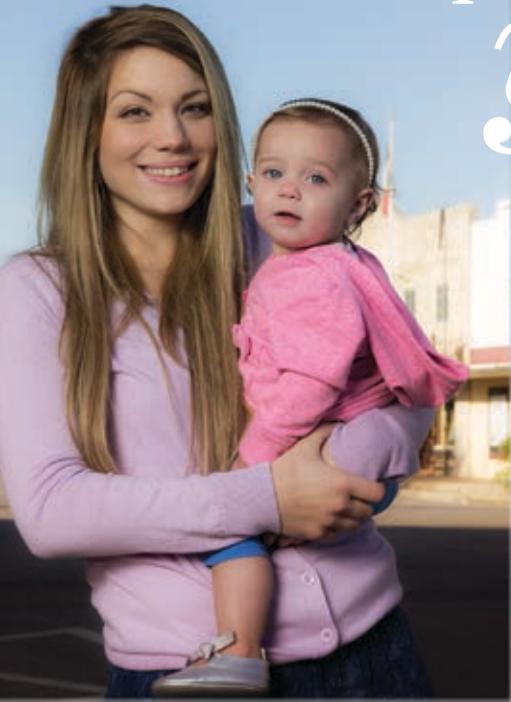


membership is about  
*you*



## Holmes-Wayne Electric Cooperative **2015 ANNUAL MEETING** *of MEMBERS*

Thursday, June 25 | West Holmes High School | 10901 State Route 39, Millersburg

*All Holmes-Wayne Electric Cooperative members are welcome to attend the meeting and dinner.*

**Health and Information Fair - 5 p.m.**

**Dinner - 5:45 p.m.**

**Business Meeting - 6:30 p.m.**

In early June, all HWEC members will receive in the mail a trustee election ballot and RSVP form for the Annual Meeting dinner. The voting ballot and RSVP form can be returned by the provided postage-paid envelope or online at [www.hwecoop.com](http://www.hwecoop.com).

Each membership (household or business) in attendance at the conclusion of this Annual Meeting will receive a \$5 credit to be applied toward the August electric bill and two free energy-efficient compact fluorescent light-bulbs.

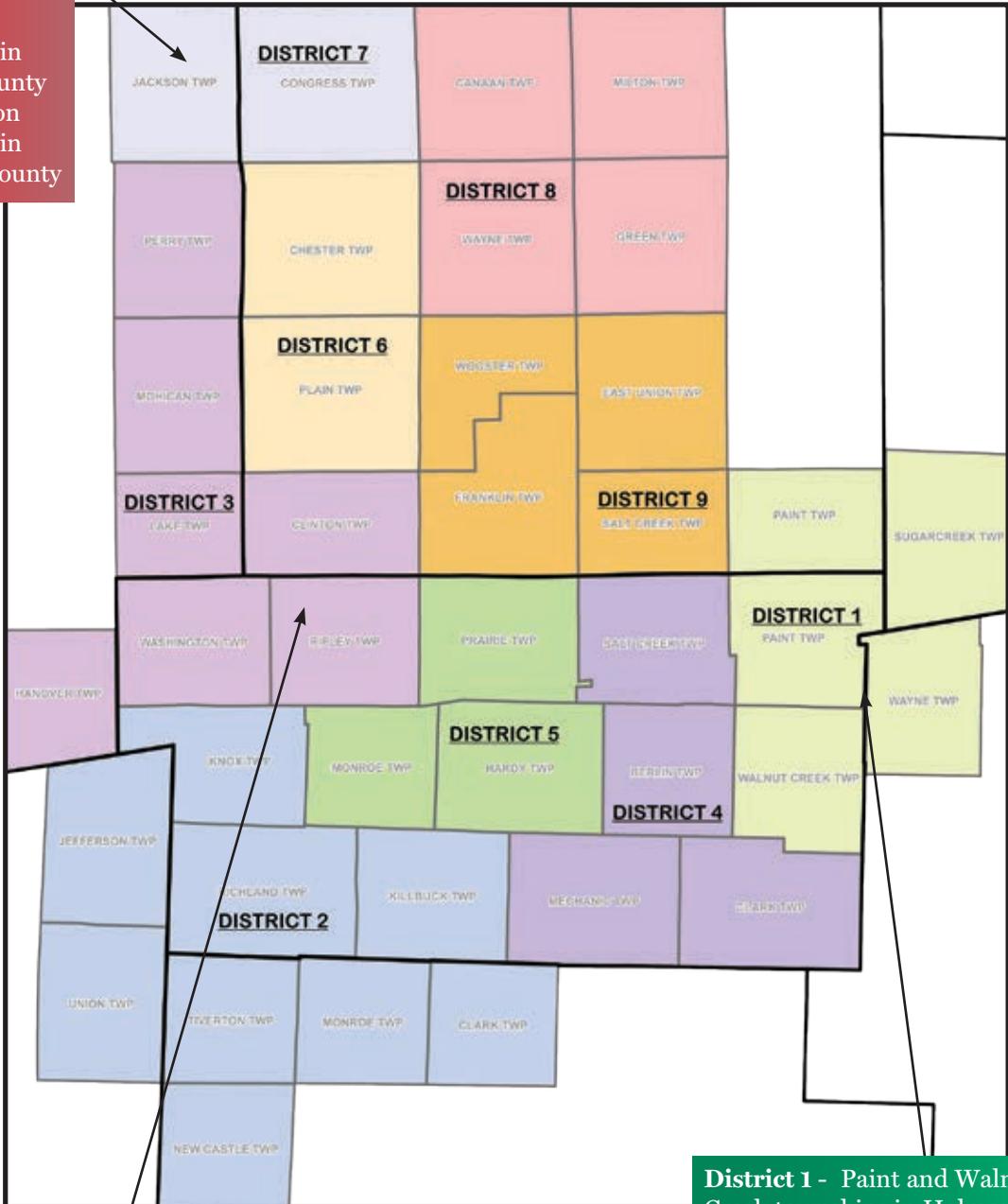
We also will host a food drive at the Annual Meeting. Please feel free to bring a nonperishable item.

### Activities of the evening

1. Dinner
2. Meeting called to order
3. Invocation
4. Minutes approved as in Annual Report
5. Chairman's report
6. Financial report for 2014
7. Operation Round Up Foundation financial report for 2014
8. President's report
9. Guest speaker
10. Presentation of scholarship winners
11. Results of trustee election and swearing-in of trustees
12. Unfinished business
13. New business
14. Adjournment

# 2015 Holmes-Wayne Electric Cooperative, Inc. Board of Trustees Election

**District 7:**  
Congress  
Township in  
Wayne County  
and Jackson  
Township in  
Ashland County



**District 3:** Perry, Mohican, Lake and Hanover townships in Ashland County; Washington and Ripley townships in Holmes County; and Clinton Township in Wayne County

**District 1 -** Paint and Walnut Creek townships in Holmes County; Paint Township in Wayne County; Wayne Township in Tuscarawas County; and Sugarcreek Township in Stark County

# meet the Candidates

*Candidate information is presented as provided by each candidate.*



## ***District 1: Randy Sprang (Incumbent)***

**Home address:** 1601 County Road 200, Dundee, Ohio 44624

**Spouse, children and grandchildren:** Wife - Bonnie; children - Brian, Cliff (Melissa) and Dan (Lacey); three grandchildren

**Number of years as member of HWEC:** 36

**Education and specific degree:** Graduate of West Holmes High School, 1972

**Employment history:** Retired from the Ohio Agriculture Research and Development Center in Wooster, Ohio, after 37 years of service. Continue to work contingently as

seasonal employee at OARDC. I am also a Paint Township trustee; I have served in this role for 22 years.

