regulators, mowing, and herbicide application in various combinations to manage the right-of-way. Using a combination of methods and working with members to achieve long-term results will allow us to shorten our cycle to 2 years and reduce overall cost. This saves all members and improves reliability.

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***"In 2018, nearly \$2 million was returned to the membership through capital credits retirements. This was the largest retirement in cooperative history."***

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Every utility faces rate pressure, and we are no different. In March of 2018, the cooperative instituted a slight rate increase for all rate classes. This increase was necessary to continue to fund our investment in utility plant to serve our homes and businesses. It's never an easy decision to raise rates, but it is necessary if we are to continue to grow and improve reliability. Residential members, our largest rate class, saw their average rate per kilowatt-hour increase just 2.66% from the prior year cost. This was our first increase in 4 years, and we strongly believe an increase of less than 3% over 4 years is fiscally responsible considering the vast improvement in service quality.

In 2018, nearly \$2 million was returned to the membership through capital credits retirements. This was the largest retirement in cooperative history. Capital credits are often misunderstood in the cooperative world, but they relate back to the Seven Cooperative Principles — specifically, the principle of Members' Economic Participation. All of us as members contribute equity into the cooperative as part of our

rates. This equity is then invested into the electric system to help fund the construction work plan. Without these equity funds, the cooperative would need to borrow all funds through long-term debt, thus greatly increasing rates. This equity is returned, over time, when the cooperative is financially able to do so. That is why we are so proud of our program, including the 2018 retirement.

In total, we have returned \$22 million back to the membership. Capital credits are unique, as they are a sign of your ownership of the cooperative. We are very proud that we are financially strong and can retire capital credits to the membership.

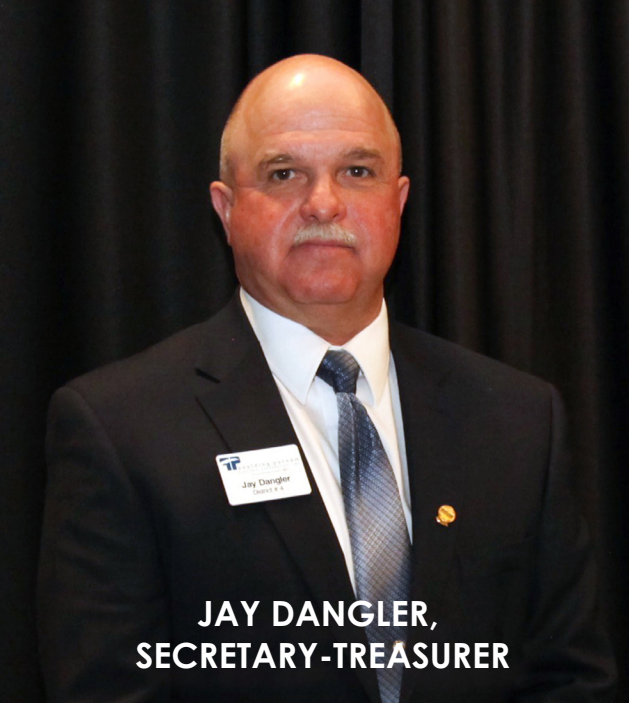
In addition to the outstanding work done on a day-to-day basis to keep costs down and reliability up, your cooperative employees live the principle of Concern for Community. This year, the employees completed two community service projects. First, the employees spent a day working on projects at Auglaize Village. This historical village needed volunteer help to repair many attractions, so our employees of the cooperative stepped up to lend a hand and completed the projects. Next, our employees spent a day planting trees at the youth baseball fields in Paulding. These are important service projects that improve our communities and enrich local lives. Further, the employees give their own time to these projects, working after hours and on weekends. The principle of Concern for Community can only be accomplished if the employees are committed. We are very pleased and appreciative of our employees who live and support this principle.

The year of 2018 will be remembered for many achievements. We earned over \$6 million in total margins. Outage time was the lowest in cooperative history. We returned \$2 million to the members — the largest amount ever returned in one year. We received an outstanding score on our safety review. Line loss was reduced, and right-of-way maintenance was expanded. Finally, we achieved a year without a single injury resulting in loss of time, meaning everyone went home safe.

Thank you for supporting your cooperative; we look forward to another great year in 2019.

