

Your co-op cares for you!

Holmes-Wayne Electric Cooperative, Inc. 2014 Annual Meeting of the Members

Thursday, June 26
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 HVEC members will receive via USPS a trustee election ballot and RSVP form for the Annual Meeting dinner. Voting ballot and RSVP form can be returned by the provided postage paid envelope or online at 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 their August electric bill and two free energy-efficient compact fluorescent lightbulbs.

We also will be hosting a food drive at the Annual Meeting. Please feel free to bring a nonperishable item. Food collected will be distributed to the Wayne County Salvation Army and the Holmes County Food Pantry.

New Health & Information Fair:
Visit all 4 specialty areas.

Your co-op cares for your health!
Your co-op cares for your safety!
Your co-op cares for your dollars!
Your co-op cares for your community!

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 2013
7. Operation Round Up Foundation financial report for 2013
8. President's report
9. Guest speaker
10. Scholarship winners presentation
11. Results of trustee election and swearing -in of trustees
12. Unfinished business
13. New business
14. Adjournment

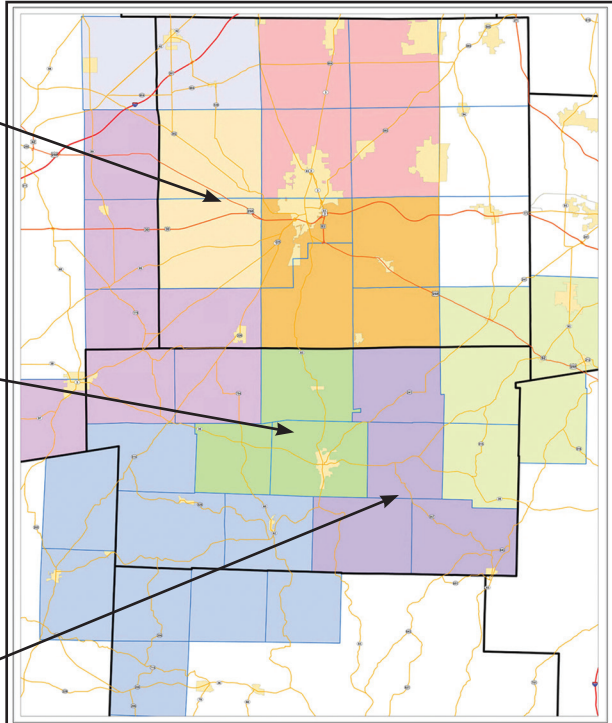


2014 Holmes-Wayne Electric Cooperative, Inc. Board of Trustees Election

District 6 - Chester and Plain townships in Wayne County

District 5 - Hardy, Monroe and Prairie townships in Holmes County

District 4 - Berlin, Clark Mechanic and Salt Creek townships in Holmes County



Candidate information is presented as provided by each candidate.

HWEC Code of Regulations requires a nominating committee consisting of one member from each of the nine districts to select a list of 10 potential candidates for each district election. Also required is a minimum of one and maximum of three candidates for the election process.

Any 15 or more members residing in the district from which a trustee is to be elected may make other nominations in writing over their signatures.

District 4



Ken Conrad - Incumbent

Home address: 6393 County Road 19; Millersburg, Ohio 44654

Spouse, children and grandchildren: wife - Mary, for 56 years; children - three; grandchildren - five; great-grandchildren - four

Number of years as member of HWEC: 48

Education and specific degree: Clark High School graduate - 1955

Employment history: Served two years in the United States Army from 1958-1960.

Lifetime self-employed as a dairy farmer and 46 years livestock trucking.

Leadership and community activities: Clark Community Church - lifetime member, served as elder and trustee; Mechanic Township Trustee - served 12 years; and

Holmes County Fair Board

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: I have obtained the Credentialed Cooperative Director Certificate and also the Board Leadership Certificate. Being semi-retired, I believe that I have the time and knowledge to continue being an effective board member.



Sherry Ann McRobie

Home address: 2808 Township Road 128; Millersburg, Ohio 44654

Spouse, children and grandchildren: I've been married 36 years to my awesome husband, Chuck; blessed with children Joy (Josh), Ryan (Kristin) and Joe (Kristina); and double blessed with grandchildren Abby, Nicholas, Benjamin, Colin, Gavin, Izzy, Zoe and Gabriel

Number of years as member of HWEC: New member in 2013

Education and specific degree: Garaway High School and attended Cedarville University

Employment history: I have had the privilege of working for Commercial and Savings Bank since 1994, starting part time at the Sugarcreek Office, then 9 years at the Berlin Office and the last 10 years as manager and assistant vice president at the Charm Banking Center.

Leadership and community activities: Graduate of Holmes County Leadership, Charm Days Committee, Sharon Avenue Free Methodist Church Leadership Team, and Sunday Soup Kitchen Team Leader

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: It would be my pleasure to serve you.

Any additional information you feel is essential for members to be aware of: Of all the qualifications listed, the most important thing I can say to you is words from my favorite song, "Hello, my name is child of the one true King. I've been saved, I've been changed, I have been set free. 'Amazing Grace' is the song I sing." My Lord Jesus has given me a heart to love and serve people.



