

Cooperative Difference... emphasis on people not profit

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 27, 2013, 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.

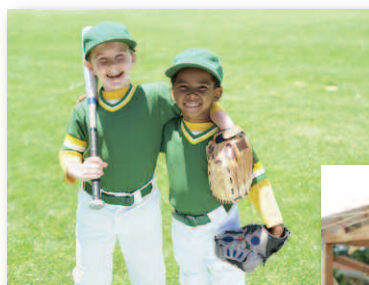
We also will be hosting a food drive at the Annual Meeting. Please feel free to bring a non-perishable item. Food will be collected and distributed to the Wayne County Salvation Army and the Holmes County Food Pantry.

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 2012
7. Operation Round Up Foundation Financial Report for 2012
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



In early June, all HWEC members will receive via the United States Postal Service a trustee election ballot and RSVP form for the Annual Meeting Dinner. Voting ballot and RSVP form can be returned by the provided postage paid envelope or submitted on-line at www.hwecoop.com.



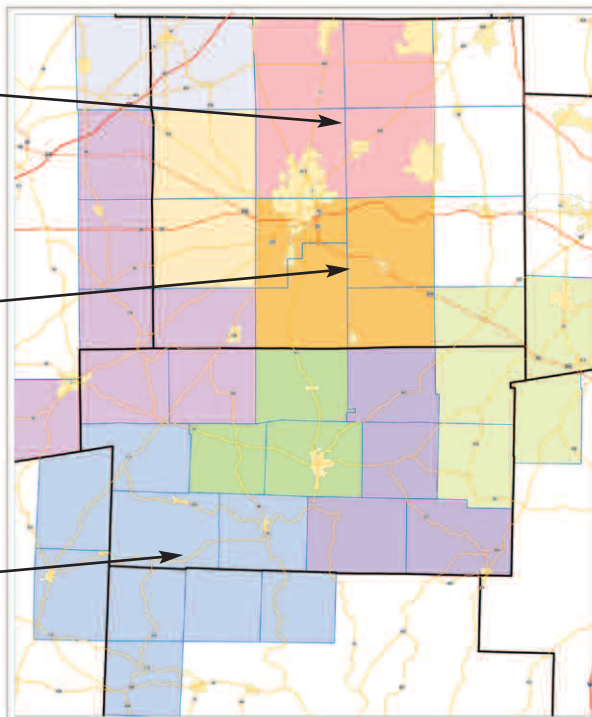
A Touchstone Energy® Cooperative 
The power of human connections®

2013 Holmes-Wayne Electric Cooperative, Inc. Board of Trustee 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.

The 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 2



William P. Grassbaugh - Incumbent

Home address: 13951 T.R. 20; Glenmont, Ohio 44628

Spouse, children and grandchildren: Wife - Carol, Children - Lisa and Kevin, Grandchildren -

Trent, Tyler, Taryn and John

Number of years as member of HWEC: 43 years

Education and specific degree: Killbuck High School graduate

Employment history: I was a dairy farmer for 25 years and then raised replacement heifers for six years and now have a grain only operation.

Leadership and community activities: St. Peter and Paul Council - keep records on church cemetery, Killbuck Valley Landowners Association Trustee

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: Having been a trustee for nine years and having completed classes to obtain Credentialed Cooperative Director certificate and now attending classes to obtain Board Leadership Certificate would like to continue serving the members as trustee.

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



Edwin D. Dye

Home address: 12962 St. Rte. 39; Big Prairie, Ohio 44611

Spouse, children and grandchildren: Wife - Suzie - been married 42 years. I have three sons and four

grandchildren

Number of years as member of HWEC: 39 years

Education and specific degree: Millersburg High School - 1963; Wooster Business College - 1966

Employment history: West Holmes Local School District - Transportation Supervisor - 11 years; Sales Manager - Horrisberger Implement - 12 years; Self Employed - 20-plus years

Leadership and community activities: Member -

Millersburg Lions Club; Know Township Trustee - seven years; Attend St. John's Church of Millersburg - 55 years; Deacon of Church - four years

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: Being active in community programs and school and township business affairs, I feel I can add to the HWEC Board.

Any additional information you feel is essential for members to be aware of: I have managed my own business in past. Also worked in sales and sales management for area business in past.



Nathan Fritz

Home address: 6113 T.R. 501; Big Prairie, Ohio 44611

Spouse, children and grandchildren: Wife - Edie, Daughter - Deb, Son-George

Number of years as mem-

ber of HWEC: Since 1977

Education and specific degree: 1971 West Holmes Graduate; Certified Ohio Peace Officer

Employment history: Retired Dec. 31, 2012, from Holmes County Sheriff's Office, 20 years as Chief Deputy. Currently operate a small welding/fabrication/repair business at my home.

Leadership and community activities: Served as Chief Deputy for Holmes County, served on various committees and boards representing the Sheriff. Also served as public information officer for the Sheriff's office (press releases, etc.)

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: To learn more about how the cooperative functions and serves its members. I believe I could do an adequate job as trustee in responding to and representing the interests of those living in my area of responsibility.

Any additional information you feel is essential for members to be aware of: This would be a new area of responsibility for me so it will definitely be a learning experience into the duties and responsibilities of a trustee. If I am elected to the position, I will do my best to serve the people of the townships I represent.

District 8



Barry Jolliff - Incumbent

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

Spouse, children and grandchildren: Amy Jolliff, wife, Christina, daughter, Jesse, son, Rebekkah, daughter

Number of years as member of

HWEC: 17

Education and specific degree: Master's Degree in Agricultural Education; Bachelor's Degree in Elementary Education

Employment history: Ohio State University/ATI Instructor, where I teach classes in education, leadership and dance. Teamplay, LLC, owner: Through my company I lead team building and leadership seminars across Ohio and several neighboring states. I also teach folk and square dancing around Ohio and across the country. Prior employers were Medina City Schools as a teacher and OSU Extension, 4-H and Youth Development.