*George Carter*

**George Carter, President & CEO**



**JAY DANGLER,  
SECRETARY-TREASURER**



## 2018 TREASURER'S REPORT

I am pleased to report the year ended December 31, 2018, saw the cooperative record its best year ever, in terms of total margins. The cooperative earned just over \$6.4 million in total margins for the year. This exceeded budget expectations by \$2.4 million and the prior year by \$2.1 million. The main drivers for the difference were an increase in sales by over 5% and an increase in patronage allocation by Buckeye Power.

The increase in sales was due mainly to weather conditions. A colder start to the year in 2018 and a slightly warmer-than-expected summer added to the sales increase. Member growth, the number of members actually served, remained flat with total membership growing at only 0.3%.

The Board of Trustees understands the need for a strong financial position, and sometimes that requires rate increases. In 2018, a slight increase of less than 3% was instituted. This increase, along with an increase in sales volume, resulted in higher revenues. Total revenue for the year was \$41.8 million — an increase of just over 9%.

The strong margin performance allows the cooperative to continue to improve the electric facilities serving our homes and businesses. Total value of electric plant (poles, wires, transformers, etc.) serving members increased to \$94 million. At the same time, total equity, the members' ownership of the cooperative, remained strong at 63% of total assets.

The cooperative's strong financial condition was reflected in a patronage retirement of nearly \$2 million back to members in December 2018. This was the largest patronage retirement done by the cooperative. Our ability to return cash to members is a sign we are functioning as a true cooperative. Cooperatives require an equity contribution from the members because they don't have stockholders providing equity funds. Members contribute the equity, through rates, to fund plant investment. As margins are earned each year and the cooperative grows financially strong, these equity funds are returned to the members. Your cooperative is very proud to consistently return patronage to the membership.

During the year, we took the opportunity to reduce interest cost by paying off variable rate notes with fixed rate loans. Several long-term notes were paid off early, reducing both interest cost and future principal payments. The board and management work diligently to balance the use of debt financing with member rates. It is a critical balance to manage the plant growth with our debt and equity needs. Maintaining a strong capitalization, while continuing to grow the system to improve reliability is a main strategic focus.

Controlling expenses continues to be a priority. Expenses last year were on budget with only a slight variation to the budget. Expenses did increase from the prior year, which was expected in the budget. Total operating and maintenance expenses increased by 5% during the year. This increase

in expenses was predominately due to the increase we experienced through our wholesale power provider, Buckeye Power, in power cost. Expenses increased \$1.5 million from the prior year, with power cost accounting for \$1.3 million of the increase. The cooperative's expenses continue to be about one-half of other peer utilities, on a kilowatt-hour basis. The board and management continue to monitor expenses and look at all means to control and reduce our cost of service.

One such measure to reduce cost is with shared employees. The cooperative continues to maintain low overall employee totals by sharing several employees with a neighboring cooperative, Midwest Electric in St. Marys, Ohio. The employee sharing allows the cooperative to reduce overall employee costs, while improving member service with high-quality employees.

Overall, I am very pleased to report on the financial strength of the cooperative. Your cooperative remains able to meet the future needs of our members. The accounting firm of Bashore, Reineck, Stoller and Waterman, CPAs (BRSW) has audited the financial records of the cooperative as of December 31, 2018, and have issued a "clean" or unbiased opinion of the financial statements. The audited financial statements may be reviewed at our office during normal business hours.

*Jay Dangler*

**Jay Dangler, Secretary-Treasurer**

## Balance Sheet

UNAUDITED

December 31, 2018

### Assets

#### Plant Property and Investments:

Total Plant .....	\$ 93,279,940
Construction Work in Progress.....	\$ 1,103,311
Accumulated Depreciation.....	<u>\$(25,549,614)</u>
Net Plant .....	\$ 68,833,637

#### Investments:

Invest. in Assoc. Org. - Patronage Capital...	\$ 17,322,597
Associated Organizations .....	<u>\$ 2,370,952</u>
Total Plant and Investments .....	\$ 88,527,186

#### Current Assets and Debits:

Cash .....	\$ 3,059,095
Temporary Investments/Special Deposits...	\$ 3,142,770
Receivables.....	\$ 2,643,447
Merchandise Inventory .....	\$ 490,105
Other Current Assets.....	<u>\$ 384,311</u>
Total Current Assets and Debits.....	\$ 9,719,728