**Leadership and community activities:** Member of the HWEC Board of Trustees for the past 12 years; I have served as board chairman the past three years.

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** I believe my experience and knowledge of being a board member will continue to benefit the members of HWEC.

**Any additional information you feel is essential for members to be aware of:** I have received the Credentialed Cooperative Director Certificate and the Board Leadership Certificate from the National Rural Electric Cooperative Association.



## ***District 1: Matt Johnson***

**Home address:** 1844 Township Road 675, Dundee, Ohio 44624

**Spouse, children and grandchildren:** Wife - Holly; children - Gus (10), Phinehas (8) and Lydia (5)

**Number of years as member of HWEC:** 8

**Education and specific degree:** Bachelor of Science, civil engineering, from the University of Kentucky; Master of Science, civil engineering, from the University of Kentucky

**Employment history:** I have worked as a structural engineer for Palmer's Engineering, a transportation and infrastructure engineering firm, since my graduation from college.

**Leadership and community activities:** I serve on the board of the Winesburg Parks and Recreation Association, the board of the Winesburg Youth Baseball Association and the board of the Cuyahoga Valley Section of the American Society of Highway Engineers. I am a youth baseball coach and an elder at Zion Reformed Church in Winesburg.

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** As someone employed in the infrastructure design industry for my entire career, I've gained a tremendous appreciation for the importance — and difficulty — in providing reliable, affordable services, especially in rural areas. I'd like to use my knowledge and experience to help my neighbors in the electric co-op.

### *District 3: Jackie McKee (Incumbent)*



**Home address:** 8249 State Route 754, Shreve, Ohio 44676

**Spouse, children and grandchildren:** Married to Dale for 32 years; son and daughter-in law - Joel and Brittney McKee; daughter and son-in-law - Jessica and Joey Franklin; grandson - Kade McKee

**Number of years as member of HWEC:** 32

**Education and specific degree:** Graduate of University of Akron/Wayne College in business management and accounting

**Employment history:** Currently serving 16th year as Holmes County auditor; served two terms as Ripley Township Fiscal Officer prior to that

**Leadership and community activities:** Farm Bureau member and past director for nine years, 4-H advisor, attend Wooster Methodist Church, member of Holmes County Chamber of Commerce, serve on executive committee of County Auditors Association of Ohio, past president of Northeast Auditors Association

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:**

I am grateful for the opportunity to serve cooperative members as a trustee. I appreciate working with an organization that practices good management and has a concern for the community. My background and experience will allow me to ensure the mission of HWEC continues by providing its members the best possible electric service at the lowest cost.

**Any additional information you feel is essential for members to be aware of:** I am completing my first term as HWEC trustee. I have attended educational classes to learn the industry and to better prepare myself as a trustee. I have attended the required classes in order to obtain the NRECA Credentialed Cooperative Director certification.

### *District 3: Shannon Flinner*



**Home address:** 8040 Critchfield Road, Shreve, Ohio 44676

**Spouse, children and grandchildren:** Wife - Jessica; children - Madalynn, Bryanna, Bredyn and Teiry

**Number of years as member of HWEC:** 10

**Education and specific degree:** High school diploma, fluid power technologies at A.T.I.

**Employment history:** Clinton Township trustee, current until Dec. 21, 2017; self-employed business owner, Flinner Enterprises, since 2000; Clinton Township road maintenance, 2000-2013; owner/operator SUF Properties LLC & Suds-n-Duds in Shreve since October 2010

**Leadership and community activities:** Township trustee; owner/operator of local businesses

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** The opportunity presented itself. I enjoy being an active member of our community. I feel that I would be an asset to HWEC with my business and customer relations management. I look forward to the knowledge I will gain with this new experience.

**Any additional information you feel is essential for members to be aware of:** Self-motivated, always seeking new opportunities to better myself and family!

### *District 3: Lewis E. Morris, Jr.*



**Home address:** 120 Township Road 2350, Lakeville, Ohio 44638

**Spouse, children and grandchildren:** Spouse - Martha Morris; two stepsons - Hamilton Martin, Joshua Martin; two step-grandchildren - Hannah Martin, Brennan Martin

**Number of years as member of HWEC:** 14 years

**Education and specific degree:** High school diploma, Loudonville High School; 3.8 G.P.A.

**Employment history:** Current employment - Scotts Miracle-Gro Company, 18 years, 1997-present, currently the office manager; Mansfield Plumbing Products, 1995-1997; also farm part-time raising hay, corn, vegetables and flowers

**Leadership and community activities:** Deacon at Ripley Church of Christ - also teach Sunday School, assist in leading worship and lead a small group Bible study; member of Cedar Valley Cloggers - have served as president, VP, secretary; Wayne County Fair Flower Committee; member of Wooster Gnat Boxers Square Dance Club - past president, secretary and treasurer.

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** To help represent the co-op both locally and nationally; to continue providing electric at the lowest cost while being ethical and accountable to all members in the decisions that are made by the co-op.

**Any additional information you feel is essential for members to be aware of:** I have resided in the co-op my entire life and plan to live the rest of my life here. I am very passionate about all I do and never do anything substandard.



### *District 7: David Tegtmeier*

**Home address:** 11360 Franchester Road; West Salem, Ohio 44287 (Congress Township in Wayne County)

**Spouse, children and grandchildren:** Wife - Rita; three grown children and one grandchild

**Number of years as member of HWEC:** 32

**Education and specific degree:** Associate's degree in computer programming

**Employment history:** Employed at Ashland University as a senior audio/visual technician; self-employed part-time farmer, partner of Sunsational Oil, LLC; previously employed by First Merit/Peoples Federal; and served in the U.S. Air Force

**Leadership and community activities:** Served on Congress Township committees, St. Peter Lutheran Church in New Pittsburg, member of Wayne County Farm Bureau and NRA

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:**

I would certainly appreciate the opportunity to serve the HWEC as a trustee. I would hope to continue the fine work that the trustees have done in the past.



### *District 7: Bob Winkler*

**Home address:** 7997 West Pleasant Home Road, West Salem, Ohio 44287

**Spouse, children and grandchildren:** Wife - Elaine Koch; daughter - Erika

**Number of years as member of HWEC:** 15

**Education and specific degree:** 1978 graduate of Norwayne High School and the Wayne County Career Center

**Employment history:** Owner, Winkler Trenching, LLC, since 1984, trenching and directional drilling contractor

**Leadership and community activities:** I served 19 years on Wayne County Fair Board as superintendent of the Draft Horse and Pony Department, also serving as president and vice president before retiring in 2013; Wayne County Rural Youth Board of Directors; member of Wayne County Farm Bureau; church affiliation - St. Peter Lutheran.