Leadership and community activities: I am currently the president of the Wayne County OSU Alumni chapter. I am an active member of the Church of the Cross, United Methodist. I play the piano once a month and in the past I have worked as youth leader, have been a member of the choir and participated in many cantatas. I am an advisor to a 4-H club that meets in our barn. I am a 30-plus year board member of Buckeye Leadership Workshop. BLW is a nonprofit organization that presents a five-day workshop each spring where we teach leadership skills through recreation.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: During the past several years of being on the Holmes-Wayne Electric Co-op Board of Trustees has been very rewarding and educational. I enjoy working with "the board" and the employees. I feel there are major changes that are going to happen in the United States that will change the entire structure of how electricity will be produced in the next several years. I am looking forward to being part of that change and being part of the fight to keep electric available and affordable to the rural parts of Ohio and across the country.

Any additional information you feel is essential for members to be aware of: I am currently a board member of Ohio Rural Electric Cooperatives, Inc., and the Ohio Co-op Youth Committee, both representing the Holmes-Wayne Electric Co-op.



Mark Peeples

Home address: 6720 Canaan Center Rd; Wooster, Ohio 44691

Spouse, children and grandchildren: Wife - Sue, Daughters - Alexis and Paige

Number of years as member of

HWEC: 13 years

Education and specific degree: I decided college was not for me. High school and a few college courses.

Employment history: Roseler Corp. DBA - Donatos Pizza since 1997 - Operations Manager. Tampa Brake and Supply - Office Manager/Purchasing Agent 1990-1996. Dairy farmer as a child/young adult.

Leadership and community activities: Soccer coach for eight years and continue to do so. Field of Dreams Special Olympians, Wooster Fest Committee, Wooster Chamber of Commerce Volunteer

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I'd like to think that my experience of Operations Manager and common sense approach to most things we do, can be used at all organizations. Also I'd like to be a part of an organization that helps our rural communities.

Any additional information you feel is essential for members to be aware of: I am a very passionate and dedicated person. Love to work with people and always enjoy a challenge.



Titus W. Yoder

Home address: 5840 Clearcreek Valley Rd; Wooster, Ohio 44691

Spouse, children and grandchildren: Spouse - Carla. We have five adult children living in Florida, Virginia and Chicago.

Number of years as member of

HWEC: 30 years

Education and specific degree: Graduated from Shenandoah College (now Shenandoah University) with an associate's degree in science (respiratory therapy)

Employment history: Was director of Cardiopulmonary Services at Wooster Community Hospital for 11 years. For the past 27 years, I have been the president/owner of Wayne Health Services & Supplies, Inc., in Wooster.

Leadership and community activities: I have been involved in many community activities over the 38 years I have lived in Wayne County. I currently am a member of the Wayne County Committee of Crippled Children and Adults, a member of the Finance Committee at St. Mary Church in Wooster and a member of several other committees for local organizations.

Why are you interested in becoming a member of the HWEC Board of Trustees or serving another term: I have been involved in healthcare for many years so I have had a lot of exposure in working with the public. By owning and managing a company with 24 employees, I have the knowledge and experience to be able to be an active participant of the board of trustees. I believe the Holmes-Wayne Electric Co-op is a very well run organization and I look forward to becoming a part of it.

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

District 9



Dave Mann - Incumbent

Home address: 9743 Munson Rd;
Shreve, Ohio 44676

Spouse, children and grandchildren: Married to Karen for 43 yrs,
5 children, 14 grandchildren and 3
great-grandchildren

Number of years as member of

HWEC: 41 years

Education and specific degree: Triway High School

Employment history: Served six years in the Ohio Air
National Guard. Retired in 2006 from the City of Wooster
Maintenance Dept. Currently operating a grain and beef
farm in Franklin Twp.

Leadership and community activities:

Franklin Twp. Trustee - 22 yrs, Member of Holmes-Wayne
Board - 12 yrs, Wayne Co. Planning Commission - 12 yrs -
currently serving as chairman, Member Moreland United
Methodist Church, Board Member of the Moreland
Cemetery Assoc. - 30 yrs, Charter Member of the
Moreland Community Historical Society, Member of the
Ohio Cattlemen's Association

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

Holmes-Wayne Electric Co-op's management and staff are
recognized as one of the best in the state and I am very
privileged to have served 12 years on our board. I believe
with my experience and being semi-retired I have the time
and knowledge to continue being an effective board mem-
ber.

**Any additional information you feel is essential for mem-
bers to be aware of:**



Roger K. Murray

Home address: 2627 Ann Court;
Wooster, Ohio 44691

Spouse, children and grandchildren: Along with my wife, Becky,
of 42 years, we have three adult
children and four grandchildren

**Number of years as member of
HWEC:** Most of my life we have

depended on Holmes-Wayne Cooperative electricity for 45
years, since 1968 as Whispering Hills RV Park. Personally,
I have lived in two separate homes within the cooperative
a total of 37 years.

Education and specific degree: Triway High School gradu-
ate in 1967. Graduated from Bowling Green State
University 1971, BS in education majoring in Earth science
and biology. In the years following college, I enrolled in
many professional continuing education seminars and
courses as my need for knowledge grew.

