



Bashore Reineck Stoller & Waterman Inc
Certified Public Accountants

PROVIDING TAX, ACCOUNTING AND ADVISORY SERVICES TO ENABLE SUCCESS.

To the Board of Directors, George Carter, and Annette Schreiner
Paulding-Putnam Electric Cooperative, Inc.
401 McDonald Pike
Paulding, Ohio 45879

In planning and performing our audit of the financial statements of Paulding-Putnam Electric Cooperative, Inc. as of and for the year ending December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Paulding-Putnam Electric Cooperative, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the board of directors, and others within the Company, and is not intended to be, and should not be, used by anyone other than these specified parties.

Bashore Reineck Stoller & Waterman Inc

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

March 5, 2021



Bashore Reineck Stoller & Waterman Inc
Certified Public Accountants

March 5, 2021

PROVIDING TAX, ACCOUNTING AND ADVISORY SERVICES TO ENABLE SUCCESS.

To the Board of Directors
Paulding-Putnam Electric Cooperative, Inc.
401 McDonald Pike
Paulding, Ohio 45879

We have audited the financial statements of Paulding-Putnam Electric Cooperative, Inc. for the year ended December 31, 2020, and have issued our report thereon dated March 5, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated August 13, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Paulding-Putnam Electric Cooperative, Inc. are described in Note 1 to the financial statements. As described in Note 1, the Cooperative changed accounting policies related to revenue recognition by adopting FASB Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* in 2019. Also as described in Note 5, the Cooperative adopted FASB Accounting Standards Update 2016-01 *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Accordingly, the accounting changes have been retrospectively applied to prior periods presented as if the policies had always been used. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Amortization period of the NRECA pension plan pre-payment asset
- Post-retirement benefits obligations

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- Disclosure regarding post-retirement benefits obligations

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes both corrected and uncorrected misstatements of the financial statements. Management has determined that none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 5, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

This information is intended solely for the use of the Board of Directors and management of Paulding-Putnam Electric Cooperative, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bashore Reineck Stoller".

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

Paulding-Putnam Electric Cooperative, Inc.

Summary of Audit Differences

For the Year Ended December 31, 2020

<u>Misstatements Corrected with Adjusting Entries</u>	Over/ (Under) Stated Assets	Over/ (Under) Stated Liabilities	Over/ (Under) Stated Work Capital	Over/ (Under) Stated Equity	Over/ (Under) Stated Income	<u>Cause of Misstatement</u>
NONE FOR 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Misstatements Not Corrected</u>						
Payroll bank account	73,409	73,409	-	-	-	Bank distributed payroll on 12-31-2020
Inventory-materials	(7,765)	-	(7,765)	(7,765)	(7,765)	Projected inventory counting errors (7 test counts)
Inventory-fuel	(1,447)	-	(1,447)	(1,447)	(1,447)	Estimated fuel inventory error
Accounts payable	-	(240)	240	240	240	Unrecorded payables
Accrued property taxes	-	28,044	(28,044)	(28,044)	(28,044)	Estimated accrued property tax error
Accrued interest	-	(4,670)	4,670	4,670	4,670	Co-Bank interest not accrued
Accrued payroll		(914)	914	914	914	Accrued payroll difference
	<u>\$ 64,197</u>	<u>\$ 95,629</u>	<u>\$ (31,432)</u>	<u>\$ (31,432)</u>	<u>\$ (31,432)</u>	



Bashore Reineck Stoller & Waterman Inc
Certified Public Accountants

PROVIDING TAX, ACCOUNTING AND ADVISORY SERVICES TO ENABLE SUCCESS.

**INDEPENDENT AUDITORS' REPORT ON CFC MORTGAGE LOAN AGREEMENT
COMPLIANCE**

Board of Directors
Paulding-Putnam Electric Cooperative, Inc.
401 McDonald Pike
Paulding, Ohio 45879

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Paulding-Putnam Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of income, members' equity and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated March 5, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that Paulding-Putnam Electric Cooperative, Inc. failed to comply with the terms, covenants, provisions, or conditions of the Mortgage Loan Agreement with The National Rural Utilities Cooperative Finance Corporation (CFC), related to expenditure of loan proceeds. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of Paulding-Putnam Electric Cooperative, Inc. and CFC and is not intended to be and should not be used by anyone other than those specified parties.

Bashore Reineck Stoller & Waterman Inc

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

March 5, 2021

PAULDING-PUTNAM ELECTRIC
COOPERATIVE, INC.

