

PAULDING-PUTNAM ELECTRIC
COOPERATIVE, INC.

DECEMBER 31, 2021



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Of Paulding-Putnam Electric Cooperative, Inc.

Opinion

We have audited the accompanying financial statements of Paulding-Putnam Electric Cooperative, Inc. (a nonprofit organization), which comprise the balance sheets as of December 31, 2021, 2020 and 2019, and the related statements of revenues and expenses, members' equity, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding-Putnam Electric Cooperative, Inc. as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Paulding-Putnam Electric Cooperative, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Paulding-Putnam Electric Cooperative, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:



- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Paulding-Putnam Electric Cooperative, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Paulding-Putnam Electric Cooperative, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Bashore Reineck Stoller & Waterman

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

March 4, 2022



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Operating Revenues	<u>\$ 44,069,375</u>	<u>\$ 40,881,652</u>	<u>\$ 40,671,604</u>
Operating Expenses			
Cost of power purchased	28,744,026	25,807,680	25,455,375
Distribution - operation	743,526	550,057	544,018
Distribution - maintenance	1,873,361	1,939,521	2,044,184
Consumer accounts	566,545	478,875	656,177
Customer service and information	586,674	514,114	638,324
Administrative and general	1,937,025	1,748,294	2,094,612
Depreciation and amortization	3,488,972	3,296,921	3,175,426
Taxes	1,261,497	1,237,540	1,164,758
Total operating expenses	<u>39,201,626</u>	<u>35,573,002</u>	<u>35,772,874</u>
Net operating margin	<u>4,867,749</u>	<u>5,308,650</u>	<u>4,898,730</u>
Other Revenue and Expenses			
Patronage capital from generation cooperatives	1,082,528	1,311,938	1,199,275
Patronage capital from other cooperatives	202,501	132,454	145,991
Interest income	44,648	85,312	172,741
Other non-operating income	5,211	12,568	1,543
Gain (Loss) on disposal of assets	14,350	14,500	(116)
Total other revenue and expenses	<u>1,349,238</u>	<u>1,556,772</u>	<u>1,519,434</u>
Net margins before interest charges	<u>6,216,987</u>	<u>6,865,422</u>	<u>6,418,164</u>
Interest Charges			
Interest on long-term debt	1,370,280	1,289,827	1,310,573
Other interest	65,357	49,483	5,049
Total interest charges	<u>1,435,637</u>	<u>1,339,310</u>	<u>1,315,622</u>
Net Margins	<u>\$ 4,781,350</u>	<u>\$ 5,526,112</u>	<u>\$ 5,102,542</u>

The accompanying notes are an integral part of these financial statements

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PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2021, 2020 and 2019

	ASSETS		
	2021	2020	2019
Electric Plant			
Distribution plant	\$ 97,166,393	\$ 92,110,232	\$ 85,071,469
General plant	13,210,196	12,835,684	12,500,549
Construction work in progress	1,525,611	1,193,384	2,075,533
	<u>111,902,200</u>	<u>106,139,300</u>	<u>99,647,551</u>
Less accumulated depreciation	25,321,386	24,504,891	24,698,923
Net electric plant	<u>86,580,814</u>	<u>81,634,409</u>	<u>74,948,628</u>
Other Assets and Investments			
Investments in mutual funds	26,481	52,955	82,291
Investments in associated organizations	20,788,666	20,740,345	20,319,722
Total other assets and investments	<u>20,815,147</u>	<u>20,793,300</u>	<u>20,402,013</u>
Current Assets			
Cash and cash equivalents	436,634	1,338,700	1,274,733
Investment in commercial paper	1,772,626	1,622,275	2,514,186
Accounts receivable (net of allowance for uncollectible accounts of \$21,005, \$10,915 and \$31,658, respectively)	3,114,390	1,971,284	2,520,396
Miscellaneous receivables	17,624	34,533	-
Interest receivable	9,235	9,426	9,473
Materials and supplies	687,041	416,262	500,915
Prepaid RS payment	115,586	115,586	115,586
Prepaid and other	146,641	164,737	169,532
Total current assets	<u>6,299,777</u>	<u>5,672,803</u>	<u>7,104,821</u>
Deferred Debits	<u>36,006</u>	<u>157,285</u>	<u>278,563</u>
Total Assets	<u>\$ 113,731,744</u>	<u>\$ 108,257,797</u>	<u>\$ 102,734,025</u>