Employment history: I was very fortunate to have grown
up in a number of our family businesses. Growing up in
Guerne, my father, Wayne, was a general building contrac-
tor. Starting in 1961, our family, especially my mother,
Ruth, operated Westwood Restaurant until 1996. In 1968,

we started Whispering Hills Campground. After college
graduation, '71-'72, I taught Earth science and Biology II
and coached sports at West Holmes High School (thinking
I would have a teaching career and work the campground
in the summers). After my father died in 1972, I continued
full-time developing Whispering Hills along with my
mother and brother, Curt. I left the family businesses in
1976 and had a 25-year career with Astro Metallurgical,
then later Astro Cosmos Metallurgical, where I held many
management positions (beginning as a sales trainee and
ended my career as vice president of operations in 2001).
In 2001, I returned as general manager of Whispering
Hills RV Park (managing member of Murray Family
Limited Partnership), and today continue redeveloping
and growing the business.

Leadership and community activities: I've been blessed
with many opportunities to work and serve in many busi-
nesses and organizations (ie: Lions Club, Triway School
Board member, Holmes County Chamber Tourism Bureau,
Mohican Tourism Association, Shreve Business and
Community Assoc.). I give of myself as God has given to
me.

**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 organization's business formula
remains intact for future generations to enjoy and benefit.

**Any additional information you feel is essential for mem-
bers to be aware of:**



Keith B. Patterson

Home address: 3612 Triway Lane;
Wooster, Ohio 44691

**Spouse, children and grandchil-
dren:** Julie Patterson; Chelsea
(daughter) Kyle (son)

**Number of years as member of
HWEC:** 12 years

Education and specific degree:

Graduated from Triway High School in 1981

Employment history: OARDC - OSU Animal Science 1982
to present. I am in the position of Research Farm
Manager. Owner/Operator of Lawn Care Service 1984-
present.

Leadership and community activities: OARDC Employees
Credit Union Board of Directors, Past President of
OARDC Employees Staff Council, Past President of Triway
Athletic Boosters Club, Past President of Shreve United
Methodist Church Board of Trustees

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

Electricity is a valuable resource and I feel Holmes-Wayne
provides a very efficient product. I would be proud to rep-
resent the members of the cooperative and would be an
accessible member of the board of trustees.

**Any additional information you feel is essential for mem-
bers to be aware of:**

2012 Annual Meeting Minutes

The Annual meeting of Holmes-Wayne Electric Cooperative, Inc., was held at the West Holmes High School on Thursday, June 28, 2012.

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 30, 2011, Annual Meeting as presented. Motion carried.

Randy Sprang, Chairman of the Board of Trustees, reported on behalf of the Board of Trustees: Retirement of capital credits of more than \$1 million in 2012. This is a reminder of the principles on which the cooperative was built.

The volatile energy industry continues to increase power costs — 64 cents of every dollar you spend on electric goes directly to the generation and transmission of your electric service.

The West Salem district office was remodeled in 2011 creating operation and energy efficiencies.

Your board is committed to legislative communication with lawmakers about the facts of our industry and the impact of legislation on you the members of the cooperative.

The board of trustees and leadership staff at Holmes-Wayne Electric Cooperative contribute to the Action Committee for Rural Communication® (ACRE), which supports congressional candidates of both parties who share public policy goals that are consistent with the mission of member-owned electric cooperatives. Half of the contributions to ACRE are returned to statewide associations for use in state elections to express our concerns regarding proposed energy and environmental policies and the devastating impact this would have on our members.

Your board of trustees is still committed to doing everything in its power to keep safe, affordable and reliable electricity flowing.

Chris Roush, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2011, which resulted in a clean, unqualified opinion.

Daniel Mathie, Attorney from Critchfield, Critchfield, and Johnston, LTD and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. Currently 7,200 members of the cooperative are enrolled in Operation Round Up and approximately \$68,000 was distributed to a variety of charitable causes in the past year.

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

In continuing efforts to provide a reliable flow of electricity to members, we are two years into a \$16.5 million four-year work plan focused on line rebuilding and substation upgrades. Approximately 225 miles of the system have been rebuilt in the last five years.

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 third, system-wide, four-year cycle of trimming. In the first eight years we trimmed 3,300 miles of our system and this year will trim another 404 miles in Reedsburg, Ripley and West Millersburg substation areas.

164 new services were added in 2011 and 172 services retired for a total of 18,454 at year's end.

2012 Annual Meeting Minutes (cont.)

Our staff remains active in the community by participating in answering phones for the Share a Christmas program and Touch-a-Truck Day in Wayne County, Reality Day in Holmes County, parades and concession stands at local ball games, to name a few.

The cooperative employees have raised and donated more than \$8,000 to American Cancer Society Relay for Life fund, for a total of about \$83,000 over the last nine years.

The cooperative has paid \$1.39 million in Kilowatt-Hour Tax to the State of Ohio, and \$860,000 in property taxes that benefit 12 local school districts and local governments.

The vast majority of our rate increases in the past few years have been to comply with federally mandated environmental upgrades at Buckeye Power's Cardinal Station, your generation facility.

Holmes-Wayne has the third lowest rates in the state out of 25 cooperatives.

We are experiencing annual savings of \$400,000 due to reduced line loss as a result of our line rebuilding program in recent years.

We currently have 37 staff members for 18,454 meters, which is 499 meters per staff member. The state average is 310 meters per staff member. By focusing on technology advances, efficiencies and cost savings, we have been able to keep our staff to a minimum, and still provide up-to-date information and streamline our work processes to reduce costs to our members.

Two years ago, COPA, the Co-op Owners for Political Action® program, was introduced as a way cooperative members can be involved in letting your state and federal elected officials know that you are committed to promoting policies that will secure the future of our electric cooperative and our community. There are 231 Holmes-Wayne members are participating in COPA.

