



Safety around the clock

2016 Annual Meeting of Members

Holmes-Wayne Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 
The power of human connections®

Thursday, June 30 • West Holmes High School • 10901 State Route 39, Millersburg, Ohio

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

Health and Safety 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 an RSVP form for the Annual Meeting dinner. The voting ballot and RSVP form can be returned in the provided post-age-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 an LED safety night light.

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

This year's meeting features a special event — a high-voltage safety demonstration in the theater of the high school.

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 2015
7. Operation Round Up Foundation financial report for 2015
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

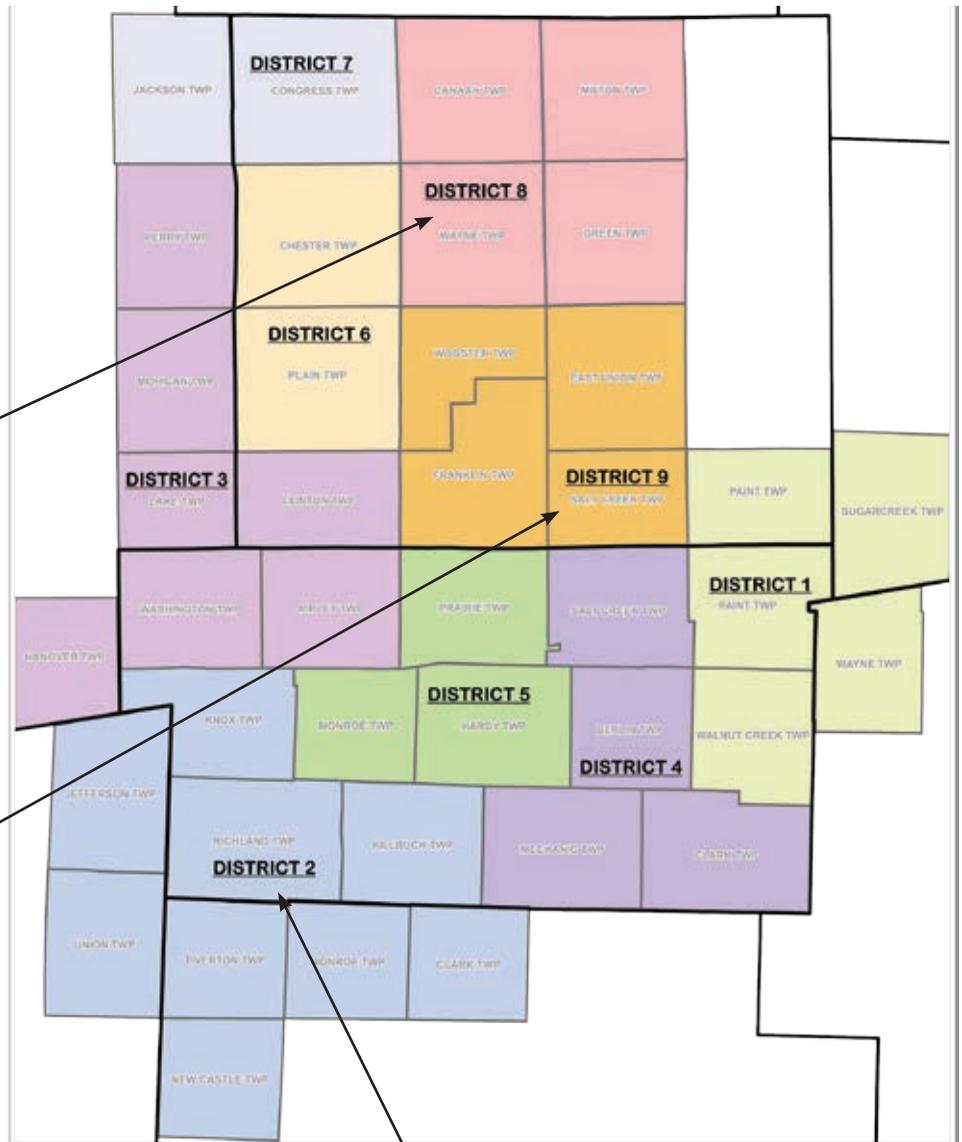


As part of HWEC's "safety around the clock" theme, members attending the annual meeting will get to check out the equipment lineworkers wear to keep them safe on the job.

2016 Holmes-Wayne Electric Cooperative, Inc. Board of Trustees Election

District 8: Canaan, Green, Milton, and Wayne townships in Wayne County

District 9: East Union, Franklin, Salt Creek, and Wooster townships in Wayne County



District 2: Killbuck, Knox, and Richland townships in Holmes County; Clark, Monroe, New Castle, and Tiverton townships in Coshocton County; and Jefferson and Union townships in Knox County

Candidate information is presented as provided by each candidate.