The accompanying notes are an integral part of these financial statements



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2021, 2020 and 2019

CAPITALIZATION AND LIABILITIES

	2021	2020	2019
Capitalization			
Equities			
Memberships	\$ 65,163	\$ 67,053	\$ 69,053
Patronage capital	70,401,517	67,842,475	64,480,236
Other equities	1,089,299	948,070	826,344
Donated capital	643,253	467,518	431,242
Total equities	<u>72,199,232</u>	<u>69,325,116</u>	<u>65,806,875</u>
Long-term Debt			
Mortgage notes, net of current installments	<u>32,380,837</u>	<u>28,478,671</u>	<u>29,420,382</u>
Total capitalization	<u>104,580,069</u>	<u>97,803,787</u>	<u>95,227,257</u>
Other Non-current Liabilities			
Accumulated provision for pensions and benefits	<u>1,152,561</u>	<u>1,097,354</u>	<u>1,172,865</u>
Current Liabilities			
Current installments of mortgage notes	1,096,640	941,188	897,298
Short-term notes payable	2,300,000	3,200,000	500,000
Overcollected wholesale power cost adjustment	-	48,410	271,734
Accounts payable - purchased power	2,226,805	2,237,264	2,166,299
Accounts payable - other	787,508	1,489,164	1,036,028
Operation Roundup payable	4,610	4,505	4,418
Consumer deposits	180,900	184,025	205,785
Accrued payroll and vacations	96,958	119,780	169,644
Accrued taxes and insurance	1,287,141	1,118,718	1,069,574
Accrued interest	18,552	13,602	13,123
Total current liabilities	<u>7,999,114</u>	<u>9,356,656</u>	<u>6,333,903</u>
Total Capitalization and Liabilities	<u>\$ 113,731,744</u>	<u>\$ 108,257,797</u>	<u>\$ 102,734,025</u>

The accompanying notes are an integral part of these financial statements

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PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF MEMBERS' EQUITY, PATRONAGE CAPITAL AND OTHER EQUITIES
December 31, 2021, 2020 and 2019

	Membership	Patronage Capital Assigned	Patronage Capital Assignable	Donated Capital and Other Equities	Total Equities
Balances at December 31, 2018	\$ 71,313	\$ 61,149,210	\$ -	\$ 1,041,695	\$ 62,262,218
Memberships issued	-				-
Memberships redeemed	(2,260)				(2,260)
Net margins			5,102,542		5,102,542
Patronage capital assigned		5,102,542	(5,102,542)		-
Patronage capital paid		(1,771,516)		(48,082)	(1,819,598)
Other				263,973	263,973
Balances at December 31, 2019	\$ 69,053	\$ 64,480,236	\$ -	\$ 1,257,586	\$ 65,806,875
Memberships issued	-				-
Memberships redeemed	(2,000)				(2,000)
Net margins			5,526,112		5,526,112
Patronage capital assigned		5,526,112	(5,526,112)		-
Patronage capital paid		(2,163,873)		(58,655)	(2,222,528)
Other				216,657	216,657
Balances at December 31, 2020	\$ 67,053	\$ 67,842,475	\$ -	\$ 1,415,588	\$ 69,325,116
Memberships issued	-				-
Memberships redeemed	(1,890)				(1,890)
Net margins			4,781,350		4,781,350
Patronage capital assigned		4,781,350	(4,781,350)		-
Patronage capital paid		(2,222,308)		(20,473)	(2,242,781)
Other				337,437	337,437
Balances at December 31, 2021	\$ 65,163	\$ 70,401,517	\$ -	\$ 1,732,552	\$ 72,199,232

The accompanying notes are an integral part of these financial statements



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Cash Flows from Operating Activities			
Cash received from customers	\$ 41,581,299	\$ 39,961,848	\$ 39,741,074
Cash paid for purchased power	(28,802,895)	(25,960,039)	(25,582,815)
Cash paid to other suppliers and employees	(7,030,847)	(6,398,972)	(7,025,887)
Interest received	44,839	85,359	172,741
Interest paid	(1,430,687)	(1,338,831)	(1,314,225)
Net cash provided by operating activities	<u>4,361,709</u>	<u>6,349,365</u>	<u>5,990,888</u>
Cash Flows from Investing Activities			
Construction and acquisition of property and plant	(9,013,529)	(9,586,826)	(9,076,750)
Sale of property	14,350	14,500	(116)
Redemption (Purchase) of commercial paper	(150,351)	891,911	623,646
Investments in associated organizations	(16,147)	(20,589)	(6,823)
Redemption of capital credits by associated organizations	1,257,930	1,055,285	750,738
Net cash used by investing activities	<u>(7,907,747)</u>	<u>(7,645,719)</u>	<u>(7,709,305)</u>
Cash Flows from Financing Activities			
Proceeds from short-term debt	250,000	3,500,000	500,000
Payments on short-term debt	(1,150,000)	(800,000)	-
Memberships redeemed	(1,890)	(2,000)	(2,260)
Proceeds from long-term debt	5,189,535	-	714,345
Principal payments on long-term debt	(1,131,917)	(897,822)	(881,220)
Patronage capital credits retired	(511,756)	(439,857)	(396,810)
Net cash provided (used) by financing activities	<u>2,643,972</u>	<u>1,360,321</u>	<u>(65,945)</u>
Increase (Decrease) in Cash	(902,066)	63,967	(1,784,362)
Cash at Beginning of Year	<u>1,338,700</u>	<u>1,274,733</u>	<u>3,059,095</u>
Cash at End of Year	<u>\$ 436,634</u>	<u>\$ 1,338,700</u>	<u>\$ 1,274,733</u>