Guest speaker, Tony Ahern, president/CEO, Buckeye Power and Ohio Rural Electric Cooperative, Inc. addressed the issues facing electric cooperatives. Environmental controls have added about \$18 to your monthly electric bill. In the future, tight supply will drive up demand and prices, however, cooperatives have chosen not to opt into the retail electric competition game. They know the long-term, cost-based power supply approach provides the most stable rates.

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

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

Don Buren – District 7, Jackie McKee – District 3, Randy Sprang – District 1

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.



2012 Operation Round Up Program

The Operation Round Up program began its eight year in 2013. In that time, members have given over **\$320,961.13** 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 2012 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 a family with beds for children - Millersburg	\$470.00
Assist a family with beds for children - Millersburg	\$355.00
Assist a family with beds for children - Killbuck	\$355.00
Assist with emergency heat - Nashville	\$322.45
Assist a family with beds for children - Millersburg	\$235.00
The Pantry at the Church of God - Millersburg	\$1,000.00
Wayne County Volunteer Guardianship Association	\$1,500.00
Killbuck Elementary PTO - playground equipment	\$1,000.00
Smithville Community Fireman's Association - fire extinguisher training simulator	\$1,000.00
Assist a family with beds for children - Killbuck	\$705.00
Assist family with car repairs for Medical appointments - Millersburg	\$363.50
Assist family with furniture and clothing following house fire - Holmesville	\$1,000.00
YMCA of Wooster - after school and summer camp programs	\$1,000.00
Assist family with purchase of used stove - Millersburg	\$213.00
Cystic Fibrosis Foundation - Holmes County	\$200.00
Assist senior with hearing aid - Glenmont	\$300.00
Assist family with purchase of used refrigerator - Killbuck	\$150.00
Assist family with furniture and clothing following house fire - Millersburg	\$1,000.00
Assist family with furniture and clothing following house fire - Clark	\$1,000.00
Holmes County Youth Mission - Love out Loud	\$2,500.00
American Cancer Society - gas cards for traveling to treatment-Holmes & Wayne counties	\$1,000.00
Special Olympics - field of dreams - Wooster	\$250.00
Hillsdale Cares - walk-in frig/freezer project	\$1,000.00
Assist with infant medical equipment - Millersburg	\$543.01
Assist individual with wheelchair ramp and handicap bathroom - Shreve	\$2,500.00
Holmes County Home and Senior Center - processing of donated fair animals	\$1,024.18
Assist family with transportation needs - Dundee	\$1,000.00
Assist a family with beds for children - Killbuck	\$940.00
Assist a family with beds for children - Millersburg	\$235.00
Farmers & Hunters Feeding the Hungry - processing donated deer for food pantries	\$2,000.00
Assist disabled individual with car repairs - Glenmont	\$1,637.88
Lakeville United Methodist Church Food Pantry	\$1,000.00
Wayne County Agencies - processing of donated fair animals	\$2,906.97
Gas cards to assist individual with medical treatments in Columbus - Glenmont	\$250.00
Camp Ohio - 4- H camp - cabin improvements	\$200.00
Big Brothers & Big Sisters of East Central Ohio	\$250.00
Wayne County Children's Advocacy Center, Inc.	\$968.00
Assist a family with beds for children - Killbuck	\$470.00
Gas cards to assist family with infant medical appointments in Cleveland - West Salem	\$750.00

2012 Operation Round Up Program (cont.)

Gas cards to assist individual with medical treatments in Columbus - Glenmont	\$250.00
Share a Christmas - Holmes County	\$1,000.00
West Salem Outreach & Food Pantry	\$1,000.00
Light House Love Center - Millersburg	\$1,000.00
Salvation Army - Wayne County	\$1,000.00
Salvation Army - Holmes County	\$1,000.00
Town and Fire Rescue - 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
Hair for Hope - Holmes County	\$500.00
Total	\$51,343.99

Operation Round Up Annual Distribution

2012 - \$51,343.99
 2011 - \$63,289.09
 2010 - \$59,670.87
 2009 - \$38,794.38
 2008 - \$38,279.61
 2007 - \$37,596.26
 2006 - \$31,986.93



Five Member Board

Don Buren
 Lisa Grassbaugh
 Dan Mathie
 Glenn Miller
 Harold Neuenschwander



2012 Year in Review

Finance/Rates

The cooperative recorded a strong year, financially, in 2012. Revenues increased by 7.4 percent over 2011 levels, while the cost of power increased by 6.9 percent, resulting in an operating margin of \$1,126,155. When combined with the capital allocation from Buckeye Power, net margins totaled \$2,577,193, all of which is allocated to our members based on their electric consumption during the year. Holmes-Wayne Electric utilizes this capital to fund its operations, and returns it to the members in the form of capital credits, currently on a 20-year retirement cycle.

Capital credits retired to current and former members amounted to \$1,296,940 in 2012. A total of \$10,193,173 has been retired during the last nine years, which is more than had been retired during the first 68 year of the cooperative's existence.

Approximately 64 cents of every dollar earned by Holmes-Wayne Electric is used to cover the cost of power. Operating and maintenance costs account for 14.5 percent of operating expenses, while depreciation of the cooperative's assets and infrastructure amounts to 5.8 percent of total expenses. Because the cooperative continues to strengthen and improve its electric distribution system through continued investment, total assets eclipsed \$75,000,000 at the end of 2012.

Holmes-Wayne Electric Cooperative, Inc., continues to be a financially healthy organization. By controlling expenses, utilizing low-interest long-

term debt and maintaining strong financial ratios, the cooperative has positioned itself to continue to safely provide reliable, competitively-priced electric service to its member-owners well into the future.

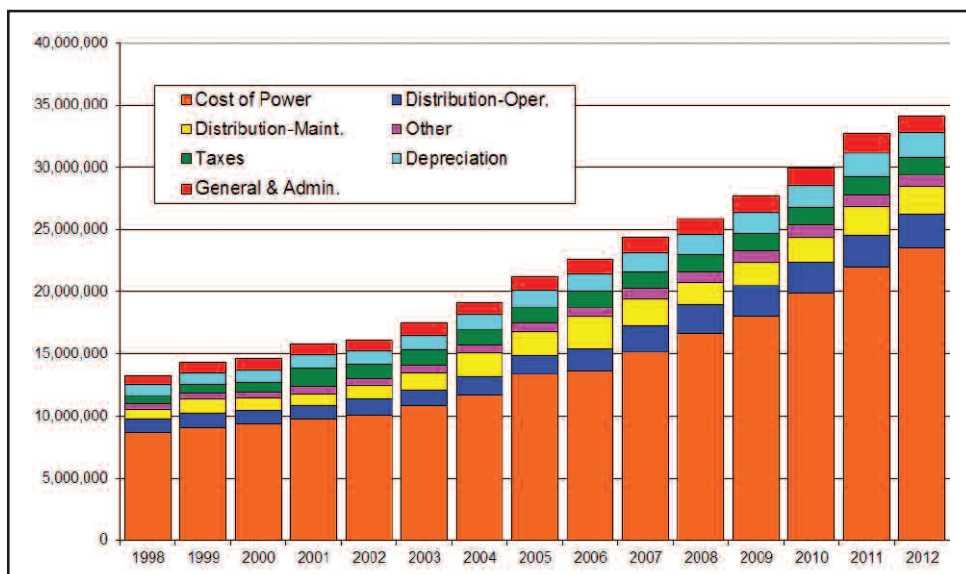
Legislation

The cooperative staff and board continued lobbying efforts in 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.

In 2012, we also continued promoting the ACRE Co-op Owners for Political Action® (Co-op Owners). Co-op Owners 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 250 HWEC members have joined this effort. In August 2012, a special breakfast at the West Salem cooperative office was held for Co-op Owners participants. U.S. Congressman Bob Gibbs and U.S. Congressman Jim Rennaci shared their focus of keeping energy affordable and focus on the issues involving the rural areas of Ohio.

Operating Expenses



2012 Year in Review

Operations

Holmes-Wayne Electric continued its efforts in 2012 to provide reliable service to our members. Tree trimming and EPA-approved vegetation control are completed on a four-year rotation. Designed to prevent potential outages, these programs began in 2004 and are completed by a contracted service provider. As the chart below indicates, we have seen a substantial decrease in tree-related outages since implementation.

More than 408 miles of tree trimming was completed in 2012, including the substation distribution lines of Reedsburg, Ripley and West Millersburg, and 351 miles of vegetation control were completed in the Buckhorn, Killbuck and Stillwell substation areas.

Additionally, more than 36 miles of distribution lines were rebuilt in 2012. This includes 9.5 miles of three-phase and 26.5 miles of single-phase lines. This is an investment of more than \$2 million. Substation upgrades in 2012 included Clear Creek, Killbuck, Ripley and West Salem.

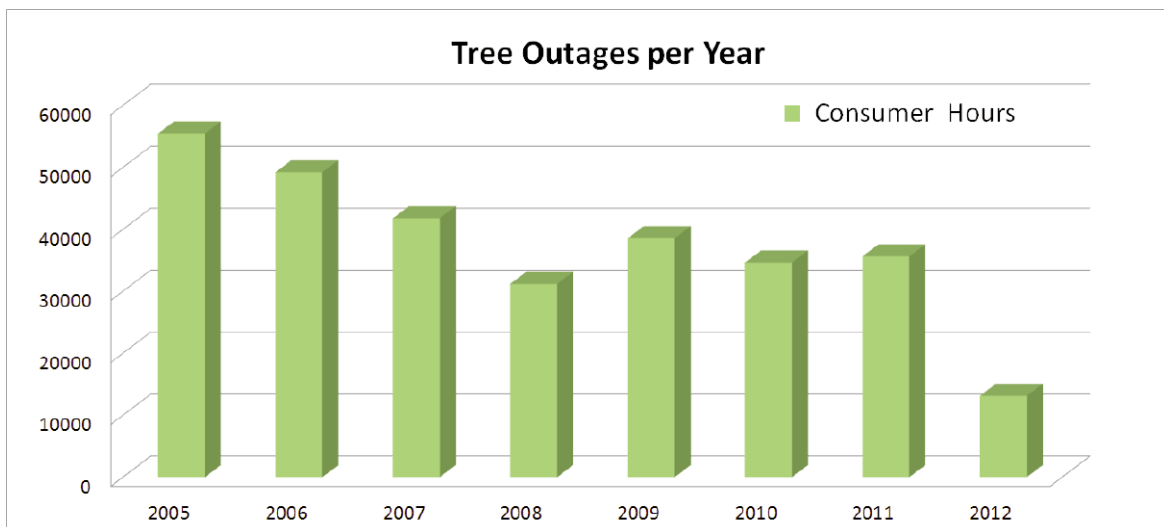
Annual pole inspections continued. HWEC has more than 40,000 poles. Poles are tested throughout the HWEC service territory on a 10-year cycle to identify any poles not meeting standard requirements. Those poles identified are replaced by line personnel within the standard daily schedule. In 2012, 621 poles were replaced.

