ANNUAL REPORT 2016

HOOSIER ENERGY

MISSION

OUR MISSION REFLECTS COMMITMENT TO MEMBERS.

HOOSIER ENERGY'S MISSION IS TO PROVIDE MEMBERS WITH ASSURED, RELIABLE AND COMPETITIVELY PRICED ENERGY AND SERVICES IN A SAFE AND ENVIRONMENTALLY ACCEPTABLE MANNER. WE DEMONSTRATE OUR COMMITMENT TO THAT MISSION THROUGH OUR ACTIONS AND RESULTS.

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STATISTICS

AS OF 12/31/16

18 MEMBER SYSTEMS

MEMBER CONSUMERS **299,000**

GENERATING CAPACITY **2,000 MEGAWATTS** (Coal, Natural Gas, Renewables and Contract Purchases)

TOTAL ENERGY SALES **10.4 MILLION MEGAWATT-HOURS**

SALES TO MEMBERS **7.4 MILLION MEGAWATT-HOURS**

NET MARGINS **$33.1 MILLION**

2016 PEAK DEMAND **1,498 MEGAWATTS**

SALES TO OTHERS **3 MILLION MEGAWATT-HOURS**

TRANSMISSION LINES **1,675 MILES**

TOTAL OPERATING REVENUE **$688 MILLION**

ASSETS **$1.9 BILLION**

HOOSIER ENERGY IS A NON-PROFIT GENERATION AND TRANSMISSION COOPERATIVE (G&T) CREATED IN 1949 TO PROVIDE WHOLESALE POWER AND SERVICES TO MEMBER DISTRIBUTION COOPERATIVES. HEADQUARTERED IN BLOOMINGTON, INDIANA, THE G&T SERVES 18 MEMBER SYSTEMS IN SOUTHERN AND CENTRAL INDIANA AND SOUTHEASTERN ILLINOIS.

COLLECTIVELY, MEMBER COOPERATIVES OPERATE AND MAINTAIN MORE THAN 36,000 MILES OF DISTRIBUTION LINES AND PROVIDE ELECTRIC SERVICE TO NEARLY 300,000 CONSUMERS OR ABOUT 686,000 PEOPLE IN 59 INDIANA AND ILLINOIS COUNTIES.

LEARN MORE AT WWW.HOOSIERENERGY.COM

Patronage for 2016

$6.5 MILLION IN PATRONAGE CAPITAL CREDITS

$10 MILLION IN SPECIAL CREDITS

$112 MILLION TOTAL RETIREMENTS AND CREDITS SINCE 2000

FROM THE CHAIRMAN AND THE PRESIDENT

President and Chief Executive Officer J. Steven Smith (left) and Board Chairman Herbert C. Haggard

HERBERT C. HAGGARD
Chairman of the Board of Directors, Hoosier Energy

J. STEVEN SMITH
President and CEO, Hoosier Energy

Members First, The Cooperative Way

Our shared principles of commitment to community and putting members first in everything we do continue to define the accomplishments of Hoosier Energy and the 18 distribution systems that comprise the generation and transmission (G&T) cooperative.

Aggressive cost management efforts in 2016 targeting long-term expenses resulted in savings that will substantially reduce anticipated wholesale rate increases. Renegotiation of contracts improved fuel supply flexibility and strengthened our ability to deal with changing market and regulatory environments.

Reliability is a top priority and we are collaborating with interconnected utilities to improve reliability while continuing to invest in strengthening delivery facilities. Hoosier Energy also is participating in a consortium selected by the Midcontinent Independent System Operator (MISO) in their first competitively bid project to build and maintain the Duff-Coleman 345-kilovolt (kV) transmission line in southern Indiana. Project revenues will offset future transmission costs to member systems.

Efforts to diversify the G&T's portfolio continued with the new Orchard Hills landfill gas plant, a new wind-energy purchase agreement and four additional solar arrays. We worked with member systems to establish new policies to meet the renewable energy needs of commercial and industrial consumers and formalize standards for consumer-owned generation.

Evolving regulations, advancements in technology and the changing role of generation resources present new opportunities to advance our mission of providing assured, reliable and competitively priced energy and services in a safe and environmentally acceptable manner. Our business has been, and always will be, focused on people. The trust that 300,000 consumers place in their member-owned cooperative and Hoosier Energy is our most valuable asset. Through the power of our cooperative partnership, we will continue to work every day to earn that honor—always putting members first. The cooperative way.

YEAR IN REVIEW

Watch the Year-In-Review video
at www.hoosierenergy.com

POWER IN PARTNERSHIP

HOOSIER ENERGY'S OBLIGATION TO SERVE TRANSCENDS WEATHER, MARKET VOLATILITY AND REGULATORY UNCERTAINTY. IT RESTS SOLELY ON WORKING TOGETHER WITH MEMBER SYSTEMS TO DELIVER ELECTRICITY TO POWER OUR HOMES AND COMMUNITIES.

HOOSIER ENERGY'S RESULTS IN 2016 REFLECT THE STRENGTH OF THAT PARTNERSHIP AND OUR COMMITMENT TO GENERATING AND TRANSMITTING AFFORDABLE, RELIABLE ELECTRICITY WHILE EVOLVING TO MEET THE NEEDS OF THE PEOPLE WE SERVE.

Evolving Power Supply

Most of us are creatures of habit. We get up, turn on the lights, get ready and get going. We come home, cook dinner, run the washing machine or enjoy our free time.

We need all generation sources to balance varying levels of electrical demand and ensure reliability. To meet those needs, the way we utilize power supply sources continues to change.

NATURAL GAS

Changing markets and regulatory environments in 2016 favored an increase in gas generation due to low fuel prices, as evidenced by strong runs at the Holland Energy Plant in Illinois. The combined cycle gas plant surpassed monthly and annual generation records, running at a 24 percent capacity factor for the year and producing $20.6 million in market revenue.

Lawrence and Worthington Generating Stations also performed admirably, supplying much-needed generation during peak hours in both the summer and winter. Lawrence and Worthington operated at a combined capacity factor of 3 percent, producing 78,000 megawatt-hours (MWh) of electricity.

Holland Energy Station was called upon more often in 2016 than ever before.

COAL

Gas units continued to perform well throughout the year while the role of coal units changed considerably. Mild weather, low natural gas prices and flat demand created soft market conditions for coal generation.

Sometimes buying power from wholesale power markets is cheaper than generating it, which helps manage costs for members. Market opportunities resulted in an adjustment in Merom Generating Station's operating strategy with the plant's two units taking turns cycling, or adjusting output up or down. As a result, Merom Generating Station's capacity factor was 70 percent for the year. To manage coal inventory, Hoosier Energy renegotiated a fuel supply agreement and expanded the coal storage area, avoiding $2.8 million in off-site storage cost.

The about 1,000-megawatt plant remains an integral part of Hoosier Energy's "all-of-the-above" power supply strategy. The plant is well positioned for potential changes in market and regulatory environments.

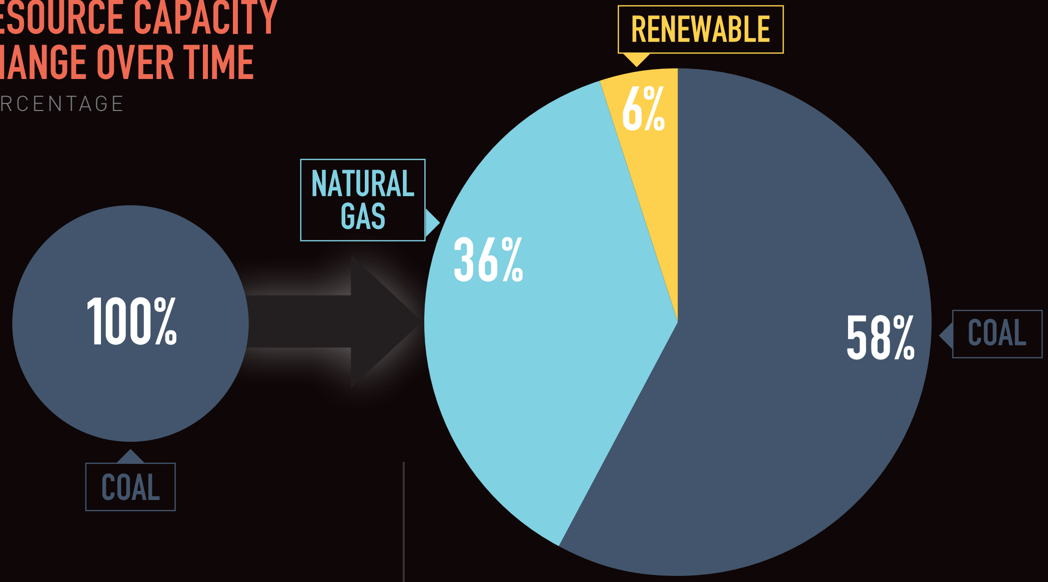
Material handling supervisors at Merom Generating Station manage thousands of tons of coal that eventually become electricity for cooperative consumers.

ENVIRONMENTAL FOCUS

IMPROVING THE QUALITY OF LIFE IN OUR COMMUNITIES INCLUDES A COMMITMENT TO ENVIRONMENTAL STEWARDSHIP. HOOSIER ENERGY AND THE MEMBER SYSTEMS DEMONSTRATE SUPPORT FOR CLEAN ENERGY IN EVERY ASPECT OF OUR "ALL-OF-THE-ABOVE" POWER SUPPLY.

