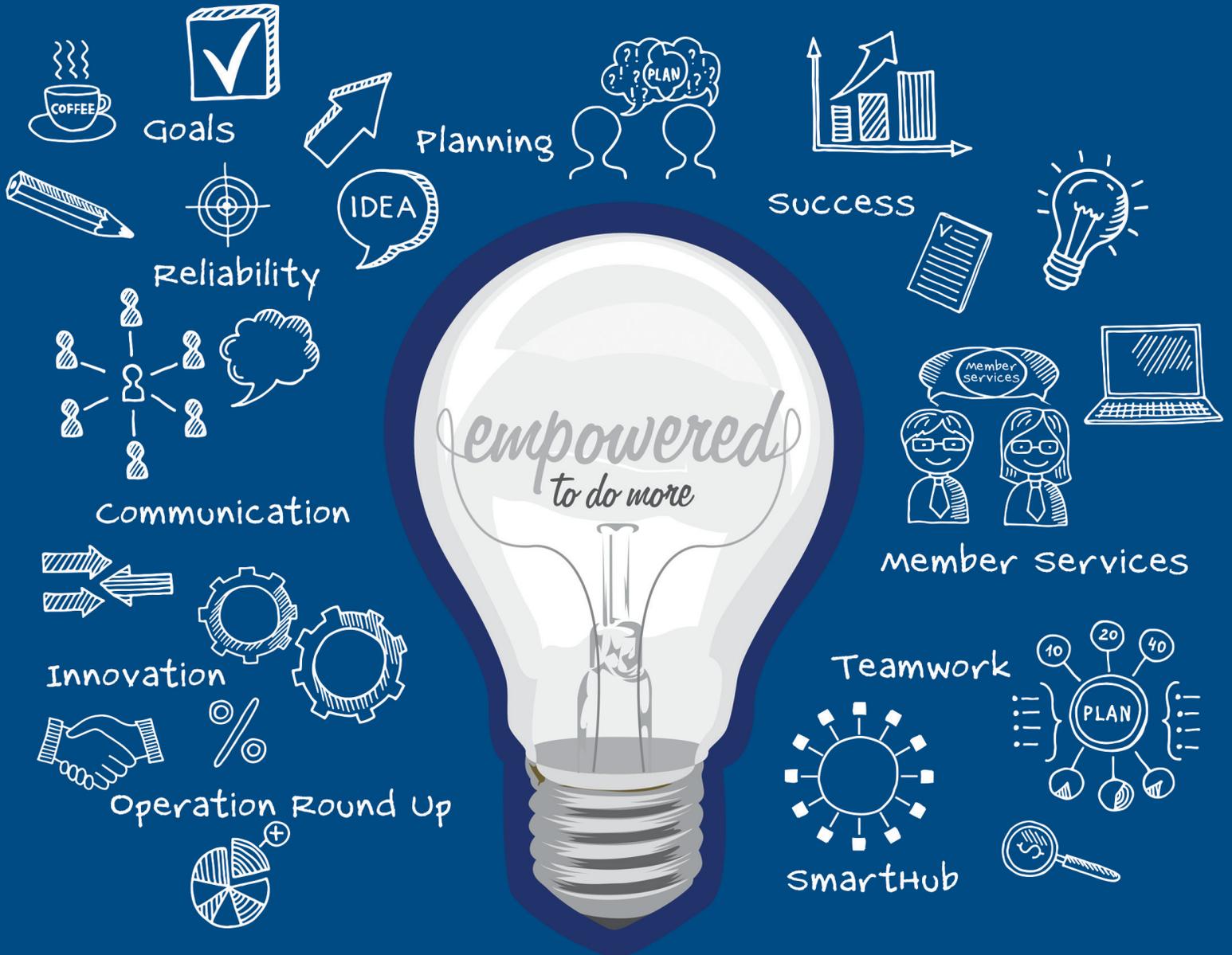


ANNUAL REPORT 2019



pa ulding putnam
ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative 



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

2019 ANNUAL REPORT TO THE MEMBERS

With the end of another calendar year, Paulding Putnam Electric Cooperative closes its books on a demanding 12 months. From merger discussions to pole replacements, the board and employees were challenged year-round. Just as your cooperative strives to be a high performer and bring you the highest quality electric service possible, our employees also continue to shine. Likewise, the board remains focused on setting strategic direction, despite continuous industry changes that never cease to tilt the playing field.

