

Annual Report

LORAIN-MEDINA



RURAL ELECTRIC
COOPERATIVE



2018

Your Neighbors, Your Trustees

President



Rodney L. Eaton
District 4

Vice President



Gary L. Rowland
District 1

Secretary

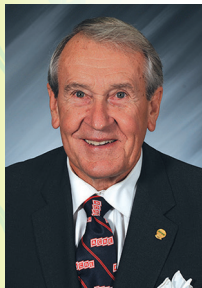


James R. McConnell
District 2

Treasurer



Keith E. Lowe
District 8



Richard K. Indoe
District 9



Kathleen E. Norton Fox
District 3



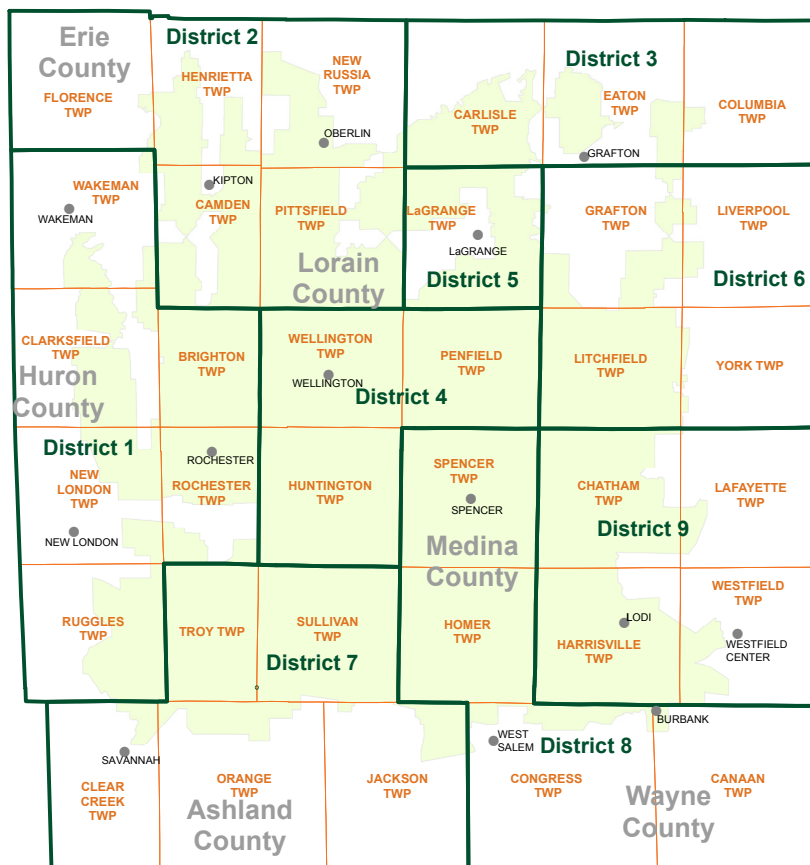
Judy A. Pickworth
District 5



Brenda J. Wolfe
District 7



Joseph Swinko
District 6



From the board president



John Eaton
President

It is important for elected representatives on the cooperative board of trustees to meet with elected officials, locally and in Washington, D.C., to advocate on behalf of electric cooperatives. Lorain-Medina Rural Electric representatives traveled to Washington, D.C., for the

legislative conference. The keynote speaker at the conference was the U.S. Department of Agriculture Secretary Sonny Perdue, a former Georgia governor and dyed-in-the-wool cooperative member. Perdue told more than 2,000 electric cooperative leaders attending the conference, "Broadband has the greatest potential to drive the U.S. economy, yet 24 million American households lack reliable, affordable, high-speed internet access." Perdue likened the challenge of providing broadband to unserved and underserved parts of the country to how cooperatives delivered electricity to

remote communities nationwide under the Rural Electrification Act (REA) in 1936.

Members of Lorain-Medina Rural Electric Cooperative continue to give the cooperative high marks for its overall service. LMRE achieved an ACSI score of 86, the same as the previous two years. The 86 was the eighth-highest score among Ohio's 23 electric cooperatives that participated in the survey. Seventy-one percent of the members surveyed gave the cooperative a satisfaction rating of 9 or 10 on a 10-point scale, which is the same as in 2017.