District 2



William P. Grassbaugh — Incumbent

Home address: 3433 County Road 75, Glenmont, Ohio 44628

Number of years as a member of HWEC: 46

Spouse, children, and grandchildren: Wife — Carol; children — Lisa and Kevin; grandchildren — Trent, Tyler, Taryn, and John

Education and specific degree: Killbuck High School graduate; tool and die training at General Motors

Current employment or employment history: Eight years employed at General Motors; last 46 years self-employed dairy and grain farmer

Leadership and community activities: Holmes-Wayne Electric Cooperative trustee; St. Peter and Paul council and cemetery committee

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I am interested in cooperative principles and the progress Holmes-Wayne Electric has made in past and future plans. I have attended many meetings and training classes in my years as trustee.

Any additional information you feel is essential for members to be aware of:



Matthew Rohr

Home address: 3741 Township Road 55, Killbuck, Ohio 44637

Number of years as a member of HWEC: 23

Spouse, children, and grandchildren: My wife is Amy Rohr, a teacher at West Holmes Middle School. We have three children, Nick, 16, Carolyn, 13, and Hannah, 13.

Education and specific degree: 1980 West Holmes High School graduate

Current employment or employment history: Business owner and operator of Rohr Construction, 1984-present; construction crew for All Ohio Buildings, 1981-1984; tool dresser on oil rig for Atwood Enterprises, 1980

Leadership and community activities: I have been a volunteer for numerous building projects in the community, including Habitat for Humanity homes, West Holmes soccer press box, Little League press box at Deer Run field in Millersburg, and the new Fair Board offices at Harvest Ridge.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I have been very satisfied with the service from HWEC. I would like to help continue the success of HWEC and serve the community.

Any additional information you feel is essential for members to be aware of: I have run a beef farm for 35 years. Currently, my farming operation consists of approximately 500 acres of land and 150 head of beef cattle.

District 8



Barry Jolliff — Incumbent

Home address: 760 E. Hutton Rd, Wooster, Ohio 44691

Number of years as a member of HWEC: 20

Spouse, children, and grandchildren: My wife is Amy Jolliff. We live on a small farm north of Wooster. We have three adult children. The oldest is married and lives in Wooster. She and her husband both work in Wooster. Our other two children are both students at OSU in Columbus.

Education and specific degree: Master's Degree, The Ohio State University, 1985, Extension Education/Agricultural Education; Bachelor's Degree, The Ohio State University, 1982, Elementary Education, Northwestern High School, Diploma, West Salem, Ohio.

Current employment or employment history: I have owned Teamwork & Teamplay, LLC, since 1999, where I teach team building and leadership seminars, social recreation, and dance workshops, and I call square dances. I have recently taught agriculture and education classes at OSU/ATI for seven years. I worked for OSU Extension in Wayne and Lake counties in 4-H and youth development for 16 years, and I taught in Medina City Schools for three years.

Leadership and community activities: I have been on the board of directors for Buckeye Leadership Workshop for over 30 years. This board hosts and presents a Leadership Workshop each spring to teach leadership skills through recreation. I have been a 4-H advisor for 20 years in Wayne County. I play the piano and work with youth at Church of the Cross in Wooster.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I enjoy serving our community by being on the HWEC board. I feel that being a lifetime member of the community, and with my educational background, that gives me an understanding of the values of the community and the ability to make wise and thoughtful decisions for our members at the co-op meeting.

Any additional information you feel is essential for members to be aware of: The current HWEC board has elected me as secretary/treasurer of the co-op. They also appointed me as the HWEC representative on the Ohio Rural Electric Cooperatives' statewide association board in Columbus. This past year I successfully completed all requirements for the NRECA Credentialed Cooperative Director Certificate.



Titus W. Yoder

Home address: 5840 Clear Creek Valley Road, Wooster, Ohio 44691

Number of years as a member of HWEC: 32

Spouse, children and grandchildren: Married to Carla, five children, and nine grandchildren.

Education and specific degree: Attended Lake High School in Hartville, Ohio. Attended Shenandoah University in Winchester, Virginia. Associate of Science degree in respiratory therapy.

Current employment or employment history: Owned Wayne Health Services and Supplies, Inc., for 29 years. Sold my business last year, and I am currently a consultant to Wayne Health. Owner of Yoder Medical Equipment and Supplies in Hartville, Ohio, since 1992.