The cooperative concluded its system wide GPS

(Global Positioning System) program. The final remaining substation areas that were completed in 2012 were Ripley, Sugarcreek, West Millersburg and West Salem. All infrastructure is now tagged and identified on our electronic mapping system. This will allow for more efficient service for the members.

Also, throughout the entire year, line personnel continued to visually inspect 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 are 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 the members.

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



2012 Year in Review (cont.)

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. Capital credits amounting to \$1,296,940 were returned to Holmes-Wayne Electric Cooperative members in 2012. HWEC has refunded nearly \$10,193,173 million to members over the last nine years.

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

Safety

Safety continued to be a strong priority for HWEC in 2012. HWEC maintained the National Rural Electric Safety Certification. To maintain a culture of safety, field inspections and in-house safety information meetings occur monthly.

We continued our table-top safety demonstrations in 2012. HWEC staff presented safety demonstrations to local schools, first responders and community safety fairs.

Energy Efficiency

Energy efficiency remains a prominent factor 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 2012 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 HWEC staff and receive a variety of energy efficiency information.

Community

HWEC is committed to our community. Our activities are not limited to safety demonstrations and the management of our Operation Round Up Foundation. In 2012, we continued our active role in the American Cancer Society Relay for Life by raising \$7,760. In the last nine years, HWEC has raised more than \$81,000 to assist with eliminating cancer through research, education, advocacy and local community services.

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

The cooperative also participated in the 2012 West Salem Fireman's Parade and the Millersburg Antique Festival Parade. Additionally staff donated time to the Wooster Library Touch-a-Truck program, Holmes County Share-A-Christmas, and East and West Holmes Middle School Reality Days.

Member Services

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

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.

In 2012, HWEC purchased a new phone system. This has allowed for more incoming calls to our local office while reducing our phone service cost.

Independent Auditor's Report

February 26, 2013

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

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, 2012 and 2011, 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 of these financial statements in accordance with the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2012 and 2011, 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, 2012 and 2011, the cooperative received \$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 Feb. 26, 2013 on our 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.

BALANCE SHEETS

AS OF DECEMBER 31, 2012 AND 2011

ASSETS

UTILITY PLANT:

	2012	2011
Electric plant in service	\$ 66,424,972	\$ 63,370,205
Construction work in progress	<u>2,272,942</u>	<u>963,693</u>
	68,697,914	64,333,898
Less: provision for accumulated depreciation	<u>15,682,110</u>	<u>15,170,827</u>
Net utility plant	53,015,804	49,163,071

OTHER ASSETS AND INVESTMENTS:

Investments in associated organizations	2,216,208	2,210,154
Patronage capital from associated organizations	<u>13,744,581</u>	<u>12,778,875</u>
Total other assets and investments	15,960,789	14,989,029

CURRENT ASSETS:

Cash and cash equivalents	816,881	1,489,395
Accounts receivable, net of allowance	4,428,525	3,791,756
Materials and supplies	805,598	938,523
Other current assets	<u>103,386</u>	<u>58,390</u>
Total current assets	<u>6,154,390</u>	<u>6,278,064</u>
Total assets	<u>\$ 75,130,983</u>	<u>\$ 70,430,164</u>

EQUITIES AND LIABILITIES

EQUITY:

Patronage capital	\$ 29,672,539	\$ 28,352,183
Other equities	1,388,601	1,260,829
Accumulated other comprehensive income	<u>(274,400)</u>	<u>(185,695)</u>
Total equity	30,786,740	29,427,317

LONG-TERM LIABILITIES:

Mortgage notes payable	38,118,040	35,061,095
Deferred credits	65,813	68,734
Postretirement benefit obligation	<u>353,400</u>	<u>281,961</u>
Total long-term liabilities	38,537,253	35,411,790

CURRENT LIABILITIES:

Current maturities of mortgage notes payable	1,176,000	993,000
Line of credit	200,000	0
Accounts payable	2,747,438	2,614,216
Postretirement benefit obligation, current portion	33,400	26,100
Accrued taxes	1,077,812	1,035,981
Customers' deposits	196,224	189,385
Other current liabilities	<u>376,116</u>	<u>732,375</u>
Total current liabilities	<u>5,806,990</u>	<u>5,591,057</u>
Total equities and liabilities	<u>\$ 75,130,983</u>	<u>\$ 70,430,164</u>

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

STATEMENTS OF REVENUE & PATRONAGE CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES	\$ 36,853,383	\$ 34,303,183
OPERATING EXPENSES:		
Cost of purchased power	23,507,093	21,982,384
Operations	2,764,019	2,572,016
Maintenance	2,189,864	2,325,617
Consumer accounts	829,231	862,173
Customer service and informational expense	93,437	88,356
Administrative and general	1,380,482	1,568,101
Depreciation	1,973,960	1,887,242
Tax expense	1,374,006	1,388,750
Interest - other	8,122	9,194
Other deductions	<u>5,753</u>	<u>6,267</u>
Total cost of electric service	<u>34,125,967</u>	<u>32,690,100</u>
Operating margins before fixed charges	2,727,416	1,613,083
FIXED CHARGES, interest on long-term debt	<u>1,601,261</u>	<u>1,520,629</u>
Operating margins after fixed charges	1,126,155	92,454
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	1,347,286	1,369,621
Other credits	<u>49,620</u>	<u>50,137</u>
	<u>1,396,906</u>	<u>1,419,758</u>
Net operating margins	2,523,061	1,512,212
NON-OPERATING MARGINS:		
Interest income	54,078	60,022
Other income	<u>54</u>	<u>21</u>
	<u>54,132</u>	<u>60,043</u>
Net margins	<u>\$ 2,577,193</u>	<u>\$ 1,572,255</u>
PATRONAGE CAPITAL, beginning of year	\$ 28,352,183	\$ 27,641,872
Net margins	2,577,193	1,572,255
Reallocation of unclaimed capital credits	0	412,002
Retirement of capital credits	<u>(1,256,837)</u>	<u>(1,273,946)</u>
PATRONAGE CAPITAL, end of year	<u>\$ 29,672,539</u>	<u>\$ 28,352,183</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