Paul Shutt

Home address: 3422 State Route 643; Baltic, Ohio 43804

Spouse, children and grandchildren: wife - Rebecca; children - Rachel Lee, Jessica Vorst, Jason Shutt and Vanessa Shutt; grandchildren - Olivia Lee, Makenna Lee, Mason Lee and Harper Vorst

Number of years as member of HWEC: 40 years

Education and specific degree: High school graduate and engineering courses at Kent State University - Tuscarawas Branch

Employment history: The Belden Brick Company for 40 years; 24 years in engineering and the last 16 years as manager of purchasing for the seven Belden Brick and 5 Redland Brick plants located out of state

Leadership and community activities: Holmes County Fair Board - 20 years; East Holmes School Board - 20 years; Finzer Brothers Board at Belden Brick; and treasurer of the Walnut Creek Mennonite Church - 8 years

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: I've been a co-op member for 40 years. I would like to have the opportunity to serve and learn how the co-op operates. With serving on the school board and fair board, I feel I have the knowledge of federal, state and local funds that may be of help to the co-op if available.

Any additional information you feel is essential for members to be aware of: With the leadership and community activities, I have served on various committees which have looked for ideas or direction for improvement.

District 5



Ronnie Schlegel - Incumbent

Home address: 8011 Township Road 323; Holmesville, Ohio 44633

Spouse, children and grandchildren: wife - Sandy, for 42 years; daughters - Merci (Terry) Williams and Charity (Jason) Thompson; grandchildren - Tory, an Army Specialist Team Leader, Aaron, an Army Specialist Team Leader, Jaimi, Anabelle and Boone.

Number of years as member of HWEC: 35 years

Education and specific degree: Graduate of Waynedale High School, attended Wayne General College, NRECA Credentialed Cooperative Director Certification and NRECA Board Leadership Director Certification

Employment history: Ohio Ag Equipment, a Division of Ohio CAT - Store Manager, Millersburg Location

Leadership and community activities: Member Fredericksburg Presbyterian Church, former director Federal Land Bank, 4-H Advisor, 4-H County Committee chairman, and Holmes County Expo board member

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: My past training and experience while serving as a trustee, in addition to my background as a farmer and business owner and extended knowledge in agri-business, gives me insight into being a good representative of the membership to the Board of Trustees of Holmes-Wayne Electric Cooperative.

Any additional information you feel is essential for members to be aware of: Former farm owner and manager of G & R Schlegel Farms; 30-year member of Board of Trustees of Holmes-Wayne Electric Cooperative - previously served as secretary/treasurer and chairman of the Board of Trustees

Michael Mizer

Home address: 5093 County Road 400; Millersburg, Ohio 44654

Biographic information and photo were not provided.

District 6

In addition to the candidates selected by the Nominating Committee, the following individual submitted a petition, per the cooperative's Code of Regulations, and has obtained enough signatures to qualify as a candidate in District 6 trustee election.



Ken Bower - Incumbent - Petition

Home address: 6211 Heyl Road; Wooster, Ohio 44691

Spouse, children and grandchildren: children - son Eric (Michelle) and daughter Lisa; grandchildren - Aaron, Zack, Brianna and Abby

Number of years as member of HWEC: Have been a member of the cooperative since 1973 and a member of the Board of Trustees since 1983

Education and specific degree: A graduate of Triway High School, taken various business-related courses through the Wayne County Schools Career Center and completed courses offered by Ohio Township Trustees Association, Ohio Rural Electric Cooperatives Association and the National Rural Electric Cooperatives Association

Employment history: Retired from full-time farming in 1992 and now owner of Ken Bower Trucking LLC

Leadership and community activities: A lifelong member of Plain Lutheran Church and president of Plain Lutheran Cemetery, member of Wayne County Farm Bureau, former member of the Wayne County Fair Board and Plain Township Board of Trustees - serving terms as vice president and president of both, as well as president of the Wayne County Trustees and Fiscal Officers Association and Holmes-Wayne Electric Cooperative Board of Trustees.

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: With the electric industry changing, it is important to have an experienced person on the board. It is also essential to continue to maintain a strong safety program because HWEC employees are the most important asset.

District 6



Jonathan Berger

Home address: 8200 Lattasburg Road; Wooster, Ohio 44691

Spouse, children and grandchildren: daughter Jessica (Craig) Nolletti; sons Daniel and David (Stef); grandchildren Domini and Macy Nolletti

Number of years as member of HWEC: 30-plus years

Education and specific degree: Bachelor of Science and Agriculture, Ohio State University

Employment history: Past - dairy farmer, also employed by the Wayne Soil and Water Conservation District. Current - self-employed farmer raising and direct marketing grass-fed beef

Leadership and community activities: Church affiliation - Member of St. Peter Lutheran Church, including past council president, head of recent (2011) building renovation project, and various current and past church committee assignments. Community - Life member Izaak Walton League of America, life member National Rifle Association, ATI Dairy Advisory Committee, and various past local dairy and agricultural related positions

Why you are interested in becoming a member of the HWEC Board of Trustees or serving another term: The electricity supplied by our local Holmes-Wayne Electric Cooperative continues to be the single best value per energy dollar spent that is available. When you combine the high efficiency of electricity along with the versatility it allows, it is truly a resource worthy of respect and protection.