The year started with discussions with Midwest Electric Cooperative in St. Marys, Ohio, on the potential for merging the two cooperatives. After several meetings and in-depth conversations, the board of Midwest Electric chose not to pursue the merger. However, we do continue to share several employees, which lowers costs for both cooperatives.

In order to continually improve the cooperative, rates must sustain our growth. However, rate stability is very important to all of us as members. The cooperative last increased rates in March 2018, and no rate increase was implemented in 2019. In fact, overall rates declined, on average, slightly in 2019. Your cooperative is very sensitive to rate pressure; our goal is to ensure member rates are fair and reasonable.

There are two main reasons for rate stability at your cooperative: first is the fact that our wholesale power cost from Buckeye Power, our generation and transmission cooperative, has been stable; second is simply very strict budgeting at the co-op. Understanding costs helps the board and management better balance those costs. The accounting department at your cooperative takes the budget process seriously.

In comparison to our peers, our operating costs are nearly one-half that of our fellow cooperatives. Our total controllable costs rank us the lowest in Ohio. Our total controllable costs is 1.4 cents per kilowatt-hour, compared to the national average of 2.4 cents per kilowatt-hour. Controlling these costs is a high priority for our management team and employees.

“In comparison to our peers, our operating costs are nearly one-half that of our fellow cooperatives.”

Several years ago, nearly a billion dollars was invested in our Cardinal Generating Station to meet pollution control regulations from the Environmental Protection Agency. Those costs were passed on to all the Ohio electric cooperatives and eventually to their members. Those pollution control costs nearly doubled our wholesale power costs and greatly increased all our

electric bills. It was a painful transition. However, now we have one of the cleanest-burning coal power plants in the world, and our costs have been stabilized. Buckeye Power projects relatively flat power costs for the next couple years.

We have seen drastic increases in transmission costs over the past few years. In order to get the electricity from Cardinal to our local substations, we must utilize the regional transmission networks. The network transmission costs are regulated by the Federal Energy Regulatory Commission, or FERC. As many of you are aware, there has been a lot of transmission work completed locally. Also, with the closure of many coal plants in Ohio and Indiana, additional transmission lines must be constructed, or existing lines must be upgraded to move the power from plants in other areas. All these costs are then passed to the utilities (like your cooperative) that use the regional transmission system. This drives up the overall wholesale power cost, which all of us as members pay.

The cooperative continues to invest in our electric distribution system to improve your service and your service reliability. Historically, most of us were just concerned with the power being on. But today, we require more than that — power must be of a higher quality or “clean.”

Computers, cell phones, and the many other electric gadgets we all have require the electricity to be very clean and stable. Sensitive electronics require a very stable voltage as well, which demands a higher level of service reliability than the cooperative has ever provided. This means high-tech businesses, animal-rearing barns, dairy facilities, and many home businesses now require a higher level of electric service than ever before.

To face this head on, over the past year, the cooperative completed nearly 30 miles of electric line rebuilds. We also upgraded voltage regulators around the system to maintain voltage levels. We changed out old breakers called oil circuit reclosures (OCR) to a new vacuum reclosure to ensure better operations when there is a fault on the line.

In addition to this work, the cooperative continued to aggressively replace old, rotten poles. Every year, the cooperative tests approximately 10% of the poles on our system. This amounts to about 4,500 poles. Each year, we see a failure rate of between 200 and 500 poles. It is a struggle to keep up with these pole replacements, and our construction work plan budgets more than \$1 million dollars annually to do this work. In 2019, nearly 500 poles were identified for replacement. Almost half of these were

replaced prior to year-end, and the remainder will be completed in the first quarter of 2020.

We contracted for a new process (new to the cooperative, that is) this year called "trussing" to help on pole replacements. Some poles that are tested can be repaired without total replacement. This repair is a multi-step process that includes installing a steel truss and steel bands to restore the pole to original strength. This process has been used by utilities for many years and is fully approved by the Rural Utilities Service (formally the REA). We started a pilot program in 2019 and trussed more than 100 poles. It is our strong belief that trussing, in certain situations, will extend the life of the pole and drastically reduce the replacement cost.

"The cooperative continues to invest in our electric distribution system to improve your service and your power reliability."