Deferred Debits .....	<u>\$ 400,682</u>
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Total Assets and Debits.....	<u>\$ 98,647,596</u>
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### Liabilities and Equity

#### Current Liabilities and Credits:

Accounts Payable .....	\$ 3,516,101
Short-Term Notes Payable.....	\$ -
Consumer Deposits .....	\$ 215,935
Other and Accrued .....	<u>\$ 1,778,874</u>
Total Current Liabilities and Credits.....	<u>\$ 5,510,910</u>

#### Noncurrent Liabilities and Credits:

Long-Term Debt.....	\$ 30,484,555
Deferred Liabilities and Credits.....	<u>\$ 403,429</u>

Total Liabilities and Credits.....	\$ 36,398,894
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#### Equity:

Operating Margins Prior/Other.....	\$ 7,506,647
Memberships .....	\$ 71,313
Patronage Capital .....	\$ 54,670,742
Total Equity.....	<u>\$ 62,248,702</u>

Total Liability and Equity.....	<u>\$ 98,647,596</u>
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## Statement of Operations

UNAUDITED

For the Year Ending December 31, 2018

#### Revenue:

Sales of Electricity .....	\$ 41,829,649
Interest Income .....	\$ 149,509
Other Income .....	\$ (13,989)
Capital Credits .....	<u>\$ 2,211,865</u>
Total Revenue .....	\$ 44,177,034

#### Expenses:

Cost of Purchased Electric.....	\$ 27,054,910
Cost of Maintenance on Lines, Poles, Rights-of-Way, etc .....	\$ 2,113,968
Cost of Billing and Consumer Records ...	\$ 557,811
Cost of Member Services .....	\$ 562,041
Cost of Administration and Office Operations .....	\$ 1,911,939
Depreciation Expense.....	\$ 3,076,482
Business Taxes .....	\$ 1,150,891
Interest on Long-Term Debt .....	\$ 1,225,714
Interest on Current Debt .....	<u>\$ 58,326</u>
Total Expenses.....	\$ 37,712,082

Net Patronage Capital or Margins .....	\$ 6,464,952
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*A complete copy of the Audit Report as presented by the firm of Bashore Reineck Stoller & Waterman, Inc., certified public accountants of Paulding, Ohio, is available for examination at the cooperative's office during normal business hours.*



