

Cooperatives Deliver For Their Members

Official Notice of Annual Meeting Holmes-Wayne Electric Cooperative, Inc.

Attention members: The Annual meeting of Members of Holmes-Wayne Electric Cooperative, Inc., will be held Thursday, June 28, 2012, at West Holmes High School, 10901 St. Rte. 39, Millersburg, Ohio.



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

Health and Information Fair — 5 p.m.

Dinner — 5:45 p.m.

Business Meeting — 6:30 p.m.

Business will include the election results of three trustees, ratifying and approving all actions taken since the last meeting of members, and the transaction of such other and further business as may properly come before said meeting.

Each membership in attendance at the conclusion of this Annual Meeting will receive a \$5 credit to be applied toward their August electric bill and a free pack of light bulbs.

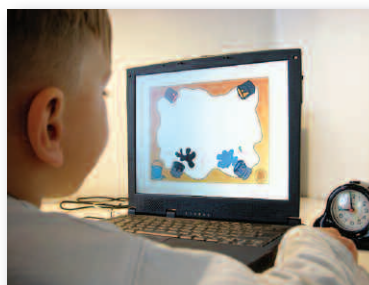
We also will be hosting a food drive at the Annual Meeting. Please feel free to bring a nonperishable item. Food will be collected and distributed to the Wayne County Salvation Army and the Holmes County Food Pantry.

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 2011
7. Operation Round Up Foundation Financial Report for 2011
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



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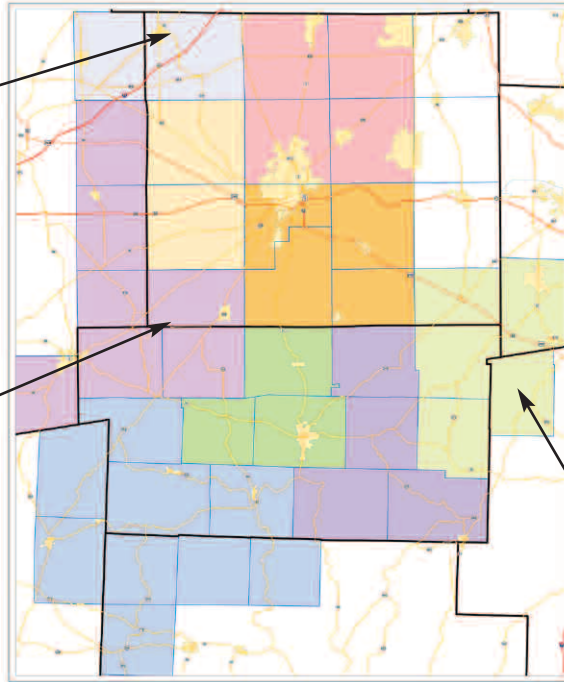
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The power of human connections®



2012 Holmes-Wayne Electric Cooperative, Inc. Board of Trustee Election

District 7 — Jackson Township, Ashland County, and Congress Township, Wayne County

District 3 — Hanover, Lake Mohican and Perry townships, Ashland County; Ripley and Washington townships, Holmes County; and Clinton Township, Wayne County.



District 1 — Paint and Walnut Creek townships, Holmes County; Paint and Sugar Creek townships, Stark County; and Wayne Township, Tuscarawas 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.



District 1

District 1

Randy Sprang - Incumbent



Home address: 1601 C.R. 200; Dundee, Ohio 44624

Spouse, children and grandchildren: Bonnie, 3 sons, 1 grandson

Number of years as member of HWEC: 36 years

Education and specific degree: Graduate of West

Holmes High School; Credentialed Cooperative Director Certificate; Board Leadership Certificate
Employment history: Retired after 37 years at the Ohio Agriculture Research and Development Center. Currently working part-time there. I am also a Paint Township trustee.

Leadership and community activities:

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I have been a HWEC Trustee from District 1 since 2003. I am currently chairman of the board. I believe my experience on the board would continue being beneficial for the membership of HWEC.

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

Matthew L. Johnson



Home address: 1844 T.R.; Dundee, OH 44624

Spouse, children and grandchildren: Wife: Holley, Children: Gus (7 years old), Phinehas (5 years old), Lydia (2 years old)

Number of years as member of HWEC: 4 years

Education and specific degree: Bachelor of Science, Civil Engineering from the University of Kentucky; Master of Science, Civil Engineering from University of Kentucky

Employment history: I have been employed by Palmer Engineering for 12 years. I am currently the branch manager of Palmer's Northeast Ohio office, and I am the head of Palmer's Ohio structural division. Most of my work focuses on the

design, inspection and repair of roads and bridges.

Leadership and community activities: Elder at Zion Reformed Church in Winesburg, assistant tee-ball coach in Winesburg

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: As the son of an electrician in Rittman, I

developed an early appreciation of the importance of electricity in our homes and lives. I would be honored to be able to have a role in providing and improving this essential service, especially with the HWEC, an organization whose primary goal is providing service to its members.

Any additional information you feel is essential for members to be aware of: As a civil engineer in the transportation field, I have a strong understanding of the importance of our nation's infrastructure. I want to use my technical skills and knowledge to ensure the Holmes-Wayne Electric Cooperative continues to provide reliable and cost-effective service for all co-op members.

Mike Palmer



Home address: 9435 T.R. 674, Dundee, OH 44624

Spouse, children and grandchildren: Karen Palmer - spouse; Stephen and Abby Palmer, Daniel and Nicole Palmer

Number of years as member of HWEC: 4 years

Education and specific degree: MBA

Employment history: Dutchman Hospitality Group, Inc. - President

Leadership and community activities: Gideons, Walnut Creek Mennonite Church, Tourism Council, Community Soccer Association

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I was asked.