RESOURCE CAPACITY CHANGE OVER TIME

PERCENTAGE

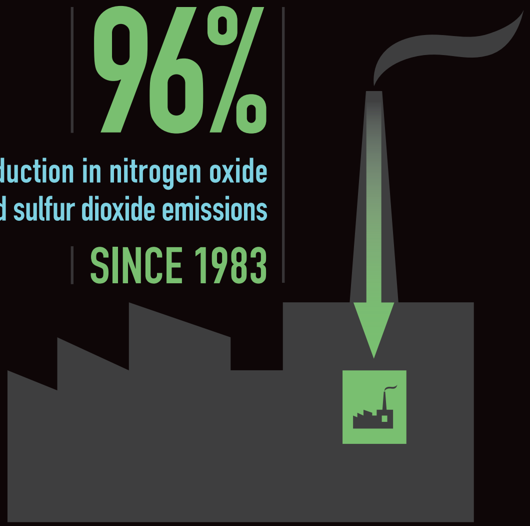


2000
Hoosier Energy's 1,250 MW resource portfolio was 100% coal.

TODAY
Hoosier Energy's 2,000 MW resource capacity is more diversified.

EMISSIONS REDUCTIONS

96%
reduction in nitrogen oxide and sulfur dioxide emissions
SINCE 1983



RENEWABLE ENERGY

[Voluntarily adopted renewable program in 2006]
% OF TOTAL ENERGY SUPPLY

4% IN 2016

7% BY 2020*

10% IN 2025*

*PROJECTED

RENEWABLE ENERGY

Renewable energy is Hoosier Energy's fastest-growing source of new generation. Current operating and committed resources are on track to help provide 10 percent of member system energy requirements through renewable resources by 2025.

We dedicated our third landfill gas plant, the 16-megawatt Orchard Hills facility in northern Illinois in October. The Livingston, Clark-Floyd and Osprey Point facilities generated nearly 80,000 MWh during 2016.

We completed a purchased power agreement with EDP Renewables for 75 megawatts of wind with delivery beginning in 2018 from the Meadow Lake Wind Farm in northern Indiana.

Hoosier Energy also has a 25-megawatt agreement for wind power from the Rail Splitter project in central Illinois as well as wind resources in Iowa.

Our 10-site solar build continued with the completion of four more regional sites. The first three 1-megawatt capacity arrays became operational in 2015 and three remaining arrays are scheduled to be built and begin operation in 2017.

The solar program, high-capacity landfill gas facilities as well as purchases for wind and hydropower resources complement coal and natural gas resources and energy efficiency programs. Taken together, they provide the best balance for electric service reliability, affordability and environmental stewardship.

Hoosier Energy dedicated a third high-capacity landfill gas facility, adding the 16-megawatt Orchard Hills Renewable Energy Station in northern Illinois. L-R: Matt Stuttle and Bruce Knapp, Orchard Hills Landfill; Rob Horton, Hoosier Energy; Dan DeWaard, Advanced Disposal, and Mike Rampley, Hoosier Energy.

Learn how this renewable resource works at www.hoosierenergy.com/videos

CONSUMER-OWNED GENERATION

With nearly 1.5 megawatts of consumer-owned renewable capacity in place across member service territories, Hoosier Energy and members worked together to develop consistent guidelines for residential distributed generation. Materials developed with members offer information for consumers on interconnections, compensation and what to consider before investing in a renewable energy project.

ENERGY EFFICIENCY

When consumers use new strategies, products and technologies to reduce consumption, everyone benefits. The effect of consumer energy savings adds up and is a much more powerful alternative than adding new generation for economically managing system demand.

Energy efficiency programs continue to incentivize member consumers to consider using less electricity through more energy efficient lighting, water heaters and heating and cooling systems.

For 2016, annual savings from demand-side management programs totaled 48,000 MWh. Summer demand was reduced by 7 megawatts and winter demand by 11 megawatts.

Environmental Focus

We identified and tested new mercury control technologies at Merom Generating Station that will avoid millions in capital expenditures while also allowing the plant to meet the Environmental Protection Agency's most recent requirements. These and other process improvements led to five nominations for Technology Transfer awards from the Electric Power Research Institute. Hoosier Energy also continues to examine ways to uncover improvements that could further reduce carbon dioxide emissions.

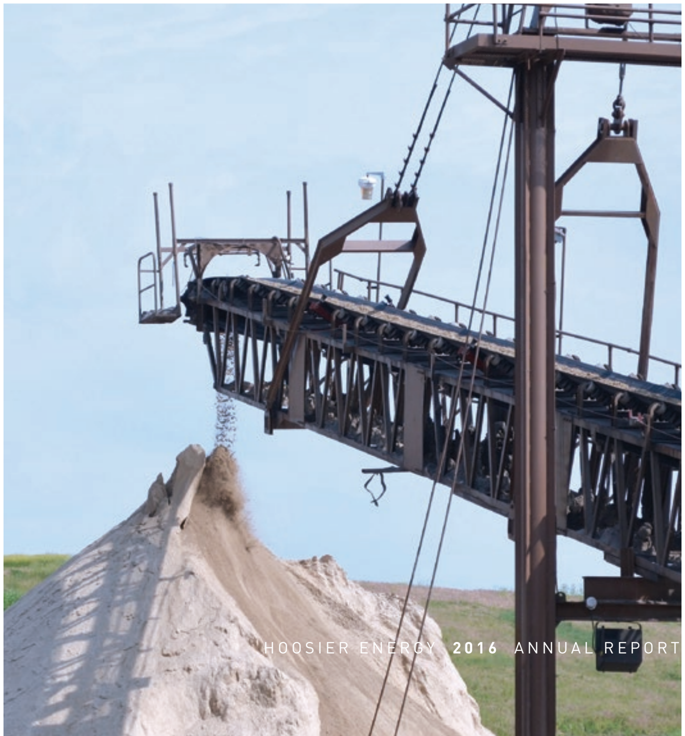
Upgraded scrubber technology used to control sulfur dioxide emissions also produces an environmentally safe byproduct—synthetic gypsum. Merom Generating Station began providing the sought-after and environmentally friendly agricultural enhancement in March. What started as a crawl quickly turned into a gallop. By year-end, production of quality gypsum for sale reached more than 49,000 tons.

Indiana Rail Road teamed up with Hoosier Energy to open a new transload facility near Merom Generating Station to handle shipment of gypsum products. The new facility also reduces transportation costs for soda ash used at the plant, providing additional cost savings.

A hunch led to rebirth of the cooperative appliance recycling program and a community partnership with Habitat for Humanity ReStores.

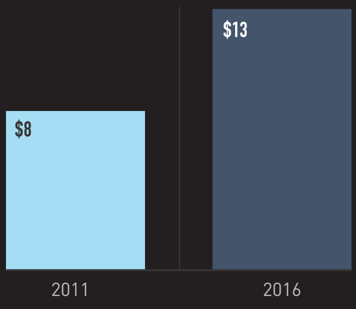
No longer bound for a landfill, production of quality gypsum took off, benefiting the agrarian economy as a much-needed environmentally friendly soil enhancement.

Watch how gypsum is made at www.hoosierenergy.com/videos



COST OF REGULATION

$/MWh



"A" CREDIT RATINGS

20% EQUITY POSITION

COMPETITIVE WHOLESALE PROVIDER

The new Spring Mill substation near Mitchell, Indiana, helps support growing demand and improves reliability.

Assured Reliability

Ongoing investment in the technological marvel we call "the grid" consisted of $22 million in power delivery projects, including delivery of a 200-ton backup 345kV/230kV transformer for the Bloomington substation and installation of several transformer and relay protection upgrades.

Technological improvements also strengthened the communications network that helps us stay one step ahead of potential threats to electric reliability. Introduction of a new capacity emergency portal now provides members with an automated communication tool that keeps them informed of critical reliability notifications, saving precious minutes if a capacity emergency should appear imminent.

We also successfully participated in legal challenges at the Federal Energy Regulatory Commission that reduced transmission costs by $1 million and resulted in a $1.6 million refund.

Near year-end, Hoosier Energy and Big Rivers Corporation, our neighboring G&T across the Ohio River, received the good news that we were selected to participate with Republic Transmission LLC in the construction of MISO's first competitive transmission project.

The 345 kV Duff-Coleman transmission line will run about 33 miles from Huntingburg, Indiana, to Owensboro, Kentucky, crossing through the service territory of two member systems—Dubois REC and Southern Indiana Power. The new line is expected to enhance reliability for MISO members in the area.

Once completed, Hoosier Energy will provide operations and maintenance services for the Indiana portion of the project as well as receive transmission revenue from MISO. The project is expected to take four years to complete.

DELIVERY ASSURANCE

Enormous quantities of new data detail what is happening on the grid every second. Protecting the grid requires constant vigilance against intrusion. Technology is the conduit for grid protection, but people make it work.

Regional auditors from the North American Electric Reliability Corporation (NERC), the national governing body that establishes and enforces operating standards for the nation's bulk electric system, recognized Hoosier Energy for demonstrating proactive efforts in adhering to hundreds of complex Critical Infrastructure Protection requirements.