The accompanying notes are an integral part of these financial statements



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021, 2020 and 2019

RECONCILIATION OF NET MARGINS TO NET CASH
FLOWS FROM OPERATING ACTIVITIES

	2021	2020	2019
Net Margins	\$ 4,781,350	\$ 5,526,112	\$ 5,102,542
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:			
Capital credit redemptions applied to open accounts	(1,408,723)	(1,522,841)	(1,136,454)
Depreciation and amortization	3,488,972	3,296,921	3,175,426
Capital credits (non cash)			
Power generation cooperatives	(1,082,528)	(1,311,938)	(1,199,275)
Others	(202,501)	(132,454)	(145,991)
(Gain) Loss on sale of assets	(14,350)	(14,500)	116
(Increase) Decrease In:			
Consumer and other accounts receivable	(1,126,197)	514,579	202,465
Material inventory	(270,779)	84,653	(11,810)
Other current and deferred assets	139,566	126,119	116,610
Increase (Decrease) In:			
Accounts payable (operating items only)	(145,839)	(119,861)	(352,313)
Other current and accrued liabilities	202,738	(97,425)	239,572
Net Cash Provided by Operating Activities	<u>\$ 4,361,709</u>	<u>\$ 6,349,365</u>	<u>\$ 5,990,888</u>

NON-CASH INVESTING AND FINANCING ACTIVITIES

Patronage capital credits were retired via credit to consumer electric bills. The amounts credited were \$1,408,723, \$1,522,841 and \$1,136,454 for 2021, 2020 and 2019, respectively.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - Paulding-Putnam Electric Cooperative, Inc. (referred to in these statements as the Cooperative) reports revenue and expenses using the accrual method of accounting. Its accounting records are based on the Uniform System of Accounts of the Rural Utilities Service.

Cash Equivalents - For the purposes of the statements of cash flows, the Cooperative considers all time deposits, such as money market accounts, certificates of deposit and investments in commercial paper having a maturity of ninety days or less, to be cash equivalents, along with all checking and savings accounts.

Trade Receivables - The Cooperative records trade receivables for power used by consumers during the reporting period. It is the Cooperative's policy to establish an allowance account for all trade receivables over ninety days past due. Old accounts, upon approval by the board of directors, are charged to bad debts on a periodic basis after all reasonable collection efforts are exhausted.

Revenue Recognition - The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers"(Topic 606). This update requires entities to recognize revenue when the transfer of goods or services to customers occurs in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Cooperative adopted this standard January 1, 2019.

The Cooperative has analyzed the provisions of the FASB's ASC Topic 606 and have concluded that no changes are necessary to conform with the new standard, and no cumulative effect adjustment was recognized. The Cooperative's sales contain a single delivery element, and revenue is recognized at a single point in time when ownership, risks and rewards transfer. There is no revenue from goods or services transferred to customers recognized over time.

The Cooperative provides electric power service to rural consumers in Paulding County, Ohio; Putnam County, Ohio; Allen County, Indiana; and surrounding counties in Ohio and Indiana. Revenue is recognized upon consumption of electricity by the end consumer. Finance charges on trade receivables are recorded monthly.

Control transfers to the consumer upon consumption of the electricity, which is considered to be the point in time at which the electricity is metered at the consumers premise.

The performance obligation occurs when the Cooperative delivers electricity to the consumer for their use. At this time of consumption, the Cooperative recognizes the revenue produced by its service. The revenue recognized is based on per kilowatt hour rates depending upon consumer usage and other proprietary factors that are reviewed by management and the board of trustees at least annually.

The opening and closing balance of receivables are listed on the balance sheet as of December 31, 2021, 2020 and 2019. There are no contract assets and liabilities from contracts with consumers as of December 31, 2021, 2020 and 2019.

Notes Receivables - The Cooperative grants credit in limited cases to commercial customers for their share of new line construction costs. These loans are generally amortized over a three to five year period. Interest, as negotiated with the customer, is recorded as collected. These notes are not collateralized.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income - There were no material items of other comprehensive income in the years presented, thus net income is equal to comprehensive income for each year.

Investments in Associated Organizations - Investments in associated organizations are recorded at their original cost. The Cooperative recognizes any patronage capital from these organizations when it is assigned. These patronage capital credits are based on the issuing entities' profits.

Inventories - Inventories are valued at the lower of cost or market, using average cost.

Electric Plant - Electric plant, which consists of distribution plant and other property and equipment, is carried at original cost less accumulated depreciation. Maintenance, repairs and minor renewals are charged to operating expenses, while additions, improvements, renewals and expenditures for maintenance which materially increase the value or extend the useful life of an asset are capitalized. At the time plant assets are disposed of, the original cost, plus cost of removal, less salvage value of the property, is removed from the property records.

Impairment of Long-Lived Assets - The carrying value of electric plant assets is reviewed for impairment whenever events or changes in circumstances indicate the amount of the assets may not be recoverable. An impairment loss would be recorded when there is an indication that an impairment is present and the undiscounted cash flows estimated to be generated by the asset are less than its corresponding carrying amount. There were no such impairment adjustments for 2021, 2020 and 2019.

Depreciation - Electric distribution plant is depreciated at a 3% composite rate annually. Other assets are depreciated over their useful lives using the straight-line method. Estimated useful lives of assets other than electric distribution plant are as follows:

Structure and improvements	34-50 years
Office furniture and fixtures	5-20 years
Transportation equipment	5-11 years
Other equipment	5-20 years

Income Taxes - The Cooperative is a nonprofit corporation, which is exempt from federal taxation under IRC Section 501 (c) (12) (A). The Cooperative is also exempt from state income taxation. This exemption is maintained as long as 85% of revenues are from members of the Cooperative.