Leadership and community activities: On the board of Wayne County Crippled Children and Adults. On the board of Outreach Community Living Services. On the finance committee at St. Mary Catholic Church, Wooster. On the board of Wooster Country Club.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I am very interested in learning how the cooperative works along with being involved with continued customer satisfaction.

Any additional information you feel is essential for members to be aware of:

District 9



Dave Mann — Incumbent

Home address: 9743 Munson Road, Shreve, Ohio 44676

Number of years as member of HWEC: 46

Spouse, children, and grandchildren: Married to Karen for 46 years; have five children, 14 grandchildren, and three great-grandchildren.

Education and specific degree: 1968 graduate of Triway High School.

Current employment or employment history: Retired from City of Wooster Maintenance Department with 27 years' service; currently farm the family farm, raising beef cattle, corn, hay, and soybeans.

Leadership and community activities: Lifelong resident of Franklin Township and served six years in the Ohio Air Force National Guard. I have been a Franklin Township trustee for 24 years, and I served on the Wayne County Planning Commission from 2000 to 2015 and was chairman from 2007 to 2012. I am a charter member and past president of the Moreland Community Historical Society, the chairman of the Moreland Cemetery Association, the board chairman of the South Central Fire District, and a member and Administrative Council chairman of the Moreland United Methodist Church.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I have served on the HWEC Board of Trustees for 15 years and have successfully completed the Credentialed Cooperative Director program, the Board Leadership program, and the Director Gold program, so I am confident I have the experience and knowledge to work with the board and management to keep HWEC one of the best cooperatives in the state.

Any additional information you feel is essential for members to be aware of:



Galen Miller

Home address: 8205 James Road, Wooster, Ohio 44691

Number of years as a member of HWEC: 14

Spouse, children, and grandchildren: Wife — Joyce Miller; kids — Jillian (6) and Mark (4)

Education and specific degree: College of Wooster — Bachelor of Arts in business economics

Current employment or employment history: Community Development Group Ltd., owner/president, real estate investment company, 2010-present; Bob Miller Realty, Realtor, 2008-present; Stahl, Arbortech product manager, chip body manufacturer, 2008-2010; Rayco Manufacturing, national sales manager, stump cutter and brush shipper manufacturer, 2006-2008.

Leadership and community activities: Partner at NewPointe Community Church. Member of core team that started the Wooster campus.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: to give back to the community by using my knowledge and experiences to help provide direction to this not-for-profit that serves thousands of members.

Any additional information you feel is essential for members to be aware of:

2015 Annual Meeting Minutes

The Annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 25, 2015.

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 26, 2014 Annual Meeting as presented. Motion carried.

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

On October 30, this year the cooperative will be celebrating its 80th anniversary! Tonight we also want to celebrate the current member owners of Holmes-Wayne Electric. On behalf of the board and staff, it is a great privilege to serve you.

Retirement of Capital Credits of over \$1,328,000 in 2015. 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.

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.

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 Coop Owners for Political Action program.

Randy Sprang personally thanked the 342 Holmes-Wayne Electric Cooperative members who have already taken the step to join COPA.

As a board, every decision in the board room is based on you the member. Holmes-Wayne Electric Coop was established to safely provide reliable, competitively-priced electric to our member-owners to enhance the quality of life in the communities we serve. We were established in this mission and we will continue to thrive based on this simple but powerful philosophy.

Dustin Raber of REA & Associates reviewed the Auditor's Report for 2014, 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 \$48,000.00 in 2014 to local community members and organizations, and over \$435,000 since the beginning of the program 10 years ago. Dan Mathie thanked Don Buren for the wisdom and insight he provided over the years he has been on the Operation Round Up board. Jonathan Berger will be taking over for Don as he retires from the board. Dan also thanked Karole Butler and Robyn Tate for time they spend gathering and providing information which assists the board in being good stewards of the Operation Round Up donations.

2015 Annual Meeting Minutes (cont.)

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

Over the last decade we have rebuilt approximately 360 miles of the system. 10,155 poles have been replaced, which is about 25% of all the poles on the system.

A new substation was added in Reedsburg. Numerous substations have been rebuilt and upgraded and tie lines have been added to allow for better options in restoring power quickly in the event of transmission outages, with the ability to back feed every substation.

In 2004 we began a strategic tree trimming program. This year we will trim another 423 miles of right-of-ways in Buckhorn, Killbuck, Stillwell and Drake Valley substation areas. The year following tree trimming, these substation areas are sprayed to minimize growth until the next trimming cycle.