The current board and staff have done a good job of keeping our flow of electricity steady, available and affordable. The information provided in our *Country Living* periodical gives us a glimpse of the many challenges an electric provider such as our local Holmes-Wayne Cooperative faces. It is not only the hired positions that can provide valuable knowledge and experience to help a business run smoothly and efficiently, but the resource base contained in the members themselves that needs to be tapped to the best advantage for all.

Being self-employed for the majority of my working life, it has been my experience that a new, yet informed perspective can be a good addition to a management team. It is an excellent way to bring value to a position that makes decisions affecting the entire cooperative membership.

The current and future plans of my entire family are to reside within the areas serviced by the Holmes-Wayne Electric Cooperative. It would be fair to say that I have a strong interest in a sound plan of management for its future.

Any additional information you feel is essential for members to be aware of: The current and future issues facing all electric consumers, small and large, are very real. We need to be careful not to become complacent in our management based on the fact that we have never had major interruptions to our supply. Governmental mandates have the potential to drastically affect the cost and availability of our energy resources. As cooperative members we must be vigilant and well informed so that we make sound decisions that affect the future of our cooperative.



Kim Wellert

Home address: 7141 Gable Road; West Salem, Ohio 44287

Spouse, children and grandchildren: Wife - Sherri, of 33 years; children - Jonathon, Jeremy and Jessica

Number of years as member of HWEC: 10 years

Education and specific degree: Northwestern High School - 1980

Employment history: Owner of Wellerts AC Parts - 18 years, and Wellert Mechanics - 13 years

Leadership and community activities: Northwestern School Board - 6 years (past board chair - 3 years), Northwestern Ruritans Board - 2 years, and past Mohican

Church Board

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I would like to serve on the HWEC Board of Trustees to help our community keep our electric cost at a reasonable rate. Also I would like to help to provide the best service HWEC can give to its customers. While keeping in compliance with all EPA and government regulations.

2013 Annual Meeting Minutes

The Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 27, 2013.

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 28, 2012 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 \$939,245 in 2013. This is a reminder of the principles on which the cooperative was built.

- The board understands and appreciates the responsibility to deliver safe electricity to the rural areas of our community. We are committed to keeping the HWEC staff safe, which includes monthly staff meetings and field inspections, review of monthly safety reports and the purchase of safety equipment, tools and personal protective clothing and safety training and education.
- This past year your cooperative has reached out to assist those who have been victims of hurricanes and storms in several areas across the nation.
- 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.
- 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.
- Your board of trustees is still committed to doing everything in their power to keep safe, affordable, and reliable electricity flowing.

Dustin Raber, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2012, 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. Currently more than 7,200 members of the cooperative are enrolled in Operation Round Up and approximately \$51,000.00 was distributed to a variety of charitable causes in the past year.

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

- We are in the final year of the \$16.5 million dollar 4 year work plan focused on line rebuilding and substation upgrades. Approximately \$10.5 million of that focused on line rebuilding and the majority of the balance is major substation upgrades, specifically West Salem, Clear Creek, Ripley and Killbuck.
- In 2004 we began a strategic tree trimming program. In the first nine years we trimmed 3,700 miles of our system and this year will trim another 404 miles in Hefferline, Moreland, Alpine, Trail and Sugarcreek substation areas.

2013 Annual Meeting Minutes (cont.)

- 191 new services were added in 2012 and 270 services retired for a total of 18,375 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 Day in Holmes County, parades, and concession stands at local ball games to name a few.
- The Cooperative employees have raised and donated over \$7,700.00 to American Cancer Society Relay for Life fund, for a total of about \$91,000.00 over the last 10 years.
- The Cooperative has paid \$1.37 million in KWH Tax to the State of Ohio, and \$889,000.00 in property taxes that benefit 12 local school districts and local governments.
- The vast majority of our rate increases in the past few years has been to comply with federally mandated environmental upgrades at Buckeye Power, your generation facility.
- Holmes-Wayne has the third lowest rates in the state out of 25 cooperatives.
- We are experiencing annual savings of \$400,000 due to reduced line loss as a result of our line rebuilding program in recent years.
- We currently have 37 staff members for 18,375 meters, which is 497 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.
- Three years ago, COPA, the Coop Owners for Political Action program, was introduced as a way cooperative members can be involved in letting your state and federal elected officials know that you are committed to promoting policies that will secure the future of our electric cooperative and our community. 249 Holmes-Wayne members are participating in COPA.

Guest speaker, Pat O'Loughlin, Vice President, Engineering, Buckeye Power and Ohio Rural Electric Cooperatives, Inc., addressed the issues facing electric cooperatives. While we are well positioned with adequate resources for today and tomorrow, we continue to experience political challenges and still need coal to be part of our power supply mix going forward. We continue to worry about misguided EPA policy. Environmental controls have added about \$20 to your monthly electric bill. Ohio cooperatives continue to focus on service to our members and are all looking for ways to keep costs down, but not by sacrificing service to you. We are all in this together to keep your supply of electricity clean, safe, reliable and affordable.