DECEMBER 31, 2020

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Statements of Revenues and Expenses	2
Balance Sheets	3-4
Statements of Members' Equity, Patronage Capital and Other Equities	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-21
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Supplemental Information	22
Financial Highlights	23-24

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Paulding-Putnam Electric Cooperative, Inc.
Paulding, Ohio 45879

We have audited the accompanying financial statements of Paulding-Putnam Electric Cooperative, Inc. (a nonprofit organization), which comprises the balance sheets as of December 31, 2020, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding-Putnam Electric Cooperative, Inc. as of December 31, 2020, 2019 and 2018, 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.

Bashore Reineck Stoller & Waterman Inc.

BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

March 5, 2021

PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31, 2020, 2019 and 2018

	2020	2019	2018
Operating Revenues	<u>\$ 40,881,652</u>	<u>\$ 40,671,604</u>	<u>\$ 41,829,649</u>
Operating Expenses			
Cost of power purchased	25,807,680	25,455,375	27,054,910
Distribution - operation	550,057	544,018	465,038
Distribution - maintenance	1,939,521	2,044,184	1,633,826
Consumer accounts	478,875	656,177	557,811
Customer service and information	514,114	638,324	562,101
Administrative and general	1,748,294	2,094,612	1,912,574
Depreciation and amortization	3,296,921	3,175,426	3,076,482
Taxes	1,237,540	1,164,758	1,150,891
Total operating expenses	<u>35,573,002</u>	<u>35,772,874</u>	<u>36,413,633</u>
Net operating margin	<u>5,308,650</u>	<u>4,898,730</u>	<u>5,416,016</u>
Other Revenue and Expenses			
Patronage capital from generation cooperatives	1,311,938	1,199,275	2,046,919
Patronage capital from other cooperatives	132,454	145,991	162,054
Interest income	85,312	172,741	149,509
Other non-operating income (expenses)	12,568	1,543	(2,556)
Gain (Loss) on disposal of assets	14,500	(116)	(11,105)
Total other revenue and expenses	<u>1,556,772</u>	<u>1,519,434</u>	<u>2,344,821</u>
Net margins before interest charges	<u>6,865,422</u>	<u>6,418,164</u>	<u>7,760,837</u>
Interest Charges			
Interest on long-term debt	1,289,827	1,310,573	1,225,714
Other interest	49,483	5,049	56,656
Total interest charges	<u>1,339,310</u>	<u>1,315,622</u>	<u>1,282,370</u>
Net Margins	<u>\$ 5,526,112</u>	<u>\$ 5,102,542</u>	<u>\$ 6,478,467</u>

The accompanying notes are an integral part of these financial statements

(2)



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2020, 2019 and 2018

ASSETS			
	2020	2019	2018
Electric Plant			
Distribution plant	\$ 92,110,232	\$ 85,071,469	\$ 80,919,800
General plant	12,835,684	12,500,549	12,360,141
Construction work in progress	1,193,384	2,075,533	1,157,151
	<u>106,139,300</u>	<u>99,647,551</u>	<u>94,437,092</u>
Less accumulated depreciation	24,504,891	24,698,923	25,603,454
Net electric plant	<u>81,634,409</u>	<u>74,948,628</u>	<u>68,833,638</u>
Other Assets and Investments			
Investments in mutual funds	52,955	82,291	85,926
Investments in associated organizations	20,740,345	20,319,722	19,697,594
Total other assets and investments	<u>20,793,300</u>	<u>20,402,013</u>	<u>19,783,520</u>
Current Assets			
Cash and cash equivalents	1,338,700	1,274,733	3,059,095
Investment in commercial paper	1,622,275	2,514,186	3,137,832
Accounts receivable (net of allowance for uncollectible accounts of \$10,915, \$31,658 and \$5,902, respectively)	1,971,284	2,520,396	2,722,861
Miscellaneous receivables	34,533	-	-
Interest receivable	9,426	9,473	9,473
Materials and supplies	416,262	500,915	489,105
Prepaid RS payment	115,586	115,586	115,586
Prepaid and other	164,737	169,532	164,864
Total current assets	<u>5,672,803</u>	<u>7,104,821</u>	<u>9,698,816</u>
Deferred Debits	<u>157,285</u>	<u>278,563</u>	<u>399,841</u>
Total Assets	<u>\$ 108,257,797</u>	<u>\$ 102,734,025</u>	<u>\$ 98,715,815</u>

The accompanying notes are an integral part of these financial statements

(3)