This year we added an Ash Tree removal program in order to be proactive in taking down trees that have been affected by the Emerald Ash borer in areas that are not in the current year tree trimming program cycle. This helped to reduce outages that may have been caused by the affected trees.

246 new services were added in 2014 for a total of 18,194 services at year's end. We have seen substantial growth in the commercial load this year, with a good mix of 60% residential and 40% commercial members. This growth enables us to keep our rates low.

Additional technologies were added this year which provide more options to communicate with our members and assist with paying bills, submitting readings and reporting outage.

The Cooperative employees raised and donated over \$12,000.00 to American Cancer Society Relay for Life fund in 2015, for a total of about \$113,000.00 over the last 12 years.

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.

The Cooperative has paid \$1.43 million in KWH Tax to the State of Ohio, and \$965,000.00 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, and various other groups.

Holmes-Wayne has one of the lowest electric service rates in the state out of 25 cooperatives.

Holmes-Wayne scored an 88 in the American Consumer Satisfaction Survey. Scoring was excellent or good in all 18 categories and exceeded the national average in all 18 categories. The average score for cooperatives across the state is 80, investor owned utilities average is 75 and municipal owned utilities average is 73.

Over the past 10 years, the cost to generate power has increased mostly because of EPA imposed regulations on your generation facility, Buckeye Power. Buckeye Power currently has complied with all current regulations. For the first time in 10 years the power generation cost is not projected to increase for next year.

Buckeye Power now has one of the cleanest coal fired plants in the country.

If the current proposed EPA regulations on existing coal fired plants are put into law, it will increase the cost of your monthly bill.

(Continued on page 20F)

2015 Annual Meeting Minutes (cont.)

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, Doug Miller, President and CEO of Buckeye Power and Ohio Rural Electric Cooperative, Inc. reported on statewide efforts for Ohio’s Electric Cooperatives:

Deliver clean, reliable and affordable power supply.

Advocate in Columbus and Washington, D.C., on behalf of Ohio cooperatives.

Help train apprentice linemen and board members so they can serve in the best way possible.

Help ensure safe work practices for all employees by providing safety accreditation and safety programs.

Administer an emergency work plan in the event of power outages which are beyond the capabilities of local staff to repair on a timely basis.

Provide communication and marketing support services.

Mr. Miller commended the cooperative’s board and management for their efforts to control costs locally to help minimize the impact of the last 10 years of wholesale rate increases. Holmes-Wayne board and management are working hand-in-hand with Buckeye Power and NRECA to request improvements to the final rule on existing coal fired plants.

A couple months ago a group of 10 generation and transmission cooperatives met with EPA director McCarthy to ask the EPA to soften their stance when issuing the final rules.

They expressed concern that coal plants with a 30-year useful life would be shut down and consumers left to pay for that stranded investment.

Initial 2020 targets are too strict and there is no time to ramp up to these huge initial requirements.

There are many states where CO2 targets are based on faulty assumptions. The EPA needs to fix these errors.

We need a reliability “safety valve” to allow states flexibility if the lights start going out as a result of plant closures.

Mr. Miller stated, “We are challenged by an overreaching EPA that, in spite of our accomplishments, continues to push for more regulation that will threaten reliability and increase costs with minimal effect on the environment.”

Robyn Tate, HR/Community Relations Director presented the Cooperative’s scholarship awards.

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

Randy Sprang – District 1, Jackie McKee – District 3, David Tegtmeier – District 7

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.

CELEBRATING 10 YEARS OF HWEC MEMBERS' GENEROSITY



In January 2006, Holmes-Wayne Electric Cooperative, Inc., introduced a new community service program called Operation Round Up. This program allowed for HWEC members to round up their monthly electric bills to the next even dollar. The spare change was placed into a foundation to be distributed to those in need within our community.

Ten years later, members of HWEC have given almost a half a million dollars back to the community. This is an amazing testament to our members' generosity and concern for our community.

Applicants for assistance must live within 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 Jonathan Berger and Glenn Miller.