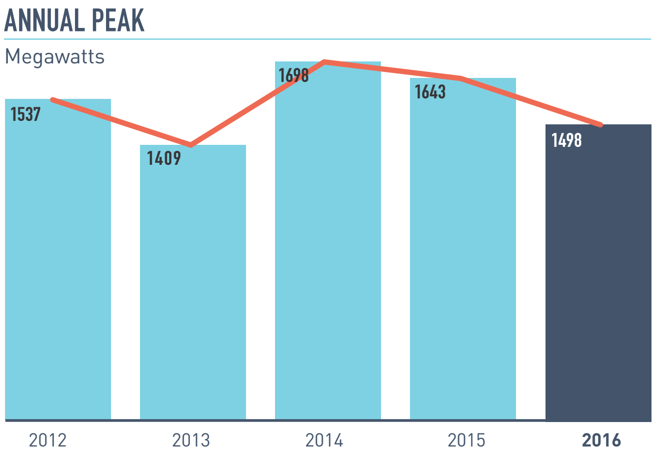
The G&T received six positive observations for best practices in cyber processes, training and intrusion detection technology—"a rare occurrence," according to the audit team.

A separate peer review by the North American Transmission Forum (NATF), a national industry best practices group, complimented Hoosier Energy's physical security, system operations, system protection, training and vegetation management programs.

The NATF program leader for practices commented that Hoosier Energy is doing things never seen before and is sharing those best practices with the rest of the industry forum.

Indiana Rail Road teamed up with Hoosier Energy to open a new transload facility near the Merom Generating Station. The new rail-to-truck facility improves supply chain efficiencies for soda ash, a product used for pollution control.

Hoosier Energy received six positive observations for best practices in cyber processes during a NERC audit in 2016.



Financial Foundation

We value the trust our members place in us. Their trust in a flexible, strong and competitive G&T holds us accountable for managing costs and ensuring a reliable power network.

Through stretch opportunities, we implemented new financial and operational strategies in 2016 to eliminate more than $4 in a projected 2018 rate increase. Additionally, a renegotiated fuel supply agreement is projected to save $1 in member rates compared with earlier projections.

We improved our equity position in 2016 to 20 percent and maintained "A" credit ratings. During 2016, Hoosier Energy continued to capitalize on historically low interest rates, borrowing $26.7 million from the Rural Utilities Service at a fixed rate of 1.9 percent. As of December 31, 2016, Hoosier Energy's weighted average cost of capital was 3.6 percent.

While affordability is constantly challenged by rising costs, Hoosier Energy remains a competitive wholesale provider, offering extensive member services and returning patronage.

PATRONAGE—THE COOPERATIVE RETURN ON INVESTMENT

Patronage capital is one of the unique characteristics of the cooperative form of business. Unlike dividends paid to shareholders of investor-owned utilities, patronage capital is the return of surplus revenues after a certain time period to members.

Members received $6.5 million in patronage capital credits and $10 million in special bill credits in 2016, bringing total retirements and credits to approximately $112 million since Hoosier Energy began returning capital credits to member systems in 2000.

ANOTHER WAY TO SAVE

Taking advantage of wholesale energy markets resulted in $7.9 million in capacity revenue from the Holland Energy Plant. Landfill gas capacity payments are expected to generate an additional $1.2 million beginning in 2019.

Hoosier Energy also saves about $10 million by preserving "grandfathered agreements" under the MISO, the regional transmission organization that oversees wholesale energy markets in the center of the country. These agreements, which reflect transmission service contracts prior to Hoosier Energy's participation in MISO, have contributed substantial savings to members and Hoosier Energy over the last decade.

The next generation completes hands-on activities to learn just how amazing electricity is at the Hoosier Energy Education Center at Turtle Creek Reservoir.

Power delivery professionals receive extensive training at the Franklin Training Center to improve their skills, necessary in this dangerous profession.

Passionate About Those We Serve

Hoosier Energy provides a broad range of services that have evolved over time in response to requests and needs of member systems. These services stem from the deeply rooted cooperative commitment to make our communities better places. Whether leveraging technology to improve training programs, negotiating a new labor agreement in record time, or being recognized as best-in-class for engaging our workforce, we are passionate about executing our corporate mission of serving members well and becoming more efficient in everything we do.

PARTNERS IN ECONOMIC DEVELOPMENT

The prosperity of our communities depends upon a diverse commercial, industrial and retail mix, a strong and reliable power supply network, and adding new jobs while retaining existing employment opportunities.

The joint economic development program of member distribution cooperatives and Hoosier Energy assisted members in locating 47 new/expanded business facilities expected to add more than 1,200 jobs, about 17,000 kilowatts of new demand and $311 million in new investment.

SAFETY AND TRAINING

At Hoosier Energy, safety never ends.

Overall, corporate safety performance continued to improve, as a positive cultural shift in safety awareness and action unfolded across the organization through the “Safe by Choice” initiative.

The Occupational Safety and Health Administration recertified the Holland, Lawrence and Worthington Generating Stations as leaders in workplace safety and health through the agency’s state-administered Voluntary Protection Program.

LEADERSHIP DEVELOPMENT

Often braving bitter cold, oppressive heat or Mother Nature’s unpredictable fury, power delivery workers endure it all to keep the lights on. Training is extensive and skill improvement ongoing. In 2016, 28 apprentices from Hoosier Energy and 10 member distribution cooperatives graduated from the nationally-recognized Hoosier Energy Apprenticeship Training and Safety program, or HEATS. The program includes skills in climbing, distribution and transmission systems, as well as power plant, meter-relay and substation operations. More than 600 member cooperative and Hoosier Energy employees have graduated from the program since 1975.

Twelve member employees graduated from the second class of the Cooperative Accelerated Leadership Development Program, administered by Hoosier Energy in partnership with the I.U. Kelley School of Business. Participants value the program for its blend of academia and emphasis on the cooperative business model.

LISTENING TO CHANGE

The cooperative message of working together for the common good never changes. How we communicate is changing as technology brings us smaller, faster, cheaper and smarter devices.

A communications audit resulted in measurable actions for improving communication paths with directors, members and employees.

Outreach efforts to promote the cooperative difference involved hosting community and industry events at our headquarters including Touchstone Energy's Road to Member Engagement, an ongoing media campaign and continued sponsorship of the Indiana Festival Guide for the 44th year.

We look forward to rolling out improved communication vehicles in 2017 as we tell the cooperative story with better visuals, impactful words and stronger delivery.

Believing in Possibility

Every Hoosier Energy employee can tell a story about what we are doing to advance a culture of working safely, managing costs, improving reliability and serving members well.

Guided by the seven cooperative principles that we have stood by since 1949, Hoosier Energy and its member systems are achieving possibilities we once dared to imagine.

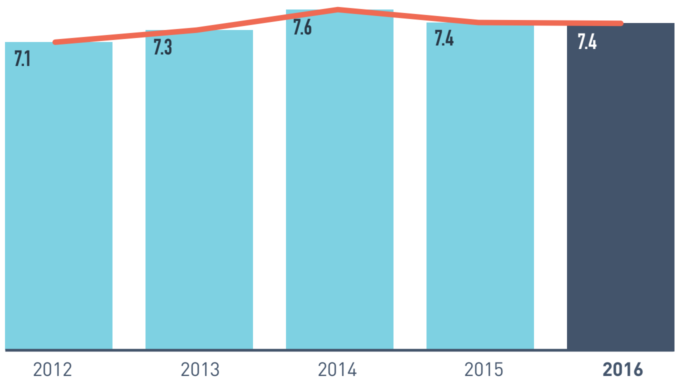
Our progress comes from the cooperative partnership that expands our horizons. As we embrace the challenges and opportunities of an evolving electric grid, modernization and changing generation resources, our strength will continue to come from this collaborative partnership.

No matter the issue, our focus will always be on fairness, consistency and effective communication. Learning from one another, we will achieve the possibilities before us, keeping cooperative energy competitive and reliable for generations to come.

Safe, reliable power depends upon investment in power delivery infrastructure. Here, Martinsville residents watch Hoosier Energy's new 200-ton backup transformer inch its way toward the Bloomington substation.

MEMBER SALES

Millions of Megawatt-hours



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Johnson County REMC

STEVE STUMLER
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JIM WEIMER
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Chief Executive Officer

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Executive Vice President and
Chief Financial Officer

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Marketing and Business
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Power Supply

ROB HORTON
Vice President
Power Production

FINANCIAL CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hoosier Energy Rural Electric Cooperative, Inc.
Bloomington, Indiana

We have audited the accompanying financial statements of Hoosier Energy Rural Electric Cooperative, Inc. (the "Cooperative"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoosier Energy Rural Electric Cooperative, Inc. as of December 31, 2016 and 2015, 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of the Cooperative'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 the Cooperative's internal control over financial reporting and compliance.