The bottom line in all the work we do shows up in our service reliability. (In other words, the answer to the question: Is your power on?) This past year, we saw outages (excluding extreme storms) total 61 minutes per member. This is an outstanding number and places your cooperative in the top 25% of all cooperatives nationally. However, our total outage numbers, which include extreme storms, exceeded our goal of 100 minutes by 64 minutes. This means, on average, each member saw about 164 minutes of total outage time in 2019. We are disappointed to not meet our goal and will be working hard in the coming year to ensure all members enjoy the highest quality electric service.

As you all know, several years ago, we converted our old electrotechnical meters to electronic meters that provided meter readings back to the cooperative via the power line. This is known as a power line carrier system, or PLC. As with all the new electronic systems, they don't have the 30-year lifespan of the old mechanical equipment. In fact, today's electronics are projected to have a life cycle of only 10 to 15 years. Because of this, we have started on the next generation of metering. This next generation uses the same meter but without the PLC component; it now uses radio technology to communicate much more quickly.

As such, we will be installing a couple thousand meters each year over the next 5 to 7 years in order to completely change out our system. The new metering uses all the same internal software at our office, including the same basic integration with our billing system, so the change internally will

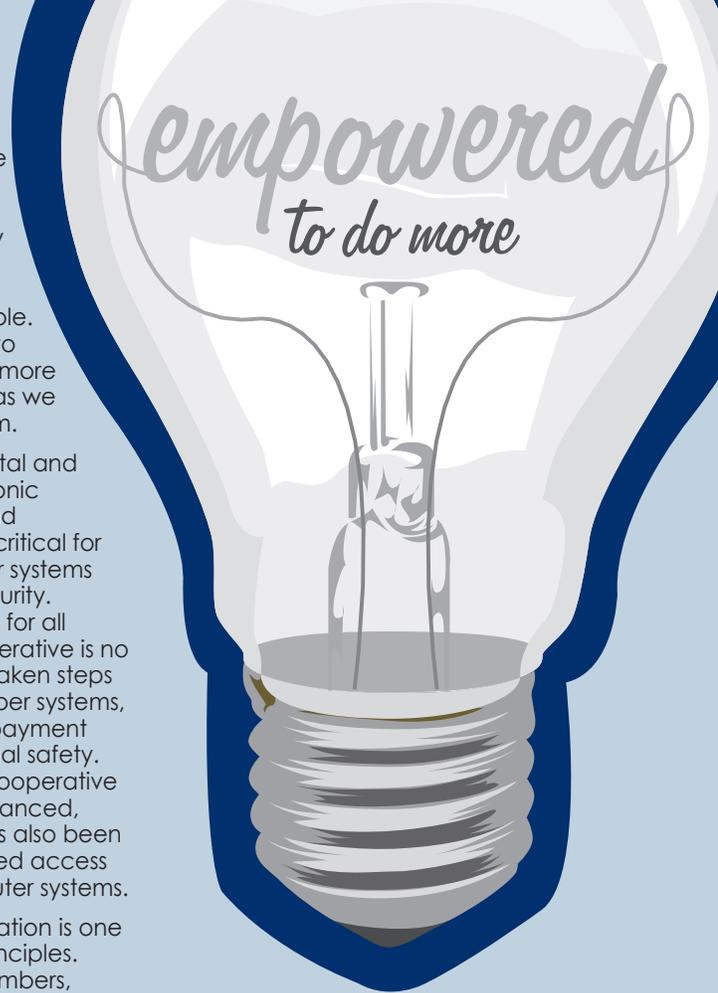
be minimal. One of the big benefits of the new metering is automatic outage notification. If the meter loses power, it sends a notice to the office. We can then verify the outage and begin the restoration processes much faster than is currently available. There are too many benefits to this newer system here to list; more information will be provided as we continue to deploy the system.

As more equipment goes digital and more members rely on electronic equipment for their homes and businesses, it becomes more critical for the cooperative to ensure our systems meet the highest levels of security. Cyber security is a major issue for all organizations, and your cooperative is no different. This year, we have taken steps to enhance security on member systems, including a new credit card payment process to ensure your financial safety. Further, cyber security of all cooperative systems has been greatly enhanced, and additional monitoring has also been added to prevent unauthorized access into the cooperative's computer systems.