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

District 3

District 3

Richard Beery



Home address: 8751 T.R. 513, Shreve, OH 44676

Spouse, children and grandchildren: Married to Sandy Beery; two children: Laura and Brian; one grandchild: Lyla Rose Ballou 2 1/2

Number of years as mem-

ber of HWEC: since 1974

Education and specific degree: Graduate of The Ohio State University with a degree in Electrical Engineering: BSEE

Employment history: I was co-founder of RBB Systems where I worked for 34 years. Now retired and doing photography.

Leadership and community activities: On the board of Goodwill, The Wilderness Center currently. Involved in many boards over the years.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: Would like to continue the good service that HWEC currently does with an emphasis on community relations.

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

Jackie McKee



Home address: 8249 St. Rte. 754, Shreve, OH 44676

Spouse, children and grandchildren: Married to Dale for 30 years. Son and Daughter-in-law: Joel and Brittney McKee. Daughter: Jessica McKee

Number of years as member of HWEC: 30

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

Employment history: Currently serving 14th year as Holmes County Auditor. Served two terms as Ripley Township Fiscal Officer prior to that.

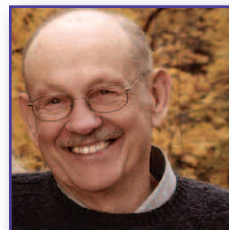
Leadership and community activities: Farm Bureau Member and past director for nine years, 4-H Advisor, attend Wooster Methodist Church,

Holmes County Chamber of Commerce Member, Serves on Executive Committee of County Auditors Association of Ohio, Past President of Northeast Auditors Association.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I would appreciate the opportunity to serve cooperative members as a trustee and to work with an organization that practices good management and has a concern for the community. My background and experience will allow me to ensure the mission of HWEC continues by providing its members the best possible electric service at the lowest cost.

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

Fred Weekley



Home address: 9933 S. Funk Road, Shreve, Ohio 44676

Spouse, children and grandchildren: My wife Libby and I have three children: Nathan, Brittney and Leslie.

Number of years as mem-

ber of HWEC: about 40 years

Education and specific degree: I am a graduate of Shreve High School and earned a BS in metallurgy at Massachusetts Institute of Technology.

Employment history: I have farmed and worked in the metals industry since high school. Currently, I am manager of Engineering at United Titanium in Wooster.

Leadership and community activities:

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I have enjoyed the advantages of co-op membership for a long time. It would please me to do some of the work to help others enjoy those advantages.

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

District 7

District 7

Don Buren - Incumbent



Home address: 191 Congress Street, West Salem, OH 44287
Spouse, children and grandchildren: Spouse: Tera Buren; children: Tim Buren and Jeff Buren; grandchildren: 8
Number of years as mem-

ber of HWEC: 40 years

Education and specific degree: Glenmont High School

Employment history: Buren Insurance Group (44 years)

Leadership and community activities: Current member of the HWEC Board of Trustees (19 years); current director on the HWEC Operation Round Up Foundation board (6 years); current member of the West Salem Planning Committee (12 years); current member of the Board of Directors of the Farmers State Bank (28 years); Current member of Congress Community Church (30 years); past trustee of the Greater Wayne County Foundation (12 years); past member of the Board of Congress Community Church (4 years)

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I think my 19 years on the board will help to continue the improvement of the electrical system.

Any additional information you feel is essential for members to be aware of: I am very interested in the future growth of our electrical system as well as providing the best possible service to our co-op members.

William Gallagher



Home address: 13870 Congress Road, West Salem, OH 44287
Spouse, children and grandchildren: Deb (wife) - undergraduate and master's from Ashland University, Billy - (son) graduate of the University

of Georgia

Number of years as member of HWEC: 15 years

Education and specific degree: I graduated from The Ohio State University in 1979 with a degree in secondary education. I was a member of the track

and cross country teams. I lettered in both sports.

Employment history: Ashland University 1981-2005 head men's and women's track and cross country Coach; The Barker Products Company 2006- present, general manager

Leadership and community activities: Member of NCAA Track and Field Committee 1999-2003 and chair of the committee 2001-2003; past member of Ashland Univ. Strategic Planning Committee; past president of the Ohio Collegiate Track and Cross Country Coaches Assn.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I was humbled when nominated and after studying the mission statement more closely would be honored to participate and continue to ensure the organizations business formula remains intact for future generations to enjoy and benefit.

Any additional information you feel is essential for members to be aware of: Everything my wife and I dreamed of we found in beautiful West Salem!

Dave Tegtmeier



Home address: 11360 Franchester Rd., West Salem, Congress Twp. in Wayne County
Spouse, children and grandchildren: Wife, Rita, and three grown children and 1 granddaughter
Number of years as mem-

ber of HWEC: 29 years

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

Employment history: employed at Ashland University as a multimedia technology coordinator, self-employed part-time farmer, partner of Sunsational Oil LLC. Previously employed by Peoples Federal as a computer programmer and served in the U.S. Air Force as a maintenance production analyst.

Leadership and community activities: served on Congress Twp. committees, St. Peter Lutheran Church in New Pittsburg. Member of Wayne County Farm Bureau, NRA.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: A simple desire to serve the community.

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

2011 Annual Meeting Minutes

The Annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 30, 2011.

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

It was moved and seconded to approve the minutes of the June 24, 2010, Annual Meeting as presented. Motion carried.

Ronnie Schlegel, chairman of the Board of Trustees, reported on the efforts and accomplishments of the Board of Trustees:

Retirement of capital credits of more than \$1 million in 2011. This is a reminder of the principles on which the cooperative was built.

The board spent several Saturdays and board meetings on strategic planning for the growth and future needs of the cooperative. Balancing the quality of service at an economical price is a constant effort in an ever-increasing wholesale power market.

The board continues to monitor the impact on wholesale power costs due to the price to produce electricity in a very volatile market which is being greatly influenced by the world market impact on fossil fuels, the research and development of green energy, the investment of equipment to meet environmental emission requirements, the increasing price of transmission, the purchase of additional generation facilities to meet consumer demand and balancing a fluctuating demand for energy with the fluctuating economy.

There are no plans for a rate adjustment in 2011. The last two years there have seen rate adjustments due to the increased cost to generate electric, from our generation cooperative, Buckeye Power.

In May, board members Randy Sprang and Dave Mann went to Washington, D.C., to represent Holmes-Wayne Electric at this year's Legislative Conference to meet with legislative representatives to express our concerns regarding proposed energy and environmental policies and the devastating impact this would have on our members.

COPA, the Co-op Owners for Political Action program, is 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.

Chris Roush, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2010, 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. Donations of close to \$60,000 were made in 2010 by the members of the cooperative and \$59,670.87 was given back to the community to help local people in need where there is no program that matches their need, and also assists various local charitable organizations.

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

In continuing efforts to provide a reliable flow of electricity to members, we recently completed a \$16.5 million dollar work plan which focused on line rebuilding.

2011 Annual Meeting Minutes (cont.)

With tree limbs on power lines being our number one source of power outages, in 2004 we began a strategic tree trimming program. Currently we are in our second, system-wide, four-year cycle of trimming. We have trimmed 2,875 miles of our system and this year will trim another 423 miles in Buckhorn, Drakes Valley, Killbuck and Stillwell substation areas.

Added 144 new services in 2010 for a total of 18,462 at year's end.

Our staff remains active in promoting energy efficiency and safety by visiting local schools, safety fairs and other groups. The last two years we have conducted "energy savings days" at West Salem and Millersburg to educate members on energy conservation to help manage their power cost. We have an energy advisor on staff to do home energy audits as a service to help members manage power consumption.

We engaged mobile workforce, adding computers in our vehicles to give personnel up-to-date information and to streamline work processes.

Outage management was added to our website, which updates every 15 minutes.

The cooperative employees have raised and donated more than \$8,000 to American Cancer Society Relay for Life fund, for a total of about \$75,000.00 over the last eight years.

The Cooperative has paid \$1.39 million in kWh tax to the State of Ohio, and \$802,000 in property taxes that benefit 12 local school districts and local governments.

The cooperative remains actively involved in the legislative process. As a member-owner company, we feel it is our responsibility to make you aware of the options you have to keep your power affordable. Last year we introduced Coop Owners Political Action Program as a way for you to be active in the legislative process — 209 of you have already joined COPA.

Our continued goal is to provide you reliable electric service and keep costs affordable to you.

Guest speaker, Bill Roberts, vice president of Finance, Buckeye Power and Ohio Rural Electric Cooperative, Inc. addressed the issues affecting monthly electric bills. He encouraged members to stay informed of these issues by reading *Country Living* Magazine, joining in with other cooperative members across the nation in the "Take Action" program, supporting local cooperative leaders in their efforts to keep electricity affordable and reliable, and becoming more efficient with their own use of energy.

Robyn Tate, Human Resources/Community Relations representative, presented the cooperative's scholarship awards.

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

Ken Conrad – District 4, Ronnie Schlegel – District 5, Ken Bower – District 6

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

There was no unfinished business.

There was no new business.

Upon motion made and seconded, the meeting was adjourned.



2011 Operation Round Up Program

2012 marks the beginning of our 7th year of Operation Round Up program. In that time, you have given more than **\$275,000** back to the community. This foundation could not exist without the very generous and caring HWEC members. With more than 7,200 participants, you are making the difference in many lives in our community. **Thank you!**

Members participating 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 2011 Operation Round Up distribution.

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

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 family with disabilities with auto repairs for medical appointments - Holmesville	\$1,375.00
Assist family with furniture and clothing following house fire - Fredericksburg	\$1,000.00
Assist elderly disabled individual with furnace repairs - Lakeville	\$336.47
Assist a family with beds for children - Millersburg	\$1,211.59
American Cancer Society-gas cards for patients traveling for treatment-Holmes & Wayne Cty	\$1,000.00
Project Linus - blankets for hospitalized children - Ashland, Holmes, Medina & Wayne Cty	\$1,000.00
Millersburg Church of God Food Pantry	\$1,000.00
Assist individual with car repairs to maintain employment training - Killbuck	\$858.53
Assist individual with bed after flooding - Millersburg	\$415.00
Assist family with furniture and clothing following house fire - Big Prairie	\$1,000.00
Assist family with furniture and clothing following house fire - Wooster	\$1,000.00
Assist family with furniture and clothing following house fire - Creston	\$1,000.00
Holmes County Red Cross - funds for March flood victims	\$2,000.00
Assist family with furniture and clothing following house fire - Wooster	\$500.00
Cystic Fibrosis Foundation - Holmes County	\$200.00
Senior Citizens of Ashland County, Inc.	\$690.00
Assist family with gas cards for medical treatments in Cleveland - Big Prairie	\$1,000.00
Assist family to make home handicap accessible after medical emergency - Killbuck	\$2,320.00
Assist family with travel for medical surgery - Millersburg	\$231.66
Canaan Township Fire Department - equipment	\$1,230.00
Assist family with furniture and clothing following house fire - Millersburg	\$1,500.00
Assist family with furniture and clothing following house fire - Big Prairie	\$1,000.00
Special Olympics - Wayne County	\$250.00
Assist family with home needs from fire - Big Prairie	\$1,750.00
Love Out Loud - youth mission work in Holmes County	\$2,500.00
Assist family with beds - Millersburg	\$885.00
Assist family with beds for children - Millersburg	\$470.00
Assist family with furniture and clothing following house fire - Apple Creek	\$1,000.00
Assist family with furniture and clothing following house fire - West Salem	\$1,000.00
Assist family with furniture and clothing following house fire - Apple Creek	\$1,000.00
Assist family with school supplies and clothing for children - Millersburg	\$450.00
Goodwill Industries of Wayne & Holmes County	\$1,050.00

2011 Operation Round Up Program (cont.)



Assist family with furniture and clothing following house fire - Apple Creek	\$1,000.00
Assist family with beds - Millersburg	\$1,120.00
Assist family with furniture and clothing following house fire - Shreve	\$1,000.00
Assist family with beds - Killbuck	\$285.49
Holmes County Home and Senior Center - Processing of donated fair animals	\$2,077.34
Northwestern Middle School - greenhouse for community food bank	\$1,000.00
Farmers and Hunters Feeding the Hungry - processing of donated deer for food pantries	\$2,000.00
Assist family with emergency home improvement - Killbuck	\$1,079.84
Assist family with furniture and clothing following house fire - Wooster	\$1,000.00
Assist family with bed for a child - Millersburg	\$235.00
Assist family with bed - Killbuck	\$300.00
Wayne County Agencies - processing of donated fair animals	\$2,722.17
Camp Ohio 4-H Camp	\$200.00
Assist family with purchase of used stove - Millersburg	\$200.00
Gas cards to assist family with infant medical appointments in Cleveland - West Salem	\$1,000.00
Assist family with beds for children - Nashville	\$646.00
Assist family with purchase of used stove - Millersburg	\$200.00
Town & Country Fire Department - West Salem Toy Drive	\$1,000.00
Meals on Wheels - Holmes County	\$1,000.00
Share-A-Christmas - Holmes County	\$1,000.00
West Salem Outreach and Food Pantry	\$1,000.00
Light House Love Center Food Pantry - Millersburg	\$1,000.00
Salvation Army - Wayne County	\$1,000.00
Salvation Army - Holmes County	\$1,000.00
Christian Children's Home - Wooster	\$1,000.00
Meals and More - West Salem	\$1,000.00
Every Woman's House - Holmes County	\$1,000.00
Every Woman's House - Wayne County	\$1,000.00
American Red Cross - Holmes County	\$1,000.00
American Red Cross - Wayne County	\$1,000.00
Hospice - Holmes County	\$1,000.00
Hospice - Wayne County	\$1,000.00
Viola Startzman Health Clinic - Wooster	\$1,000.00
Total	\$66,289.09

2011 Year in Review

Finance / Rates

While 2011 was a successful year for Holmes-Wayne Electric Cooperative, Inc., it did present a fair number of challenges. Wholesale power costs continue to rise, while member/consumer growth and kilowatt-hour sales remained relatively flat. The area experienced a minor ice storm in February 2011, which cost the cooperative approximately \$230,000. The cooperative also incurred additional engineering costs associated with planned upgrades to four substations. Such costs were packaged together to gain an overall savings and allow for efficient and timely completion of the projects.

Mild weather throughout the year reduced members electric consumption, which, along with the above items, resulted in a rather thin operating margin of \$92,454. Net margins, however, were boosted substantially by capital credit allocations from Buckeye Power, our generation cooperative. The resulting net margin for 2011 was \$1,572,255, which is allocated back to each member based on their electric consumption during the year.

Power costs represent roughly 64 percent of the operating expenses of the cooperative. Being such a large portion of our expenses, the cooperative

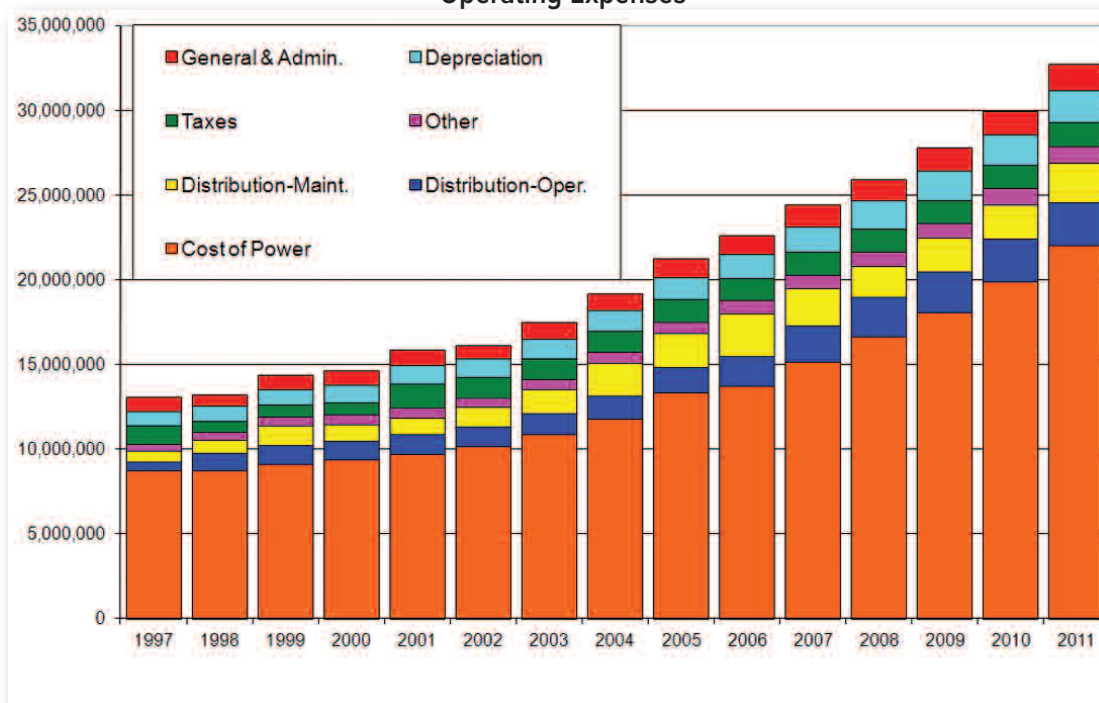
must pass most of the power cost increases on to the members in order to maintain a financially healthy organization. In the last nine years (since 2002), power costs have increased by 92 percent, while the average retail rate paid by the members has increased by only 65 percent.

The cooperative has accomplished this by developing many efficiencies and cost-saving strategies within its operations to keep expenses in check. As a cooperative, we have:

- * Reduced our staff from 42 to 36 employees during the last six years.
- * Reduced total "man hours" by 10 percent during the last five years.
- * Reduced vehicle mileage by 19 percent during the last five years, saving substantial dollars on fuel costs.
- * Invested in line rebuilding which has reduced line loss and saved the cooperative approximately \$400,000 in 2011.

These are prime examples of how Holmes-Wayne Electric Cooperative, Inc., is making changes to effectively manage costs for its members.

Operating Expenses



2011 Year in Review

Operations

Our primary focus is always on you, the members. We strive to provide a valuable, reliable service in a cost-effective manner for the benefit of the cooperative's member/owners and the community we serve.

HWEC continues our tree trimming and EPA-approved vegetation control programs on a four-year cycle. Our service territory is a beautiful rural territory with rolling hills and country scenes that includes a large population of trees. Tree limbs and power lines aren't a good combination. These programs reduced our 2011 tree-related outages by 15 percent.

Approximately 27 miles of distribution lines were rebuilt in 2011 including the ongoing initiative of constructing tie lines between substation. These tie lines provide flexibility during transmission outages to reduce members' outage time.

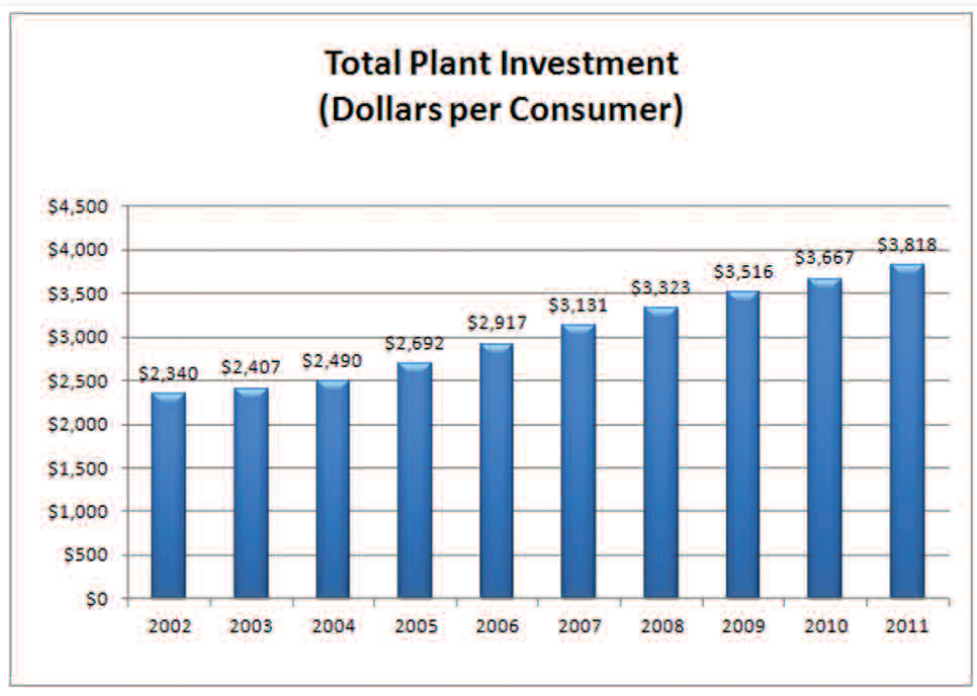
The West Salem distribution office was remodeled to meet the needs of the northern service territory.

Upgrades included a focus on operations efficiency as well as improved energy efficiency.

Annual pole inspections continued. Poles are tested throughout the HWEC service territory to identify any poles not meeting standard requirements. Those poles identified are replaced by line personnel within the standard daily schedule.

The cooperative continued its system-wide GPS (Global Positioning System) program. All infrastructure is being tagged and identified on our electronic mapping system. This project will be completed in 2012.

Also, throughout the entire year, line personnel are visually inspecting the infrastructure system to identify and correct any maintenance issues in an effort to prevent potential 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 the above processes to provide the best service to our members.



2011 Year in Review (cont.)

Legislation

The cooperative staff and board continued lobbying efforts at both Columbus and Washington, D.C., on behalf of its members. Discussions regarding climate change, fuel supply, technology and costs were the priority topics.

Additionally, the board of trustees and senior management have personally donated to the Action Committee for Rural Electrification (ACRE®) program, an avenue to communicate the concerns of rural electric cooperatives to lawmakers.

The past couple of years the cooperative has promoted a new program to our members called *Our Energy, Our Future*, a national grassroots campaign to engage cooperative members in a conversation with elected officials about how to meet climate change goals while keeping electricity reliable and affordable. Thousands of Ohio cooperative members have sent message to members of congress. Your voice does matter and it is important that you let your representatives know that you are concerned with the future affordability and reliability of electric. We thank those HWEK members who have participated.

In 2011, we also continued promoting the Co-op Owners for Political Action (COPA®). COPA is a political action committee that supports both state and federal lawmakers who will speak for and protect the interest of cooperatives and their member-owners. More than 200 HWEK members have joined this effort. In May 2011, a special breakfast at the cooperative office was held for COPA participants. U.S. Congressman Bob Gibbs and State Rep. Dave Hall shared their focus of keeping energy affordable and focus on the issues involving the rural areas of Ohio.

Energy Efficiency

Energy Efficiency remains a point of emphasis for the cooperative as we continue to communicate and educate members of the importance of energy efficiency. Holmes-Wayne Electric members continue to utilize our home energy audit which includes such tools as a blower door test and infrared camera.

October of 2011 offered our annual Energy Savings days both at Millersburg and West Salem.

Members had the opportunity to view a variety of hands-on home energy improvements, talk directly to HWEK staff and receive a variety of energy efficiency information.

Community

HWEK is committed to our community. Our activities are not limited to safety demonstrations and the management of our Operation Round Up foundation. In 2011, we continued our active role in the American Cancer Society Relay for Life by raising \$8,000. In the past eight years, HWEK has raised over \$73,000 to assist with eliminating cancer through research, education, advocacy and local community services.

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

The cooperative also participated in the 2011 Holmes County Farm Tour and continued participating in the 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, Northwestern Middle School Career Day and East and West Holmes Middle School Reality Days.

During the holiday season, the cooperative along with local schools designed and sent Christmas cards to the United States military serving in Afghanistan.

Customer Service

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

A 24 hour/seven day a week call center 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.

Additionally, monthly updates to our website, allow for the latest communication of features and services to our members.

2011 Year in Review

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 utilized by the cooperative as operating capital for a period of time then returned to the member/owners in the form of capital credit retirements. These retired capital credits would be the equivalent of dividends that would be paid to the stockholders of a "for-profit" company. \$1,039,368 in capital credits were returned to Holmes-Wayne Electric Cooperative members in 2011. HWEC has refunded nearly \$8.9 million to members over the last eight 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 participa-

tion accrue locally to our neighborhoods and community.

Safety

Safety continued to be a strong priority for HWEC in 2011. HWEC received three awards from the Ohio Bureau of Workers Compensation for safety as well as maintaining the National Rural Electric Safety Certification. To maintain a culture of safety, field inspections and in-house safety information meetings occur monthly.

Safety demonstrations throughout the community in 2011 included the Amish Health and Safety Day in Mt. Hope, Nashville Community Safety Day and Holmes County Safety Council. Line personnel presented safety demonstrations in the East Holmes, Northwestern, Triway and West Holmes school districts. A special high-voltage demonstration was presented at the OARDC for emergency responder personnel in our community.

Independent Auditor's Report

February 14, 2012

Board of Trustees
Holmes-Wayne Electric Cooperative,
Inc.

We have audited the accompanying balance sheets of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2011 and 2010, and the related statements of revenue, patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 stan-

dards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

During the years ended December 31, 2011 and 2010, the cooperative received \$0 and \$2,217,756 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

In our opinion, the financial statements referred to above present fairly, in all material respects, the finan-

cial position of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 14, 2012, on our consideration of Holmes-Wayne Electric Cooperative, Inc.'s, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

BALANCE SHEETS

AS OF DECEMBER 31, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
UTILITY PLANT:		
Electric plant in service	\$ 63,370,205	\$ 60,198,255
Construction work in progress	<u>963,693</u>	<u>1,326,881</u>
	64,333,898	61,525,136
Less: provision for accumulated depreciation	<u>15,170,827</u>	<u>14,458,854</u>
Net utility plant	49,163,071	47,066,282
OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	2,210,154	2,208,315
Patronage capital from associated organizations	<u>12,778,875</u>	<u>12,014,647</u>
Total other assets and investments	14,989,029	14,222,962
CURRENT ASSETS:		
Cash and cash equivalents	1,489,395	1,083,655
Accounts receivable, net of allowance	3,791,756	4,136,750
Materials and supplies	938,523	872,006
Other current assets	<u>58,390</u>	<u>160,182</u>
Total current assets	<u>6,278,064</u>	<u>6,252,593</u>
Total assets	<u><u>\$ 70,430,164</u></u>	<u><u>\$ 67,541,837</u></u>
EQUITIES AND LIABILITIES		
EQUITY:		
Patronage capital	\$ 28,352,183	\$ 27,641,872
Other equities	1,260,829	1,523,669
Accumulated other comprehensive income	<u>(185,695)</u>	<u>(185,695)</u>
Total equity	29,427,317	28,979,846
LONG-TERM LIABILITIES:		
Mortgage notes payable	35,061,095	32,654,006
Deferred credits	68,734	70,678
Postretirement benefit obligation	<u>281,961</u>	<u>264,410</u>
Total long-term liabilities	35,411,790	32,989,094
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	993,000	1,005,000
Accounts payable	2,614,216	1,979,908
Postretirement benefit obligation, current portion	26,100	24,300
Accrued taxes	1,035,981	999,058
Customers' deposits	189,385	177,591
Other current liabilities	<u>732,375</u>	<u>1,387,040</u>
Total current liabilities	<u>5,591,057</u>	<u>5,572,897</u>
Total equities and liabilities	<u><u>\$ 70,430,164</u></u>	<u><u>\$ 67,541,837</u></u>

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

STATEMENTS OF REVENUE & PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES	\$ 34,303,183	\$ 32,053,364
OPERATING EXPENSES:		
Cost of purchased power	21,982,384	19,872,659
Operations	2,572,016	2,542,327
Maintenance	2,325,617	2,000,932
Consumer accounts	862,173	847,156
Customer service and informational expense	88,356	78,876
Administrative and general	1,568,101	1,365,061
Depreciation	1,887,242	1,829,344
Tax expense	1,388,750	1,389,106
Interest - other	9,194	8,545
Other deductions	<u>6,267</u>	<u>2,866</u>
Total cost of electric service	<u>32,690,100</u>	<u>29,936,872</u>
Operating margins before fixed charges	1,613,083	2,116,492
FIXED CHARGES, interest on long-term debt	<u>1,520,629</u>	<u>1,512,214</u>
Operating margins after fixed charges	92,454	604,278
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,369,621	398,629
Other credits	<u>50,137</u>	<u>90,129</u>
	<u>1,419,758</u>	<u>488,758</u>
Net operating margins	1,512,212	1,093,036
NON-OPERATING MARGINS:		
Interest income	60,022	71,806
Other income	<u>21</u>	<u>814</u>
	<u>60,043</u>	<u>72,620</u>
Net margins	<u>\$ 1,572,255</u>	<u>\$ 1,165,656</u>
PATRONAGE CAPITAL, beginning of year	\$ 27,641,872	\$ 27,598,450
Net margins	1,572,255	1,165,656
Reallocation of unclaimed capital credits	412,002	0
Retirement of capital credits	<u>(1,273,946)</u>	<u>(1,122,234)</u>
PATRONAGE CAPITAL, end of year	<u>\$ 28,352,183</u>	<u>\$ 27,641,872</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Net margins	\$ 1,572,255	\$ 1,165,656
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	1,887,242	1,829,344
Non-cash capital credits received	(1,407,895)	(448,884)
(Increase) decrease in assets:		
Accounts receivable, net	344,994	(586,389)
Other current assets	101,793	(59,927)
Increase (decrease) in liabilities:		
Accounts payable	634,307	12,507
Accrued taxes	36,922	58,741
Customers' deposits	11,794	12,304
Other current liabilities	(654,663)	875,312
Deferred credits	(1,944)	(121,866)
Postretirement benefit obligation	19,351	(5,242)
Total adjustments	<u>971,901</u>	<u>1,565,900</u>
Net cash provided by operating activities	2,544,156	2,731,556
 CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of utility plant	(3,984,030)	(3,409,888)
Increase in materials and supplies	(66,517)	(63,379)
Investments in associated organizations	(2,208)	(15,062)
Proceeds from redemption of capital credits	643,667	733,613
Return of investment in associated organizations	<u>368</u>	<u>346</u>
Net cash used in investing activities	(3,408,720)	(2,754,370)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgage notes payable	3,400,000	4,317,756
Principal payments on mortgage notes payable	(1,004,911)	(3,040,886)
Patronage capital credits retire	(1,273,946)	(1,122,234)
Retired capital credits unclaimed	81,097	40,040
Donated capital received	<u>68,064</u>	<u>49,331</u>
Net cash provided by financing activities	<u>1,270,304</u>	<u>244,007</u>
Net increase in cash and cash equivalents	405,740	221,193
 CASH AND CASH EQUIVALENTS, beginning of year	<u>1,083,655</u>	<u>862,462</u>
 CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,489,395</u>	<u>\$ 1,083,655</u>

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

Notes to Financial Statements

December 31, 2011 and 2010

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%
Office furniture and equipment	5.4%
Computer equipment	25.0%
Transportation equipment	14.0%
Power operating equipment	12.0%
Communications equipment	7.2%
Other general plant	4.3-4.7%

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, 2011 and 2010 was \$40,000 in both years. Bad debt expense for 2011 and 2010 was \$37,141 and \$43,148, 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 2008.

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 \$1,517,525 and \$1,509,300 for the years ended December 31, 2011 and 2010, respectively. There were no payments for federal income taxes for 2011 or 2010.

Notes to Financial Statements (cont.)

December 31, 2011 and 2010

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	<u>2011</u>	<u>2010</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	55,528,013	53,164,686
General Plant	<u>7,594,061</u>	<u>6,785,438</u>
Electric Plant in Service	63,370,205	60,198,255
Construction Work in Progress	<u>963,693</u>	<u>1,326,881</u>
Total Utility Plant at Cost	<u>\$64,333,898</u>	<u>\$61,525,136</u>

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2011</u>	<u>2010</u>
<u>Investments in Associated Organizations:</u>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 632,443	\$ 632,811
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.	125,264	123,060
CoBank common stock	27,128	27,128
Rural Cooperative Credit Union	<u>1,788</u>	<u>1,785</u>
Total investments in associated organizations	2,210,154	2,208,315

Patronage Capital from Associated Organizations:

Rural Electric Supply Cooperative, Inc.	373,384	361,968
Buckeye Power, Inc.	12,164,174	11,427,788
NRUCFC	87,749	80,399
National Information Solutions Cooperative	52,212	45,773
Federated Rural Electric Insurance Exchange	94,324	91,687
Cooperative Response Center	<u>7,032</u>	<u>7,032</u>
Total patronage capital from associated organizations	<u>12,778,875</u>	<u>12,014,647</u>
Total other assets and investments	<u>\$14,989,029</u>	<u>\$14,222,962</u>

NOTE E: PATRONAGE CAPITAL

At December 31, 2011 and 2010, patronage capital consisted of:

	<u>2011</u>	<u>2010</u>
Assignable	\$ 1,572,255	\$ 1,165,656
Assigned	<u>43,692,226</u>	<u>42,526,570</u>
	45,264,481	43,692,226
Retired	<u>(16,912,298)</u>	<u>(16,050,354)</u>
Total patronage capital	<u>\$28,352,183</u>	<u>\$27,641,872</u>

The Cooperative's patronage capital balances represent 40.3 percent and 40.9 percent of the total assets at December 31, 2011 and 2010, respectively. Capital credit retirements in the amount of \$1,273,946 and \$1,222,234 were paid in 2011 and 2010, respectively.