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:

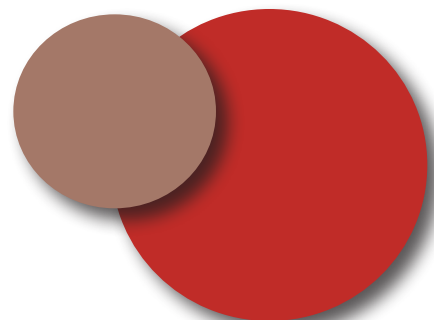
- William Grassbaugh – District 2, Barry Jolliff – District 8, David Mann – District 9

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.



2013 Operation Round Up Program

2014 marks the beginning of our ninth year of the Operation Round Up program. In that time, you have given **\$387,061.03** back to the community. This foundation could not exist without the very generous and caring HWEC members. With over 7,200 participants, you are making the difference in many lives in our community.

Thank you!

Participating members have chosen to round their bill up to an even dollar amount every month. That spare change is being placed into our foundation to be distributed to those in need in our community or worthy organizational requests. Below is the summary from the 2013 Operation Round Up distribution.

If you are not participating in Operation Round Up and would like to start, contact our office toll free at 866-674-1055.

Five-member board

Don Buren
 Lisa Grassbaugh
 Dan Mathie
 Glenn Miller
 Harold Neuenschwander

Operation Round Up Annual Distribution

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

Assist a family with transportation for medical treatments - Killbuck	\$500.00
Assist a family with beds for children - Millersburg	\$810.00
Assist family with furniture and clothing following house fire - Millersburg	\$1,000.00
Assist family with furniture and clothing following house fire - Millersburg	\$1,000.00
Assist a family with transportation for medical treatments - Glenmont	\$1,000.00
Assist a family with beds for children - Millersburg	\$860.00
Assist a family with beds for children - Millersburg	\$540.00
Assist a family with transportation for medical treatments - Millersburg	\$200.00
Assist family with furniture and clothing following house fire - Brinkhaven	\$355.00
Assist a family with furniture and clothing black mold house - Benton	\$1,000.00
Assist a family with furniture and clothing black mold house - Benton	\$1,000.00
Assist a family with furniture and clothing black mold house - Benton	\$1,000.00
Assist family with furniture and clothing following house fire -Holmesville	\$1,000.00
Assist family with furniture and clothing following house fire - Wooster	\$1,000.00
Assist a family with beds for children - Millersburg	\$1,266.94
Assist a family with transportation for medical treatments - Shreve	\$2,000.00
Cystic Fibrosis Foundation - Holmes County	\$200.00
Assist a family with transportation for medical treatments - Millersburg	\$250.00
Assist a family from abusive home with transportation for work - Wooster	\$1,500.00
Assist a family with transportation for medical treatments - Millersburg	\$622.06
Assist a family with beds for children - Loudonville	\$1,730.79
Special Olympics - Wooster	\$250.00
Holmes County Youth Mission - Love Out Loud	\$2,500.00
Summer Youth Program/After School Program - Wooster	\$1,000.00
Assist a family with furniture and clothing black mold house - Mt. Hope	\$1,000.00

Assist a family with medical needs - Killbuck	\$2,795.88
Assist a family with transportation for medical treatments - Millersburg	\$250.00
Assist a family with transportation for medical treatments - Millersburg	\$250.00
Assist a family with furniture and clothing black mold house - Dundee	\$1,000.00
Assist a family with furniture and clothing black mold house - Millersburg	\$1,000.00
Assist a family with furniture and clothing black mold house - Dundee	\$500.00
Farmers & Hunters Feeding the Hungry - processing donated deer for food pantries	\$2,000.00
Assist with tornado siren for City of West Salem	\$2,000.00
Assist an individual with transportation for medical treatments - West Salem	\$250.00
Assist a family with transportation for medical treatments - Millersburg	\$335.72
House fire/reimbursement for fridge/freezer	\$591.50
Holmes County Home and Senior Center - processing of donated fair animals	\$2,352.35
Holmes County Home and Senior Center - processing of donated fair animals	\$227.68
Glenmont Food Pantry	\$500.00
Assist an individual with transportation for medical treatments - Millersburg	\$250.00
Project Linus	\$1,000.00
Wayne County Agencies - processing of donated fair animals	\$2,026.15
Wayne County Agencies - processing of donated fair animals	\$320.00
Camp Ohio - 4- H camp - cabin improvements	\$200.00
Assist a family with beds for children - Millersburg	\$578.00
Assist a family with transportation for medical treatments - Shreve	\$500.00
Ashland Christian Health Center	\$469.99
Assist an individual with transportation for medical treatments - Millersburg	\$250.00
Assist a family with beds for children - Millersburg	\$867.00
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	\$500.00
Love Center- Free Health Clinic - Millersburg	\$1,000.00
Glenmont Food Pantry	\$500.00
Total	\$63,099.06

2013 Year in Review

Finance/Rates

Strength and stability appropriately describe Holmes-Wayne Electric Cooperative, Inc., and its financial performance in 2013. Revenues and power costs increased at similar rates over 2012, allowing the cooperative to maintain its operating margins at \$1,176,282, slightly higher than the previous year. Total net margins were \$2.4 million, which includes the Holmes-Wayne portion of Buckeye Power's margin allocation to its member cooperatives. Of course, the margins 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 maintaining the financial metrics expected by our lenders.