CASH FLOWS FROM OPERATING ACTIVITIES	2012	2011
Net margins	\$ 2,577,193	\$ 1,572,255
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	1,973,960	1,887,242
Non-cash capital credits received	(1,389,864)	(1,407,895)
(Increase) decrease in assets:		
Accounts receivable, net	(636,769)	344,994
Other current assets	(44,998)	101,793
Increase (decrease) in liabilities:		
Accounts payable	133,223	634,307
Accrued taxes	41,832	36,922
Customers' deposits	6,840	11,794
Other current liabilities	(356,260)	(654,663)
Deferred credits	(2,921)	(1,944)
Postretirement benefit obligation	(9,968)	19,351
Total adjustments	(284,925)	971,901
Net cash provided by operating activities	2,292,268	2,544,156
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and acquisition of utility plant	(5,826,693)	(3,984,030)
Increase (decrease) in materials and supplies	132,925	(66,517)
Investments in associated organizations	(6,444)	(2,208)
Proceeds from redemption of capital credits	424,158	643,667
Return of investment in associated organizations	391	368
Net cash used in investing activities	(5,275,663)	(3,408,720)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	200,000	0
Proceeds from mortgage notes payable	4,250,000	3,400,000
Principal payments on mortgage notes payable	(1,010,055)	(1,004,911)
Patronage capital credits retired	(1,256,837)	(1,273,946)
Retired capital credits unclaimed	76,616	81,097
Donated capital received	51,157	68,064
Net cash provided by financing activities	2,310,881	1,270,304
Net (decrease) increase in cash and cash equivalents	(672,514)	405,740
CASH AND CASH EQUIVALENTS, beginning of year	1,489,395	1,083,655
CASH AND CASH EQUIVALENTS, end of year	\$ 816,881	\$ 1,489,395

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

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, was \$40,000 in both years. Bad debt expense for 2012 and 2011 was \$32,836 and \$37,141, 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 2009.

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 \$1,599,498 and \$1,517,525 for the years ended December 31, 2012 and 2011, respectively. There were no payments for federal income taxes for 2012 or 2011.

Notes to Financial Statements (cont.)

December 31, 2012 and 2011

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	<u>2012</u>	<u>2011</u>
Intangible Plant	\$ 248,131	\$ 248,131
Distribution Plant	58,211,681	55,528,013
General Plant	<u>7,965,160</u>	<u>7,594,061</u>
Electric Plant in Service	66,424,972	63,370,205
Construction Work in Progress	<u>2,272,942</u>	<u>963,693</u>
Total Utility Plant at Cost	<u>\$68,697,914</u>	<u>\$64,333,898</u>

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2012</u>	<u>2011</u>
<u>Investments in Associated Organizations:</u>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 632,052	\$ 632,443
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.	131,706	125,264
CoBank common stock	27,128	27,128
Rural Cooperative Credit Union	<u>1,791</u>	<u>1,788</u>
Total investments in associated organizations	2,216,208	2,210,154

Patronage Capital from Associated Organizations:

Rural Electric Supply Cooperative, Inc.	380,708	373,384
Buckeye Power, Inc.	13,106,827	12,164,174
NRUCFC	93,999	87,749
National Information Solutions Cooperative	59,330	52,212
Federated Rural Electric Insurance Exchange	96,685	94,324
Cooperative Response Center	<u>7,032</u>	<u>7,032</u>
Total patronage capital from associated organizations	<u>13,744,581</u>	<u>2,778,875</u>
Total other assets and investments	<u>\$15,960,789</u>	<u>\$14,989,029</u>

NOTE E: PATRONAGE CAPITAL

At December 31, 2012 and 2011, patronage capital consisted of:

	<u>2012</u>	<u>2011</u>
Assignable	\$ 2,577,193	\$ 1,572,255
Assigned	<u>45,264,481</u>	<u>43,692,226</u>
	47,841,674	45,264,481
Retired	<u>(18,169,135)</u>	<u>(16,912,298)</u>
Total patronage capital	<u>\$29,672,539</u>	<u>\$28,352,183</u>

The Cooperative's patronage capital balances represent 39.5 percent and 40.3 percent of the total assets at December 31, 2012 and 2011, respectively. Capital credit retirements in the amount of \$1,256,837 and \$1,273,946 were paid in 2012 and 2011, respectively.

The Cooperative received donated capital from members totaling \$51,156 and \$67,224 during 2012 and 2011, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2012 and 2011, includes \$16,022,973 and \$15,326,764, 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, 2012 and 2011, other equities consisted of:

	<u>2012</u>	<u>2011</u>
Donated Capital	\$ 873,204	\$ 822,047
Retired capital credits unclaimed	<u>515,397</u>	<u>438,782</u>
Total other equities	<u>\$1,388,601</u>	<u>\$1,260,829</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 2012 and 2011 was \$644,111 and \$542,497, 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 \$103,892 and \$101,973 for the years ended December 31, 2012 and 2011, respectively.



Notes to Financial Statements (cont.)