Deloitte & Touche LLP

Indianapolis, Indiana
March 16, 2017

BALANCE SHEETS

As of December 31, 2016 and 2015 (in thousands)	2016	2015
ASSETS		
Electric plant:		
In service – at original cost	$ 2,542,107	$ 2,441,352
Construction work in progress	30,279	72,303
Plant held for future use	4,723	4,543
Total electric plant	2,577,109	2,518,198
Less accumulated depreciation	(1,191,925)	(1,128,043)
Electric plant, net	1,385,184	1,390,155
Investments – at cost	138,957	88,642
Current assets:		
Cash and cash equivalents	115,395	140,989
Short-term investments	9,887	13,185
Receivables	48,650	36,109
Unrecovered power costs	–	553
Fuel	48,803	40,986
Materials and supplies	49,427	49,034
Prepayments and other	11,349	17,626
Total current assets	283,511	298,482
Deferred charges and other	119,240	143,276
Total assets	$ 1,926,892	$1,920,555
EQUITY AND LIABILITIES		
Equity:		
Patronage capital and other equities	$ 349,381	$ 322,791
Accumulated other comprehensive income (loss)	(67)	256
Total equity	349,314	323,047
Long-term debt:		
Secured notes under the Indenture	1,349,078	1,372,642
Capital lease obligations	9,631	15,743
Other unsecured notes	27,809	35,626
Total long-term debt	1,386,518	1,424,011
Current liabilities:		
Current portion of long-term debt and capital lease obligations	74,151	64,671
Accounts payable	55,205	54,285
Over collected power costs	3,412	—
Accrued interest	14,364	5,732
Accrued taxes	6,109	5,382
Other current liabilities	6,466	4,158
Total current liabilities	159,707	134,228
Deferred credits and other	1,330	8,535
Other long-term liabilities	30,023	30,734
Commitments and contingencies (Note 10)	—	—
Total equity and liabilities	$ 1,926,892	$ 1,920,555

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015 (in thousands)	2016	2015
OPERATING REVENUE		
Member	$ 549,858	$ 555,786
Nonmember	137,448	117,079
Other	225	265
Total revenue	687,531	673,130
OPERATING EXPENSES		
Fuel	159,705	141,887
Other production expenses	55,447	58,008
Purchased power	178,771	173,887
Transmission and distribution	37,501	38,383
Administrative and general	33,727	31,942
Maintenance	54,888	61,455
Depreciation and amortization	85,422	83,483
Income tax and other	(2,379)	(1,702)
Total operating expenses	603,082	587,343
Operating margin before fixed charges	84,449	85,787
FIXED CHARGES AND OTHER		
Interest expense	51,108	53,028
Other fixed charges and amortization of debt expense	5,825	5,834
Total fixed charges and other	56,933	58,862
Operating margin	27,516	26,925
NONOPERATING MARGIN		
Investment income and other	7,954	3,897
Nonoperating income tax expense	(2,332)	(1,537)
Total nonoperating margin	5,622	2,360
Net margin	33,138	29,285
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on postretirement benefit plans	(323)	330
Comprehensive income	$ 32,815	$ 29,615

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2016 and 2015 (in thousands)	Member Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance – January 1, 2015	$ 277,902	$ 22,151	$ (74)	$ 299,979
Patronage retirement	(6,547)	–	–	(6,547)
Other comprehensive income	–	–	330	330
Net margin	26,925	2,360	–	29,285
Balance – December 31, 2015	298,280	24,511	256	323,047
Patronage retirement	(6,548)	–	–	(6,548)
Other comprehensive income	–	–	(323)	(323)
Net margin	27,516	5,622	–	33,138
Balance – December 31, 2016	$ 319,248	$ 30,133	$ (67)	$ 349,314

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015 (in thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margin	$ 33,138	$ 29,285
Adjustments to reconcile net margin to net cash:		
Depreciation and amortization	85,422	83,483
Deferred charges and credits	12,422	5,619
Change in receivables and unrecovered power costs	(8,574)	16,896
Change in fuel and materials inventories	(8,209)	(1,204)
Change in accounts payable	4,784	3,304
Change in accrued interest	10,410	1,282
Change in other current assets and liabilities	2,686	(16,299)
Net cash provided by operating activities	132,079	122,366
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(70,154)	(87,785)
Purchases of investments	(53,537)	(5,639)
Maturities and calls of investments	11,438	1,411
Net cash used in investing activities	(112,253)	(92,013)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	26,710	63,318
Principal payments on long-term debt	(65,118)	(73,274)
Patronage retirements	(7,012)	(7,211)
Net cash used in financing activities	(45,420)	(17,167)
Net (decrease) increase in cash and cash equivalents	(25,594)	13,186
Cash and cash equivalents – Beginning of year	140,989	127,803
Cash and cash equivalents – End of year	$ 115,395	$ 140,989

SEE NOTES TO FINANCIAL STATEMENTS.

1. Summary of Significant Accounting Policies

Hoosier Energy Rural Electric Cooperative, Inc. ("Hoosier") is a non-profit electric generation and transmission cooperative providing wholesale electric service to 18 distribution cooperative members in central and southern Indiana and southern Illinois.

The economy of the service area of Hoosier's members is based principally on agriculture and agri-business, with increasing development in commercial and small industrial sectors. The majority of customers served by Hoosier's members are residential. Each member has entered into a wholesale power contract with Hoosier to supply all electric requirements, which remains in effect until January 1, 2050 with automatic five-year extensions each five years beginning January 1, 2019 unless any member or Hoosier gives six-months written notice of intent not to renew.

BASIS OF ACCOUNTING

Hoosier maintains its accounts in accordance with policies prescribed by the Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America (GAAP) in all material respects. The Financial Accounting Standards Board (FASB) developed the Accounting Standards Codification (ASC) to simplify access to authoritative GAAP and streamline research. The ASC is referenced throughout the financial statements and footnotes.

Hoosier is not subject to the general rate regulations of the Federal Energy Regulatory Commission (FERC) under the Federal Power Act as a result of its participation in the Federal loan program administered by the RUS. Hoosier's wholesale rates to its members are established by its Board of Directors (the "Board") and are subject to approval by the RUS. Wholesale power transactions with nonmembers are not subject to FERC jurisdiction because Hoosier is a borrower from the RUS. The rates charged by Hoosier for power supplied to its members are based on the revenue required by Hoosier to cover the cost of supplying such power plus an appropriate margin. As a rate-regulated entity, Hoosier's financial statements reflect actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with ASC 980, *Regulated Operations*.

ELECTRIC PLANT AND MAINTENANCE

Electric plant is stated at original cost, including applicable supervisory and overhead costs, and interest on borrowed funds used during construction. Expenditures for maintenance and repairs, including renewals of minor items of property (as distinguished from units of property), are charged to operating expenses. The original cost of depreciable units replaced or retired, including cost of removal, net of salvage, is charged to accumulated depreciation.

ASSET IMPAIRMENT

Long-lived assets held and used by Hoosier are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Specifically, the evaluation for impairment involves comparison of an asset's carrying value to the estimated undiscounted cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded as a charge to operations based on the difference between the asset's carrying amount and its fair value, to the extent that the Board has not taken action to establish a regulatory asset that will be recovered in future rates. Management has determined that no material asset impairment existed in 2016 or 2015.

FUEL

Fuel inventory consists of coal and fuel oil and is valued at the lower of average cost or market.

MATERIALS AND SUPPLIES

Materials and supplies consisting of spare parts and consumables are valued at the lower of average cost or market and charged to expense or capitalized as plant when installed.

DEPRECIATION AND AMORTIZATION

Depreciation for the generating plants and transmission facilities is provided on the basis of estimated useful lives at straight-line composite rates. The rates applied to electric plant in service for 2016 and 2015 are:

	2016	2015
Production plant	3.00-3.10%	3.00-3.10%
Transmission plant	2.75	2.75
Distribution plant	2.88	2.88
General plant	2.50-20.00	2.50-20.00

Upon retirement of general plant assets, the resulting gain or loss is recognized in the statements of operations. Gain or Loss from retirement of production, transmission, or distribution plant is recorded as an adjustment to accumulated depreciation.

Depreciation associated with assets that are subject to capitalized leases (Note 7) is included with depreciation and amortization expense for financial reporting purposes. Depreciation expense was $69,063 and $67,397 for 2016 and 2015, respectively. Depreciation and amortization includes amortization related to a plant retired during 2015 (Note 4). Amortization expense for the retired plant was $5,649 for 2016 and 2015.

INVESTMENTS

Hoosier's investments consist primarily of voluntary advance payments to the RUS cushion of credit program, loan capital term certificates and subscription capital term certificates which are a requirement in order to borrow from the National Rural Utilities Cooperative Finance Corporation (CFC) (Note 3), and CFC member capital securities. The CFC investments represent less than a 20% ownership in CFC and management does not have significant influence over CFC. The investments are carried at cost, subject to an annual impairment test. Hoosier also held $100 in available-for-sale securities at December 31, 2016 and 2015. Additionally, Hoosier held $3,105 and $3,034 in trading securities at December 31, 2016 and 2015, respectively. Available-for-sale and trading securities are recorded in *Short-term investments*. Hoosier held investments in commercial paper and corporate bonds, with maturities of less than one year, totaling $6,682 and $10,051 recorded in *Short-term investments* at December 31, 2016 and 2015, respectively. In addition, Hoosier held investments in corporate bonds with maturities of greater than one year and less than five years totaling $7,414 and $10,962 at December 31, 2016 and 2015, respectively. The held-to-maturity investments are carried at amortized cost with no unrealized holding gains or losses recorded in other comprehensive income.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, receivables and certain current liabilities approximates fair value due to the short maturity of the instruments.