The cost of power purchased by the cooperative and distributed to consumers is about 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 bill. Such expenses, which include operating and maintenance costs, personnel and benefits, and administrative and general expenses, have increased by less than 1 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.

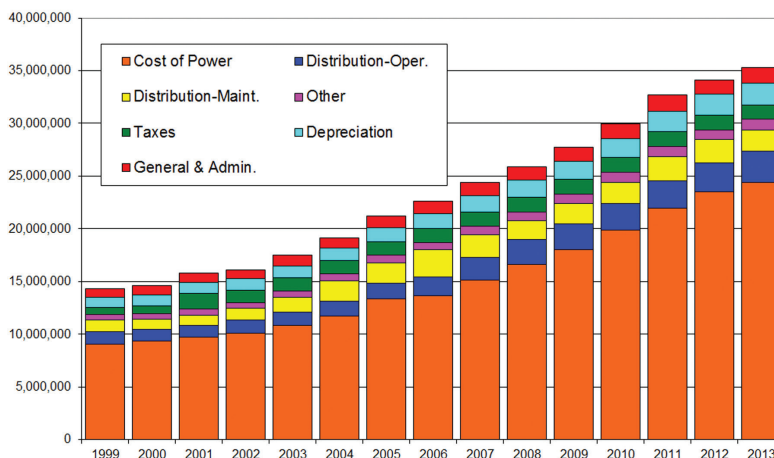
Holmes-Wayne Electric Cooperative, Inc., is a strong and stable organization, well-positioned to continue to safely provide reliable, competitively priced electric service to its member-owners well into the future.

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 then 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 \$1,171,110 in capital credits to its members in 2013. HWEC has refunded \$11,366,283 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





2013 Year in Review

Legislation

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 2013, HWEC advocacy involves 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.

This past May, President/CEO Glenn Miller and board members Jackie McKee 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 275 HWEC members have joined this effort. In August, a special breakfast at the Millersburg cooperative office will be held for Co-op Owners participants and any member of the cooperative. U.S. Congressman Bob Gibbs will share his thoughts on keeping energy affordable and focus on the issues involving the rural areas of Ohio.

Operations

2013 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.

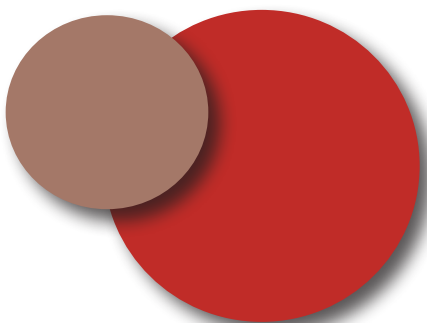
Over 390 miles of tree trimming was completed in 2013, including the substation distribution lines of Alpine, Hefferline, Moreland, Sugar creek and Trail. About 400 miles of vegetation control were completed in the Reedsburg, Ripley and West Millersburg substation areas.

Additionally, more than 35 miles of distribution lines were rebuilt in 2013. This is an investment of more than \$2.2 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 2013, 546 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 upgrades in 2013 included Clear Creek, Killbuck, Ripley and West Salem.

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.



2013 Year in Review

Safety

Safety continued to be a strong priority for HWEC in 2013. HWEC maintained the National Rural Electric Safety Certification. To maintain a culture of safety, field inspections and in-house safety information meetings occur monthly.

We continued our community outreach with safety by providing our table-top safety demonstrations in 2013. HWEC staff presented these demonstrations for local schools, first responders and community safety fairs.

Safety discussions begin every work day 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.

Energy Efficiency

Energy efficiency remains a prominent factor for the cooperative as we continue to communicate and educate members of its importance. Holmes-Wayne Electric members continue to take advantage of our home energy audit, which includes such tools as a blower door test and an infrared camera.

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 2013, we continued our active role in the American Cancer Society Relay for Life by raising \$7,780. In the past 10 years, HWEC has raised over \$89,200 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 2013 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 East and West Holmes middle schools' Reality Days.

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.

We continue to offer a call center, staffed 24 hours a day, seven day 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.

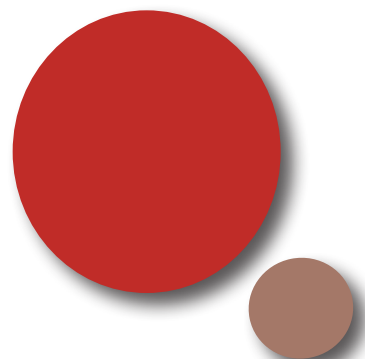
In 2013, HWEC offered a new option for members to pay their bills and submit meter readings, through a computerized phone system called IVR. IVR service is available 24 hours a day, reducing after-hours call center costs and providing another user-friendly option for members.