Advertising Costs - The Cooperative advertises to promote various programs in the areas it serves. Advertising costs, which are expensed as incurred, were \$44,238, \$32,980 and \$32,108 for 2021, 2020 and 2019, respectively.

Taxes Assessed on Revenue Producing Transactions - Taxes collected and subsequently paid on revenue producing transactions, such as sales taxes, are not reported in the profit and loss statement.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments - Financial instruments (substantially all of which are held for non-trading purposes) are presented at their estimated fair value by the Cooperative using available information. Considerable judgment is required in developing estimates of fair value. Accordingly, the estimates presented in the financial statements may differ from the amounts the Cooperative could realize in a current market exchange. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. Mutual Fund investments are carried at their market trading price on the last day of the year. The carrying values of investments in commercial paper and long-term debt approximate fair value based on investment and borrowing rates available to the Cooperative.

Classification Changes - Certain income, expense and balance sheet items have been reclassified to conform with current presentation.

NOTE 2 - NATURE OF OPERATIONS, RISKS AND UNCERTAINTIES

Business Activity - The Cooperative provides electric power service to rural consumers in Paulding, Putnam and surrounding counties in Ohio and Indiana. To provide electric power to its consumers, the Cooperative constructs and maintains a distribution system and purchases electricity for resale. Paulding-Putnam Electric Cooperative, Inc. operates as an incorporated nonprofit cooperative under the laws of the State of Ohio.

Credit Risk - The Cooperative periodically maintains investments in commercial paper, which are uninsured. The Cooperative also maintained bank deposits in excess of federally insured limits at December 31, 2021, 2020 and 2019 in the amounts of \$381,404, \$1,263,792 and \$1,140,378, respectively. The Cooperative grants credit to its consumers, the majority of whom are residential households.

Significant Estimates - During 2013, the Cooperative participated in the National Rural Electric Cooperative Association prepayment plan for its defined benefit pension plans in order to reduce future required contributions. The Cooperative has estimated that this prepayment, which totaled \$1,155,862, will reduce contributions over the next ten (10) years and is amortizing this prepayment evenly over that time period. A change in interest rates, asset returns and other plan variables could have substantial impact on the estimated future benefit years of this prepayment. See notes 7 and 12 for additional information.

Uncertainty in Income Taxes - The Cooperative accounts for uncertainty in income taxes as required by FASB ASC 740, "Accounting for Uncertainty in Income Taxes". The standard requires an organization to recognize the tax consequences associated with tax positions taken for tax return purposes when it is more likely than not that the position will be sustained. The Cooperative does not have any uncertain tax positions, and there were no interest or penalties recorded in the Statements of Revenues and Expenses for the years presented. All open tax years have not been audited by applicable taxing authorities.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and items reported in the accompanying notes. Actual results could differ from those estimates.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 2 - NATURE OF OPERATIONS, RISKS AND UNCERTAINTIES (Continued)

Subsequent Events - The date to which events occurring after December 31, 2021, the date of the most recent balance sheets, have been evaluated for possible adjustments to the financial statements or disclosure is March 4, 2022, which is the date on which the financial statements were available to be issued.

NOTE 3 – ACCOUNTS RECEIVABLE

Trade accounts receivable over ninety days old were:	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>\$ 2,470</u>	<u>\$ 562</u>	<u>\$ 10,854</u>

Substantially all accounts receivable have been pledged to secure debt of the Cooperative.

NOTE 4 - ELECTRIC PLANT

Electric plant consisted of the following at December 31, 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Distribution Plant			
Land and land rights	\$ 443,188	\$ 443,188	\$ 443,188
Substation equipment	15,257,876	15,234,557	13,321,674
Poles, towers and fixtures	27,419,345	26,207,883	24,778,837
Conductors and transformers	42,108,767	38,810,345	35,619,403
Service and meters	10,679,509	10,234,347	10,119,584
Protective lights	1,257,708	1,179,912	788,783
Total distribution plant	<u>97,166,393</u>	<u>92,110,232</u>	<u>85,071,469</u>
General Plant			
Land and land rights	1,780	1,780	1,780
Structures and improvements	7,019,603	6,975,453	6,812,975
Office furniture and equipment	1,138,476	1,037,222	946,944
Transportation equipment	1,489,983	1,437,845	1,445,081
Other equipment	3,560,354	3,383,384	3,293,769
Total general plant	<u>13,210,196</u>	<u>12,835,684</u>	<u>12,500,549</u>
Construction in Progress	<u>1,525,611</u>	<u>1,193,384</u>	<u>2,075,533</u>
Total electric plant	<u>\$ 111,902,200</u>	<u>\$ 106,139,300</u>	<u>\$ 99,647,551</u>

Substantially all of the assets of the Cooperative have or will be pledged as security for debt obligations.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 5 - FAIR VALUE MEASUREMENTS

ASC 820-10 "Disclosure About Fair Value of Financial Instruments" dictates that fair value is a market based measurement as opposed to an entity specific measurement. Therefore, a fair market value measurement should be determined based on assumptions similar to what market participants would use in pricing the asset or liability. To aid in considering market participant assumptions, ASC 820-10 establishes a hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. The hierarchy is as follows:

Level 1- Inputs that utilize quoted prices in active markets for identical assets or liabilities that the Cooperative has the ability to access.