Hoosier uses fair value to measure certain financial instruments with related unrealized gains or losses generally affecting future recoverable costs. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Observable inputs may be used in the calculation of fair value. ASC 820, *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below.

LEVEL 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

LEVEL 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

LEVEL 3 – Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

The inputs used to measure available-for-sale securities are Level 2 measurements consisting of observable market data for similar assets. The fair value of trading securities was measured using Level 1 inputs consisting of quoted market prices for identical assets in active markets. Derivative instruments including Financial Transmission Rights (FTRs), and purchase power contracts were measured using Level 2 inputs consisting of observable market data for similar assets. The fair value of heating oil and natural gas contracts was measured using Level 1 inputs consisting of quoted prices for identical assets or liabilities on active exchanges.

Estimated fair values of Hoosier's assets and liabilities and methods of valuation as of December 31, 2016 and 2015 were as follows:

Fair Value Measurements at December 31, 2016, using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Investments				
Available-for-sale securities	$ 100	$ –	$ 100	$ –
Trading securities	3,105	3,105	–	–
	$ 3,205	$ 3,105	$ 100	–
LIABILITIES				
Derivative financial instruments	$ 3,191	$ 3,040	$ 151	$ –

Fair Value Measurements at December 31, 2015, using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Investments				
Available-for-sale securities	$ 100	$ –	$ 100	$ –
Trading securities	3,034	3,034	–	–
	$ 3,134	$ 3,034	$ 100	$ –
LIABILITIES				
Derivative financial instruments	$ 12,688	$ 11,288	$ 1,400	$ –

The estimated fair values of Hoosier's financial instruments carried at cost at December 31, 2016 and 2015 were as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Held-to-maturity investments	$ 145,639	$ 162,477	$ 98,693	$ 109,006
Long-term debt	1,434,751	1,519,569	1,458,156	1,573,734

The inputs used to measure held-to-maturity investments are considered Level 2 and are based on third-party yield rates of similarly maturing instruments determined by recent market activity. The estimated fair value of secured notes and other notes payable was estimated using quoted market prices for the same or similar issues or on the current rates offered to Hoosier for instruments with similar characteristics and is classified as a Level 2 fair value measurement.

Because of the inherent difficulty of estimating interest rate and other market risks, the methods used to estimate fair value may not always be indicative of actual realizable value, and different methodologies could produce different fair value estimates at the reporting date. There were no other items subject to fair value disclosure.

RATE MATTERS

Member revenue is recognized based on month-end meter readings. Nonmember revenue is recognized based on scheduled energy and demand in accordance with contractual agreements. Hoosier's rate structure includes a power cost adjustment mechanism, which allows for the recovery of power costs varying from the targeted levels specified in base energy rates. Hoosier recognizes the under or over recovery in revenues, and a corresponding receivable or payable is recorded until such time as it is collected from or refunded to members. At December 31, 2016, the over recovered amount is recorded as *Over collected power costs* on the balance sheet in current liabilities. Member and nonmember accounts are as follows:

	MEMBERS		NONMEMBERS		TOTALS	
	Receivables	(Over Collected) Unrecovered Power Costs	Receivables	(Over Collected) Unrecovered Power Costs	Receivables	(Over Collected) Unrecovered Power Costs
2016	$ 35,377	$ (3,412)	$ 13,273	$ –	$ 48,650	$ (3,412)
2015	26,612	533	9,497	20	36,109	553

CASH AND CASH EQUIVALENTS

Hoosier classifies investments purchased with an original maturity of three months or less at acquisition as cash equivalents, such as money market mutual funds.

USE OF ESTIMATES

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

REGULATORY ASSETS AND LIABILITIES

In accordance with the provisions of ASC 980 certain revenues and expenses are deferred if it is probable that such amounts will be recovered from or returned to customers in future rates (Note 4). A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable. Revenues and expenses that are deferred are treated as non-cash items in the Statements of Cash Flows in the year of deferral.

DERIVATIVES

Hoosier's activities expose it to a variety of market risks including interest rates, transmission congestion, market power prices and commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on its operating results. These policies and strategies include the use of derivative instruments as economic hedges. As of December 31, 2016 and 2015, Hoosier held derivative instruments in the form of natural gas future contracts for the purpose of hedging volatility in gas prices related to operation of its gas-fired generating units. Hoosier also held derivative instruments in the form of fuel oil future contracts for the purpose of hedging volatility in fuel oil prices related to the price escalation charges in coal supply contracts. In addition, Hoosier held FTRs to hedge price risk associated with transmission congestion. Hoosier also held energy swap contracts for the purpose of hedging against rising market power prices.

Hoosier records all unrealized gains and losses on derivative instruments, with the exception of the normal purchases and sales exclusions, as regulatory assets or liabilities until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings. Such derivative instruments have unrealized losses totaling $3,191 and $12,688 as of December 31, 2016 and 2015, respectively, recorded as regulatory assets as a component of deferred charges and other.

	Location of Gain (Loss) Recognized in Income	Realized Gain (Loss)	Unrealized Gain (Loss) Recognized in Deferred Charges
2016			
Natural gas contracts	Fuel – gas expense	$ (1,268)	$ 200
Fuel oil contracts	Fuel – coal expense	(4,200)	(3,100)
FTR contracts	Purchased power	1,531	(151)
Purchase power contracts	Purchased power	(136)	(140)
		$ (4,073)	$ (3,191)
2015			
Natural gas contracts	Fuel – gas expense	$ (1,800)	$ (1,974)
Fuel oil contracts	Fuel – coal expense	(3,826)	(9,314)
FTR contracts	Purchased power	3,829	(1,265)
Purchase power contracts	Purchased power	(929)	(135)
		$ (2,726)	$ (12,688)

Derivative Instrument	Statement of Financial Position Location	2016 Derivative Fair Value		2015 Derivative Fair Value	
		Assets	Liabilities	Assets	Liabilities
Fuel oil contracts	Prepayments and other[1]	$ 200	$ –	$ –	$ (9,314)
Natural gas contracts	Prepayments and other[1]	–	(3,100)	–	(1,974)
FTR contracts	Other current liabilities	–	(151)	–	(1,265)
Purchase power contracts	Accounts payable	–	(140)	–	(135)

[1] Excluded from derivative assets are $3,856 and $13,222 as of December 31, 2016 and 2015, respectively, of margin cash held by counterparties, recorded in prepayments and other.

The effect of derivative gains and losses is reflected in the net cash provided by operating activities in the statements of cash flows.

ASSET RETIREMENT OBLIGATIONS

ASC 410, *Asset Retirement and Environmental Obligations,* requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset, including conditional asset retirements where an obligation exists even though the method or timing of settlement may be conditional. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss. Hoosier's asset retirement obligations primarily reflect requirements related to landfill and ash pond closure costs and coal pile remediation.

The following table represents the details of Hoosier's asset retirement obligations as reported on the balance sheet. At December 31, 2016, liabilities expected to be settled during 2017 total $940 and are included with *Other current liabilities*.

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2016	$ 21,191	$ –	$ (2,234)	$ 1,289	$ 1,395	$ 21,641
2015	20,042	–	–	1,149	–	21,191

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued new accounting guidance to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. The amendments in this guidance state that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. An amendment issued in August 2015 deferred the effective date of the original guidance. For nonpublic entities, the guidance is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted only as of an annual reporting period beginning after December 15, 2016. An entity should apply the amendments in this update retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The clarified standard is not expected to significantly change current practice for rate-regulated entities. Management does not expect the adoption of this guidance to have a material impact on the Company's financial statements or disclosures.

In August 2014, the FASB issued new accounting guidance with respect to reporting on an entity's ability to continue as a going concern. This new guidance requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards, which requires disclosure surrounding what constitutes substantial doubt for the entity, including disclosure of management's plans to mitigate and alleviate substantial doubt. This guidance is effective for annual periods ending after December 15, 2016, with early application permitted. The Company adopted the guidance as of December 31, 2016. The adoption did not have a material impact on the financial statements or disclosures.

In April 2015, the FASB issued an accounting standards update on the presentation of debt issuance costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the update. For nonpublic entities, the guidance is effective for reporting periods beginning after December 15, 2015. The Company adopted the guidance as of December 31, 2016. The adoption did not have a material impact on the financial statements or disclosures.

In February 2016, the FASB issued an accounting standards update intended to improve financial reporting involving leasing transactions. The update will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than twelve months. Implementation of the update will primarily impact the balance sheet. It does not include provisions that would significantly impact the statement of operations and comprehensive income or statement of cash flows. For nonpublic entities, the guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact it will have on the financial statements and disclosures.

In August 2016, the FASB issued an accounting standards update intended to provide specific guidance regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update addresses eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon bonds; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned insurance policies; distributions received from equity method investees; beneficial interest in securitization transactions; and separately identifiable cash flows and application of the predominance principle. For nonpublic entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. Retrospective application to each period presented is required. The Company is currently in the process of evaluating the impact of adoption on its financial statements and disclosures.

2. Electric Plant

Electric plant, at December 31, 2016 and 2015, consists of the following:

		2016		2015
Production plant (Note 7)	$	1,972,919	$	1,898,647
Transmission plant		284,909		263,763
Distribution plant		113,419		115,242
General plant		144,766		137,656
Intangible plant		26,094		26,044
Electric plant in service		2,542,107		2,441,352
Construction work in process		30,279		72,303
Plant held for future use		4,723		4,543
	$	2,577,109	$	2,518,198

Hoosier owns 50% of a 630-megawatt combined cycle plant in southern Illinois and 67% of a 258-megawatt natural gas-fueled peaking plant in Indiana. The plant investments disclosed in the table above represent Hoosier's undivided interest in each co-owned plant. Hoosier's proportionate share of assets, liabilities and direct expenses associated with joint ownership is included in the accompanying financial statements.

SUPPLEMENTAL CASH FLOW INFORMATION

As of December 31, 2016 and 2015, Hoosier's accounts payable balances included $11,430 and $8,030, respectively, for capital expenditures. These amounts will be included as a cash outflow from investing activities for capital expenditures when paid.

3. Investments — At Cost

Amortized cost and estimated fair value of held-to-maturity investments at December 31, 2016 and 2015 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
CoBank—Class C and E stock	$ 4,396	$ –	$ (427)	$ 3,969
CFC—capital and equity term certificates	8,387	–	(506)	7,881
CFC—capital patronage certificates	2,533	152	–	2,685
RUS—cushion of credit (restricted)	114,877	17,657	–	132,534
Corporate bonds	14,096	–	(38)	14,058
Other investments	1,350	–	–	1,350
	$ 145,639	$ 17,809	$ (971)	$ 162,477
2015				
CoBank—Class C and E stock	$ 4,132	$ –	$ (348)	$ 3,784
CFC—capital and equity term certificates	9,380	–	(85)	9,295
CFC—capital patronage certificates	2,474	319	–	2,793
RUS—cushion of credit (restricted)	60,497	10,534	–	71,031
Corporate bonds	16,018	–	(106)	15,912
Commercial paper	4,995	–	(1)	4,994
Other investments	1,197	–	–	1,197
	$ 98,693	$ 10,853	$ (540)	$ 109,006

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5% per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act and are therefore considered restricted. Hoosier's cushion of credit account balance was $114,877 and $60,497 at December 31, 2016 and 2015, respectively and is recorded in *Long-term investments*.

4. Deferred Charges and Credits

Deferred charges, net of accumulated amortization, at December 31, 2016 and 2015, consist of the following:

	2016	2015
Regulatory asset for early plant retirement	$ 67,784	$ 73,433
Debt issuance costs	588	–
Regulatory asset for losses on early extinguishment of debt	983	1,833
Regulatory asset for termination of long-term financing obligations	15,657	19,838
Regulatory asset for valuation allowance of tax benefits	3,376	5,064
Regulatory asset for fair value of derivative instruments	3,191	12,688
Regulatory asset for realized losses on interest rate hedging	9,848	10,692
Regulatory asset for abandoned project	6,337	6,710
Pension prepayment, net of current portion (Note 9)	9,667	11,600
Other deferred charges	1,809	1,418
	$ 119,240	$ 143,276

The Ratts plant was retired from service in March 2015. The unrecovered cost of the plant is being amortized over thirteen years, which represents the remaining depreciable life of Ratts at retirement. The related revenue will be collected from members over the same period.

Debt issuance costs include fees associated with Hoosier's revolving credit facility. The fees are being amortized over approximately five years which is the term of the facility.

Losses on early extinguishment of debt arising from repricing transactions are being amortized over periods ranging from 14 to 36 years, the lives of the related or replacement debt, using the straight-line method.

During 2009, two long-term financing transactions were terminated. Hoosier's Board resolved to recognize the cost of termination over ten years, which is the life of associated borrowings. The related revenue will be collected from members over the same period.

A valuation allowance to reduce certain safe harbor tax benefits to zero was recognized in 2004 and is being amortized over fifteen years representing the remaining life of the related contract.

Hoosier records all unrealized gains and losses on derivative instruments, with the exception of the normal purchases and sales exclusions, as regulatory assets or liabilities until such time that the asset or liability is settled, at which time the gain or loss is recognized in earnings.

Hoosier recognized losses on interest rate hedges during 2013 and 2014. The losses are being amortized over 26 years, which represents the lives of the related borrowings.

During 2013, a landfill gas generation project was cancelled. Stranded costs associated with the cancellation are being amortized over twenty years, which is the average useful life of similar assets.

Total amortization related to the above items was $15,821 and $16,167 in 2016 and 2015, respectively.

Deferred credits at December 31, 2016 and 2015, consist of the following:

	2016	2015
Gain on sale/leaseback (Note 7)	$ 1,330	$ 2,420
Customer deposits in aid of construction	–	6,115
	$ 1,330	$ 8,535

During 1986, Hoosier recognized a gain related to a sale/leaseback agreement (Note 7). The gain is being credited to income over the lease term, which is approximately 32 years, using the straight-line method.

Customer deposits in aid of construction reflect payments to Hoosier for the construction of certain transmission assets. Title to the assets transfered during 2016 when construction costs were paid in full.

5. Member Capital and Other Equities

For financial reporting purposes, operating margins are assignable to members based upon their share of amounts paid for wholesale energy during the year. Nonoperating margins are retained to offset operating losses or, by action of the Board, may be assigned to members. Accumulated unassigned nonoperating margins are recorded as other equities in the statements of changes in equity.

Hoosier's bylaws state that Hoosier's patronage-sourced federal taxable income is assignable to members based upon their share of amounts paid for wholesale energy during the year.

Hoosier has certain loan agreements (Note 6) which contain restrictions on distributions.

The Board authorized, and the RUS approved, retirement of $6,548 and $6,547 in patronage capital for 2016 and 2015, respectively.

6. Long-Term Debt

SECURED NOTES UNDER INDENTURE

An Indenture of Mortgage, Security Agreement and Financing Statement, dated as of December 21, 2010 (Indenture), between Hoosier, as Grantor, to U.S. Bank National Association, as Trustee, as supplemented, provides secured note holders with a pro-rated interest in substantially all owned assets. Secured notes payable consist of the following:

		2016	2015
Secured notes under the Indenture:			
Rural Utilities Service (RUS) [a]		$ 5,263	$ 6,251
Federal Financing Bank (FFB) [b]		1,034,290	1,039,901
CoBank [c]		83,536	85,915
CFC [d]		36,037	42,961
Series 2011A Notes [e]		190,000	190,000
Series 2011B Notes [f]		50,000	50,000
	Subtotal:	1,399,126	1,415,028
Less portion due within one year:			
RUS		1,041	988
FFB		39,271	32,095
CoBank		2,538	2,379
CFC		7,198	6,924
	Subtotal:	50,048	42,386
	Total:	$ 1,349,078	$ 1,372,642

(a) The notes payable to United States of America (RUS) are due in monthly and quarterly installments of varying amounts through 2022. The weighted average interest rate was 5.1% at December 31, 2016.

(b) The notes payable to FFB are guaranteed by RUS and under the terms of the agreement all advances are subject to RUS's approval. Interest on each advance is payable quarterly at the respective rate established by FFB at the time of the advance. Maturity dates range from December 2017 through January 2045, and the weighted average interest rate was 3.5% at December 31, 2016.

(c) The terms of the CoBank notes provide for quarterly payments of principal and monthly payments of interest at a weighted average rate of 2.6% at December 31, 2016. Maturity dates range from October 2019 to February 2033. Hoosier, at its option, can fix the interest rate on varying amounts for various terms or allow the rate to be adjusted periodically by CoBank.

(d) The terms of the CFC notes provide for quarterly payments of principal and interest at either fixed or variable rates as elected by Hoosier. The weighted average interest rate on advanced funds was 4.0% at December 31, 2016. Maturity dates range from October 2019 to June 2040.

(e) The terms of the Series 2011A first mortgage notes provide for semiannual payments of interest at 4.9% and annual principal payments at various amounts from September 2033 to September 2039.

(f) The terms of the Series 2011B first mortgage notes provide for semiannual payments of interest at 4.1% and principal is due September 2029.

OTHER UNSECURED NOTES

A note with CFC bears interest at either a fixed or variable rate as elected by Hoosier, requires quarterly principal and interest payments, and matures January 2025. The long-term portion of the note was $2,485 and $2,775 at December 31, 2016 and 2015, respectively. The current portion was $290 and $276 at December 31, 2016 and 2015, respectively. At December 31, 2016, the interest rate was 2.5%.

CFC requires the purchase of equity term certificates (ETCs) in the amount of 14.29% of the amount advanced under various note agreements (Note 3). CFC provides financing for the purchase of the ETCs under separate loan agreements. The long-term portion of the notes was $3,113 and $4,264 at December 31, 2016 and 2015, respectively. The current portion was $1,151 and $1,065 at December 31, 2016 and 2015, respectively. At December 31, 2016, annual interest rates on the ETC notes ranged from 6.6% to 8.7%.

A note with CoBank bears interest at 5% and matures January 2020. The long-term portion of the note was $10,871 and $15,374 at December 31, 2016 and 2015, respectively. The current portion was $4,502 and $4,344 at December 31, 2016 and 2015, respectively.

A note with CoBank bears interest at 2.9% and matures May 2023. The long-term portion of the note was $11,340 and $13,213 at December 31, 2016 and 2015, respectively. The current portion was $1,873 and $1,817 at December 31, 2016 and 2015, respectively.

At December 31, 2016, estimated principal maturities of secured notes under the Indenture and other unsecured notes are as follows:

Years Ending December 31	
2017	$ 57,864
2018	67,440
2019	59,873
2020	48,125
2021	37,099
Thereafter	1,164,350
	$ 1,434,751

CREDIT LINES

During 2016, Hoosier entered into a $300,000 syndicated revolving credit facility which matures August 11, 2021. The proceeds of the facility may be used for working capital, capital expenditures, other general corporate purposes, and for the issuance of up to $50,000 of letters of credit. The credit facility bears interest at various rates. There were no amounts outstanding as of December 31, 2016.

The existing Indenture and certain other debt agreements contain provisions which, among other restrictions, require Hoosier to maintain certain financial ratios. Management believes that Hoosier was in compliance with these financial ratios at December 31, 2016 and 2015.

Cash paid for interest was $46,336 and $53,754 during the years ended December 31, 2016 and 2015, net of capitalized interest of $1,946 and $1,845 in 2016 and 2015, respectively.

7. Capital Lease Obligations

During December 1986, Hoosier entered into sale/leaseback agreements for undivided ownership interests in certain property included in the Merom Generating Station (Merom). The lease term is approximately 32 years. Proceeds from these transactions aggregated $183,500 and were used to pay existing FFB and CoBank mortgage debt and certain related expenses. The original gain of $35,000 was included with deferred credits and is being credited to income over the lease term, with $1,090 being amortized annually to income using the straight-line method (Note 4). At December 31, 2016 and 2015, the electric plant includes $178,000 of capital lease assets associated with the agreement. Amortization related to these capital leases is $5,531 annually using the straight-line method. In 2016, Hoosier exercised short-term renewal options effective at the expiration of the original lease in June 2017. The lease renewals will be accounted for as operating leases (Note 10).

In 2016, Hoosier entered into seven lease agreements for solar generating facilities. The leases are for ten years expiring in 2026 after which Hoosier may purchase the facilities or renew the leases for an additional two years. The agreements are classified as capital leases. Electric plant includes $10,395 of capital lease assets associated with the agreements.

Future minimum payments, by year and in the aggregate under capital leases, are as follows:

Years Ending December 31		
2017	$	17,269
2018		1,056
2019		1,056
2020		1,056
2021		1,056
Thereafter		8,290
Total minimum lease payments		29,783
Less amount representing interest at 5.9%		(3,865)
Present value of net minimum lease payments		25,918
Less portion due within one year		(16,287)
	$	9,631

8. Income Taxes

Income taxes consist of the following:

		2016		2015
Income taxes credited to operating margin—current:				
Federal	$	(1,890)	$	(1,380)
State		(489)		(322)
		(2,379)		(1,702)
Income taxes charged to nonoperating margin—current:				
Federal		1,843		1,215
State		489		322
		2,332		1,537
Net income tax expense (benefit)	$	(47)	$	(165)

Total income tax expense differs from the amounts computed by applying the federal statutory rate to pretax income due primarily to patronage dividend deductions.

As of December 31, 2016, Hoosier has net operating loss carryforwards for federal and state income tax purposes of $307,279 and $305,203, respectively, which are available to offset future taxable income. These net operating loss carryforwards will expire between 2018 and 2035. A full valuation allowance has been established to offset these deferred tax assets since Hoosier does not expect to realize these net operating loss carryforwards before they expire.

Hoosier files income tax returns in the U.S. jurisdiction and various states. The tax years 2012 through 2016 remain open to examination by the major taxing jurisdictions to which Hoosier is subject. Hoosier has no uncertain tax positions recognized in the financial statements.

9. Retirement Plans

MULTIEMPLOYER PLAN

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Hoosier's contributions to the RS Plan in 2016 and in 2015 represented less than 5% of the total contributions made to the plan by all participating employers. Hoosier made contributions to the plan of $7,765 in 2016 and $7,727 in 2015.

In 2013, Hoosier elected to participate in a voluntary prepayment option offered to participants in the RS Plan. Hoosier contributed $19,334 under the prepayment program during 2013. According to RUS guidelines, the amount will be amortized to benefit costs over a ten-year period which represents the remaining service lives of all plan participants. The prepayment amount is Hoosier's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. After making the prepayment, Hoosier's annual contribution rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in contribution rates is expected to continue for approximately 15 years but is subject to change as a result of actual plan experience. Total contributions include amortization of payments made under the voluntary prepayment option. Amortization of the prepayment totaled $1,933 for 2016 and 2015.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was at least 80% funded on January 1, 2016 and January 1, 2015, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

RETIREMENT SAVINGS PLAN

Employees of Hoosier are also eligible to participate in the Retirement Savings Plan of Hoosier Energy Rural Electric Cooperative, Inc. This is a defined contribution, 401(k) plan. Eligible employees are eligible for employer matching contributions. Hoosier provided matching contributions totaling $1,339 and $1,348 in 2016 and 2015, respectively.

POST-RETIREMENT HEALTH PLAN

Hoosier provides post-retirement health benefits to eligible retirees, which include payment of 100% of single coverage premiums and 50% of dependent coverage premiums to age 65 for those eligible employees hired before December 31, 2007.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the components of accrued post-retirement benefit cost and net periodic benefit cost.

	2016	2015
Accumulated post-retirement benefit obligation – beginning of year	$ 4,660	$ 4,932
Service cost	182	203
Interest cost	190	202
Actuarial loss (gain)	324	(331)
Benefits paid	(380)	(346)
Accumulated post-retirement benefit obligation – end of year	4,976	4,660
Fair value of plan assets – beginning of year	–	–
Company contributions	380	346
Benefits paid	(380)	(346)
Fair value of plan assets – end of year	–	–
Funded status, other long-term liabilities	$ (4,976)	$ (4,660)
Service cost	$ 182	$ 203
Interest cost	190	202
Net periodic benefit cost	$ 372	$ 405
Unrecognized actuarial loss (gain)	$ 67	$ (256)
Accumulated other comprehensive income	$ 67	$ (256)

A 9% increase in the cost of covered health care benefits under age 65 was assumed for 2016. This rate is assumed to decrease incrementally to 5% by 2027 and remain level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care trend rate would increase the accumulated post-retirement benefit obligation by $361 at year end 2016 and increase the service and interest cost components of the net periodic post-retirement benefit cost by $35 for the year. A 1% decrease in the health care trend rate would decrease the accumulated post-retirement benefit obligation by $319 at year end 2016 and decrease the total service and interest cost components of net periodic post-retirement benefit cost by $31 for the year. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 4% for 2016 and 4.25% for 2015. Hoosier funds the plan as health care claims are required to be paid.

Benefits expected to be paid under these assumptions over the next 10 years are as follows:

Years Ending December 31	
2017	$ 590
2018	517
2019	437
2020	380
2021	449
2022–2026	$ 2,386

LONG-TERM DISABILITY PLAN

Hoosier also provides long-term disability benefits to its employees. Prior to September 2016, benefits included payment of 100% of single coverage premiums and 80% of dependent coverage premiums. Following changes to the plan, employees will receive benefits for a maximum of two years or until reaching age 62 and then are required to pay 100% of the retiree-appropriate premium. Accrued long-term disability benefits of $1,242 and $1,848 were recorded in *Other Long-Term Liabilities* as of December 31, 2016 and 2015, respectively.

DEFERRED COMPENSATION PLAN

Hoosier maintains a nonqualified deferred compensation program (Deferred Plan) to provide supplemental retirement payments to qualifying employees. The Deferred Plan liability was $3,104 and $3,034 as of December 31, 2016 and 2015, respectively, and is included in other long-term liabilities in the balance sheet. Hoosier has elected to fund its deferred compensation obligations through a rabbi trust. The rabbi trust is subject to creditor claims in the event of insolvency, but the assets held in the rabbi trust are not available for general corporate purposes. Amounts in the rabbi trust are invested in exchange traded mutual funds, as selected by participants, which are designated as trading securities and recorded at fair value, and are included in Short-term investments in the balance sheet. All investments are exchange-traded mutual funds measured using Level 1 inputs (quoted prices for identical assets in active markets). Hoosier records trading gains and losses in investment income and other in the statement of operations and comprehensive income. The offsetting amount related to the increase or decrease in deferred compensation is recorded in administrative and general costs.

10. Commitments and Contingencies

POWER SALES AGREEMENTS

Hoosier sells wholesale power to nonmembers under various power sales agreements, which expire through 2017. Although the agreements meet the definition of a derivative instrument, they qualify for the normal purchase and normal sales exclusion under ASC 815, *Derivatives and Hedging.* Revenue from these contracts was $103,126 and $101,232 during 2016 and 2015, respectively.

COAL SUPPLY AGREEMENTS

Hoosier has entered into long-term contracts for the supply of coal. Certain of these contracts extend through 2021, and provide for price escalation under certain terms, primarily based on the market price of fuel oil. Coal payments under contracts for 2016 and 2015 were $137,232 and $120,703, respectively, and total estimated minimum payments for the contracts through the year 2021 are:

Years Ending December 31		
2017	$	84,131
2018		93,018
2019		106,629
2020		80,510
2021		34,365
	$	398,653

RAIL CAR LEASES

Hoosier leases two hundred and five railroad cars used in transporting coal to a generating facility. Rental expense was $766 and $1,124 in 2016 and 2015, respectively.