In the fall of 2013, we again hosted our Cardinal Station tour. Fifty-one 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.

Looking to the future, HWEC plans to introduce a new website, which will be mobile friendly and allow for even more information in an easy-to-use format.

The cooperative is extremely excited about introducing SmartHub in the near future, which will replace our current online bill payment program. SmartHub will offer the same great features our members currently enjoy but will also be available through both Android and Apple mobile devices. Additionally, members will be able to report outages through SmartHub.

Member services staff is also working on new avenues of communication for key situations, such as major storm outages. A Facebook page and management of an e-mail communication service are all both being researched and developed.



Independent Auditor's Report

February 18, 2014

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, 2013 and 2012, 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 opinions.

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, 2013 and 2012, 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 Matter

During the years ended December 31, 2013 and 2012, the Cooperative received \$1,575,000 and \$0 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 18, 2014 on our consideration of the 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, 2013 AND 2012

ASSETS	2013	2012
UTILITY PLANT:		
Electric plant in service	\$ 71,485,625	\$ 66,424,972
Construction work in progress	<u>86,057</u>	<u>2,272,942</u>
	71,571,682	68,697,914
Less: provision for accumulated depreciation	<u>16,351,483</u>	<u>15,682,110</u>
Net utility plant	55,220,199	53,015,804
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	1,394,870	0
Investments in associated organizations	2,216,489	2,216,208
Patronage capital from associated organizations	<u>14,188,057</u>	<u>13,744,581</u>
Total other assets and investments	17,799,416	15,960,789
CURRENT ASSETS:		
Cash and cash equivalents	715,255	816,881
Accounts receivable, net of allowance	4,423,745	4,428,525
Materials and supplies	600,811	805,598
Other current assets	<u>96,050</u>	<u>103,386</u>
Total current assets	5,835,861	6,154,390
Total assets	<u><u>\$ 78,855,476</u></u>	<u><u>\$ 75,130,983</u></u>
EQUITIES AND LIABILITIES		
EQUITY:		
Patronage capital	\$ 30,920,916	\$ 29,672,539
Other equities	1,497,302	1,388,601
Accumulated other comprehensive income	<u>(274,400)</u>	<u>(274,400)</u>
Total equity	32,143,818	30,786,740
LONG-TERM LIABILITIES:		
Mortgage notes payable	39,992,502	38,118,040
Deferred credits	25,625	65,813
Postretirement benefit obligation	<u>399,136</u>	<u>353,400</u>
Total long-term liabilities	40,417,263	38,537,253
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,691,000	1,176,000
Line of credit	400,000	200,000
Accounts payable	2,481,287	2,747,438
Postretirement benefit obligation, current portion	28,600	33,400
Accrued taxes	1,101,124	1,077,812
Customers' deposits	191,505	196,224
Other current liabilities	<u>400,879</u>	<u>376,116</u>
Total current liabilities	6,294,395	5,806,990
Total equities and liabilities	<u><u>\$ 78,855,476</u></u>	<u><u>\$ 75,130,983</u></u>

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

STATEMENTS OF REVENUE & PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING REVENUES	\$ 38,139,064	\$ 36,853,383
OPERATING EXPENSES:		
Cost of purchased power	24,387,463	23,507,093
Operations	2,986,391	2,764,019
Maintenance	2,004,782	2,189,864
Consumer accounts	904,559	829,231
Customer service and informational expense	84,337	93,437
Administrative and general	1,480,543	1,380,482
Depreciation	2,064,967	1,973,960
Tax expense	1,396,848	1,374,006
Interest - other	5,945	8,122
Other deductions	4,496	5,753
Total cost of electric service	35,320,331	34,125,967
Operating margins before fixed charges	2,818,733	2,727,416
FIXED CHARGES , interest on long-term debt	1,642,451	1,601,261
Operating margins after fixed charges	1,176,282	1,126,155
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,149,731	1,347,286
Other credits	46,555	49,620
Net operating margins	1,196,286	1,396,906
	2,372,568	2,523,061
NON-OPERATING MARGINS:		
Interest income	46,899	54,078
Other income	20	54
Net margins	46,919	54,132
	\$ 2,419,487	\$ 2,577,193
PATRONAGE CAPITAL , beginning of year	\$ 29,672,539	\$ 28,352,183
Net margins	2,419,487	2,577,193
Retirement of capital credits	(1,171,110)	(1,256,837)
PATRONAGE CAPITAL , end of year	\$ 30,920,916	\$ 29,672,539