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2020, 2019 and 2018

CAPITALIZATION AND LIABILITIES

	2020	2019	2018
Capitalization			
Equities			
Memberships	\$ 67,053	\$ 69,053	\$ 71,313
Patronage capital	67,842,475	64,480,236	61,149,210
Other equities	948,070	826,344	708,495
Donated capital	467,518	431,242	333,200
Total equities	<u>69,325,116</u>	<u>65,806,875</u>	<u>62,262,218</u>
Long-term Debt			
Mortgage notes, net of current installments	<u>28,478,671</u>	<u>29,420,382</u>	<u>29,604,539</u>
Total capitalization	<u>97,803,787</u>	<u>95,227,257</u>	<u>91,866,757</u>
Other Non-current Liabilities			
Accumulated provision for pensions and benefits	<u>1,097,354</u>	<u>1,172,865</u>	<u>1,025,799</u>
Current Liabilities			
Current installments of mortgage notes	941,188	897,298	880,016
Short-term notes payable	3,200,000	500,000	-
Overcollected wholesale power cost adjustment	48,410	271,734	358,640
Accounts payable - purchased power	2,237,264	2,166,299	2,206,833
Accounts payable - other	1,489,164	1,036,028	1,007,732
Operation Roundup payable	4,505	4,418	4,373
Consumer deposits	184,025	205,785	215,935
Accrued payroll and vacations	119,780	169,644	112,086
Accrued taxes and insurance	1,118,718	1,069,574	1,025,918
Accrued interest	13,602	13,123	11,726
Total current liabilities	<u>9,356,656</u>	<u>6,333,903</u>	<u>5,823,259</u>
Total Capitalization and Liabilities	<u>\$ 108,257,797</u>	<u>\$ 102,734,025</u>	<u>\$ 98,715,815</u>

The accompanying notes are an integral part of these financial statements

(4)



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF MEMBERS' EQUITY, PATRONAGE CAPITAL AND OTHER EQUITIES
December 31, 2020, 2019 and 2018

	Membership	Patronage Capital Assigned	Patronage Capital Assignable	Donated Capital and Other Equities	Total Equities
Balances at December 31, 2017	<u>\$ 73,743</u>	<u>\$ 56,640,081</u>	<u>\$ -</u>	<u>\$ 890,529</u>	<u>\$ 57,604,353</u>
Memberships issued	-				-
Memberships redeemed	(2,430)				(2,430)
Net margins			6,478,467		6,478,467
Patronage capital assigned		6,478,467	(6,478,467)		-
Patronage capital paid		(1,969,338)		(48,394)	(2,017,732)
Other				199,560	199,560
Balances at December 31, 2018	<u>\$ 71,313</u>	<u>\$ 61,149,210</u>	<u>\$ -</u>	<u>\$ 1,041,695</u>	<u>\$ 62,262,218</u>
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	<u>\$ 69,053</u>	<u>\$ 64,480,236</u>	<u>\$ -</u>	<u>\$ 1,257,586</u>	<u>\$ 65,806,875</u>
Memberships issued	-				-
Memberships redeemed	(2,000)				(2,000)
Net margins			5,562,112		5,562,112
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	<u>\$ 67,053</u>	<u>\$ 67,842,475</u>	<u>\$ -</u>	<u>\$ 1,415,588</u>	<u>\$ 69,325,116</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, 2020, 2019 and 2018

	2020	2019	2018
Cash Flows from Operating Activities			
Cash received from customers	\$ 39,961,848	\$ 39,741,074	\$ 40,411,518
Cash paid for purchased power	(25,960,039)	(25,582,815)	(26,952,365)
Cash paid to other suppliers and employees	(6,398,972)	(7,025,887)	(5,946,267)
Interest received	85,359	172,741	149,509
Interest paid	(1,338,831)	(1,314,225)	(1,281,362)
Net cash provided by operating activities	<u>6,349,365</u>	<u>5,990,888</u>	<u>6,381,033</u>
Cash Flows from Investing Activities			
Construction and acquisition of property and plant	(9,586,826)	(9,076,750)	(5,738,673)
Sale of property	14,500	(116)	(11,105)
Redemption (Purchase) of commercial paper	891,911	623,646	(866,114)
Investments in associated organizations	(20,589)	(6,823)	(13,124)
Redemption of capital credits by associated organizations	1,055,285	750,738	611,005
Net cash used by investing activities	<u>(7,645,719)</u>	<u>(7,709,305)</u>	<u>(6,018,011)</u>
Cash Flows from Financing Activities			
Proceeds from short-term debt	3,500,000	500,000	-
Payments on short-term debt	(800,000)	-	(1,952,840)
Memberships redeemed	(2,000)	(2,260)	(2,430)
Proceeds from long-term debt	-	714,345	5,237,863
Principal payments on long-term debt	(897,822)	(881,220)	(1,614,505)
Patronage capital credits retired	(439,857)	(396,810)	(382,395)
Net cash provided (used) by financing activities	<u>1,360,321</u>	<u>(65,945)</u>	<u>1,285,693</u>
Increase (Decrease) in Cash	63,967	(1,784,362)	1,648,715
Cash at Beginning of Year	<u>1,274,733</u>	<u>3,059,095</u>	<u>1,410,380</u>
Cash at End of Year	<u>\$ 1,338,700</u>	<u>\$ 1,274,733</u>	<u>\$ 3,059,095</u>