December 31, 2012 and 2011

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, 2012 and 2011:

Loan	Fixed Interest Rate	Maturity Date	2012	2011
RUS	4.625%	7/31/2029	\$ 339,467	\$ 352,970
RUS	5.000%	7/31/2029	339,273	352,354
RUS	5.280%	5/2/2040	1,851,911	1,881,448
RUS	4.780%	5/2/2040	918,687	934,719
RUS	4.960%	5/2/2040	1,525,844	1,551,613
RUS	4.940%	5/2/2040	1,844,313	1,875,492
RUS	4.340%	5/2/2040	224,863	229,089
RUS advance payments unapplied			(71)	(69)
CFC	5.050%	1/26/2015	111,275	162,862
CFC	5.050%	7/28/2018	198,180	228,695
CFC	6.250%	3/14/2026	429,318	450,147
CFC	6.300%	7/28/2029	307,229	317,543
CFC	3.500%-5.150%	4/29/2019	617,786	791,671
CFC	2.800%-4.850%	9/23/2026	1,015,851	1,068,221
Sewer tap payable (no interest) due 2014			10,000	15,000
FFB	4.503%	12/31/2031	789,154	815,205
FFB	4.120%	12/31/2031	1,498,827	1,550,395
FFB	2.736%	12/31/2031	756,670	786,827
FFB	4.269%	12/31/2031	400,096	413,642
FFB	4.295%	12/31/2031	802,587	829,684
FFB	3.879%	12/31/2031	783,258	810,913
FFB	2.009%	1/2/2035	825,301	850,591
FFB	3.974%	3/31/2013 *	802,334	825,026
FFB	3.937%	6/30/2013 *	811,708	834,772
FFB	4.550%	1/2/2035	852,366	874,786
FFB	4.353%	12/31/2034	857,487	880,610
FFB	4.543%	12/31/2034	2,069,422	2,123,904
FFB	3.889%	12/31/2042	5,758,865	5,860,358
FFB	3.849%	12/31/2042	2,878,547	2,929,632
FFB	4.419%	12/31/2042	2,023,492	2,055,995
FFB	3.873%	1/2/2046	2,000,000	2,000,000
FFB	2.763%	1/2/2046	1,400,000	1,400,000
FFB	2.702%	1/2/2046	1,300,000	0
FFB	2.330%	1/2/2046	1,700,000	0
FFB	2.421%	1/2/2046	<u>1,250,000</u>	<u>0</u>
Total mortgage notes			39,294,040	36,054,095
Less: current portion of mortgage notes			<u>1,176,000</u>	<u>993,000</u>
Long-term mortgage notes payable			<u>\$ 38,118,040</u>	<u>\$ 35,061,095</u>

*Loans mature in 2013, however, the Cooperative plans to extend the maturity of the notes to January 2, 2035, therefore these mortgage notes are considered to be long-term debt for the purpose of computing the current portion of mortgage notes payable as of December 31, 2012.

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2012. The interest rate on the line of credit at December 31, 2012 and 2011, was 2.90 percent and 3.20 percent, respectively, with outstanding balances on the line of \$200,000 and \$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:

2013	\$ 1,176,000
2014	1,229,000
2015	1,133,000
2016	1,146,000
2017	1,194,000
Thereafter	<u>33,416,040</u>
	<u>\$ 39,294,040</u>

The Cooperative has available \$3,350,000 in loan funds from FFB that have not been advanced to the Cooperative as of December 31, 2012.

NOTE I: DEFERRED CREDITS

Deferred credits are summarized as follows:

	2012	2011
Consumer energy prepayments	\$ 4,998	\$ 6,189
Construction deposits	<u>60,815</u>	<u>62,545</u>
	<u>\$ 65,813</u>	<u>\$ 68,734</u>

NOTE J: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Holmes-Wayne Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$2,040,306 and \$1,991,425 at December 31, 2012 and 2011, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,425,241 and \$1,124,876 and for the years ended December 31, 2012 and 2011, respectively.

Notes to Financial Statements (cont.)

December 31, 2012 and 2011

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

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 \$132,128 and \$128,521 for the years ended December 31, 2012 and 2011, 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 \$45,532 and \$45,092 for the years ended December 31, 2012 and 2011, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$99,390 and \$99,965 for the years ended December 31, 2012 and 2011, 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:

	2012	2011
APBO, beginning of year	\$ 308,061	\$ 288,710
Service cost	16,400	11,200
Interest cost	17,500	16,707
Amortization	10,100	7,200
Additional expenses	82,632	26,405
Less: actual cash payment	(47,893)	(42,161)
APBO, end of year	386,800	308,061
Less: current portion	(33,400)	(26,100)
APBO, long-term portion	<u>\$ 353,400</u>	<u>\$ 281,961</u>

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

2013	\$ 33,400
2014	28,600
2015	6,300
2016	10,900
2017-2022	54,900

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

	Medical	Drugs
2012	9.0%	9.0%
2013	8.5%	8.5%
2014	8.0%	8.0%
2015	7.5%	7.5%
2016	7.0%	7.0%
2017	6.5%	6.5%
2018	6.0%	6.0%
2019	5.5%	5.5%
2020 and later	5.0%	5.0%

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

NOTE L: SUBSEQUENT EVENTS

The Cooperative plans to take advantage of an opportunity which will allow for prepayment of a portion of its unfunded liability to the defined benefit pension plan through NRECA, referred to in Note G. A prepayment of \$1,549,855 will be paid by February 28, 2013, which will reduce the current and future rate of contributions to the plan. The amount will be amortized equally over a 10-year period, as approved by USDA/RUS, and thus will not impact the margins of the cooperative, due to the offsetting benefit of lowered premium rates. Once paid, the prepayment will be recorded as a long-term deferred asset on the Cooperative's balance sheet.

Management has evaluated subsequent events through February 26, 2013, the date on which the financial statements were issued.