Members' Economic Participation is one of the Seven Cooperative Principles. This means each of us, as members, contributes some form of equity into the cooperative. We all have a vested financial interest in the cooperative. This investment is called equity or capital credits. Since the cooperative operates on a not-for-profit basis, any funds left over at the end of the year are allocated back to the members who contributed them. These capital credits are used by the co-op as working capital to build electric lines, buy transformers and meters, and purchase other equipment to provide electric service. These credits are held in each member's name for a period of time (typically matching the life of equipment) until the board of trustees determines the cooperative is in a financial position to retire them back to the members. This is known as a Capital Credits Retirement.

"The cooperative is very proud of its capital credits retirement history; nearly \$24 million has been returned to the members."

In 2019, the cooperative had its largest retirement in history. In December, the cooperative board authorized a retirement of nearly \$2 million. Over \$1.5 million was divided out as a credit on the members' December bills; the remainder was sent to former members in the form of a check.



This retirement is tangible proof of your ownership in the cooperative. No other utilities have this type of model. The equity component that investor-owned utilities collect goes directly back to stockholders. In contrast, our equity investment is made right here in our service territory and is then retired back to you.

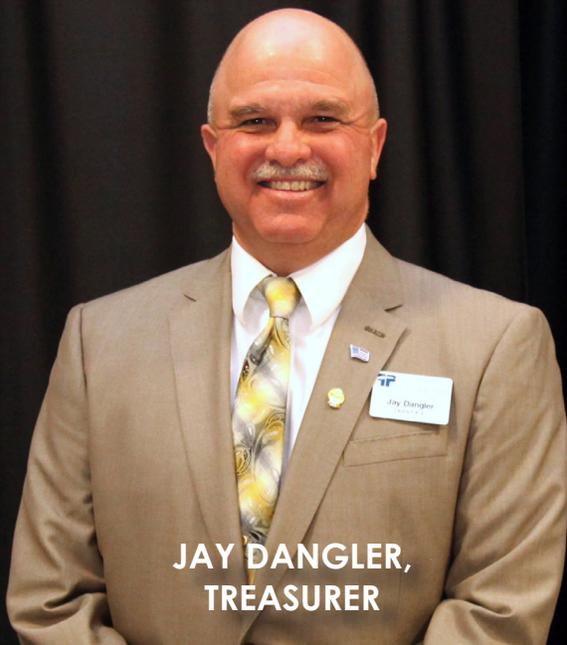
The cooperative is very proud of its capital credits retirement history; nearly \$24 million has been returned to the members.

Finally, as we close 2019, we want to thank our dedicated employees who work hard every day to ensure your service is the best it can be. Your cooperative operates with lower employee counts than our peers both in Ohio and Indiana. In fact, on average, Paulding Putnam has 10 fewer employees than other cooperatives our size. This keeps your costs down and shows the commitment and dedication of the employees serving you.

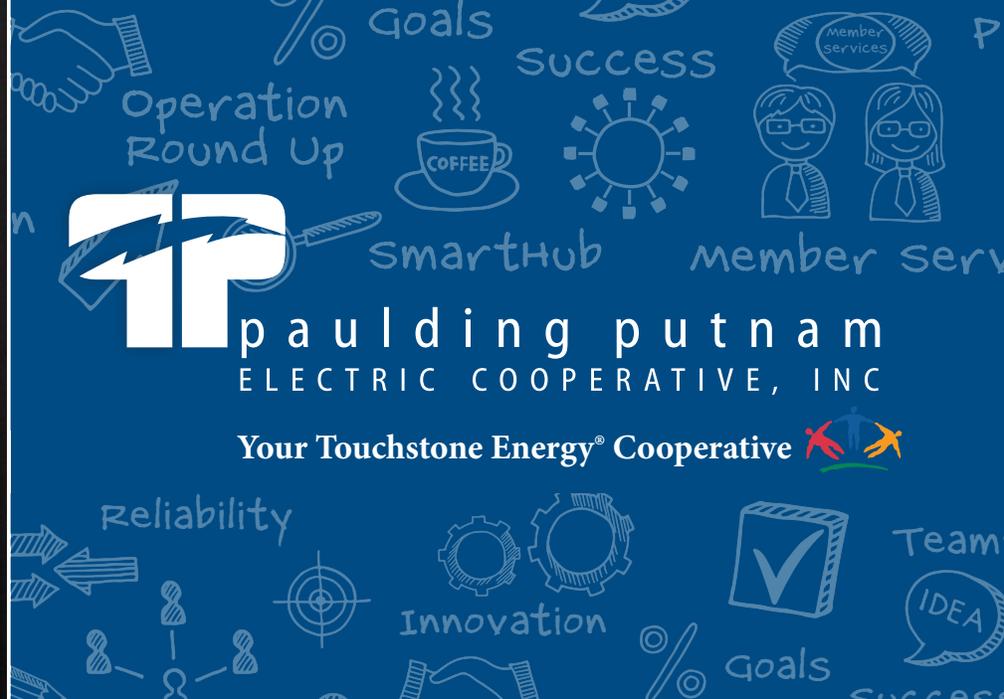
Thank you to each and every member for your commitment to the cooperative. We look forward to providing you with a high level of service in 2020 and beyond.