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2013</u>	<u>2012</u>
Net margins	\$ 2,419,487	\$ 2,577,193
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,064,967	1,973,960
Amortization of retirement security plan prepayment	154,986	0
Non-cash capital credits received	(1,193,196)	(1,389,864)
(Increase) decrease in assets:		
Accounts receivable, net	4,780	(636,769)
Other current assets	7,336	(44,998)
Increase (decrease) in liabilities:		
Accounts payable	(266,151)	133,223
Accrued taxes	23,312	41,832
Customers' deposits	(4,719)	6,840
Other current liabilities	24,763	(356,260)
Deferred credits	(40,188)	(2,921)
Postretirement benefit obligation	<u>40,936</u>	<u>(9,968)</u>
Total adjustments	<u>816,826</u>	<u>(284,925)</u>
Net cash provided by operating activities	3,236,313	2,292,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of utility plant	(4,269,366)	(5,826,693)
Decrease in materials and supplies	204,787	132,925
Investments in associated organizations	(2,489)	(6,444)
Proceeds from redemption of capital credits	749,720	424,158
Return of investment in associated organizations	2,209	391
Investment in retirement security plan	<u>(1,549,855)</u>	<u>0</u>
Net cash used in investing activities	(4,864,994)	(5,275,663)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	200,000	200,000
Proceeds from mortgage notes payable	3,899,855	4,250,000
Principal payments on mortgage notes payable	(1,510,389)	(1,010,055)
Patronage capital credits retire	(1,171,110)	(1,256,837)
Retired capital credits unclaimed	40,793	76,616
Donated capital received	<u>67,906</u>	<u>51,157</u>
Net cash provided by financing activities	<u>1,527,055</u>	<u>2,310,881</u>
Net decrease in cash and cash equivalents	(101,626)	(672,514)
CASH AND CASH EQUIVALENTS, beginning of year	<u>816,881</u>	<u>1,489,395</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 715,255</u>	<u>\$ 816,881</u>

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

Notes to Financial Statements

December 31, 2013 and 2012

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	5.4 - 10.0%
Computer equipment	25.0%
Transportation equipment	14.0%
Power operating equipment	12.0%
Communications equipment	7.2 - 10.0%
Other general plant	4.3 - 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, 2013 and 2012 was \$40,000 in both years. Bad debt expense for 2013 and 2012 was \$30,124 and \$32,836, 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 2010.

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 \$1,642,876 and \$1,599,498 for the years ended December 31, 2013 and 2012, respectively. There were no payments for federal income taxes for 2013 or 2012.

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	<u>2013</u>	<u>2012</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	63,000,983	58,211,681
General Plant	<u>8,236,511</u>	<u>7,965,160</u>
Electric Plant in Service	71,485,625	66,424,972
Construction Work in Progress	<u>86,057</u>	<u>2,272,942</u>
Total Utility Plant at Cost	<u>\$71,571,682</u>	<u>\$68,697,914</u>

Notes to Financial Statements (cont.)

December 31, 2013 and 2012

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2013</u>	<u>2012</u>
<u>Investments in Associated Organizations:</u>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 631,636	\$ 632,052
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.	134,194	131,706
CoBank common stock	27,128	27,128
Rural Cooperative Credit Union	<u>0</u>	<u>1,791</u>
Total investments in associated organizations	2,216,489	2,216,208
<u>Patronage Capital from Associated Organizations:</u>		
Rural Electric Supply Cooperative, Inc.	380,708	380,708
Buckeye Power, Inc.	13,530,874	13,106,827
NRUCFC	101,274	93,999
National Information Solutions Cooperative	69,366	59,330
Federated Rural Electric Insurance Exchange	98,507	96,685
Cooperative Response Center	<u>7,328</u>	<u>7,032</u>
Total patronage capital from associated organizations	<u>14,188,057</u>	<u>13,744,581</u>
Total investments and patronage in associated organizations	<u>\$16,404,546</u>	<u>\$15,960,789</u>

NOTE E: PATRONAGE CAPITAL

At December 31, 2013 and 2012, patronage capital consisted of:

	<u>2013</u>	<u>2012</u>
Assignable	\$ 2,419,487	\$ 2,577,193
Assigned	<u>47,841,674</u>	<u>45,264,481</u>
	50,261,161	47,841,674
Retired	<u>(19,340,245)</u>	<u>(18,169,135)</u>
Total patronage capital	<u>\$ 30,920,916</u>	<u>\$ 29,672,539</u>

The Cooperative's patronage capital balances represent 39.2 percent and 39.5 percent of the total assets at December 31, 2013 and 2012, respectively. Capital credit retirements in the amount of \$1,171,110 and \$1,256,837 were paid in 2013 and 2012, respectively.

The Cooperative received donated capital from members totaling \$67,906 and \$51,156 during 2013 and 2012, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2013 and 2012 includes \$16,711,019 and \$16,022,973, 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, 2013 and 2012, other equities consisted of:

	<u>2013</u>	<u>2012</u>
Donated Capital	\$ 941,110	\$ 873,204
Retired capital credits unclaimed	<u>556,192</u>	<u>515,397</u>
Total other equities	<u>\$ 1,497,302</u>	<u>\$ 1,388,601</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 2013 and 2012 was \$485,320 and \$644,111, 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' wages and matches up to an additional 4 percent of a participant's voluntary contributions. The Cooperative expensed \$107,792 and \$103,892 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012:

Notes to Financial Statements (cont.)