LMRE selected Edward VanHoose, CEO of Clay Electric Cooperative Inc. (CECI), in Flora, Illinois, at its October meeting to be its sixth general manager in the cooperative's 83-year history. VanHoose succeeds Markus Bryant, who retired after 24 years with LMRE. We believe Mr. VanHoose brings a wealth of experience and education that will fit our cooperative for the long term.

From the general manager



Ed VanHoose
General Manager

We are pleased to report that 2018 was another positive and productive year.

The cooperative sent a five-man crew to North Carolina in 2018 to help with power restoral efforts in the wake of Hurricane Florence.

In the spirit of cooperation, the LMRE linemen headed to South River Electric Membership Corporation (SREMC), which reported roughly 30,000 members without power following the storm. The LMRE team, led by Line Foreman John Henderson with crew members Clint Slavec, Joel Miller, Ashtin Plant, and Luke Stone, were part of 54 lineworkers from 11 Ohio cooperatives who assisted SREMC.

LMRE also took part in Project Ohio when a team of 17 volunteer lineworkers from Ohio electric cooperatives, including five LMRE linemen, traveled to Guatemala to bring electricity to two small villages. They spent nearly three weeks working to provide electricity to 140 households that had never had electric service. Our co-op also sent one of our communications specialists to document the journey.

We continued support for our area youths with several programs. The co-op sent Be E3 Smart students from Cloverleaf schools to tour our Cardinal generating plant in Brilliant, Ohio, to learn how electricity is generated and sent to your homes. We selected two students to represent the co-op on the annual Youth Tour to Washington, D.C. We also awarded \$11,500 in scholarships to five children of co-op members. We anticipate expanding our youth programs in the years to come.

The cooperative retains annual margins to provide working capital for the co-op. When revenue exceeds expenses, the excess is retained and returned to our members. LMRE refunded more than \$1.4 million back to our members at the end of 2018. We also reached the milestone of returning more than \$25 million to our members since 1982.

As a cooperative, we are guided by you, our members. We make decisions with your best interests in mind. This is one of the many things that makes co-ops unique.

The year at a glance 2018

Lorain-Medina Rural Electric provides the community with more than safe, reliable, and affordable power. LMRE supports the community with youth programs and the People Fund. When another co-op is in need, LMRE is there to lend a hand — whether it's in another state or another country. LMRE is led by members in your community, and every year we gather with our members for the annual meeting. System maintenance is always a priority. Being proactive with construction and maintenance helps avoid major outages. As a not-for-profit cooperative, LMRE returns the unused revenue back to the people we serve at the end of the year.

March

Safety and education: LMRE participated in several electric safety demonstrations and talks in 2018, including a presentation at Keystone's Safety Town. Students always enjoy trying on the linemen's gear.



Legislative Conference: Each year, Lorain-Medina Rural Electric sends representatives to Washington, D.C., for the annual electric cooperatives' Legislative Rally. The theme of the 2018 conference was bringing broadband service to underserved areas of rural America.

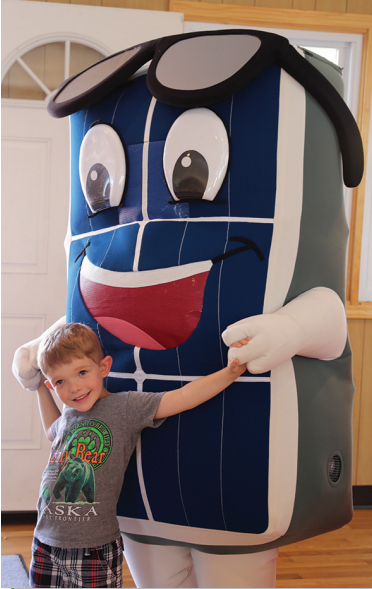
May

April

ACRE: About 95 members and guests of LMRE's Co-op Owners for Political Action attended a breakfast where U.S. Representative Bob Gibbs was the keynote speaker. Gibbs spoke on issues that affect electric cooperatives and the members they serve.



September



Fair: Solar Sam visited kids at the Lorain County Fair in August, providing high fives and photo opportunities for anyone who visited the LMRE building.

August



Cardinal tour: Fifteen Cloverleaf students participating in the Be E3 Smart program and several LMRE members attended a tour of the Cardinal Power Plant in Brilliant, Ohio. On the trip, they learned how a coal plant generates the electricity they use in their everyday lives.