The accompanying notes are an integral part of these financial statements

(6)



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020, 2019 and 2018

RECONCILIATION OF NET MARGINS TO NET CASH
FLOWS FROM OPERATING ACTIVITIES

	2020	2019	2018
Net Margins	\$ 5,526,112	\$ 5,102,542	\$ 6,478,467
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:			
Capital credit redemptions applied to open accounts	(1,522,841)	(1,136,454)	(1,416,097)
Depreciation and amortization	3,296,921	3,175,426	3,076,482
Capital credits (non cash)			
Power generation cooperatives	(1,311,938)	(1,199,275)	(2,046,919)
Others	(132,454)	(145,991)	(162,054)
(Gain) Loss on sale of assets	(14,500)	116	11,105
(Increase) Decrease In:			
Consumer and other accounts receivable	514,579	202,465	(39,776)
Material inventory	84,653	(11,810)	18,399
Other current and deferred assets	126,119	116,610	71,469
Increase (Decrease) In:			
Accounts payable (operating items only)	(119,861)	(352,313)	342,282
Other current and accrued liabilities	(97,425)	239,572	47,675
Net Cash Provided by Operating Activities	<u>\$ 6,349,365</u>	<u>\$ 5,990,888</u>	<u>\$ 6,381,033</u>

NON-CASH INVESTING AND FINANCING ACTIVITIES

Patronage capital credits were retired via credit to consumer electric bills. The amounts credited were \$1,522,841, \$1,136,454 and \$1,416,097 for 2020, 2019 and 2018, respectively.

The accompanying notes are an integral part of these financial statements

(7)



PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020, 2019 and 2018. There are no contract assets and liabilities from contracts with consumers as of December 31, 2020, 2019 and 2018.

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, 2020, 2019 and 2018

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 2020, 2019 and 2018.

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 \$32,980, \$32,108 and \$30,541 for 2020, 2019 and 2018, 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, 2020, 2019 and 2018

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, 2020, 2019 and 2018 in the amounts of \$1,263,792, \$1,140,378 and \$2,919,898, 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, 2020, 2019 and 2018

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

Subsequent Events - The date to which events occurring after December 31, 2020, the date of the most recent balance sheets, have been evaluated for possible adjustments to the financial statements or disclosure is March 5, 2021, 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:	2020	2019	2018
	<u>\$ 562</u>	<u>\$ 10,854</u>	<u>\$ 5,886</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, 2020, 2019 and 2018:

	2020	2019	2018
Distribution Plant			
Land and land rights	\$ 443,188	\$ 443,188	\$ 443,188
Substation equipment	15,234,557	13,321,674	13,074,504
Poles, towers and fixtures	26,207,883	24,778,837	23,984,131
Conductors and transformers	38,810,345	35,619,403	33,056,394
Service and meters	10,234,347	10,119,584	9,710,720
Protective lights	1,179,912	788,783	650,863
Total distribution plant	<u>92,110,232</u>	<u>85,071,469</u>	<u>80,919,800</u>
General Plant			
Land and land rights	1,780	1,780	1,780
Structures and improvements	6,975,453	6,812,975	6,751,401
Office furniture and equipment	1,037,222	946,944	871,937
Transportation equipment	1,437,845	1,445,081	1,445,081
Other equipment	3,383,384	3,293,769	3,289,942
Total general plant	<u>12,835,684</u>	<u>12,500,549</u>	<u>12,360,141</u>
Construction in Progress	<u>1,193,384</u>	<u>2,075,533</u>	<u>1,157,151</u>
Total electric plant	<u>\$ 106,139,300</u>	<u>\$ 99,647,551</u>	<u>\$ 94,437,092</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, 2020, 2019 and 2018

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, 2020, 2019 and 2018

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

	12/31/2020		12/31/2019		12/31/2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,338,700	\$ 1,338,700	\$ 1,274,733	\$ 1,274,733	\$ 3,059,095	\$ 3,059,095
Commercial paper	1,622,275	1,622,275	2,514,186	2,514,186	3,137,832	3,137,832
Long-term investments						
Mutual funds	52,955	52,955	82,291	82,291	85,926	85,926
Associated organizations (other cooperatives)	20,740,345	-	20,319,722	-	19,697,594	-
Short-term debt	3,200,000	3,200,000	500,000	500,000	-	-
Long-term debt	29,419,859	29,419,859	30,317,680	30,317,680	30,484,555	30,484,555

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, 2020, 2019 and 2018

NOTE 6- INVESTMENT IN ASSOCIATED ORGANIZATIONS

Investments in Associated Organizations consisted of the following at December 31, 2020, 2019 and 2018:

	2020	2019	2018
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	608,632	608,632
Patronage Capital - Buckeye Power, Inc.	15,747,806	15,343,172	14,762,630
Patronage Capital - Wabash Valley Power Association, Inc.	1,599,860	1,650,607	1,695,078
Patronage Capital - National Rural Utilities Cooperative Finance Corporation	514,401	457,964	403,103
Patronage Capital - Rural Electric Supply Cooperative	189,829	202,556	198,874
Other Investments	904,819	875,443	847,929
Total investments in associated organizations	<u>\$ 20,740,345</u>	<u>\$ 20,319,722</u>	<u>\$ 19,697,594</u>

NOTE 7 – DEFERRED DEBITS

The following amounts were recorded as deferred charges at December 31, 2020, 2019 and 2018:

	2020	2019	2018
Pre-paid pension contributions	<u>\$ 157,285</u>	<u>\$ 278,563</u>	<u>\$ 399,841</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, 2020, 2019 and 2018 were 64.0%, 64.1% and 63.1% 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, 2020, 2019 and 2018

NOTE 9- OTHER EQUITIES

Other equities consisted of the following at each of the fiscal periods ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
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	747,530	625,804	507,955
	<u>\$ 948,070</u>	<u>\$ 826,344</u>	<u>\$ 708,495</u>

NOTE 10 - MORTGAGE NOTES

Following is a summary of long-term debt (mortgage notes) at December 31, 2020, 2019 and 2018:

	2020	2019	2018
Mortgage notes payable to National Rural Utilities Cooperative Finance Corporation (CFC) in quarterly installments of approximately \$546,912, including interest at an average fixed rate of 4.60%. Notes mature between December 2037 and September 2049 and are secured by substantially all of the assets of the Cooperative.	\$ 29,419,859	\$ 30,317,680	\$ 30,446,004
Mortgage note payable to the Ohio Department of Development in monthly installments beginning April 1, 2013 of \$12,916, including interest at a fixed rate of 3.0%. This note matures on March 1, 2019 and is secured by the headquarters building.	-	-	38,551
	<u>29,419,859</u>	<u>30,317,680</u>	<u>30,484,555</u>
Less current installments	<u>941,188</u>	<u>897,298</u>	<u>880,016</u>
	<u>\$ 28,478,671</u>	<u>\$ 29,420,382</u>	<u>\$ 29,604,539</u>

Annual principal maturities for fiscal years 2021 through 2025 and beyond are as follows:

2021	\$ 941,188
2022	986,470
2023	1,033,950
2024	1,040,483
2025	1,019,719
Beyond	24,398,049

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, 2020, 2019 and 2018

NOTE 11 – SHORT-TERM NOTES PAYABLE

At December 31, 2020, 2019 and 2018, the following amounts were owed on short-term notes:

	2020	2019	2018
A \$5,000,000 revolving line of credit payable to National Bank for Cooperatives (CoBank) with interest at 2.30%, 3.34% and 4.21% at December 31, 2020, 2019 and 2018, respectively.	\$ 2,700,000	\$ -	\$ -
A \$500,000 revolving line of credit payable to the State Bank and Trust Company with interest at 3.25%, 4.25% and 5.0% at December 31, 2020, 2019 and 2018, respectively.	500,000	500,000	-
	<u>\$ 3,200,000</u>	<u>\$ 500,000</u>	<u>\$ -</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, 2020, 2019 and 2018, 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 \$2,300,000, \$5,000,000 and \$5,000,000 at December 31, 2020, 2019 and 2018, respectively, with interest rates at 2.30%, 3.34% and 4.21%, respectively, was available for draw.
- Remaining revolving line of credit with the State Bank and Trust Company in the amount of \$0, \$0 and \$500,000 at December 31, 2020, 2019 and 2018, with interest at 3.25%, 4.25% and 5.0%, respectively.
- Remaining revolving line of credit with Premier Bank in the amount of \$2,000,000 at December 31, 2020, 2019 and 2018, respectively, with interest rates at 2.75%, 4.25% and 5.0%, 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, 2020, 2019 and 2018