December 31, 2013 and 2012

NOTE H: LONG-TERM DEBT (continued)

Loan	Fixed Interest Rate	Maturity Date	2013	2012
RUS	4.625%	7/31/2029	\$ 325,293	\$ 339,467
RUS	5.000%	7/31/2029	325,520	339,273
RUS	5.280%	5/2/2040	1,820,769	1,851,911
RUS	4.780%	5/2/2040	901,867	918,687
RUS	4.960%	5/2/2040	1,498,760	1,525,844
RUS	4.940%	5/2/2040	1,811,551	1,844,313
RUS	4.340%	5/2/2040	220,450	224,863
RUS advance payments unapplied			(74)	(71)
CFC	5.050%	1/26/2015	57,033	111,275
CFC	5.050%	7/28/2018	166,093	198,180
CFC	6.250%	3/14/2026	407,156	429,318
CFC	6.300%	7/28/2029	296,249	307,229
CFC	4.000%-5.150%	4/29/2019	448,704	617,786
CFC	3.100%-4.850%	9/23/2026	960,706	1,015,851
CFC	1.900%	12/31/2016	1,248,634	0
Sewer tap payable (no interest) due 2014			5,000	10,000
FFB	4.503%	12/31/2031	762,213	789,154
FFB	4.120%	12/31/2031	1,445,628	1,498,827
FFB	2.736%	12/31/2031	725,856	756,670
FFB	4.269%	12/31/2031	386,107	400,096
FFB	4.295%	12/31/2031	774,601	802,587
FFB	3.879%	12/31/2031	754,774	783,258
FFB	2.009%	1/2/2035	795,150	825,301
FFB	2.231%	1/2/2035	775,041	802,334
FFB	2.795%	1/2/2035	786,274	811,708
FFB	4.550%	1/2/2035	829,236	852,366
FFB	4.353%	12/31/2034	833,656	857,487
FFB	4.543%	12/31/2034	2,013,219	2,069,422
FFB	3.889%	12/31/2042	5,655,251	5,758,865
FFB	3.849%	12/31/2042	2,826,400	2,878,547
FFB	4.419%	12/31/2042	1,990,281	2,023,492
FFB	3.873%	1/2/2046	1,969,391	2,000,000
FFB	2.763%	1/2/2046	1,373,608	1,400,000
FFB	2.702%	1/2/2046	1,275,218	1,300,000
FFB	2.330%	1/2/2046	1,665,332	1,700,000
FFB	2.421%	1/2/2046	1,224,923	1,250,000
FFB	2.777%	1/2/2046	<u>2,327,632</u>	<u>0</u>
Total mortgage notes			41,683,502	39,294,040
Less: current portion of mortgage notes			<u>1,691,000</u>	<u>1,176,000</u>
Long-term mortgage notes payable			<u>\$ 39,992,502</u>	<u>\$ 38,118,040</u>

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2013. The interest rate on the line of credit at December 31, 2013 and 2012 was 2.90 percent and 2.90 percent, respectively, with outstanding balances on the line of \$400,000 and \$200,000, 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.

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

2014	1,691,000
2015	1,604,000
2016	1,625,000
2017	1,251,000
2018	1,225,000
Thereafter	<u>34,287,502</u>
	<u>\$ 41,683,502</u>

The Cooperative has available \$1,000,000 in loan funds from FFB that has not been advanced to the Cooperative as of December 31, 2013. In February 2014, the funds were advanced to the Cooperative as short-term debt with a fixed rate of .108% that matures September 2014. The Cooperative has the option to term the advance into long-term debt after September 2014.

NOTE I: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2013	2012
Consumer energy prepayments	\$ 4,272	\$ 4,998
Construction deposits	<u>21,353</u>	<u>60,815</u>
	<u>\$ 25,625</u>	<u>\$ 65,813</u>

NOTE J: 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 \$2,247,605 and \$2,040,306 and at December 31, 2013 and 2012, respectively.

Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,330,736 and \$1,425,241 for the years ended December 31, 2013 and 2012, 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 \$135,073 and \$132,128 for the years ended December 31, 2013 and 2012, 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.

Notes to Financial Statements (cont.)

December 31, 2013 and 2012

NOTE J: COMMITMENTS AND RELATED PARTY TRANSACTIONS (cont.)

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 \$44,066 and \$45,532 for the years ended December 31, 2013 and 2012, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$99,973 and \$99,390 for the years ended December 31, 2013 and 2012, respectively.

NOTE K: 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:

	<u>2013</u>	<u>2012</u>
APBO, beginning of year	\$ 386,800	\$ 308,061
Service cost	16,400	16,400
Interest cost	18,460	17,500
Amortization	10,100	10,100
Additional expenses	39,997	82,632
Less: actual cash payment	<u>(44,021)</u>	<u>(47,893)</u>
APBO, end of year	427,736	386,800
Less: current portion	<u>(28,600)</u>	<u>(33,400)</u>
APBO, long-term portion	<u>\$ 399,136</u>	<u>\$ 353,400</u>

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

2014	\$ 28,600
2015	6,300
2016	10,900
2017	13,700
2018-2023	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>
2012	9.0%	9.0%
2013	8.5%	8.5%
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 L: 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. 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 M: SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 18, 2014, the date on which the financial statements were issued.