George Carter

GEORGE CARTER, PRESIDENT & CEO



**JAY DANGLER,
TREASURER**



2019 TREASURER'S REPORT

Paulding Putnam Electric Cooperative earned just over \$5.1 million in total margins for the year. This exceeded budget expectations by \$1 million but was lower than the prior year by \$1.3 million. The main driver for the difference was lower overall sales of energy. Kilowatt-hour sales declined in 2019 by over 2.4%; this resulted in lower revenues and lower margins.

The decrease in sales is mainly due to weather. The cooperative continues to be a winter peaking system, and mild winter temperatures reduce energy sales. Also, member growth remains flat at less than one-half of one percent annually.

The cooperative did not have a rate increase in 2019. Coupled with a flat wholesale power cost (from Buckeye Power), overall member rates declined slightly in 2019. Wholesale power costs are the largest expense and represent 68% of the cooperative's total cost to serve members.

Members' equity in the cooperative increased in 2019 to just over 64% (from 63%). This represents the members' ownership, or capital credits. This ownership is known as the Cooperative Principle of Members' Economic Participation. All of us contribute equity into the cooperative to fund electric plant growth (new poles, wires, substations, etc.). By contributing this equity, the co-op requires less long-term debt to fund investment in plant. It is a difficult balance to ensure that equity or debit isn't too high. Your cooperative works hard to be sure members are treated fairly and rates are balanced.

The cooperative is proud that we can return this member investment annually through our capital credits retirement. In December of 2019, the members saw the largest retirement in co-op history — nearly \$2 million was returned to the membership. This included over \$1.1 million applied directly to member bills in December. This capital credits retirement is your tangible proof of ownership in your cooperative.

Overall cooperative expenses were above the prior year and over budget. This is due mainly to our line maintenance program, where we are proactive in repairing and replacing older equipment before it fails and causes an outage.

This right-of-way management program has been revised in the past couple years to include more tree removal and mowing of the right-of-way. We have reduced the time it takes to cover the entire system from nearly 5 years to 3. This reduction will save the cooperative between \$300,000 and \$500,000 annually, while improving the system and reducing member outages.

Plant investment continues to be a high priority. The cooperative invested over \$5.6 million in new poles, wires, and equipment to rebuild existing lines serving your homes and businesses. This investment is our investment in the membership and the future of the cooperative. We have and will continue to address the oldest facilities and areas where outages are higher. We also focus on areas where we can connect neighboring substations. This allows us to transfer power between substations during outages, thus reducing overall outage time to the members.

Overall, I am very pleased to report on the financial strength of the

cooperative. Your cooperative remains resilient and able to meet the future needs of its members. The accounting firm of Bashore, Reineck, Stoller and Waterman, CPAs (BRSW) has audited the financial records of the cooperative as of December 31, 2019, and issued a "clean" or unqualified opinion of the financial statements. The audited financial statements may be reviewed at the office during normal business hours.

Jay Dangler

Jay Dangler, Treasurer



PAULDING PUTNAM ELECTRIC COOPERATIVE, INC.