As your local electric provider, we again want to thank you for allowing us to administer such a worthy program. It is an honor to assist the needs of those in our community and to improve our neighborhoods. On pages 20H and 20I are a summary of the 2015 distributions. 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

2015 -	\$49,449.70
2014 -	\$48,216.56
2013 -	\$63,099.06
2012 -	\$51,343.99
2011 -	\$63,289.93
2010 -	\$59,670.87
2009 -	\$38,794.38
2008 -	\$38,279.61
2007 -	\$37,596.26
2006 -	\$31,986.93



Front: Glenn Miller, Lisa Grassbaugh
Back: Jonathan Berger, Dan Mathie, and Harold Neuenschwander

2015 Operation Round Up Summary



Assist a family with transportation for medical treatments - Shreve	\$250.02
Assist individual with transportation for medical treatments - Glenmont	\$250.00
Assist a family with transportation for medical treatments - Millersburg	\$679.81
Assist a family with transportation for medical treatments - Sugarcreek	\$500.00
Assist plumbing needs for elderly individual - Wooster	\$200.00
Assist with ramp for handicap individual - Shreve	\$1,200.00
Assist developmentally challenged child with handicap bathroom - Millersburg	\$61.77
Assist a family with transportation for medical treatments - Wooster	\$250.00
Holmes County Disaster Assistance Program	\$653.00
Special Olympics - Wooster	\$250.00
ALS Foundation Community Walk - Wooster	\$500.00
Assist individual with transportation for medical treatments - Glenmont	\$250.00
STEPS Agency - addiction assistance program in Holmes and Wayne counties	\$500.00
Assist a family with transportation for medical treatments - Shreve	\$250.00
Shreve Community Youth Mission - local projects for those in need	\$1,000.00
Assist individual with medical emergency - Glenmont	\$937.00
Assist a family with transportation for medical treatments - Millersburg	\$250.00
Assist a family with handicap-shower needs for child - Holmesville	\$695.00
Shreve American Legion - veterans project	\$1,000.00
County Line Historical Society - restoration project	\$1,000.00
Assist a family with beds for children - Holmesville	\$1,526.52
Assist a family with furniture and clothing following house fire - West Salem	\$1,000.00

2015 Operation Round Up Summary (cont.)

Glenmont Food Pantry - processing of donated fair animals	\$160.46
Holmes County Home and Senior Center - processing of donated fair animals	\$2,500.00
Assist a family with immediate needs (referred by an agency) - Big Prairie	\$300.00
Camp Ohio - 4- H camp - cabin improvements	\$200.00
Holmes County Senior Center - emergency food pantry	\$748.91
Wayne County Food Pantry & Agencies - processing of donated fair animals	\$2,544.18
Farmers & Hunters Feeding the Hungry - Holmes & Wayne Counties	\$2,000.00
Community trash pickup - Holmes County	\$250.00
Assist family with heating emergency - Millersburg	\$203.58
Adaptive Sports program (nonprofit for individuals with physical disabilities) - Wooster	\$1,000.00
Assist a family with beds for children - Millersburg	\$179.00
Assist a family with beds for children - Shreve	\$1,404.00
Assist a family with beds for children - Holmesville	\$234.00
Assist a family with beds for children - Killbuck	\$702.00
Assist a family with bed for child - Millersburg	\$235.00
Shop with a Teacher - Millersburg	\$100.00
Assist a family with transportation for medical treatments - West Salem	\$250.00
Assist family with transportation for medical treatments - Wooster	\$1,985.45
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
Total	\$49,449.70

Auditor's report

February 16, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, the Cooperative received \$6,759,989 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 16, 2016 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, 2015 AND 2014

ASSETS	2015	2014
UTILITY PLANT:		
Electric plant in service	\$ 75,931,593	\$ 73,091,167
Construction work in progress	<u>923,333</u>	<u>770,476</u>
	76,854,926	73,861,643
Less: provision for accumulated depreciation	<u>17,814,953</u>	<u>17,212,204</u>
Net utility plant	59,039,973	56,649,439
OTHER ASSETS AND INVESTMENTS:		
Retirement security plan prepayment	1,084,898	1,239,884
Investments in associated organizations	2,228,682	2,217,654
Patronage capital from associated organizations	<u>16,507,347</u>	<u>15,057,819</u>
Total other assets and investments	19,820,927	18,515,357
CURRENT ASSETS:		
Cash and cash equivalents	608,444	116,775
Accounts receivable, net of allowance	4,121,171	4,365,468
Materials and supplies	927,084	799,859
Other current assets	<u>98,986</u>	<u>103,886</u>
Total current assets	<u>5,755,685</u>	<u>5,385,988</u>
Total assets	<u>\$ 84,616,585</u>	<u>\$ 80,550,784</u>
EQUITIES AND LIABILITIES		
EQUITY:		
Patronage capital	\$ 34,041,070	\$ 32,583,019
Other equities	1,613,777	1,566,007
Accumulated other comprehensive income	<u>(274,400)</u>	<u>(274,400)</u>
Total equity	35,380,447	33,884,626
LONG-TERM LIABILITIES:		
Mortgage notes payable	42,368,518	40,303,588
Deferred credits	3,460	3,849
Postretirement benefit obligation	<u>512,002</u>	<u>464,569</u>
Total long-term liabilities	42,883,980	40,772,006
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	1,791,000	1,662,000
Line of credit	0	200,000
Accounts payable	2,776,677	2,243,150
Postretirement benefit obligation, current portion	10,900	6,300
Accrued taxes	1,196,008	1,172,816
Customers' deposits	200,185	198,625
Other current liabilities	<u>377,388</u>	<u>411,261</u>
Total current liabilities	<u>6,352,158</u>	<u>5,894,152</u>
Total equities and liabilities	<u>\$ 84,616,585</u>	<u>\$ 80,550,784</u>