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 2020, 2019 and 2018 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 \$489,768, \$503,297 and \$459,401 for 2020, 2019 and 2018, respectively. There have been no significant changes that affect the comparability of 2020, 2019 and 2018 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, 2020, 2019 and 2018 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, 2020, 2019 and 2018

NOTE 12 - PENSION PLAN (Continued)

RS Plan Repayment 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, 2020, 2019 and 2018 were \$129,445, \$134,351 and \$126,553, respectively.

Total Pension Plan Contributions	2020	2019	2018
RS Plan	\$ 489,768	\$ 503,297	\$ 459,401
401(K) Plan	129,445	134,351	126,553
	<u>\$ 619,213</u>	<u>\$ 637,648</u>	<u>\$ 585,954</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 until they reach age 62.

See note 14 for disclosure regarding the sick leave plan.

PAULDING-PUTNAM ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

NOTE 13 - POST RETIREMENT BENEFITS (Continued)

The liability recorded for post-retirement benefits is based on actuarial studies completed as of December 31, 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, 2020, 2019 and 2018:

	2020	2019	2018
Accumulated post retirement obligation, beginning	\$ 423,083	\$ 403,429	\$ 335,693
Service cost - benefits attributed to service during the period	23,162	32,937	79,955
Post retirement benefit obligations paid - cash expense	(42,329)	(13,283)	(12,219)
Accumulated post retirement obligation, ending	<u>\$ 403,916</u>	<u>\$ 423,083</u>	<u>\$ 403,429</u>

Estimated Future Benefit Payments

2021	\$ 46,562
2022	46,186
2023	39,574
2024	60,241
2025	28,867
Years 2026-2030	104,298

For measurement purposes, a 3.20% and 3.45% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020 and 2019, respectively, and the actual rate of increase in the per capita cost of covered health care benefits was used for 2018. 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, 2020 by \$33,917 and increase the aggregate of the service and interest cost components of net periodic post retirement benefit costs for the year then ended by \$2,154. Decreasing the assumed health care cost trend rate by 1% each year would decrease the accumulated post retirement benefit obligation as of December 31, 2020 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, 2020, 2019 and 2018

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, 2020, 2019 and 2018 was \$640,482, \$667,491 and \$536,444, 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 \$25,807,680 during the year ended December 31, 2020, \$25,455,375 during the year ended December 31, 2019 and \$27,054,910 during the year ended December 31, 2018. Amounts owed to Buckeye Power, Inc. for purchased power at December 31, 2020, 2019 and 2018 were \$2,237,264, \$2,166,299 and \$2,206,833, 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 Rural Electric Supply Cooperative (RESCO), of which it is an owner-member. See note 6 for additional information regarding RESCO.

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, 2025. 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, 2020, 2019 and 2018

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, 2020. The Cooperative is currently evaluating the impact the new standard may have on its financial statements.

NOTE 20 – SUBSEQUENT EVENTS

In January 2021, the Cooperative borrowed \$5,189,535 from CFC. The 30 year loan has a fixed interest rate of 2.96% for the next 10 years with repricing thereafter. The proceeds are to be used in the 2021 construction work plan.

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
Paulding-Putnam Electric Cooperative, Inc.
Paulding, Ohio 45879

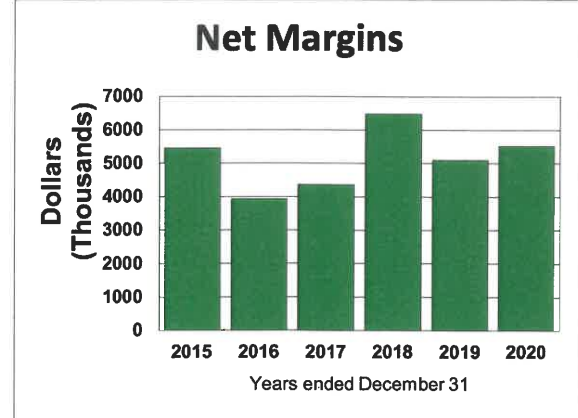
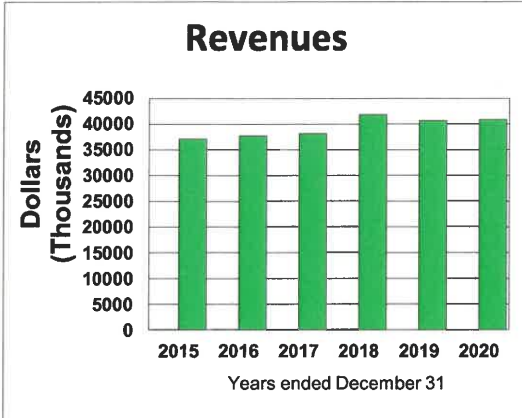
We have audited the financial statements of Paulding-Putnam Electric Cooperative, Inc. as of and for the periods ending December 31, 2020, 2019 and 2018, and our report thereon dated March 5, 2021, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were 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 2015, 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 audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Bashore Reineck Stoller & Waterman Inc