December



October

Mutual aid: LMRE linemen Clint Slavec, John Henderson, Luke Stone, Ashtin Plant, and Joel Miller traveled to North Carolina to help with power restoral efforts following the damage of Hurricane Florence.



Capital credits: After returning over \$1.4 million in capital credits in 2018, LMRE reached a milestone of over \$25 million returned to its members. The total refund was up 17% from 2017.

Co-op facts

Lorain-Medina Rural Electric has been supplying safe, reliable, and affordable power to its members for more than 80 years.

At the heart of any cooperative is a team of individuals working together to bring the best service possible to its members. LMRE and its 36 full-time employees are no different. From the linemen out in the field to the office staff answering outage calls and questions from the 16,404 members, everyone at the cooperative shares the same goal — to make sure the lights stay on for everyone in the co-op's five-county service territory.

LMRE's line crews and operations staff focus on making sure all 1,540 miles of electric line are functioning correctly by performing running pole inspections, line maintenance, and right-of-way clearing all year long to avoid as many outages as possible. With an average of 10.7 members per mile of line, every foot matters. If a storm does hit, crews understand that the number one priority is getting the members' lights back on as quickly and safely as possible.

LMRE's efforts were reflected in the 2018 American Customer Satisfaction Index (ACSI) survey, where members gave the co-op a score of 86, the same as the 2017 score. This was the eighth-highest score among Ohio's 23 participating electric cooperatives.

LMRE is also committed to bringing renewable energy to its members through the OurSolar program, and the co-op's 228 solar panels produced 78,330 kWh of electricity in 2018. OurSolar reflects LMRE's balanced approach to electricity generation.

2018 YEAR IN REVIEW



36

full-time employees



16,404

members



1,540

miles of electric line



10.7

members per mile



86

ACSI score



78,330 kWh

OurSolar output



Construction and maintenance

Maintenance efforts and technology enhancements are paying dividends when it comes to providing reliable service for our members.

In 2018, the cooperative experienced 480 outages. This is slightly higher than LMRE's 10-year average of 461 outages. Problems caused by trees accounted for 31% of the outages for the year, followed by equipment-related outages at 26%.

The average length of time members were without power slightly decreased in 2018 to about 2 1/2 hours compared with 2017. This marked the fifth time in the past 10 years the cooperative has been over two hours for the year.

"With advanced upgrades made by the engineering department and the dedicated commitment to maintenance from our linemen, we have been able to keep outage times to a minimum," Operations Manager Tim Rising says. "Our maintenance efforts show when severe weather hits. Unfortunately, we do see occasional transmission outages that are out of our control."

The cooperative began upgrading the Litchfield substation in 2018, installing a larger transformer, circuit switch, and control house relays, with plans to move the former transformer to the Nova substation in Rochester Township.

Another focus for LMRE in 2018 was the installation of fiber-optic line between the Camden and Baird substations, the first step of many in a transition to fiber as the cooperative's main mode of supervisory control and data acquisition (SCADA) communications. Improving SCADA technologies gives LMRE the ability to isolate outages and reroute power, reducing the length of downtime for members.



Giving back to the community

Total number
of grants awarded
in 2018

23

Total dollar
amount funded
in 2018

\$62,655

Total number of
grants issued
since 1999

592

Total dollar
amount funded
since 1999

\$1,520,011

Guided by the cooperative principle “Concern for Community,” the Lorain-Medina Rural Electric board formed the People Fund in 1999. They took a bold step when they decided to enroll all of LMRE’s members into the program (although, if a member desires, they can opt out of the People Fund program at any time). The average donation remains the same today — 50 cents per month, per participating member.

In 1999, about 87 percent of the cooperative members voluntarily rounded up their monthly electric bills to the next dollar. Today, member participation is at 95 percent.

Now in its 20th year, the People Fund has awarded \$1,520,011 with 592 grants since its inception in 1999 through December 2018. Grants to individuals are capped at \$3,000 and organizational grants are capped at \$10,000.



**People
Fund**
Lorain-Medina Rural Electric Cooperative • Wellington, Ohio

Since 1982, more than \$25.8 million in capital credits has been returned to members. About 19,100 Lorain-Medina Rural Electric current and former members received their patronage capital credits refunds, totaling \$1,450,184 in 2018.