Level 2- Inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly, such as interest rates that are observable at the commonly quoted intervals.

Level 3- Inputs that are unobservable for the asset or liability which are typically based on the Cooperative's own assumptions, as there is little, if any, related market activity.

Fair Value of Financial Instruments - The following disclosure of the estimated fair market value of financial instruments is made in accordance with the requirements of ASC 820-10 "Disclosure About Fair Value of Financial Instruments". As would be expected, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in these financial statements may not be indicative of the amounts the Cooperative could realize in a current market exchange.

During 2019, the Cooperative adopted the provisions of ASU 2016-01, *Financial Instruments Overall (subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* which is intended to enhance reporting for financial instruments to provide users of financial statements with more decision-useful information.

The new standard was applied on a modified-retrospective approach. No cumulative changes to the balance sheet were required.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The fair values of the Cooperative's financial instruments are as follows:

	12/31/2021		12/31/2020		12/31/2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 436,634	\$ 436,634	\$ 1,338,700	\$ 1,338,700	\$ 1,274,733	\$ 1,274,733
Commercial paper	1,772,626	1,772,626	1,622,275	1,622,275	2,514,186	2,514,186
Long-term investments						
Mutual funds	26,481	26,481	52,955	52,955	82,291	82,291
Associated organizations (other cooperatives)	20,788,666	-	20,740,345	-	20,319,722	-
Short-term debt	2,300,000	2,300,000	3,200,000	3,200,000	500,000	500,000
Long-term debt	33,477,477	33,477,477	29,419,859	29,419,859	30,317,680	30,317,680

The carrying values of cash and cash equivalents, accounts receivable, short-term notes receivable, short-term borrowings and accounts payables approximate fair value because of the short-term maturities of these instruments.

Commercial paper and long-term debt have been valued using quoted interest rates for similar financial assets and liabilities that are observable. These are level 2 inputs.

Marketable securities (mutual funds) are reported at fair value. The Cooperative utilized level 1 inputs on the fair value hierarchy to value mutual fund investments.

The investments in other cooperatives is carried at original cost, less any known impairment, and charges resulting from observable price changes. The Cooperative believes it is not practical to estimate the fair value of investments in other cooperatives due to the excessive cost involved as there is no established market for these investments, and it is inappropriate to estimate future cash flows, which are largely dependent on future related earnings of the issuing cooperatives. Although the issuing cooperatives might report a redemption policy, ultimate liquidation of their capital stock and equity credits is solely at the issuing cooperative's discretion.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 6- INVESTMENT IN ASSOCIATED ORGANIZATIONS

Investments in Associated Organizations consisted of the following at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Investment in Buckeye Power, Inc.	\$ 1,181,348	\$ 1,181,348	\$ 1,181,348
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation	602,282	602,282	608,632
Patronage Capital - Buckeye Power, Inc.	15,693,900	15,747,806	15,343,172
Patronage Capital - Wabash Valley Power Association, Inc.	1,576,855	1,599,860	1,650,607
Patronage Capital - National Rural Utilities Cooperative Finance Corporation	569,353	514,401	457,964
Patronage Capital - United Utility Supply	223,118	189,829	202,556
Other Investments	941,810	904,819	875,443
Total investments in associated organizations	<u>\$ 20,788,666</u>	<u>\$ 20,740,345</u>	<u>\$ 20,319,722</u>

NOTE 7 – DEFERRED DEBITS

The following amounts were recorded as deferred charges at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Pre-paid pension contributions	<u>\$ 36,006</u>	<u>\$ 157,285</u>	<u>\$ 278,563</u>

The amount of prepaid pension contribution in deferred debits represents the portion of prepayment that benefits a time period beyond one year. The amount that is expected to benefit the next fiscal year is reported as a prepaid expense. See notes 2 and 12 for additional information.

NOTE 8 - PATRONAGE CAPITAL

Under the provisions of the mortgage loans with National Rural Utilities Cooperative Finance Corporation, until equities and margins equal or exceed 40 percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited to 25 percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative at December 31, 2021, 2020 and 2019 were 63.5% 64.0% and 64.1% of total assets, respectively.