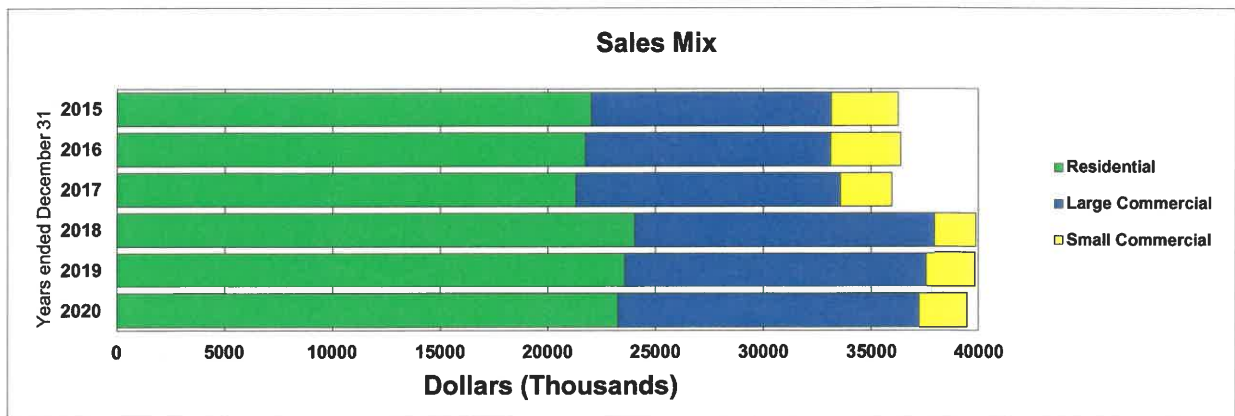
BASHORE REINECK STOLLER & WATERMAN INC
Paulding, Ohio