“Refunding capital credits sets cooperatives like Lorain-Medina Rural Electric apart from other utilities,” Board President John Eaton says. “The board believes by refunding margins we’re sending a positive message to our members that the co-op is financially stable and that their board is making sure we operate efficiently and effectively. Being a member of the cooperative is the reason you receive a refund while other people who are customers of investor-owned utilities do not.”

The total refund is up about 17% from 2017. Director of Finance and Accounting Kristine Dawson explains there are two components to the refund — LMRE’s portion and Buckeye Power’s portion. “The Buckeye Power 2018 refund was 40% more than it was in 2017,” Dawson says. “The cooperative’s portion of the refund also increased slightly.” Buckeye Power is the wholesale power supplier for LMRE and is also a cooperative.

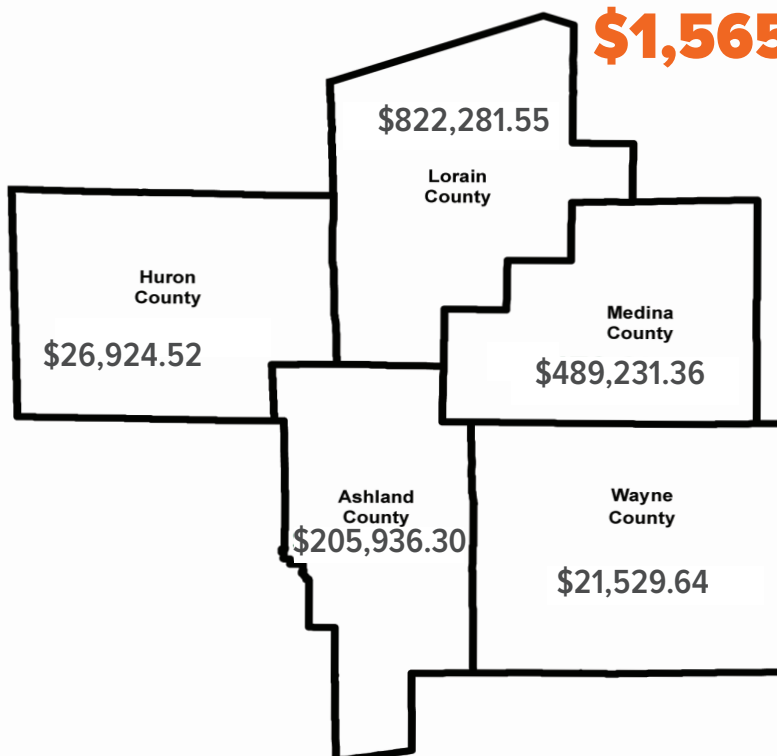
The cooperative retains annual margins to provide working capital for new construction, equipment, and system improvements throughout the cooperative’s service area. If LMRE’s revenue exceeds expenses for the year, the excess is retained as margins and is allocated back to the members based on their patronage.

Review of Capital Credits Refunds

Pre-2010...	\$ 14,060,679
2010.....	\$1,285,156
2011.....	\$ 1,225,230
2012.....	\$1,066,974
2013.....	\$1,293,643
2014.....	\$ 1,281,641
2015.....	\$ 1,294,082
2016.....	\$1,619,517
2017.....	\$ 1,237,770
2018.....	\$1,450,184
Total.....	\$ 25,814,876

Total property tax paid in 2018

\$1,565,903.37



Statements of revenue and expenses

ASSETS

UTILITY PLANT

	2018	2017
Utility plant in service	\$ 89,511,818	\$ 86,767,566
Construction work in progress	1,287,721	688,691
Retirement work in progress	56,902	67,000
	90,856,441	87,523,257
Less: Accumulated depreciation	(32,889,553)	(31,252,029)
	57,966,888	56,271,228
Investments in associated organizations, at cost	19,737,285	18,305,818
	19,737,285	18,305,818

CURRENT ASSETS

Cash and cash equivalents	242,768	791,593
Restricted Cash	4,769,909	4,780,690
Securities available for sale	286,977	214,557
Accounts receivable, consumers and other, less allowance for doubtful accounts of \$30,000 in 2018 and \$33,381 in 2017	3,987,345	3,763,786
Materials and supplies	815,090	608,246
Prepayments	208,200	200,486
Interest receivable	9,092	9,092
Total current assets	10,319,381	10,368,450

OTHER ASSETS

Prepaid Deferred Pension Costs	750,235	914,202
	750,235	914,202
	<u>\$ 88,773,789</u>	<u>\$ 85,859,698</u>