Balance Sheet

UNAUDITED

For the year ending Dec. 31, 2019

Assets

Plant property and investments:	
Total plant	\$ 97,572,018
Construction work in progress	\$ 1,864,673
Accumulated depreciation	\$ (24,488,063)
Net plant	\$ 74,948,628
Investments:	
Invest. In assoc. Org. - Patronage capital	\$ 17,929,946
Associated organizations	\$ 2,389,861
Total plant and investments	\$ 95,268,435
Current assets and debits:	
Cash	\$ 1,274,733
Temporary investments/special deposits	\$ 2,514,186
Receivables	\$ 2,416,769
Merchandise inventory	\$ 500,915
Other current assets	\$ 390,092
Total current assets and debits	\$ 7,096,695
Deferred debits	\$ 278,563
Total assets and debits	\$ 102,643,693
Liabilities and equity	
Current liabilities and credits:	
Accounts payable	\$ 3,386,312
Short-term notes payable	\$ 500,000
Consumer deposits	\$ 205,785
Other and accrued	\$ 2,005,619
Total current liabilities and credits	\$ 6,097,716
Noncurrent liabilities and credits:	
Long-term debt	\$ 30,317,680
Deferred liabilities and credits	\$ 423,083
Total liabilities and credits	\$ 36,838,479
Equity:	
Operating margins prior/other	\$ 6,358,467
Memberships	\$ 69,053
Patronage capital	\$ 59,377,694
Total equity	\$ 65,805,214
Total liability and equity	\$ 102,643,693

Statement of Operations

UNAUDITED

For the year ending Dec. 31, 2019

Revenue:	
Sales of electricity	\$ 40,671,604
Interest income	\$ 172,741
Other income	\$ 1,622
Capital credits	\$ 1,347,351
Total revenue	\$ 42,193,318
Expenses:	
Cost of purchased electric	\$ 25,455,375
Cost of maintenance on lines, poles, rights-of-way, etc	\$ 2,588,202
Cost of billing and consumer records	\$ 656,177
Cost of member services	\$ 638,324
Cost of administration and office operations	\$ 2,096,357
Depreciation expense	\$ 3,175,426
Business taxes	\$ 1,164,758
Interest on long-term debt	\$ 1,310,573
Interest on current debt	\$ 7,244
Total expenses	\$ 37,092,436
Net patronage capital or margins	\$ 5,100,882

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.





PAULDING PUTNAM ELECTRIC CO-OP

2019 Official Annual Meeting Minutes — March 16, 2019

The 82nd annual meeting was held at the Paulding Putnam Electric Cooperative Inc. headquarters building in Paulding, Ohio. Dr. John Saxton, board chairman, called the meeting to order at 10 a.m. Chairman Saxton led the membership in the Pledge of Allegiance. The national anthem was played, and Peter Niagu, energy advisor, offered the invocation.

Chairman Saxton noted the meeting notice had been mailed to all members on Feb. 22, 2019, and Feb. 28, 2019, and this notice contained the meeting agenda. He asked if there were any objections to him dispensing with the reading of the notice or if there were any changes to the meeting agenda; there were no objections, and the agenda would stand as approved.

Chairman Saxton noted the minutes to the meeting held on March 17, 2018, had been mailed to all members in the recent issue of *Ohio Cooperative Living* and *Electric Consumer* magazines and were included in the materials provided. He asked if there were any objections to him dispensing with the reading of the minutes or if there were any changes to the minutes; there were no objections and the minutes would stand as approved.

Mr. Dangler gave the treasurer's report. He stated that his written report appeared in the handout and a financial report was printed. He further stated that the audited financial report was completed by the local firm of Bashore, Reineck, Stoller & Waterman. Mr. Dangler stated that results of the audit had not been released prior to this meeting of the members.

Chairman Saxton and Mr. George Carter, president and CEO, combined the chairman and CEO reports this year.

The focus on this year's annual reports were dedicated to the seven cooperative principles and the importance each one of them have on the membership. Mr. Steve Kahle, engineering manager, was also recognized for completing the Management Internship Program (MIP).

Scholarship winners were announced:

At-large	Derek Luersman	Fort Jennings H.S.	\$600
Third place	Adam Butzin	Antwerp H.S.	\$600
	Elizabeth Westrick	Miller City H.S.	\$600
Second place	Grant Laudick	Kalida H.S.	\$800
	Lindsey Schnegg	Ottawa Glandorf H.S.	\$800
First place	Christian Nartker	Kalida H.S.	\$1,000
	Alli Hefner	Wayne Trace H.S.	\$1,000