The patronage capital accounts of the members are non-interest bearing and can be redeemed only at the discretion of the board of trustees. In the event of liquidation or dissolution of the Cooperative, outstanding capital credits are retired without priority on a pro-rata basis after all creditors have been paid but before any property rights payments are made.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 9- OTHER EQUITIES

Other equities consisted of the following at each of the fiscal periods ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
Operating margins prior to 1948	\$ 115,128	\$ 115,128	\$ 115,128
Nonoperating margins prior to 1964	85,412	85,412	85,412
Retained Earnings - estate discounts	888,759	747,530	625,804
	<u>\$ 1,089,299</u>	<u>\$ 948,070</u>	<u>\$ 826,344</u>

NOTE 10 - MORTGAGE NOTES

Following is a summary of long-term debt (mortgage notes) at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Mortgage notes payable to National Rural Utilities Cooperative Finance Corporation (CFC) in quarterly installments of approximately \$597,984, including interest at an average fixed rate of 4.58%. Notes mature between December 2037 and September 2049 and are secured by substantially all of the assets of the Cooperative.	<u>\$ 33,477,477</u>	<u>\$ 29,419,859</u>	<u>\$ 30,317,680</u>
	33,477,477	29,419,859	30,317,680
Less current installments	<u>1,096,640</u>	<u>941,188</u>	<u>897,298</u>
	<u>\$ 32,380,837</u>	<u>\$ 28,478,671</u>	<u>\$ 29,420,382</u>

Annual principal maturities for fiscal years 2022 through 2026 and beyond are as follows:

2022	\$ 1,096,640
2023	1,147,358
2024	1,157,184
2025	1,196,029
2026	1,202,207
Beyond	27,678,059

Under a restrictive covenant with CFC, the Cooperative must maintain a debt service coverage ratio of 1.35. Failure to meet the ratio would subject the Cooperative to CFC control over its ability to change its electrical service rates. During the years presented, the Cooperative met this restriction.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 11 – SHORT-TERM NOTES PAYABLE

At December 31, 2021, 2020 and 2019, the following amounts were owed on short-term notes:

	2021	2020	2019
A \$5,000,000 revolving line of credit payable to National Bank for Cooperatives (CoBank) with interest at 2.26%, 2.30% and 3.34% at December 31, 2021, 2020 and 2019, respectively.	\$ 2,050,000	\$ 2,700,000	\$ -
A \$500,000 revolving line of credit payable to the State Bank and Trust Company with interest at 3.25%, 3.25% and 4.25% at December 31, 2021, 2020 and 2019, respectively.	250,000	500,000	500,000
	<u>\$ 2,300,000</u>	<u>\$ 3,200,000</u>	<u>\$ 500,000</u>

The Cooperative has available short-term open lines of credit as follows:

- Remaining revolving line of credit with National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$5,000,000 at December 31, 2021, 2020 and 2019, with interest at 1% over prime, was available for draw.
- Remaining revolving line of credit with National Bank for Cooperatives (CoBank) in the amount of \$2,950,000, \$2,300,000 and \$5,000,000 at December 31, 2021, 2020 and 2019, respectively, with interest rates at 2.26% 2.30% and 3.34%, respectively, was available for draw.
- Remaining revolving line of credit with the State Bank and Trust Company in the amount of \$250,000, \$0 and \$0 at December 31, 2021, 2020 and 2019, with interest at 3.25%, 3.25% and 4.25%, respectively.
- Remaining revolving line of credit with Premier Bank in the amount of \$2,000,000 at December 31, 2021, 2020 and 2019, respectively, with interest rates at 2.75%, 2.75% and 4.25%, respectively, was available for draw.

Restrictive covenants:

- The line of credit with CFC requires an annual five day pay-down period in which the entire balance of the line must be repaid.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 12 - PENSION PLAN

Substantially all of the employees of the Cooperative are covered by the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. This is a defined benefit, multi-employer master pension plan that serves employees and former employees of those member cooperative systems which elect to participate in the program. Under the program, participating employees are entitled to receive, under a 50% joint and surviving spouse annuity, 1.5% of the average of their five highest base salaries during their last ten years of employment, multiplied by the number of years of participation in the program. For employees hired on or after January 1, 2010, age 62 must be attained prior to being eligible for benefits.

Narrative Description – The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145, and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed to one employer may be used to provide benefits to employees of other participating employers.

Plan Information – Paulding-Putnam Electric Cooperative, Inc.'s contributions to the RS Plan in 2021, 2020 and 2019 represented less than 5 percent of total contributions made to the plan by all participating employers. Paulding-Putnam Electric Cooperative, Inc. made contributions to the plan of \$374,457, \$489,768 and \$503,297 for 2021, 2020 and 2019, respectively. There have been no significant changes that affect the comparability of 2021, 2020 and 2019 contributions.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2021, 2020 and 2019 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 12 - PENSION PLAN (Continued)

RS Plan Prepayment Option – 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 RS Plan to make a contribution 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 RS 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 expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

The Cooperative also offers a 401(k) option savings plan to all eligible employees. The expenses related to this plan for the years ending December 31, 2021, 2020 and 2019 were \$139,746, \$129,445 and \$134,351, respectively.

Total Pension Plan Contributions	2021	2020	2019
RS Plan	\$ 374,457	\$ 489,768	\$ 503,297
401(K) Plan	139,746	129,445	134,351
	<u>\$ 514,203</u>	<u>\$ 619,213</u>	<u>\$ 637,648</u>

NOTE 13 - POST RETIREMENT BENEFITS

The Cooperative sponsors a defined benefit post-retirement health care plan that provides eligible employees, who retire at age 60 or older and having at least 10 years of service with the Cooperative, with medical, life, dental and vision benefits. Those with 30 years of service are also eligible for a sick leave conversion benefit. The plan is unfunded. The medical, life, dental and vision benefits are not available to employees hired after December 31, 2009.

See note 14 for disclosure regarding the sick leave plan.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 13 - POST RETIREMENT BENEFITS (Continued)

The liability recorded for post-retirement benefits is based on actuarial studies completed as of December 31, 2021 and 2020. If the assumptions used in the study have changed substantially, the balance sheet liability amounts could be significantly different. The cost method used in the most recent study was the Projected Unit Credit Cost Method as required by the provisions of FASB ASC 715-20 & 60.

The following table sets forth the plan's status at December 31, 2021, 2020 and 2019:

	2021	2020	2019
Accumulated post retirement obligation, beginning	\$ 403,916	\$ 423,083	\$ 403,429
Service cost - benefits attributed to service during the period	74,140	23,162	32,937
Post retirement benefit obligations paid - cash expense	(40,223)	(42,329)	(13,283)
Accumulated post retirement obligation, ending	<u>\$ 437,833</u>	<u>\$ 403,916</u>	<u>\$ 423,083</u>

Estimated Future Benefit Payments

2022	\$ 46,186
2023	39,574
2024	60,241
2025	46,614
2026	35,612
Years 2027-2031	113,056

For measurement purposes, a 3.30%, 3.20% and 3.45% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2021, 2020 and 2019, respectively. The health care cost trend rate assumption has a significant effect on the amount reported. To illustrate, increasing the assumed health care cost trend rate by 1% each year would increase the accumulated post retirement benefit obligation as of December 31, 2021 by \$40,218 and increase the aggregate of the service and interest cost components of net periodic post retirement benefit costs for the year then ended by \$2,624. Decreasing the assumed health care cost trend rate by 1% each year would decrease the accumulated post retirement benefit obligation as of December 31, 2021 by \$15,261 and decrease the aggregate of the service and interest cost components of net periodic post retirement benefit costs for the year then ended by \$1,533.

The weighted average discount rate used in determining the accumulated post retirement benefit obligation was 4.09%.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 14 - POST EMPLOYMENT SICK LEAVE BENEFIT

Under the Cooperative's retirement package, eligible employees can convert their unused accumulated sick time (up to 960 hours) into a lump-sum cash settlement. The estimated liability under this provision at December 31, 2021, 2020 and 2019 was \$688,247, \$640,482 and \$667,491, respectively, which was recorded on the balance sheet with accumulated provisions for pensions and benefits.

NOTE 15 - DEFERRED COMPENSATION ARRANGEMENT

The Cooperative entered into a deferred compensation agreement with its previous general manager. No contributions have been made during the financial statement periods. The agreement required the Cooperative to accumulate these funds in an investment vehicle for future draws by the beneficiary. These funds are listed as investments in mutual funds with a corresponding liability included in accumulated provision for pensions and benefits.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Cooperative purchases power from Buckeye Power, Inc., a cooperative in which Paulding-Putnam Electric Cooperative, Inc. is a member. Power purchased from Buckeye Power, Inc. was \$28,744,026 during the year ended December 31, 2021, \$25,807,680 during the year ended December 31, 2020 and \$25,455,375 during the year ended December 31, 2019. Amounts owed to Buckeye Power, Inc. for purchased power at December 31, 2021, 2020 and 2019 were \$2,226,805, \$2,237,264 and \$2,166,299, respectively. See note 6 for additional information regarding Buckeye Power, Inc.

The Cooperative borrows funds from the National Rural Utilities Cooperative Finance Corporation (CFC), of which it is an owner-member and an investor. See notes 6, 10 and 11 for additional information regarding CFC.

The Cooperative purchases material from United Utility Supply, of which it is an owner-member. See note 6 for additional information regarding United Utility Supply.

The Cooperative purchases its liability insurance from Federated Rural Electric Insurance Corporation. Paulding-Putnam Electric Cooperative, Inc. has invested \$1,250 for 10 shares of common stock of this corporation.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Under its wholesale power agreement, the Cooperative is obligated to purchase a substantial portion of its resale electric power from Buckeye Power, Inc. until December 31, 2057. The rates paid on these purchases are subject to review not less than annually. Effective in 2015, all of the Cooperative's wholesale power will be provided by a single supplier, Buckeye Power, Inc.

The Cooperative is in the ongoing process of a substantial upgrade to its power delivery system. See notes 10 and 11 for debt financing facilities that have been arranged to meet the capital needs of this work project.



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2021, 2020 and 2019

NOTE 18 - CONCENTRATIONS OF RISK

The Cooperative's only product is electricity and related services to consumers in northwest Ohio and northeast Indiana. Large changes in the demand for, or the pricing of, electric power could adversely affect financial results. In addition, legislative efforts to deregulate the electric utility industry could also adversely affect financial results.

NOTE 19 – RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which amends existing accounting standards for lease accounting. In general, the new standard requires lessees to recognize most leases on the balance sheet. The new standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Cooperative is currently evaluating the impact the new standard may have on its financial statements.

NOTE 20 – LITIGATION

The Cooperative is currently named in a legal action lawsuit stemming from a personal injury accident. The case is currently in the discovery phase. The Company has determined that it is not possible to predict the eventual outcome of the legal action but has determined that the resolution will not result in an adverse judgement that would materially affect the financial statements. Accordingly, the accompanying financial statements do not include any adjustments related to the legal action under FASB ASC 450, *Contingencies*.