March 5, 2021

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

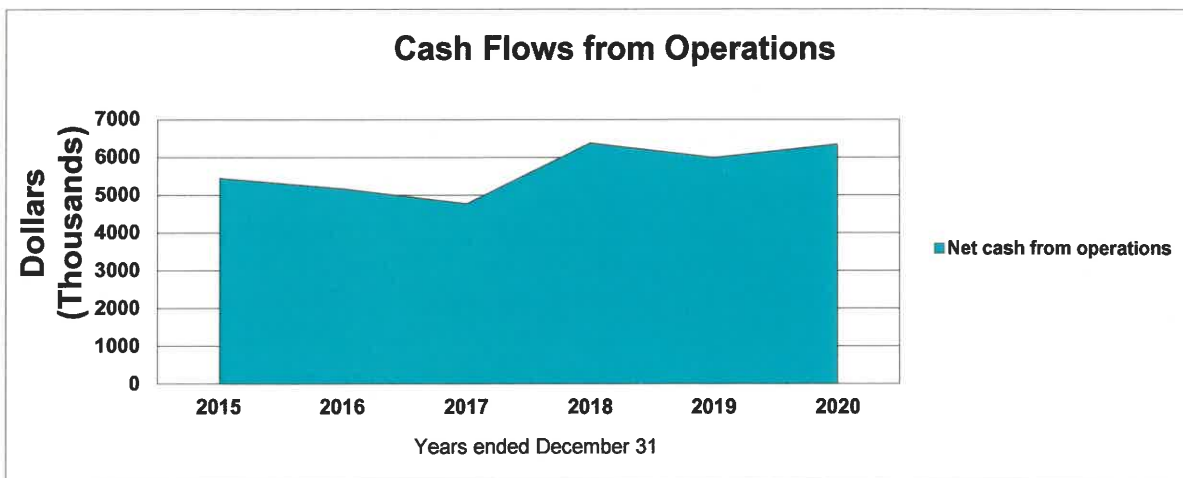
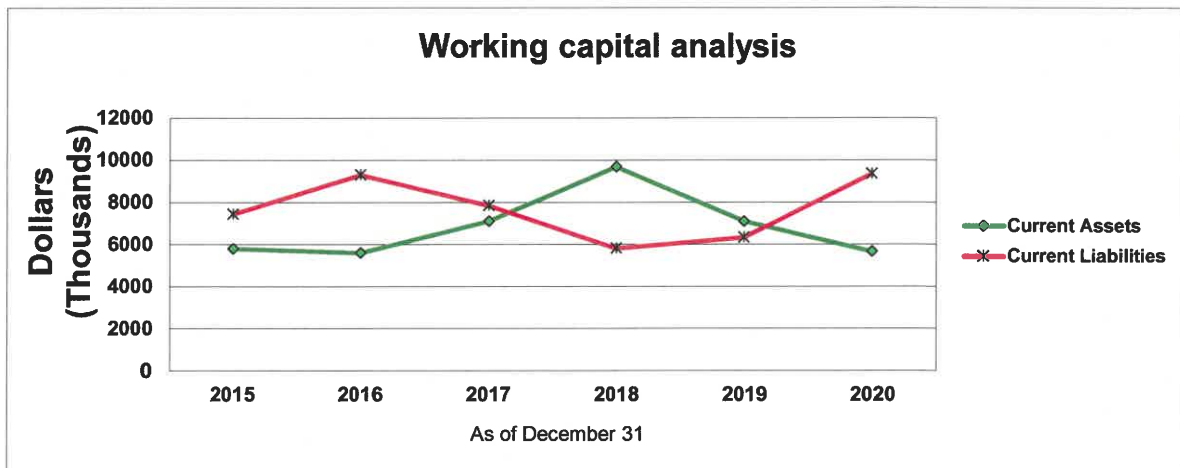
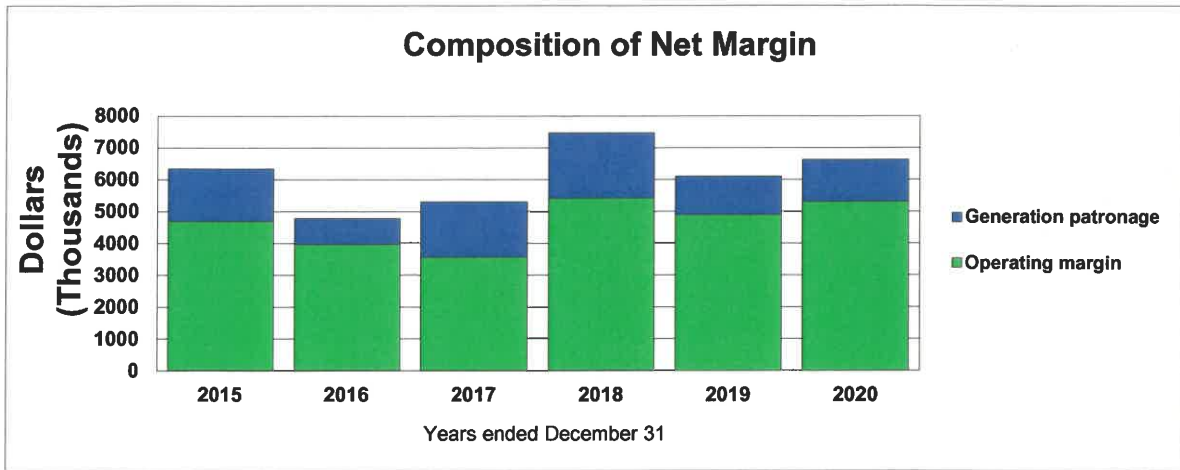


	2015	2016	2017	2018	2019	2020
Operating Revenue (in thousands)	\$37,151	\$37,729	\$38,178	\$41,830	\$40,672	\$40,882
Power Purchased (in thousands)	24,317	25,078	25,679	27,055	25,455	25,808
Gross Profit (in thousands)	<u>12,834</u>	<u>12,651</u>	<u>12,499</u>	<u>14,775</u>	<u>15,217</u>	<u>15,074</u>
Gross Profit Percentage	34.55%	33.53%	32.74%	35.32%	37.41%	36.87%
Distribution Costs as Percentage of Gross Profit	16.24%	18.78%	17.73%	14.21%	17.01%	16.52%
Customer Costs as Percentage of Gross Profit	7.62%	8.20%	7.98%	7.58%	8.51%	6.59%
General and Admin as Percentage of Gross Profit	11.24%	11.47%	13.98%	12.94%	13.77%	11.60%



See auditors' report on supplemental information

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



See auditors' report on supplemental information