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** I value the importance of rural electric cooperatives and believe my experience as a utilities contractor would be an asset to the HWEC board. I have an interest in keeping our electric supply reliable and affordable now and into the future.

**Any additional information you feel is essential for members to be aware of:** Governmental regulations are one of the biggest challenges facing Ohio's rural electrical cooperatives today. We need to continue to encourage members to stay informed of policies at local, state, and national levels effecting energy resources and electric production.



### *District 7: Rick Witucki*

**Home address:** 7555 Shilling Road, West Salem, Ohio 44287

**Spouse, children and grandchildren:** Wife - Kim; children - Mallory, Gavin and McKenna

**Number of years as member of HWEC:** 15

**Education and specific degree:** 1994 graduate of Northwestern High School

**Employment history:** West Salem village administrator, 2008-present

**Leadership and community activities:** I was a volunteer firefighter and EMT for Town & Country Fire District for 17 years. Member of the Fraternal Order of Police Associate Lodge.

Last year I coached little league baseball. Last year I coached fourth-, fifth- and sixth-grade football and plan to do the same this year.

**Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term:** I thoroughly enjoy working with the public and listening to concerns of others to help make the process better. I feel that with the amount of community activities, as well as my exposure in West Salem, members of this co-op would not hesitate to contact me if something was wrong or to share an opinion.

**Any additional information you feel is essential for members to be aware of:** I will strive to do my best to represent each member of my district as well as assisting the trustees in the other districts. My goal is to make sure that every voice is heard.

# 2014 Annual Meeting Minutes

The Annual Meeting of Holmes-Wayne Electric Cooperative, Inc., was held at the West Holmes High School on Thursday, June 26, 2014.

The business meeting was called to order by Vice Chairman of the Board of Trustees, David Mann. It was moved and seconded to approve the agenda. Motion carried.

It was moved and seconded to approve the minutes of the June 27, 2013, Annual Meeting as presented. Motion carried.

Randy Sprang, chairman of the Board of Trustees, reported on behalf of the Board of Trustees:

- Retirement of capital credits of over \$1,062,772 in 2014. This is a reminder of the principles on which the cooperative was built.
- The board and cooperative staff live and work in the community and are actively involved in supporting your community volunteering time and resources.
- The board recently approved a \$16.5 million work plan. This plan includes upgrades to substations and infrastructure to continue to provide our members with the most reliable electric service.
- Your board is committed to legislative communication with lawmakers about the facts of our industry and the impact of legislation on you, the members of the Cooperative. In the past year we have seen 2 new EPA proposals attacking fossil fuel generation.
- The board of trustees and leadership staff at Holmes-Wayne Electric Cooperative contribute to the Action Committee for Rural Communication (ACRE), which supports congressional candidates of both parties who share public policy goals that are consistent with the mission of member-owned electric cooperatives. Half of the contributions to ACRE are returned to statewide associations for use in state elections to express our concerns regarding proposed energy and environmental policies and the devastating impact this would have on our members.
- Our members also have the opportunity to let their congressman know they are concerned about maintaining affordable electric and they are committed to promoting policies that will secure the future of our electric cooperative and our community by joining the COPA program, which is the Co-op Owners for Political Action program.

Randy Sprang personally thanked the 277 Holmes-Wayne Electric Cooperative members who have already taken the step to join COPA.

Your Board of Trustees appreciates the responsibility we have to deliver safe electric to the rural areas of our community. We are committed to keeping the staff safe, which includes monthly safety meetings and field inspections. The board has committed a portion of the budget to purchasing safety equipment, tools and personal protective clothing as well as valuable safety training and education for employees.

Dustin Raber of Rea & Associates reviewed the Auditor's Report for 2013, which resulted in a clean, unqualified opinion.

Daniel Mathie, attorney from Critchfield, Critchfield, and Johnston, LTD, and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. Members of the cooperative who are enrolled in Operation Round Up donated over \$63,000 in 2013 to local community members and organization, and over \$387,000 since the beginning of the program nine years ago.

Glenn W. Miller, CEO of the cooperative, reported on the accomplishments during the past year and future plans:

- The cooperative began 2014 with a new \$16.5 million four-year work plan. The last couple of work plans focused on major substation upgrades and building tie lines between substations, giving us the ability to backfeed during transmission outages. A good majority of the backbone of our system has been rebuilt. The next step is to start to rebuild single phase lines and replace the old copper wire. This will further increase reliability and reduce line losses, saving the cooperative money.

## 2014 Annual Meeting Minutes (continued)

- In the last seven years alone, we have rebuilt approximately 275 miles of the system. This year we will rebuild another 20 miles of line, and in the four-year work plan a total of 110 miles will be rebuilt.
- In 2004 we began a strategic tree trimming program. In the first decade of this program, we trimmed 4,100 miles of trees. This year will trim another 406 miles in Mohicanville, Golden Corners, North Wayne, Clear Creek and West Salem substation areas.
- One hundred eighty-five new services were added in 2013 and 92 services retired, for a total of 18,466 services at year's end.
- Our staff remains active in the community by participating in answering phones for the Share a Christmas program and Touch-a-Truck Day in Wayne County, Reality Days in local schools, parades, and concession stands at local ball games, to name a few.
- The Cooperative employees raised and donated over \$10,000.00 to the American Cancer Society Relay for Life fund in 2014, for a total of about \$101,000.00 over the last 11 years.
- The Cooperative has paid \$1.40 million in kWh tax to the State of Ohio and \$928,000 in property taxes that benefit 12 local school districts and local governments.
- We continue to be active in promoting energy efficiency and safety by visiting local schools, safety fairs and talking with youth in 4-H and Scout troops, for instance.
- Holmes-Wayne has one of the lowest electric service rates in the state out of 25 cooperatives.
- We currently have 38 staff members for 18,466 meters, which is 486 meters per staff member. The state average is 316 meters per staff member. By focusing on technology advances, efficiencies and cost savings, we have been able to keep our staff to a minimum and still provide up-to-date information and streamline our work processes to reduce costs to our members.
- Recently proposed regulations by the EPA threaten our cooperative's low rates. As a cooperative, we certainly support clean air and water, but we need to do so in a reasonable manner that minimizes the economic impact on electric rates and jobs.
- Four years ago, COPA, the Co-op Owners for Political Action program, was introduced as a way cooperative members can be involved in letting their state and federal elected officials know that they are committed to promoting policies that will secure the future of our electric cooperative and our community. Two hundred seventy-seven Holmes-Wayne members are participating in COPA.
- Glenn Miller stated, "As a member-owned company, we feel it is our responsibility to make you aware of the options you have to keep your power safe, clean and affordable. We will continue to remain vigilant to protect your interests."

Guest speaker Tony Ahern, president and CEO of Buckeye Power and Ohio Rural Electric Cooperatives, Inc., addressed the issues facing electric cooperatives. The higher costs associated with regulations on coal-fired emissions will have a severe impact on lower-income households, which is why consumer and industry groups are voicing their concerns. Mr. Ahern stated "The EPA, like every other government institution, should be accountable to the American people. We need to protect our environment, but this should be done on the basis of open and honest information."

Robyn Tate, HR/PR representative, presented the cooperative's scholarship awards.