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

STATEMENTS OF REVENUE & PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES	\$ 38,963,453	\$ 39,414,134
OPERATING EXPENSES:		
Cost of purchased power	24,898,620	25,287,387
Operations	3,183,964	3,001,046
Maintenance	2,514,685	1,978,510
Consumer accounts	958,889	949,474
Customer service and informational expense	84,817	99,048
Administrative and general	1,569,685	1,497,908
Depreciation	2,306,964	2,245,888
Tax expense	1,440,323	1,434,194
Interest - other	5,957	5,871
Other deductions	<u>4,634</u>	<u>5,548</u>
Total cost of electric service	<u>36,968,538</u>	<u>36,504,874</u>
Operating margins before fixed charges	1,994,915	2,909,260
FIXED CHARGES, interest on long-term debt	<u>1,568,732</u>	<u>1,619,487</u>
Operating margins after fixed charges	426,183	1,289,773
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	2,045,176	1,498,104
Other credits	<u>81,152</u>	<u>55,485</u>
	<u>2,126,328</u>	<u>1,553,589</u>
Net operating margins	2,552,511	2,843,362
NON-OPERATING MARGINS:		
Interest income	41,300	43,095
Other income	912	27
Gain or disposition of property	<u>0</u>	<u>26,241</u>
	<u>42,212</u>	<u>69,363</u>
Net margins	<u>\$ 2,594,723</u>	<u>\$ 2,912,725</u>
PATRONAGE CAPITAL, beginning of year	\$ 32,593,019	\$ 30,920,916
Net margins	2,594,723	2,912,725
Retirement of capital credits	<u>(1,146,672)</u>	<u>(1,240,622)</u>
PATRONAGE CAPITAL, end of year	<u>\$ 34,041,070</u>	<u>\$ 32,593,019</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 2,594,723	\$ 2,912,725
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,306,964	2,245,888
Amortization of retirement security plan prepayment	154,986	154,986
Non-cash capital credits received	(2,114,329)	(1,551,379)
(Increase) decrease in assets:		
Accounts receivable, net	244,297	58,277
Other current assets	4,900	(7,836)
Increase (decrease) in liabilities:		
Accounts payable	533,527	(238,137)
Accrued taxes	23,192	71,692
Customers' deposits	1,560	7,120
Other current liabilities	(33,873)	10,382
Deferred credits	(389)	(21,776)
Postretirement benefit obligation	<u>52,033</u>	<u>43,133</u>
Total adjustments	<u>1,172,868</u>	<u>772,350</u>
Net cash provided by operating activities	3,767,591	3,685,075
 CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of utility plant	(4,697,497)	(3,675,129)
Increase in materials and supplies	(127,225)	(199,048)
Investments in associated organizations	(11,500)	(1,609)
Proceeds from redemption of capital credits	664,801	681,618
Return of investment in associated organizations	<u>472</u>	<u>443</u>
Net cash used in investing activities	(4,170,949)	(3,193,725)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	(200,000)	(200,000)
Proceeds from mortgage notes payable	3,900,000	2,000,000
Principal payments on mortgage notes payable	(1,706,070)	(1,717,914)
Patronage capital credits retire	(1,146,672)	(1,240,622)
Retired capital credits unclaimed	5,781	1,438
Donated capital received	<u>41,988</u>	<u>67,268</u>
Net cash provided (used) by financing activities	<u>895,027</u>	<u>(1,089,830)</u>
Net increase (decrease) in cash and cash equivalents	491,669	(598,480)
 CASH AND CASH EQUIVALENTS, beginning of year	<u>116,775</u>	<u>715,255</u>
 CASH AND CASH EQUIVALENTS, end of year	<u>\$ 608,444</u>	<u>\$ 116,775</u>

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

Notes to Financial Statements

December 31, 2015 and 2014

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).