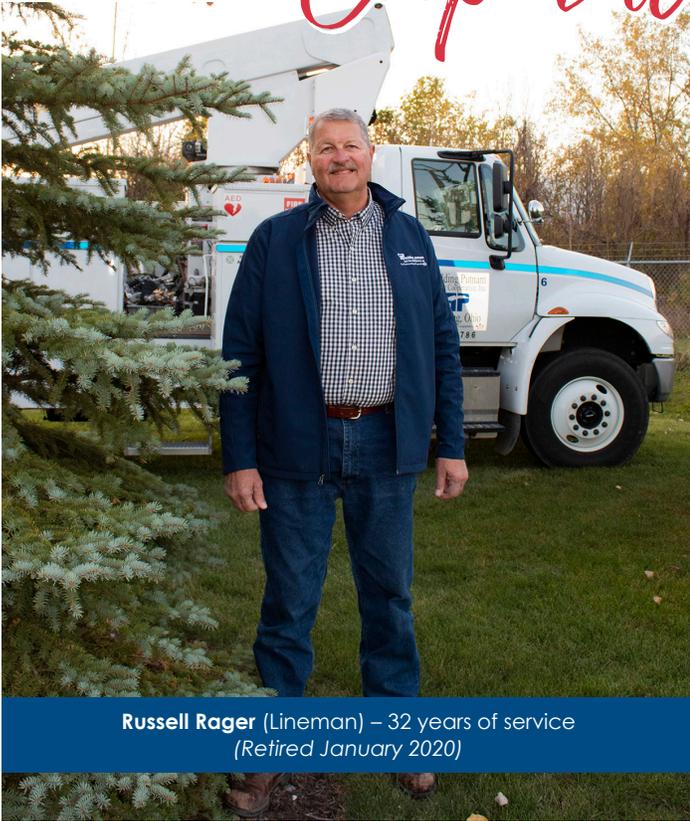
Madelyn Lamb from Crestview H.S. and Adrienne Rosswurm from Payne (homeschool) represented Paulding Putnam Electric Cooperative Inc. on the National Cooperative Youth Tour and spoke about their 2018 experiences in Washington, D.C. The 2019 Youth Tour attendee was announced:

Emma Crosby Wayne Trace H.S.

Mr. George Carter was called upon to present the trustee election results. Three districts (2, 4, and 5) were up for election: trustees William Dowler (District 2), Jay Dangler (District 4), and Steven McMichael (District 5) were re-elected by affirmation. Attorney Norm Cook then administered the oath of office to all trustees.

There being no further business to come before the meeting, Chairman Saxton declared the meeting adjourned.

Cooperative News



Russell Rager (Lineman) – 32 years of service
(Retired January 2020)



Jeff Ferris (Lineman) – 31 years of service
(Retired July 2019)

AVERAGE COST OF DAILY ELECTRICITY IS 6 DOLLARS THAT'S LESS THAN THE COST OF HIGH-END HAIRSPRAY.

Now That's Value!

Paulding Putnam Electric Cooperative, Inc.
Your Touchstone Energy Cooperative

Member Service Representative Amy McCreery

AVERAGE COST OF DAILY ELECTRICITY IS 6 DOLLARS THAT'S LESS THAN THE COST OF A STEAK DINNER.

NOW THAT'S VALUE!

Paulding Putnam Electric Cooperative, Inc.
Your Touchstone Energy Cooperative

Lineman Terry Minic

On your drive here, did you notice our local billboard campaign featuring employees Terry Minic (Lineman) and Amy McCreery (Member Service Representative)? If not, check out our campaign above. Electricity is essential to our everyday lives. It has become so reliable that we rarely even think about it. It powers computers, TVs, smartphones and the other technologies that are changing the way we connect with the world. It's more than electricity. It's a powerful value in your life each and every day. And sometimes, we forget how affordable that power is. For \$6 dollars a day, you can stay connected with the world and have the quality of life your family needs and deserves in your home.



AGENDA

Each membership in attendance will receive a \$5 bill credit.

Registration

Starts at 9 a.m.

Call to Order, Minutes, Meeting Notice and Proof of Publication

Dr. John Saxton

Treasurer's Report

Jay Dangler

Chairman and President's Report

Dr. John Saxton and George Carter

Scholarship and Youth Tour Announcement

Renee Boss

Trustee Election Results and Oath of Office

George Carter/Norman Cook

Adjournment

Dr. John Saxton

Door Prizes; Lunch to Follow

Erika Willitzer



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ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative 