

2018 INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Balance Sheets

	2018	2017
ASSETS		
UTILITY PLANT		
Electric plant in service	\$58,175,425	\$57,671,610
Construction work in progress	<u>404,432</u>	<u>538,411</u>
	58,579,857	58,210,021
Less: Accumulated provision for depreciation and amortization	<u>(18,007,771)</u>	<u>(18,236,884)</u>
NET UTILITY PLANT	<u>40,572,086</u>	<u>39,973,137</u>
NONCURRENT ASSETS		
Investments in associated organizations	16,003,117	14,785,519
Notes receivable	470,668	383,447
Deferred charges	<u>534,389</u>	<u>681,606</u>
TOTAL NONCURRENT ASSETS	<u>17,008,174</u>	<u>15,850,572</u>
CURRENT ASSETS		
Cash and cash equivalents	2,894,138	1,435,210
Accounts receivable, net of provision for doubtful accounts of \$129,868 (\$121,858 for 2017)	2,306,301	2,360,809
Notes receivable	149,281	120,653
Materials and supplies	411,215	474,644
Other current assets	<u>1,150,511</u>	<u>4,901,800</u>
TOTAL CURRENT ASSETS	<u>6,911,446</u>	<u>9,293,116</u>
TOTAL ASSETS	<u>\$64,491,706</u>	<u>\$65,116,825</u>
LIABILITIES AND EQUITIES		
EQUITIES		
Patronage capital	\$34,206,067	\$32,098,544
Accumulated other comprehensive income (loss)	(928,089)	(361,400)
Other equities	<u>562,217</u>	<u>505,405</u>
TOTAL EQUITIES	<u>33,840,195</u>	<u>32,242,549</u>
LONG-TERM LIABILITIES		
Mortgage notes less current maturities	24,167,187	26,137,529
Provision for pensions and benefits	<u>1,959,052</u>	<u>2,117,155</u>
TOTAL LONG-TERM LIABILITIES	<u>26,126,239</u>	<u>28,254,684</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	1,141,304	1,387,694
Accounts payable - purchased power	1,738,937	1,714,101
Accounts payable - other	104,382	37,897
Consumers' deposits	183,586	175,066
Accrued taxes	836,870	810,640
Other current liabilities	<u>520,193</u>	<u>494,194</u>
TOTAL CURRENT LIABILITIES	<u>4,525,272</u>	<u>4,619,592</u>
TOTAL LIABILITIES AND EQUITIES	<u>\$64,491,706</u>	<u>\$65,116,825</u>

Statements of Cash Flow

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net margins	\$ 3,619,842	\$ 3,046,854
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	1,629,988	1,590,562
Noncash capital credits	(1,681,565)	(1,285,091)
Salvage and retirement adjustments for utility plant	(220,725)	(325,260)
Benefit plan contributions in excess of expense	(724,792)	(780,238)
Changes in assets and liabilities:		
Accounts and notes receivable	(61,341)	(254,991)
Materials and supplies	63,429	(22,254)
Other current assets	3,751,289	(293,230)
Deferred charges	147,217	129,503
Accounts payable and accrued expenses	<u>152,070</u>	<u>(433,345)</u>
Total adjustments	<u>3,055,570</u>	<u>(1,674,344)</u>
Net cash provided by operating activities	<u>6,675,412</u>	<u>1,372,510</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Construction and acquisition of utility plant	(2,228,937)	(1,490,606)
Proceeds from disposal of utility plant and aid to construction	220,725	325,260
Proceeds from redemption of investments	477,774	327,180
Purchase of investments	<u>(13,807)</u>	<u>(13,801)</u>
Net cash used by investing activities	<u>(1,544,245)</u>	<u>(851,967)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	-	11,775,000
Payments on long-term debt	(1,390,114)	(11,765,894)
Changes in cushion of credit	(826,618)	(757,664)
Patronage capital credits retired	<u>(1,455,507)</u>	<u>(1,275,597)</u>
Net cash used by financing activities	<u>(3,672,239)</u>	<u>(2,024,155)</u>
Net increase (decrease) in cash and cash equivalents	1,458,928	(1,503,612)
Cash and cash equivalents at beginning of year	<u>1,435,210</u>	<u>2,938,822</u>
Cash and cash equivalents at end of year	<u>\$2,894,138</u>	<u>\$1,435,210</u>

We have audited the accompanying financial statements of Midwest Electric, Inc., which comprise the balance sheets as of Dec. 31, 2018 and 2017, and the related statements of operations, comprehensive operations, 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 Midwest Electric, Inc., as of Dec. 31, 2018 and 2017, 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.

Circleville, Ohio
March 20, 2019

BHM CPA Group, Inc.

ANNUAL REPORT

Statements of Equities

	Other Equities	Accumulated Other Comprehensive Income (Loss)	Patronage Capital	Total Equities
Balance at January 1, 2017	\$454,269	\$278,100	\$30,378,423	\$31,110,792
Net margins	-	-	3,046,854	3,046,854
Unrecognized gains and losses related to the defined benefit postretirement plan	-	(639,500)	-	(639,500)
Retirement of capital credits	-	-	(1,326,733)	(1,326,733)
Discounted capital credits	<u>51,136</u>	<u>-</u>	<u>-</u>	<u>51,136</u>
Balance at December 31, 2017	505,405	(361,400)	32,098,544	32,242,549
Net margins	-	-	3,619,842	3,619,842
Unrecognized gains and losses related to the defined benefit postretirement plan	-	(566,689)	-	(566,689)
Retirement of capital credits	-	-	(1,512,319)	(1,512,319)
Discounted capital credits	<u>56,812</u>	<u>-</u>	<u>-</u>	<u>56,812</u>
Balance at December 31, 2018	<u>\$ 562,217</u>	<u>\$ (928,089)</u>	<u>\$ 34,206,067</u>	<u>\$ 33,840,195</u>

Operating Statistics

	2018	2017
Consumers (Average)	10,792	10,723
Miles of Line	1,621	1,617
Kilowatt-Hours:		
Purchased (Thousands)	281,995	263,909
Sold (Thousands)	267,099	250,619
Net Utility Plant: (Thousands)	\$40,572	\$39,973
Per Consumer	\$3,759	\$3,728
Cost Per Mile	\$25,029	\$24,721
Interest Costs:		
Total	\$980	\$1,021
Per Consumer	\$91	\$95
Member Equity	52.5%	49.5%
Current Ratio	1.6	2.2
Electric Revenue Per Consumer Per Month	\$242	\$227
KWH Sold Per Consumer Per Month	2,062	1,948
Revenue Per KWH Sold	\$0.117	\$0.117
Generation and Transmission as % of Power Cost	64.5%	63.6%

A copy of this annual report can be obtained by contacting Midwest Electric's office or visiting midwestrec.com > My Co-op > Annual Meeting and Co-op Board.

Statements of Operations

	2018	2017
OPERATING REVENUES	<u>\$ 31,311,028</u>	<u>\$ 29,265,510</u>
OPERATING EXPENSES		
Cost of power	20,194,896	18,609,789
Distribution expense - operations	1,931,436	1,861,182
Distribution expense - maintenance	1,311,905	1,236,657
Consumer accounts	496,814	431,662
Customer service and information	321,844	281,230
Sales	54,033	74,920
Administrative and general	1,566,008	1,494,030
Depreciation and amortization	1,629,988	1,590,562
Taxes	1,161,866	1,082,278
Other deductions	<u>36,834</u>	<u>42,002</u>
TOTAL OPERATING EXPENSES	<u>28,705,624</u>	<u>26,704,312</u>
OPERATING MARGINS BEFORE INTEREST	2,605,404	2,561,198
Interest on long-term debt	<u>(980,380)</u>	<u>(1,021,202)</u>
OPERATING MARGINS AFTER INTEREST	1,625,024	1,539,996
Capital credits	<u>1,761,417</u>	<u>1,296,367</u>
OPERATING MARGINS	<u>3,386,441</u>	<u>2,836,363</u>
NON-OPERATING MARGINS (EXPENSE)		
Interest income	211,180	196,458
Other income (expense), net	<u>22,221</u>	<u>14,033</u>
TOTAL NON-OPERATING MARGINS	<u>233,401</u>	<u>210,491</u>
NET MARGINS FOR PERIOD	<u>\$ 3,619,842</u>	<u>\$ 3,046,854</u>