Uninsured Risk

The Cooperative maintains its cash and cash equivalents balances in multiple financial institution located in central Ohio. Deposits in interest-bearing and non-interest-bearing accounts are collectively insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 at each FDIC-insured depository institution. As a result, the Cooperative may have balances that exceed the insured limit.

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, 2015 and 2014 was \$40,000 in both years. Bad debt expense for 2015 and 2014 was \$39,649 and \$20,377, 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.

Notes to Financial Statements (cont.)

December 31, 2015 and 2014

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2012.

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 \$1,568,016 and \$1,618,851 for the years ended December 31, 2015 and 2014, respectively. There were no payments for federal income taxes for 2015 or 2014.

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	<u>2015</u>	<u>2014</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	67,310,697	64,685,191
General Plant	<u>8,372,765</u>	<u>8,157,845</u>
Electric Plant in Service	75,931,593	73,091,167
Construction Work in Progress	<u>923,333</u>	<u>770,476</u>
Total Utility Plant at Cost	<u>\$76,854,926</u>	<u>\$73,861,643</u>

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2015</u>	<u>2014</u>
<u>Investments in Associated Organizations:</u>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 630,721	\$ 631,192
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	2,500	12,500
Rural Electric Supply Cooperative, Inc. membership	50	50
Heartland Emergency Equipment, Ltd.	147,302	135,803
CoBank common stock	<u>27,128</u>	<u>27,128</u>
Total investments in associated organizations	2,228,682	2,217,654

Patronage Capital from Associated Organizations:

Rural Electric Supply Cooperative, Inc.	387,072	380,883
Buckeye Power, Inc.	15,788,695	14,374,473
NRUCFC	118,571	107,868
National Information Solutions Cooperative	84,208	78,439
Federated Rural Electric Insurance Exchange	117,861	107,104
Cooperative Response Center	<u>10,940</u>	<u>9,052</u>
Total patronage capital from associated organizations	<u>16,507,347</u>	<u>15,057,919</u>
Total investments in associated organizations	<u>\$18,736,029</u>	<u>\$17,275,473</u>

NOTE E: PATRONAGE CAPITAL

At December 31, 2015 and 2014, patronage capital consisted of:

	<u>2015</u>	<u>2014</u>
Assignable	\$ 2,594,723	\$ 2,912,725
Assigned	<u>53,173,883</u>	<u>50,261,157</u>
	55,768,606	53,173,882
Retired	<u>(21,727,536)</u>	<u>(20,580,863)</u>
Total patronage capital	<u>\$34,041,070</u>	<u>\$32,593,019</u>

The Cooperative's patronage capital balances represent 40.2 percent and 40.5 percent of the total assets at December 31, 2015 and 2014, respectively. Capital credit retirements in the amount of \$1,146,672 and \$1,240,622 were paid in 2015 and 2014, respectively.

The Cooperative received donated capital from members totaling \$41,989 and \$67,268 during 2015 and 2014, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2015 and 2014 includes \$17,951,280 and \$17,214,722, 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, 2015 and 2014, other equities consisted of:

	<u>2015</u>	<u>2014</u>
Donated Capital	\$ 1,050,366	\$ 1,008,377
Retired capital credits unclaimed	<u>563,411</u>	<u>557,630</u>
Total other equities	<u>\$ 1,613,777</u>	<u>\$ 1,566,007</u>

Notes to Financial Statements (cont.)