Daniel Mathie, attorney from Critchfield, Critchfield, and Johnston, LTD, reported the results of the election:

Ken Conrad – District 4, Ronnie Schlegel – District 5, Jonathan Berger – District 6

Attorney Daniel Mathie administered the oath to all the trustees elected.

There was no unfinished business. There was no new business. Upon motion made and seconded, the meeting was adjourned.



# 2014 Wrapup

Operation Round Up began at HWEC in January 2006. As the program begins its 10th year, the Operation Round Up Foundation has distributed **\$435,277.59** at year-end 2014.

Thank you to those members who have chosen to have their monthly electric bills rounded up to the nearest dollar. The monthly donation is placed into the Operation Round Up Foundation. Applicants for assistance must be members of the local community, and all applications are reviewed by a five-member board.

A special thanks to the following board members for volunteering their time: President Dan Mathie; Vice President Harold Neuenschwander; Secretary Lisa Grassbaugh; and directors Don Buren and Glenn Miller.

If you would like to learn more about the program or how to participate in Operation Round Up, please call the office toll free at 866-674-1055.

## Operation Round Up Annual Distribution

2014 - \$48,216.56
2013 - \$63,099.06
2012 - \$51,343.99
2011 - \$66,289.93
2010 - \$59,670.87
2009 - \$38,794.38
2008 - \$38,279.61
2007 - \$37,596.26
2006 - \$31,986.93

## 2014 Distributions

Assist a family with furniture and clothing, black mold house - Millersburg	\$1,000.00
Assist with memorial benches for community park - Wooster	\$500.00
Assist family with appliance due to medical needs - West Salem	\$354.00
Assist with Holmes County youth drug prevention program - Holmes County	\$2,000.00
Assist electrician wiring for community youth program - West Salem	\$323.89
Adaptive Sports program - Wooster	\$1,000.00
Assist lighting needs for community youth program - West Salem	\$346.02
ALS Foundation Community Walk - Wooster	\$500.00
Assist family with window replacement - child with medical needs - Creston	\$900.00
Cystic Fibrosis Foundation Walk - Holmes County	\$500.00
Assist flooring needs for community youth program - West Salem	\$330.09
Farmers & Hunters Feeding the Hungry - Wayne and Holmes counties	\$2,000.00
Special Olympics - Wooster	\$250.00
Assist family with transportation for medical treatments - Creston	\$250.00
Assist family with special equipment for children's disability needs - Millersburg	\$2,000.00
Holmes County Youth Mission - Love Out Loud	\$2,500.00
Printer for Ashland County Cancer Association	\$175.00
Assist a family with beds for children - Shreve	\$872.89
Assist family with transportation for medical treatments - Holmesville	\$250.00
Assist a family with transportation for medical treatments - Shreve	\$500.00
Assist a family with transportation for medical treatments - West Salem	\$500.00
Farmers & Hunters Feeding the Hungry - Coshocton County	\$500.00

## 2014 Distributions (continued)

Assist with essential equipment for Ashland Christian Health Services	\$884.88
Assist a family with transportation for medical treatments - West Salem	\$250.00
Assist a family with transportation for medical treatments - Glenmont	\$500.00
Glenmont Food Pantry - processing of donated fair animals	\$257.92
Assist a family with transportation for medical treatments - West Salem	\$250.00
Assist a family with beds for children - Killbuck	\$722.38
Holmes County Home and Senior Center - processing of donated fair animals	\$2,341.36
Camp Ohio - 4-H camp - cabin improvements	\$200.00
Wayne County Agencies - processing of donated fair animals	\$458.13
Wayne County Agencies - processing of donated fair animals	\$1,800.00
Summer Youth Program/After School Program - Wooster	\$1,000.00
Assist a family with transportation for medical treatments - Killbuck	\$250.00
Assist individual with heating needs during medical conditions - Millersburg	\$500.00
Mohican Area Community Fund	\$250.00
Shreve United Methodist Church - Food Pantry	\$1,000.00
Share-A-Christmas - Holmes County	\$1,000.00
West Salem Outreach & Food Pantry	\$1,000.00
Light House Love Center - Holmes County	\$1,000.00
Salvation Army - Wayne County	\$1,000.00
Salvation Army - Holmes County	\$1,000.00
Town & Country Fire & Rescue Association - West Salem Toy Drive	\$1,000.00
Christian Children's Home - Wooster	\$1,000.00
Meals and More - West Salem	\$1,000.00
Meals on Wheels - Holmes County Senior Center	\$1,000.00
Every Woman's House - Holmes-County	\$1,000.00
Every Woman's House - Wayne County	\$1,000.00
American Red Cross - Wayne County	\$1,000.00
American Red Cross - Holmes County	\$1,000.00
Hospice - Holmes County	\$1,000.00
Hospice - Wayne County	\$1,000.00
Viola Startzman Health Clinic - Wooster	\$1,000.00
Church of God - Food Pantry - Millersburg	\$1,000.00
Meals Together - Wooster	\$1,000.00
Love Center - Free Health Clinic - Millersburg	\$1,000.00
Glenmont Food Pantry	\$1,000.00
<b>Total</b>	<b>\$48,216.56</b>

# 2014 Year in Review

## Finance/rates

Strength and stability appropriately describe Holmes-Wayne Electric Cooperative, Inc., and its financial performance in 2014. Revenues and power costs increased at similar rates over 2013, allowing the cooperative to maintain its operating margins at \$1,289,772, slightly higher than the previous year. Total net margins were \$2.9 million, which includes the Holmes-Wayne portion of Buckeye Power's margin allocation to its member cooperatives. Buckeye Power is Holmes-Wayne's wholesale power supplier. Of course, the margins — which is revenue after expenses — of Holmes-Wayne Electric belong to our member-owners and are returned in the future in the form of capital credits. Realizing adequate margins each year is critical to the vitality of the organization and is necessary to maintain the financial metrics expected by our lenders.

The cost of power purchased by the cooperative and distributed to consumers accounts for approximately 64 cents of every dollar spent by our members on their electricity. Certain expenses are inherently associated with the distribution of electricity by the cooperative, such as the state excise tax, depreciation of physical assets and interest on long-term debt. These expenses make up another 13 cents of every dollar spent by our members. Still other expenses, referred to as "controllable costs," amount to around 20 percent of the members' monthly bills. Such expenses, which include operating and maintenance costs, personnel and benefits, and administrative and general expenses, have increased by less than 1.5 percent since 2011. The

management of Holmes-Wayne Electric believes in operating in an efficient yet effective manner. While still focused on service, the cooperative has been able to effectively contain costs.