NOTE 21 – COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing measures may impact subsequent periods. The Cooperative's investments and the investments of pension and other employee benefit plans in which the Cooperative participates fluctuate with market conditions, and due to market volatility, the amounts of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Cooperative's future operating revenues and expenses cannot be estimated.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Trustees
Of Paulding-Putnam Electric Cooperative, Inc.

We have audited the financial statements of Paulding-Putnam Electric Cooperative, Inc. as of and for the periods ending December 31, 2021, 2020 and 2019, and our report thereon dated March 4, 2022, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the following financial highlights pages for each of the fiscal periods since 2016, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the audit procedures applied in the auditing of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

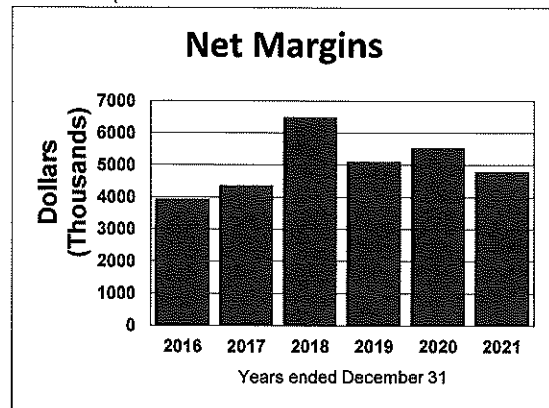
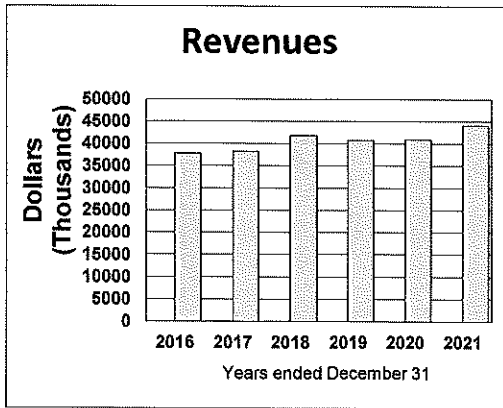
Bashore Reineck Stoller & Waterman

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

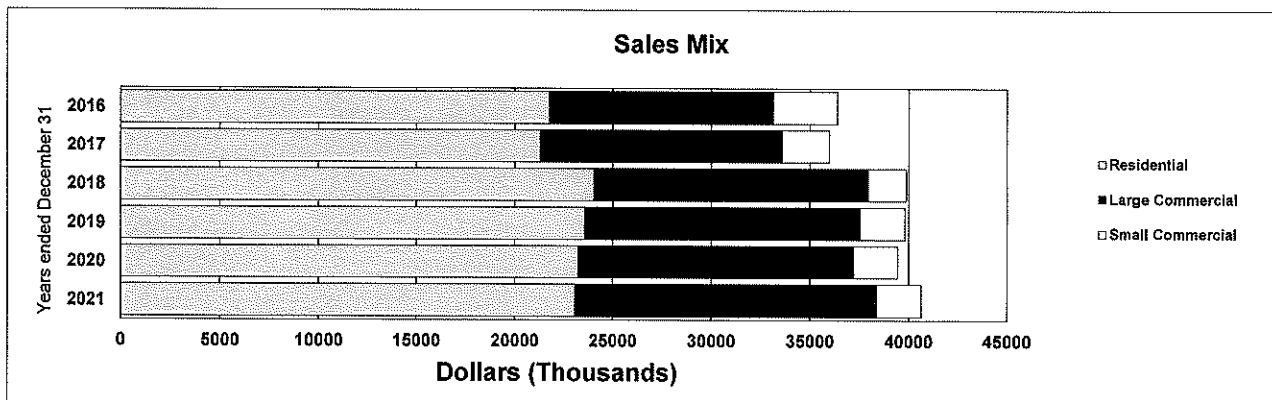
March 4, 2022



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
FINANCIAL HIGHLIGHTS
(UNAUDITED)



	2016	2017	2018	2019	2020	2021
Operating Revenue (in thousands)	\$37,729	\$38,178	\$41,830	\$40,672	\$40,882	\$44,069
Power Purchased (in thousands)	25,078	25,679	27,055	25,455	25,808	28,744
Gross Profit (in thousands)	<u>12,651</u>	<u>12,499</u>	<u>14,775</u>	<u>15,217</u>	<u>15,074</u>	<u>15,325</u>
Gross Profit Percentage	33.53%	32.74%	35.32%	37.41%	36.87%	34.78%
Distribution Costs as Percentage of Gross Profit	18.78%	17.73%	14.21%	17.01%	16.52%	17.08%
Customer Costs as Percentage of Gross Profit	8.20%	7.98%	7.58%	8.51%	6.59%	7.52%
General and Admin as Percentage of Gross Profit	11.47%	13.98%	12.94%	13.77%	11.60%	12.64%





PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
FINANCIAL HIGHLIGHTS
(UNAUDITED)