December 31, 2015 and 2014

NOTE G: BENEFIT PLANS

	Loan	Fixed Interest Rate	Maturity Date	2015	2014
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.	RUS	4.625%	7/31/2029	\$ 0	\$ 310,480
	RUS	5.000%	7/31/2029	0	311,064
	RUS	5.280%	5/2/2040	0	1,787,941
	RUS	4.780%	5/2/2040	0	884,226
	RUS	4.960%	5/2/2040	0	1,470,302
	RUS	4.940%	5/2/2040	0	1,777,134
	RUS	4.340%	5/2/2040	0	215,841
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 2015 and 2014 was \$502,417 and \$518,914, respectively.	RUS	advance payments unapplied		(82)	(78)
	CFC	5.050%	7/28/2018	95,941	132,355
	CFC	6.250%	3/14/2026	358,488	383,576
	CFC	6.300%	7/28/2019	272,120	284,562
	CFC	4.400% - 5.150%	12/31/2016	169,012	271,301
	CFC	3.400% - 4.850%	11/25/2039	841,935	902,795
	CFC	1.900%	12/31/2016	424,125	840,287
	CFC	2.650% - 4.950%	11/25/2039	6,536,169	0
	FFB	4.503%	12/31/2031	704,565	734,035
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 \$117,455 and \$111,667 for the years ended December 31, 2015 and 2014, respectively.	FFB	4.120%	12/31/2031	1,332,445	1,390,196
	FFB	2.736%	12/31/2031	661,645	694,188
	FFB	4.269%	12/31/2031	356,280	371,510
	FFB	4.295%	12/31/2031	714,903	745,389
	FFB	3.879%	12/31/2031	694,390	725,165
	FFB	2.009%	1/2/2035	733,001	764,387
	FFB	2.231%	1/2/2035	715,821	745,760
	FFB	2.795%	1/2/2035	729,599	758,331
	FFB	4.550%	1/2/2035	779,708	805,032
NOTE H: LONG-TERM DEBT	FFB	4.353%	12/31/2034	782,778	808,767
	FFB	4.543%	12/31/2034	1,892,883	1,954,410
Long-term debt is comprised substantially of mortgage notes payable to the United States of America (RUS & FFB) and supplemental mortgages to NRUCFC. During 2015, the Cooperative refinanced \$6,756,989 in notes with Rural Utilities Service to notes with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Following is a summary of outstanding long-term debt as of December 31, 2015 and 2014:	FFB	3.889%	12/31/2042	5,435,559	5,547,530
	FFB	3.849%	12/31/2042	2,715,897	2,772,207
	FFB	4.419%	12/31/2042	1,919,301	1,955,571
	FFB	3.873%	1/2/2046	1,904,506	1,937,574
	FFB	2.763%	1/2/2046	1,318,589	1,346,477
	FFB	2.702%	1/2/2046	1,223,602	1,249,758
	FFB	2.330%	1/2/2046	1,593,526	1,629,846
	FFB	2.421%	1/2/2046	1,172,913	1,199,232
	FFB	2.777%	1/2/2046	2,234,623	2,281,771
	FFB	Variable	1/2/2046	945,276	976,666
	FFB	Variable	12/31/2048	1,000,000	1,000,000
	FFB	2.813%	12/31/2048	2,000,000	0
	FFB	Variable	12/31/2048	<u>1,900,000</u>	<u>0</u>
	Total mortgage notes			44,159,518	41,965,588
	Less: current portion of mortgage notes			<u>1,791,000</u>	<u>1,662,000</u>
	Long-term mortgage notes payable			<u>\$ 42,368,518</u>	<u>\$40,303,588</u>

Notes to Financial Statements (cont.)

December 31, 2015 and 2014

NOTE H: LONG-TERM DEBT (continued)

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

2016	\$ 1,791,000
2017	1,447,000
2018	1,293,000
2019	1,298,000
2020	1,347,000
Thereafter	<u>36,983,518</u>
	<u>\$ 44,159,518</u>

The Cooperative has available \$7,100,000 in loan funds from FFB that has not been advanced to the Cooperative as of December 31, 2015.

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, 2015. The interest rate on the line of credit at December 31, 2015 and 2014 was 2.90 percent, with outstanding balances on the line of \$0 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 has a corporate charge card agreement in place with U.S. 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:

	<u>2015</u>	<u>2014</u>
Consumer energy prepayments	\$ 3,460	\$ 3,849
	<u>\$ 3,460</u>	<u>\$ 3,849</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 \$2,022,196 and \$2,161,375 at December 31, 2015 and 2014, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,706,278 and \$1,292,498 and for the years ended December 31, 2015 and 2014, 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 \$144,984 and \$139,076 for the years ended December 31, 2015 and 2014, 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 \$46,849 and \$48,931 for the years ended December 31, 2015 and 2014, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$100,876 and \$102,796 for the years ended December 31, 2015 and 2014, 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.

Notes to Financial Statements (cont.)

December 31, 2015 and 2014

NOTE L : EMPLOYEE POSTRETIREMENT BENEFITS (continued)

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

	<u>2015</u>	<u>2014</u>
APBO, beginning of year	\$ 470,869	\$ 427,736
Service cost	16,400	16,400
Interest cost	22,453	20,405
Amortization	10,100	10,100
Additional expenses	9,276	18,599
Less: actual cash payment	<u>(6,196)</u>	<u>(22,371)</u>
APBO, end of year	522,902	470,869
Less: current portion	<u>(10,900)</u>	<u>(6,300)</u>
APBO, long-term portion	<u>\$ 512,002</u>	<u>\$ 464,569</u>

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

2016	10,900
2017	13,700
2018-2022	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>
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 4.75 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. 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

Management has evaluated subsequent events through February 16, 2016, the date on which the financial statements were issued.