MEMBERS' EQUITIES AND LIABILITIES

MEMBERS' EQUITIES

	2018	2017
Memberships	\$ 268,185	\$ 266,665
Patronage capital	48,160,738	44,268,207
Other equities	2,158,758	1,947,296
	50,587,681	46,482,168
	30,028,798	31,314,775

LONG-TERM DEBT

CURRENT LIABILITIES

Accounts payable	2,690,940	2,489,698
Principal payments due within one year on long-term debt	1,244,175	1,261,829
Consumer deposits	625,630	630,380
Accrued liabilities	1,854,392	1,881,517
Total current liabilities	6,415,137	6,263,424

ACCRUED SICK LEAVE BENEFIT PLAN

	83,189	113,183
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DEFERRED CREDITS

	86,484	113,648
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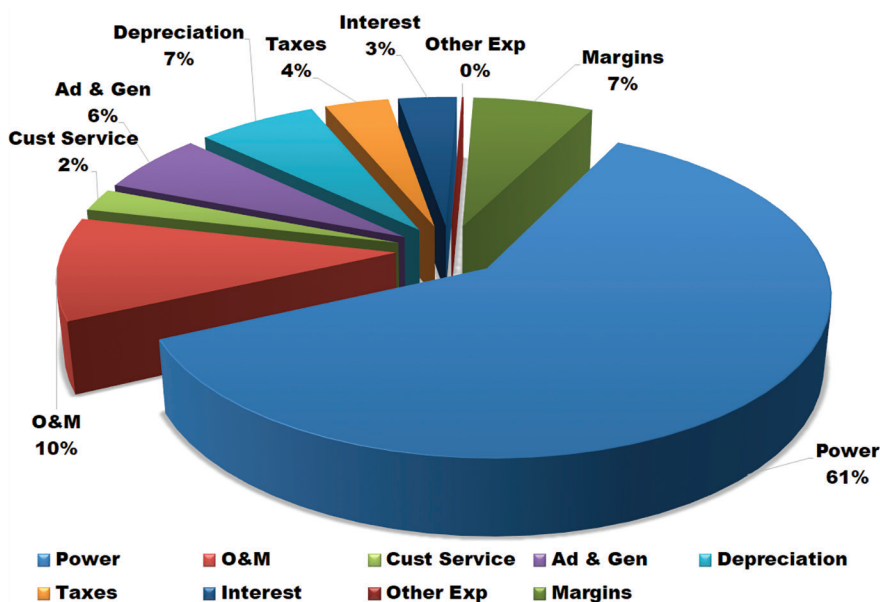
ACCRUED POST-RETIREMENT LIABILITY

	1,572,500	1,572,500
	<u>\$ 88,773,789</u>	<u>\$ 85,859,698</u>

	2018	2017
OPERATING REVENUE	<u>\$ 40,244,097</u>	<u>\$ 37,272,433</u>
OPERATING EXPENSES		
Cost of power	24,442,931	22,745,174
Distribution - operations	2,337,265	2,378,132
Distribution - maintenance	1,840,985	1,510,721
Consumer accounts	685,952	761,592
Administrative and general	2,718,954	2,675,497
Depreciation and amortization	2,682,944	2,619,511
Taxes	1,460,575	1,346,330
Other deductions	-	-
	<u>36,169,606</u>	<u>34,036,957</u>
OPERATING MARGINS		
BEFORE FIXED CHARGES	<u>4,074,491</u>	<u>3,235,476</u>
FIXED CHARGES		
Interest on long-term debt	1,304,087	1,358,027
Interest on short-term debt	30,753	29,251
	<u>1,334,840</u>	<u>1,387,278</u>
OPERATING MARGINS		
AFTER FIXED CHARGES	<u>2,739,651</u>	<u>1,848,198</u>
NON-OPERATING MARGINS		
Patronage Capital	2,083,340	1,638,302
Interest income	245,618	156,176
Other income (expense)	(15,814)	(19,857)
	<u>2,313,144</u>	<u>1,774,621</u>
NET MARGINS	<u>\$ 5,052,795</u>	<u>\$ 3,622,819</u>

(A complete copy of the auditor's report is available for members' review at the cooperative office.)

Where your payment goes



LORAIN-MEDINA

**RURAL ELECTRIC
COOPERATIVE**