The Cooperative received donated capital from members totaling \$67,224 and \$49,332 during 2011 and 2010, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2011 and 2010, includes \$15,326,764 and \$15,578,250, 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, 2011 and 2010, other equities consisted of:

	<u>2011</u>	<u>2010</u>
Donated capital	\$ 822,047	\$ 753,984
Retired capital credits unclaimed	<u>438,782</u>	<u>769,685</u>
Total other equities	<u>\$1,260,829</u>	<u>\$1,523,669</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 2011 and 2010 was \$542,497 and \$492,829, 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 \$101,973 and \$98,306 for the years ended December 31, 2011 and 2010, respectively.



Notes to Financial Statements (cont.)

December 31, 2011 and 2010

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, 2011 and 2010:

Loan	Fixed Interest Rate	Maturity Date	2011	2010
RUS	4.625%	7/31/2029	\$ 352,970	\$ 365,864
RUS	5.000%	7/31/2029	352,354	364,800
RUS	5.280%	5/2/2040	1,881,448	1,909,475
RUS	4.780%	5/2/2040	934,719	950,007
RUS	4.960%	5/2/2040	1,551,613	1,576,143
RUS	4.940%	5/2/2040	1,875,492	1,905,176
RUS	4.340%	5/2/2040	229,089	233,136
RUS advance payments unapplied			(69)	(15,494)
FFB	4.503%	12/31/2031	815,205	839,847
FFB	4.120%	12/31/2031	1,550,395	1,599,423
FFB	2.736%	12/31/2031	786,827	816,012
FFB	4.269%	12/31/2031	413,642	426,495
FFB	4.295%	12/31/2031	829,684	855,387
FFB	3.879%	12/31/2031	810,913	836,431
FFB	4.880%	6/30/2012	850,591	870,224
FFB	3.974%	3/31/2013	825,026	846,595
FFB	3.937%	6/30/2013	834,772	856,705
FFB	4.550%	1/2/2035	874,786	895,922
FFB	4.353%	12/31/2034	880,610	902,472
FFB	4.543%	12/31/2034	2,123,904	2,175,270
FFB	3.889%	12/31/2042	5,860,358	5,956,285
FFB	3.849%	12/31/2042	2,929,632	2,977,949
FFB	4.419%	12/31/2042	2,055,995	2,086,423
FFB	3.873%	1/2/2046	2,000,000	0
FFB	2.763%	1/2/2046	1,400,000	0
CFC	5.750%	2/10/2012	0	27,832
CFC	5.050%	1/26/2015	162,862	211,924
CFC	5.050%	7/28/2018	228,695	257,720
CFC	6.250%	3/14/2026	450,147	469,722
CFC	6.300%	7/28/2029	317,543	327,231
CFC	2.850%-5.150%	4/29/2019	791,671	995,718
CFC	2.400%-4.850%	9/23/2026	1,068,221	1,118,312
Sewer tap payable (no interest) due 2014			<u>15,000</u>	<u>20,000</u>
Total mortgage notes			36,054,095	33,659,006
Less: current portion of mortgage notes			<u>993,000</u>	<u>1,005,000</u>
Long-term mortgage notes payable			<u>\$ 35,061,095</u>	<u>\$ 32,654,006</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, 2011. The interest rate on the line of credit at December 31, 2011 and 2010 was 3.20 percent and 4.25 percent, respectively, with outstanding balances on the line of \$0, 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:

2012	\$ 993,000
2013	1,078,000
2014	1,129,000
2015	1,032,000
2016	1,045,000
Thereafter	<u>30,777,095</u>
	<u>\$ 36,054,095</u>

The Cooperative has available \$7,600,000 in loan funds from FFB that has not been advanced to the Cooperative as of December 31, 2011.

NOTE I: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2011	2010
Consumer energy prepayments	\$ 6,189	\$ 7,268
Construction deposits	<u>62,545</u>	<u>63,410</u>
	<u>\$ 68,734</u>	<u>\$ 70,678</u>

NOTE J: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a nonprofit 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 \$1,991,425 and \$1,860,065 at December 31, 2011 and 2010, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,124,876 and \$1,223,924 for the years ended December 31, 2011 and 2010, 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 \$128,521 and \$115,145 for the years ended December 31, 2011 and 2010, respectively.

Notes to Financial Statements (cont.)

December 31, 2011 and 2010

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

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 \$45,092 and \$42,873 for the years ended December 31, 2011 and 2010, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$111,495 and \$113,192 for the years ended December 31, 2011 and 2010, 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>2011</u>	<u>2010</u>
APBO, beginning of year	\$ 288,710	\$ 293,952
Service cost	11,200	11,200
Interest cost	16,707	17,008
Amortization	7,200	7,200
Additional expenses	26,405	64,432
Less: actual cash payment	<u>(42,160)</u>	<u>(105,082)</u>
APBO, end of year	308,061	288,710
Less: current portion	<u>(26,100)</u>	<u>(24,300)</u>
APBO, long-term portion	<u>\$ 281,961</u>	<u>\$ 264,410</u>

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

2012	\$ 26,100
2013	20,500
2014	16,100
2015	16,100
2016-2018	48,300

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

	Medical	Drugs
2011	8.5%	8.5%
2012	8.0%	8.0%
2013	7.5%	7.5%
2014	7.0%	7.0%
2015	6.5%	6.5%
2016	6.0%	6.0%
2017	5.5%	5.5%
2018 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: SUBSEQUENT EVENTS

In January 2012, the Cooperative drew down additional debt of \$1,400,000 from the Federal Financing Bank.

Management has evaluated subsequent events through February 14, 2012, the date on which the financial statements were issued.