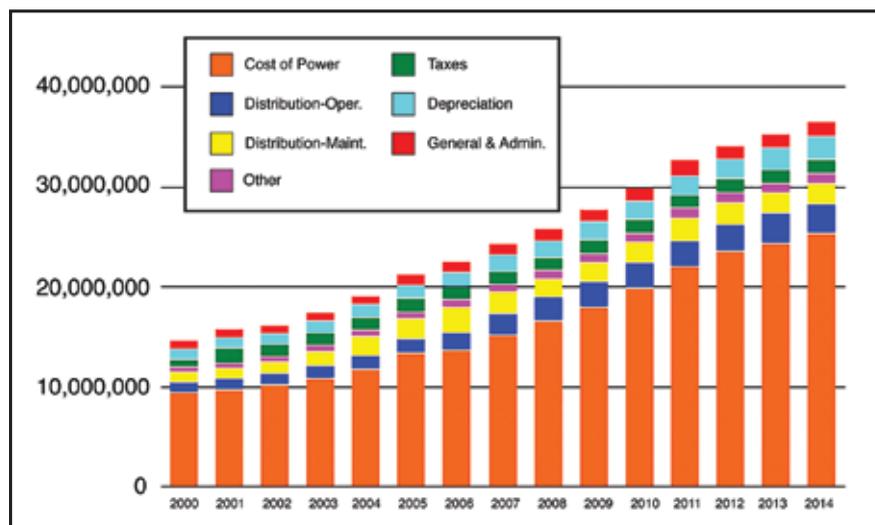
Holmes-Wayne Electric Cooperative, Inc., is a strong and stable organization, well-positioned to continue to safely provide reliable, competitively-priced electric service to its member-owners well into the future.

## Capital credits

Capital patronage, also referred to as capital credits, represents your investment in the cooperative. The net margins that are generated by the cooperative are allocated to each account that was active during the year, based on consumption. These accumulated margins are used by the cooperative as operating capital for a period of time, and then are returned to the member-owners in the form of capital credits retirements. These retired capital credits would be the equivalent of dividends that would be paid to the stockholders of a for-profit company. Holmes-Wayne Electric Cooperative returned \$1,328,162 in capital credits to its members in 2014. HWEC has refunded \$12,525,422 to members over the last 10 years.

Returning capital credits to members is a practice unique to the cooperative form of business and represents one of the cooperative principles: "Members' Economic Participation." And perhaps best of all, the benefits of this economic participation accrue locally to our neighborhoods and community.

## Operating Expenses



## Government relations

Over the years, member advocacy has taken on different forms, but the consistent theme for not-for-profit electric cooperatives has always been “members first.”

In 2014, HWEC advocacy involved urging federal regulatory bodies — namely, the Environmental Protection Agency — to implement reasonable, common-sense solutions to curbing carbon dioxide emissions from our nation’s power plants. Holmes-Wayne Electric Cooperative believes in the need for clean air and water as much as anyone. But we have an obligation to provide our members with electric service that is affordable and reliable as well as environmentally responsible.

As an organization, we use several avenues to communicate the best interests of our members. Our commitment includes the board of trustees and senior management personally donating to the Action Committee for Rural Electrification (ACRE®), a political action committee of electric cooperative employees and trustees across the nation.

In May, President/CEO Glenn Miller and board members Barry Jolliff and Dave Mann visited Capitol Hill in Washington, D.C., to meet personally with legislators to discuss the important cooperative issues. Focus was placed on the EPA proposal regarding carbon dioxide emissions and the overwhelming negative impact it will have on HWEC members.

We also continue to promote the ACRE Co-op Owners for Political Action®. Co-op Owners is a political action committee that supports both state and federal lawmakers who will speak for and protect the interests of cooperatives and their member-owners. Over 342 HWEC members have joined this effort, for which we want to express our sincere appreciation.

## Operations

2014 marked another assertive year for Holmes-Wayne Electric in its efforts to continue to provide reliable service to members.

Tree trimming and EPA-approved vegetation control are completed on a four-year rotation. Designed to prevent potential outages, these programs began in 2004 and are competitively bid and completed by a third-party contractor. Over 392 miles of tree trimming was completed in 2014, including the substation distribution lines of West Salem, Golden Corners, North Wayne, Clear Creek and Mohicanville. About 389 miles of vegetation control were completed in the Hefferline, Moreland, Alpine, Trail and Sugarcreek substation areas. Additionally, more than 15.5 miles of distribution lines were rebuilt in 2014. This is an investment of more than \$1.4 million.

Annual pole inspections continued. HWEC has more than 40,000 poles. Poles are tested throughout the HWEC service territory on a 10-year cycle to identify any poles not meeting standard requirements. Those poles identified are replaced by line personnel within the standard daily schedule. In 2014, 466 poles were replaced.

Also, throughout the entire year, line personnel continued to visually inspect infrastructure to identify and correct any maintenance issues in an effort to prevent future outages. With more than 2,200 miles of line that is exposed to a variety of weather elements throughout the year, it is critical for your cooperative to administer these processes to provide the best service to our members. Substation work in 2014 included upgrades at Sugarcreek.

Additionally, HWEC’s operations department is constantly managing outages. All outages are recorded in our electronic outage management system. The date and time of the outage occurrence, along with the duration and reason for outage, is collected. Any member or account who has more than three outages in a 12-month period is identified. Line crews are notified of these targeted accounts, and a review and inspection of the service and/or line section begins. Identified issues are repaired immediately to prevent future outages.

# 2014 Year in Review

## Safety

Safety continued to be a strong priority for HWEC in 2014. HWEC maintained the National Rural Electric Safety Achievement Program. To maintain a culture of safety, field inspections and in-house safety information meetings occur monthly. We continued our community outreach by providing table-top safety demonstrations. HWEC staff presented these demonstrations for local schools and first responders and at community safety fairs. Safety discussions begin every workday for field personnel as strategic projects are planned. Additionally, every Monday, a portion of the safety manual is reviewed to maintain and keep all field staff apprised of safety requirements. Several off-site training programs are also attended by linemen for specialized training needs.

## Energy efficiency

Holmes-Wayne Electric continues to recognize the importance of energy efficiency, home comfort and energy savings for our members. Many of our members enjoy the 24-hour access of our website, which offers a wide range of information, including energy efficiency tips, calculators and energy audit information. Others have taken advantage of the cooperative's home energy audit program, including blower door and infrared camera testing to identify the specific needs of their home.

## Community

HWEC is committed to its community. Our activities are not limited to safety demonstrations and the management of our Operation Round Up Foundation.

In 2014, we continued our active role in the American Cancer Society Relay for Life by raising over \$10,000. In the past 11 years, HWEC has raised over \$101,000 to assist with eliminating cancer through research, education, advocacy and local community services.

Our local scholarship tradition continued, with six scholarships totaling \$12,000 awarded to local high school seniors. We are proud to invest in the leaders of tomorrow.

The cooperative also participated in the 2014 West Salem Fireman's Parade and the Millersburg Antique Festival Parade. Additionally, staff donated time to the Wooster Library Touch-a-Truck program, Holmes County Share-A-Christmas, and Hiland, Triway, and West Holmes middle schools' Reality Days. Staff volunteered time as coaches for local youth sports and by wrapping gifts at the Linda Martin Attention Center.

## Member services

Our employees take great pride in being responsive to our members' needs, whether restoring power or helping to answer questions about energy use.

One key to maintaining quality service is to always be looking for value-added services and communications tools for our members. 2014 was filled with many new convenience features and communication avenues. In July, HWEC introduced a Facebook page. This social media site is another way we reach out to our members to communicate important information. We continue to use our monthly *Country Living* pages and bill stuffers for traditional routes of communication as well. We also have introduced a mass e-mail option through Constant Contact to send information to those members who have chosen to only receive electronic bills instead of paper bills.