pa ulding put nam  
ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative



**MY REASON WHY**



**I WORK SAFE**

**TP** paulding putnam  
ELECTRIC COOPERATIVE, INC  
LINEMAN CORBIN RHONEHOUSE AND HIS SON, LUKE

Your Touchstone Energy® Cooperative

**MY REASON WHY**

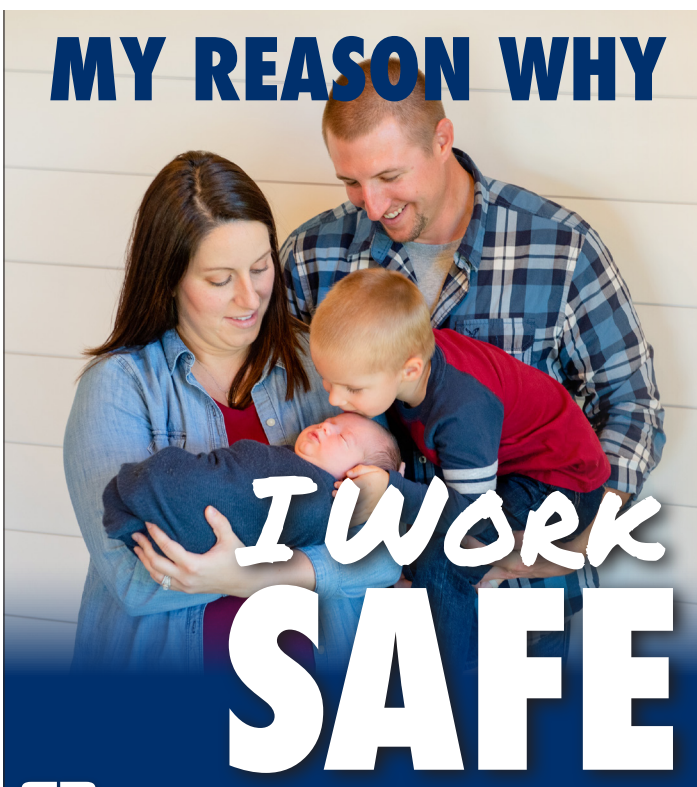


**I WORK SAFE**

**TP** paulding putnam  
ELECTRIC COOPERATIVE, INC  
LINEMAN ZAK KAUSER AND HIS WIFE, MEGAN

Your Touchstone Energy® Cooperative

**MY REASON WHY**

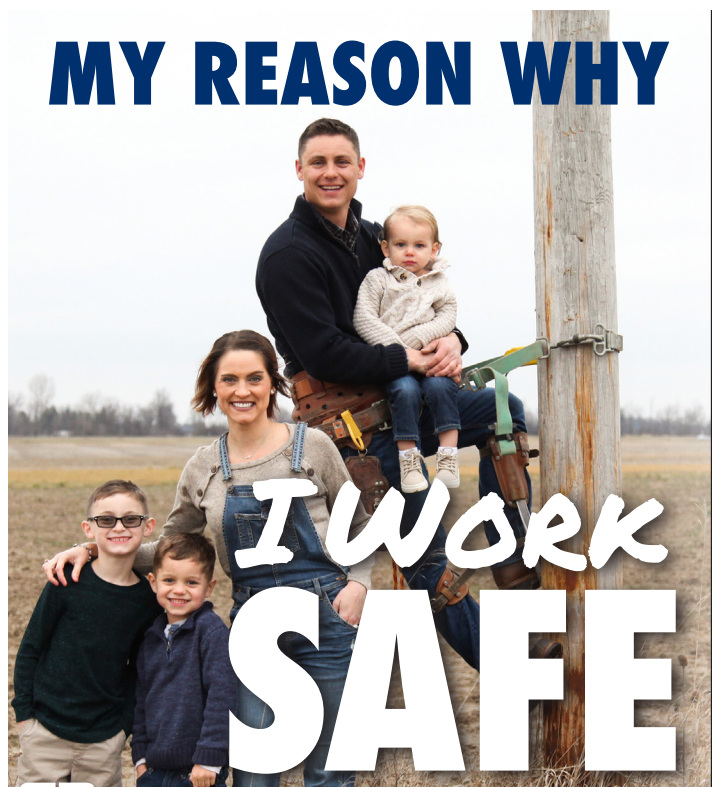


**I WORK SAFE**

**TP** paulding putnam  
ELECTRIC COOPERATIVE, INC  
LINEMAN ANDREW HERMILLER AND HIS FAMILY

Your Touchstone Energy® Cooperative

**MY REASON WHY**



**I WORK SAFE**

**TP** paulding putnam  
ELECTRIC COOPERATIVE, INC  
LINEMAN BRANDON BURELISON AND HIS FAMILY

Your Touchstone Energy® Cooperative

Paulding Putnam Electric Co-op has accomplished two years without a lost time accident. We're dedicated to safety because we want to make sure our employees go home to their families. You may have seen some of our employees featured on billboards as you drove here today. If not, this is why we are dedicated to SAFETY.

Several Paulding Putnam Electric Cooperative (PPEC) employees and their family members volunteered a Saturday morning to plant 16 new trees at Lela McGuire Jeffery Park in Paulding in 2018. PPEC's various community service projects demonstrate the co-op's guiding principle of "Concern for Community."

All the employees reported having a great time working as a team to give back to their community and help beautify the park for locals to enjoy many years into the future.

Lineman John McMaster and System Engineer and Lineman Rob Weisenburger headed the project up as part of a training program through Indiana Electric Cooperatives.



COMMITTED TO  
COMMUNITY  
*& the World!*





## MEETING AGENDA

1. Registration..... Starts at 9 a.m.
2. Meeting called to order ..... Dr. John Saxton
3. Welcome and Pledge of Allegiance ..... Dr. John Saxton
4. Reading of the notice of meeting and proof of  
due publication of mailing thereof..... Dr. John Saxton
5. Treasurer’s report ..... Jay Dangler
6. Chairman and President’s report..... Dr. John Saxton and George Carter
7. Scholarship and Youth Tour announcement ..... Renee Boss
8. Trustee election results..... Norman Cook
9. Door prizes..... Erika Willitzer
10. Adjournment/Lunch..... Dr. John Saxton