We continue to offer a call center, staffed 24 hours a day, seven days a week, which allows members to report outages, make payments and submit readings at their convenience. Our website also provides online payment tools as well as an outage map that updates every 15 minutes.

Another payment avenue the cooperative has continued to maintain is a computerized phone system called IVR. IVR service is available 24 hours a day, reducing after-hours call center costs and providing an after-hours option for those users who chose not to use electronic forms to pay their bill.

To close 2014, the cooperative introduced SmartHub. This new e-bill site offers the same great features as before but additionally allows members to report an outage through our website. Especially significant to this program is the mobile app that can be used by both Android and Apple devices. Now members can pay their bill, submit a meter reading and report an outage through this mobile app.

In the fall of 2014, we again hosted our Cardinal Station tour. Fifty members and guests of the cooperative had the wonderful opportunity to tour our generation facility and learn about what makes your coal-generation power plant one of the cleanest in the world.

# Auditor's report

February 16, 2015

Board of Trustees  
Holmes-Wayne Electric Cooperative, Inc.  
Millersburg, Ohio 44654

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Holmes-Wayne Electric Cooperative, Inc. which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue, patronage capital, 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 material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2014 and 2013, 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.

### Other Matters

During the years ended December 31, 2014 and 2013, the Cooperative received \$0 and \$1,575,000 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2015 on our consideration of Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

# Balance Sheets

## as of December 31, 2014 and 2013

### ASSETS

	2014	2013
<b>UTILITY PLANT:</b>		
Electric plant in service	\$ 73,091,167	\$ 71,485,625
Construction work in progress	770,476	86,057
	73,861,643	71,571,682
Less: provision for accumulated depreciation	17,212,204	16,351,483
Net utility plant	56,649,439	55,220,199
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Retirement security plan prepayment	1,239,884	1,394,870
Investments in associated organizations	2,217,654	2,216,489
Patronage capital from associated organizations	15,057,819	14,188,057
Total other assets and investments	18,515,357	17,799,416
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	116,775	715,255
Accounts receivable, net of allowance	4,365,468	4,423,745
Materials and supplies	799,859	600,811
Other current assets	103,886	96,050
Total current assets	5,385,988	5,835,861
Total assets	\$ 80,550,784	\$ 78,855,476

### EQUITIES AND LIABILITIES

	2014	2013
<b>EQUITY:</b>		
Patronage capital	\$ 32,593,019	\$ 30,920,916
Other equities	1,566,007	1,497,302
Accumulated other comprehensive income	(274,400)	(274,400)
Total equity	33,884,626	32,143,818
<b>LONG-TERM LIABILITIES:</b>		
Mortgage notes payable	40,303,588	39,992,502
Deferred credits	3,849	25,625
Postretirement benefit obligation	464,569	399,136
Total long-term liabilities	40,772,006	40,417,263
<b>CURRENT LIABILITIES:</b>		
Current maturities of mortgage notes payable	1,662,000	1,691,000
Line of credit	200,000	400,000
Accounts payable	2,243,150	2,481,287
Postretirement benefit obligation, current portion	6,300	28,600
Accrued taxes	1,172,816	1,101,124
Customers' deposits	198,625	191,505
Other current liabilities	411,261	400,879
Total current liabilities	5,894,152	6,294,395
Total equities and liabilities	\$ 80,550,784	\$ 78,855,476

The accompanying notes are an integral part of these financial statements.

# *Statements of Revenue & Patronage Capital* for the years ended December 31, 2014 and 2013

## STATEMENTS OF REVENUE

	2014	2013
OPERATING REVENUES	\$ 39,414,134	\$ 38,139,064
OPERATING EXPENSES:		
Cost of purchased power	25,287,387	24,387,463
Operations	3,001,046	2,986,391
Maintenance	1,978,510	2,004,782
Consumer accounts	949,474	904,559
Customer service and informational expense	99,048	84,337
Administrative and general	1,497,908	1,480,543
Depreciation	2,245,888	2,064,967
Tax expense	1,434,194	1,396,848
Interest - other	5,871	5,945
Other deductions	5,548	4,496
Total cost of electric service	36,504,874	35,320,331
Operating margins before fixed charges	2,909,260	2,818,733
FIXED CHARGES, interest on long-term debt	1,619,487	1,642,451
Operating margins after fixed charges	1,289,773	1,176,282
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,498,104	1,149,731
Other credits	55,485	46,555
Net operating margins	1,553,589	1,196,286
Net operating margins	2,843,362	2,372,568
NON-OPERATING MARGINS:		
Interest income	43,095	46,899
Other income	27	20
Gain on disposition of property	26,241	0
Net margins	69,363	46,919
Net margins	\$ 2,912,725	\$ 2,419,487

## STATEMENTS OF PATRONAGE CAPITAL

	2014	2013
PATRONAGE CAPITAL, beginning of year	\$ 30,920,916	\$ 29,672,539
Net margins	2,912,725	2,419,487
Retirement of capital credits	(1,240,622)	(1,171,110)
PATRONAGE CAPITAL, end of year	\$ 32,593,019	\$ 30,920,916

The accompanying notes are an integral part of these financial statements.

# *Statements of Cash Flows*

## for the years ended December 31, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins	\$ 2,912,725	\$ 2,419,487
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,245,888	2,064,967
Amortization of retirement security plan prepayment	154,986	154,986
Non-cash capital credits received	(1,551,379)	(1,193,196)
(Increase) decrease in assets:		
Accounts receivable, net	58,277	4,780
Other current assets	(7,836)	7,336
Increase (decrease) in liabilities:		
Accounts payable	(238,137)	(266,151)
Accrued taxes	71,692	23,312
Customers' deposits	7,120	(4,719)
Other current liabilities	10,382	24,763
Deferred credits	(21,776)	(40,188)
Postretirement benefit obligation	43,133	40,936
Total adjustments	772,350	816,826
Net cash provided by operating activities	3,685,075	3,236,313
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of utility plant	(3,675,129)	(4,269,366)
(Increase) decrease in materials and supplies	(199,048)	204,787
Investments in associated organizations	(1,609)	(2,489)
Proceeds from redemption of capital credits	681,618	749,720
Return of investment in associated organizations	443	2,209
Investment in retirement security plan	0	(1,549,855)
Net cash used in investing activities	(3,193,725)	(4,864,994)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (payments) borrowings on line of credit	(200,000)	200,000
Proceeds from mortgage notes payable	2,000,000	3,899,855
Principal payments on mortgage notes payable	(1,717,914)	(1,510,389)
Patronage capital credits retired	(1,240,622)	(1,171,110)
Retired capital credits unclaimed	1,438	40,793
Donated capital received	67,268	67,906
Net cash (used) provided by financing activities	(1,089,830)	1,527,055
Net decrease in cash and cash equivalents	(598,480)	(101,626)
CASH AND CASH EQUIVALENTS, beginning of year	715,255	816,881
CASH AND CASH EQUIVALENTS, end of year	\$ 116,775	\$ 715,255

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

## December 31, 2014 and 2013

### NOTE A: ORGANIZATION

Holmes-Wayne Electric Cooperative, Inc. (the Cooperative) is a non-profit corporation operating on a cooperative basis. Its primary purpose is to provide electric power and energy to its membership which includes individuals as well as commercial and industrial businesses.

### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General

The Cooperative's accounting policies conform to generally accepted accounting principles of the United States of America following the accounting procedures common to rural electrical cooperatives and as recommended by the Rural Utilities Service (RUS).

#### Estimates

The preparation of financial statements in conformity with accounting principles general accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Electric Plant, Equipment and Depreciation

The Cooperative records improvements and additions to the distribution plant at cost using continuing property records. Retirements are removed from the asset and accumulated depreciation accounts at a standard cost, which approximates original cost, which is updated periodically.

The general plant and equipment is recorded at cost based on the unit method. Any retirements or disposals of general plant and equipment are removed at cost from the asset and accumulated depreciation.

Depreciation is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined by the use of functional composite rates as follows:

Distribution Plant	3.2%
General Plant:	
Structure and improvements	2.0 - 5.0 %
Office furniture and equipment	10.0%
Computer equipment	25.0%
Transportation equipment	14.0%
Power operating equipment	12.0%
Communications equipment	10.0%
Other general plant	10.0%

#### Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no ready market and are included in the financial statements as long-term assets. These investments, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

#### Accounts Receivable and Revenues

Revenue from the sale of electricity is recorded monthly based on consumer electricity consumption. The Cooperative bills monthly for all consumers. A few commercial consumers have "Demand" meters and are billed based upon meter readings made by Cooperative personnel. All other consumers are billed based upon self-read meter readings. Substantially all of the cooperative's consumers are located in Holmes and Wayne counties. The allowance for doubtful accounts at December 31, 2014 and 2013 was \$40,000 in both years. Bad debt expense for 2014 and 2013 was \$20,377 and \$30,124, respectively.

#### Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

#### Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year. No portion of the current allocation is paid in cash.

#### Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

The Cooperative is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2011.

#### Statements of Cash Flows

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Net cash flows from operating activities include cash payments for interest of \$1,618,851 and \$1,642,876 for the years ended December 31, 2014 and 2013, respectively. There were no payments for federal income taxes for 2014 or 2013.

### NOTE C: UTILITY PLANT AND DEPRECIATION

Listed below are the major classes of the electric plant as of December 31:

	2014	2013
Intangible Plant	\$248,131	\$248,131
Distribution Plant	64,685,191	63,000,983
General Plant	8,157,845	8,236,511
Electric Plant in Service	73,091,167	71,485,625
Construction Work in Progress	770,476	86,057
Total Utility Plant at Cost	<u>\$73,861,643</u>	<u>\$71,571,682</u>

# Notes to Financial Statements (continued)

## December 31, 2014 and 2013

### NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on December 31:

	2014	2013
<u>Investments in Associated Organizations:</u>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$631,192	\$631,636
NRUCFC member capital securities	200,000	200,000
Equity contribution with Buckeye Power, Inc.	1,209,981	1,209,981
NRUCFC membership	1,000	1,000
Cooperative Response Center membership	12,500	12,500
Rural Electric Supply Cooperative, Inc. membership	50	50
Heartland Emergency Equipment, Ltd.	135,803	134,194
CoBank common stock	<u>27,128</u>	<u>27,128</u>
Total investments in associated organizations	2,217,654	2,216,489

### Patronage Capital from Associated Organizations:

Rural Electric Supply Cooperative, Inc.	380,883	380,708
Buckeye Power, Inc.	14,374,473	13,530,874
NRUCFC	107,868	101,274
National Information Solutions Cooperative	78,439	69,366
Federated Rural Electric Insurance Exchange	107,104	98,507
Cooperative Response Center membership	<u>9,052</u>	<u>7,328</u>
Total patronage capital from associated organizations	<u>15,057,819</u>	<u>14,188,057</u>
Total investments in associated organizations	<u>\$17,275,473</u>	<u>\$16,404,546</u>

### NOTE E: PATRONAGE CAPITAL

At December 31, 2014 and 2013, patronage capital consisted of:

	2014	2013
Assignable	\$2,912,725	\$2,419,487
Assigned	50,261,157	47,841,674
	53,173,882	50,261,161
Retired	(20,580,863)	(19,340,245)
Total patronage capital	<u>\$32,593,019</u>	<u>\$30,920,916</u>

The Cooperative's patronage capital balances represent 40.5 percent and 39.2 percent of the total assets at December 31, 2014 and 2013, respectively. Capital credit retirements in the amount of \$1,240,621 and \$1,171,110 were paid in 2014 and 2013, respectively.

The Cooperative received donated capital from members totaling \$67,268 and \$67,906 during 2014 and 2013, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2014 and 2013 includes \$17,214,722 and \$16,711,019, respectively, reinvested in Buckeye Power, Inc. which has been restricted by action of the Board of Trustees and members of the Cooperative. This patronage capital reinvested in Buckeye Power, Inc. has been separately identified on the books of the Cooperative and will not be available for retirement by the Cooperative until retired in cash by Buckeye Power, Inc.

### NOTE F: OTHER EQUITIES

At December 31, 2014 and 2013, other equities consisted of:

	2014	2013
Donated capital	\$1,008,377	\$941,110
Retired capital credits unclaimed	557,630	556,192
Total other equities	<u>\$1,566,007</u>	<u>\$1,497,302</u>

### NOTE G: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2014 and 2013 was \$518,914 and \$485,320, respectively.

All employees of Holmes-Wayne Electric Cooperative, Inc. are eligible to participate in the selected pension plan and trust defined contribution benefit plan administered by NRECA. The Cooperative contributes 1 percent of all eligible participants' base salary and wages and matches up to an additional 4 percent of a participant's voluntary contributions. The Cooperative expensed \$111,667 and \$107,792 for the years ended December 31, 2014 and 2013, respectively.

### NOTE H: LONG-TERM DEBT

Long-term debt is comprised substantially of mortgage notes payable to the United States of America (RUS & FFB) and supplemental mortgages to NRUCFC. Following is a summary of outstanding long-term debt as of December 31, 2014 and 2013:

# Notes to Financial Statements (continued)

## December 31, 2014 and 2013

### NOTE H: LONG-TERM DEBT (Continued)

Loan	Fixed Interest Rate	Maturity Date	2014	2013
RUS	4.625%	7/31/29	\$310,480	\$325,293
RUS	5.000%	7/31/29	311,064	325,520
RUS	5.280%	5/2/40	1,787,941	1,820,769
RUS	4.780%	5/2/40	884,226	901,867
RUS	4.960%	5/2/40	1,470,302	1,498,760
RUS	4.940%	5/2/40	1,777,134	1,811,551
RUS	4.340%	5/2/40	215,841	220,450
RUS advance payments unapplied			-78	-74
CFC	5.050%	1/26/15	0	57,033
CFC	5.050%	7/28/18	132,355	166,093
CFC	6.250%	3/14/26	383,576	407,156
CFC	6.300%	7/28/29	284,562	296,249
CFC	4.400% - 5.150%	4/29/19	271,301	448,704
CFC	3.400% - 4.850%	3/31/18	902,795	960,706
CFC	1.900%	12/31/16	840,287	1,248,634
Sewer tap payable (no interest) paid 2014			0	5,000
FFB	4.503%	12/31/31	734,035	762,213
FFB	4.120%	12/31/31	1,390,196	1,445,628
FFB	2.736%	12/31/31	694,188	725,856
FFB	4.269%	12/31/31	371,510	386,107
FFB	4.295%	12/31/31	745,389	774,601
FFB	3.879%	12/31/31	725,165	754,774
FFB	2.009%	1/2/35	764,387	795,150
FFB	2.231%	1/2/35	745,760	775,041
FFB	2.795%	1/2/35	758,331	786,274
FFB	4.550%	1/2/35	805,032	829,236
FFB	4.353%	12/31/34	808,767	833,656
FFB	4.543%	12/31/34	1,954,410	2,013,219
FFB	3.889%	12/31/42	5,547,530	5,655,251
FFB	3.849%	12/31/42	2,772,207	2,826,400
FFB	4.419%	12/31/42	1,955,571	1,990,281
FFB	3.873%	1/2/46	1,937,574	1,969,391
FFB	2.763%	1/2/46	1,346,477	1,373,608
FFB	2.702%	1/2/46	1,249,758	1,275,218
FFB	2.330%	1/2/46	1,629,846	1,665,332
FFB	2.421%	1/2/46	1,199,232	1,224,923
FFB	2.777%	1/2/46	2,281,771	2,327,632
FFB	Variable	1/2/46	976,666	0
FFB	Variable	12/31/49	1,000,000	0
Total mortgage notes			41,965,588	41,683,502
Less: current portion of mortgage notes			1,662,000	1,691,000
Long-term mortgage notes payable			<u>\$40,303,588</u>	<u>\$39,992,502</u>

The annual maturities of long-term debt for the next five years are as follows:

2015	\$1,662,000
2016	1,683,000
2017	1,281,000
2018	1,255,000
2019	1,247,000
Thereafter	<u>34,837,588</u>
	<u>\$41,965,588</u>

The Cooperative has available \$11,000,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2014.

### NOTE I: SHORT-TERM DEBT

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2014. The interest rate on the line of credit at December 31, 2014 and 2013 was 2.90 percent, with outstanding balances on the line of \$200,000 and \$400,000 respectively. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

The Cooperative also entered into a corporate charge card agreement with US Bank and NRUCFC. The terms of the agreement state that CFC will extend the Cooperative credit, if needed, at CFC's current line of credit rate, payable upon demand by CFC.

### NOTE J: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2014	2013
Consumer energy prepayments	\$3,849	\$4,272
Construction deposits	0	21,353
	<u>\$3,849</u>	<u>\$25,625</u>

### NOTE K: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Holmes-Wayne Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$2,161,375 and \$2,247,605 at December 31, 2014 and 2013, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,292,498 and \$1,330,736 for the years ended December 31, 2014 and 2013, respectively.

The Cooperative has an agreement with National Information Solutions Cooperative (NISC), St. Louis, Missouri to participate in data processing services offered by NISC. This contract will continue until terminated by written notice given by either party. The total expense under this agreement was \$139,076 and \$135,073 for the years ended December 31, 2014 and 2013, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note H).

The Cooperative has an investment in Heartland Emergency Equipment, Ltd., a limited liability company (LLC). The LLC's members consist of 12 rural electric cooperatives. The purpose of the LLC is for the cooperatives to pool resources for the provision and use of emergency substation equipment. The investment balance is disclosed in Note D.

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$48,931 and \$44,066 for the years ended December 31, 2014 and 2013, respectively.

# Notes to Financial Statements (continued)

## December 31, 2014 and 2013

### NOTE K: COMMITMENTS AND RELATED PARTY TRANSACTIONS (Continued)

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$102,796 and \$99,973 for the years ended December 31, 2014 and 2013, respectively.

### NOTE L: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from the Cooperative. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits, and requires the accrual of the postretirement benefit obligation (including any unfunded portion of the plan).

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a "pay-as-you-go" basis. Therefore, there are no assets available for benefits.

The following table sets forth the plan's accrued postretirement benefit obligation ("APBO") at December 31:

	2014	2013
APBO, beginning of year	\$427,736	\$386,800
Service cost	16,400	16,400
Interest cost	20,405	18,460
Amortization	10,100	10,100
Additional expenses	18,599	39,997
Less: actual cash payment	<u>(22,371)</u>	<u>(44,021)</u>
APBO, end of year	470,869	427,736
Less: current portion	<u>(6,300)</u>	<u>(28,600)</u>
APBO, long-term portion	<u>\$464,569</u>	<u>\$399,136</u>

Benefits expected to be paid, representing expected future service, are as follows:

2015	\$6,300
2016	10,900
2017	13,700
2019-2023	41,200

The annual health care cost trend rates, which have a significant effect on the amounts reported, are assumed as follows:

	<u>Medical</u>	<u>Drugs</u>
2014	8.0%	8.0%
2015	7.5%	7.5%
2016	7.0%	7.0%
2017	6.5%	6.5%
2018	6.0%	6.0%
2019	5.5%	5.5%
2020 and later	5.0%	5.0%

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.75 percent.

### NOTE M: RETIREMENT SECURITY PLAN PREPAYMENT

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 Retirement Security (RS) Plan (a defined benefit multiemployer pension plan) to make a prepayment and reduce future required contributions.

### NOTE M: RETIREMENT SECURITY PLAN PREPAYMENT (Continued)

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 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 that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15 year period.

Two prepayment options were available to participating cooperatives:

1. Use current assets to make the prepayment over a period of not more than 4 years
2. Borrow funds sufficient to make the prepayment in a lump sum, with the repayment of the borrowed amount determined by the loan's amortization schedule.

On February 14, 2013, RUS issued a memorandum to all of its borrowers regarding the proper accounting treatment of the RS Plan prepayment. RUS stipulated that the prepayment shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits. This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period. Alternatively, RUS borrowers may calculate the amortization period by subtracting the cooperative's average age of its workforce as provided by NRECA from the cooperative's normal retirement age under the RS Plan, up to a maximum period of 20 years. If the entity chooses to finance the prepayment, interest expense associated with the loan shall be recorded in the year incurred as is required under the RUS Uniform System of Accounts (USOA).

Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured debt that a borrower may incur to 15% on Net Utility Plant if the equity level of the borrower, after considering such unsecured debt, is below 30% of its Total Assets unless the borrower obtains RUS consent. RUS will consider any unsecured debt associated with the RS Plan prepayment to be "Permitted Debt" and accordingly it will be excluded from the application of Section 6.13(e).

On February 28, 2013 the Cooperative made a prepayment of \$1,549,855 to the NRECA RS Plan. The cooperative is amortizing this amount over 10 years. The Cooperative obtained a loan through NRUCFC to finance the RS Plan prepayment. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS USOA.

### NOTE N: SUBSEQUENT EVENTS

In January 2015, the Cooperative refinanced \$6,756,989 in notes with Rural Utility Service to notes with National Rural Utilities Cooperative Finance Corporation (NRUCFC) due in 2037. The refinancing of this long-term debt is projected to save the Cooperative approximately \$762,000 in interest expense over the term of the notes. The Cooperative will also benefit from additional patronage capital allocations from NRUCFC estimated at \$399,000.

Management has evaluated subsequent events through February 16, 2015, the date on which the financial statements were issued.