MEROM LEASES

In 2016, Hoosier exercised end of lease renewal options for certain property at Merom (Note 7). The original leases expire June 2017 and the renewal periods range in length from eighteen months to five years. The leases include various renewal alternatives and fair market value purchase options.

Future annual rental payments under the operating leases are:

Years Ending December 31		
2017	$	1,832
2018		2,895
2019		1,475
2020		995
2021		995
Thereafter		498
	$	8,690

SELF-INSURANCE

Hoosier has adopted a self-insured medical plan for the benefit of its employees. Stop loss insurance is maintained for individual claims in excess of $350 for each policy year. Hoosier's expense under the self-insured medical plan was $10,000 and $9,105 for 2016 and 2015, respectively.

GUARANTY

Hoosier entered into a guaranty agreement associated with fuel supply for a jointly owned generating facility. Under terms of the guaranty, Hoosier could be held responsible for obligations arising in the event a co-owner of the facility failed to perform. The amount of the guaranty was $6,000 as of December 31, 2016 and 2015, and there were no liabilities recorded against the guaranty.

NEW CLEAN RENEWABLE ENERGY BOND (NCREB) EXAMINATION

On November 16, 2015, the Internal Revenue Service initiated an examination of Hoosier's Series 2011B first mortgage notes (Note 6) for compliance with Federal tax requirements. The notes were issued as part of the NCREB program under section 54C of the Internal Revenue Code. Hoosier was notified in January 2017 the examination had been completed with no findings.

ENVIRONMENTAL

Hoosier entered into a Consent Decree with the Environmental Protection Agency (EPA), the Indiana Department of Environmental Management, and the United States Justice Department on November 4, 2010. The Consent Decree required Hoosier to provide $5,000 in community environmental mitigation projects which were completed in 2015. The Consent Decree also requires reductions in SO2, NOx and particulate matter through 2017.

On April 17, 2015, the EPA published regulations which include requirements for the disposal of coal combustion residuals (CCRs), commonly known as coal ash, from coal-fired power plants. The rule establishes technical requirements for CCR landfills and surface impoundments under subtitle D of the Resource Conservation and Recovery Act. The Company has recognized asset retirement obligations for its coal ash ponds at the Ratts Generating Station, which ceased generating electricity before the rule became effective. Estimates included in the financial statements reflect Hoosier's understanding that its ash ponds are exempt from the new rule and therefore did not materially change after the rule became effective.

On October 23, 2015, the EPA published the Clean Power Plan rule. The rule seeks to reduce nationwide carbon dioxide emission rates from power plants 32% by 2030 from 2005 levels. The rule requires reductions beginning in 2022. On February 9, 2016 the United States Supreme Court granted a stay of EPA's Clean Power Plan pending disposition of applicants' petitions for review in the United States Court of Appeals for the District of Columbia Circuit and disposition of applicants' petition for a writ of certiorari, if such writ is sought. The length of the stay will likely delay implementation timelines and associated compliance costs. The Company is currently evaluating the rule and unable to estimate the cost of compliance at this time.

The EPA published the Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category rule on November 3, 2015. The rule sets federal limits on the levels of metals in wastewater that can be discharged from power plants. Hoosier anticipates having to comply with the new rule after November 2018. The Company is currently evaluating the rule and unable to estimate the cost of compliance at this time.

There are many current environmental and energy policy issues, including those mentioned above, that have the potential to affect electric utilities, including Hoosier. The effect of the outcome of these issues on Hoosier's operations cannot be estimated.

LEGAL

Hoosier is a defendant in various other claims and lawsuits arising in the normal course of business. While the ultimate results of these other lawsuits or proceedings against Hoosier cannot be estimated with certainty, management does not expect these matters will have a material adverse effect on Hoosier's financial position, results of operations, or cash flows.

11. Subsequent Events

The financial statements include a review of subsequent events through March 16, 2017, the date the financial statements were available to be issued.

COMPARATIVE STATISTICAL SUMMARY

FIVE-YEAR SUMMARY OF OPERATIONS

(Dollars in thousands)	2016	2015	2014	2013	2012
Revenues:					
Sales of electricity	$ 687,306	$ 672,865	$ 709,500	$ 667,752	$ 647,728
Other revenue	225	265	249	236	215
Total operating revenue	687,531	673,130	709,749	667,988	647,943
Operations expense:					
Production expense	$ 215,151	$ 199,895	$ 244,797	$ 245,944	$ 226,424
Other power supply	178,771	173,887	171,561	141,825	149,973
Transmission and distribution	37,501	38,383	35,558	30,389	27,029
Administrative and general expenses	33,727	31,942	30,385	34,398	32,779
Depreciation and amortization	85,422	83,483	81,408	74,598	65,831
Taxes	–	–	–	–	–
Income tax and other	(2,379)	(1,702)	(1,724)	(1,265)	(969)
Fixed charges, primarily interest expense	56,933	58,862	61,436	55,574	60,332
Total operations expense	$ 605,126	$ 584,750	$ 623,421	$ 581,463	$ 561,399
Maintenance expense:					
Production	$ 41,233	$ 46,496	$ 44,312	$ 49,396	$ 49,234
Transmission	7,695	7,169	5,976	5,166	5,000
Distribution	4,087	4,781	5,008	3,302	4,200
General plant	1,873	3,009	2,638	2,561	2,005
Total maintenance expense	54,888	61,455	57,934	60,425	60,439
Total cost of electric service	660,014	646,205	681,355	641,888	621,838
Operating margin	27,516	26,925	28,394	26,100	26,105
Nonoperating margin and other	5,622	2,360	2,814	2,159	1,765
Net margin	$ 33,138	$ 29,285	$ 31,208	$ 28,259	$ 27,870

Member systems served	18	18	18	18	18
Peak demand by members (MW)	1,498	1,643	1,698	1,385	1,537
Sales to members (MWh)	7,395,500	7,354,000	7,560,572	7,313,567	7,125,320
Sales to others (MWh)	3,036,919	2,066,844	2,399,159	2,011,618	2,172,782
Average revenue/MWh sold	$ 65.88	$ 71.42	$ 71.24	$ 71.61	$ 69.66
Members average cost/MWh	$ 75.50	$ 77.47	$ 76.79	$ 76.07	$ 74.77
Member consumers end of year	299,000	297,065	296,570	295,873	294,910
Net generation (MWh)	6,912,757	5,640,739	7,290,171	6,746,513	6,516,319
Purchased power (MWh)	3,690,126	3,955,847	2,850,037	2,753,238	2,992,517
Coal burned (Tons)	2,783,762	2,437,687	3,272,847	3,065,687	2,795,400
Number of employees	450	453	473	478	483

THE HOOSIER ENERGY POWER NETWORK

1 HOOSIER ENERGY HEADQUARTERS
2 MEROM GENERATING STATION
3 WORTHINGTON GENERATING STATION
4 LAWRENCE GENERATING STATION
5 OSPREY POINT RENEWABLE ENERGY STATION
6 CLARK-FLOYD RENEWABLE ENERGY STATION
SOLAR ARRAY

7 ORCHARD HILLS RENEWABLE ENERGY STATION
8 DAYTON HYDRO
9 LIVINGSTON RENEWABLE ENERGY STATION
10 RAIL SPLITTER WIND FARM
11 HOLLAND ENERGY PLANT

12 STORY WIND FARM

SEE LOCATIONS ON THE MAP, PAGE 47

IOWA
12
7
8
9
10
ILLINOIS
11
INDIANA
Henry County REMC
Whitewater Valley REMC
RushShelby Energy
Johnson County REMC
South Central Indiana REMC
1
Decatur County REMC
Bartholomew County REMC
2
3
UDWI REMC
5
Southeastern Indiana REMC
Jackson County REMC
WIN Energy REMC
Daviess-Martin County REMC
4
Clark County REMC
Orange County REMC
6
Wayne-White Counties EC
Dubois REC
Harrison REMC
Southern Indiana Power

HOOSIER ENERGY GENERATING RESOURCES

Coal

Merom Generating Station, 1,070 megawatts, baseload facility located in Sullivan County, Indiana. Baseload resources have higher capacity factors and are available to operate throughout the year. Other resources could provide baseload energy, but less economically.

Renewables

Our renewable generation portfolio includes 35 megawatts of high-capacity factor landfill gas facilities, 16 megawatts of coalbed methane, a 10 megawatt solar program, as well as 54 megawatts of wind and hydro resources from purchased power agreements. Most renewable facilities operate intermittently and require backup capacity from other generation to meet load and MISO requirements. New renewable resource additions are expected in order to comply with the voluntary Board program of 10 percent of member energy requirements by 2025 from renewables.

Natural Gas

Since 2000, Hoosier Energy has added three natural gas plants to its owned assets to meet intermediate and peaking needs. Together, these gas plants allow Hoosier Energy to cost effectively match the appropriate generation source to fluctuations in demand patterns.

INTERMEDIATE

Intermediate resources provide energy for extended periods of the day, usually during weekday hours. A combined cycle natural gas power plant is this type of resource. The flexibility of combined-cycle generators to adjust production levels also helps accommodate intermittent resources such as wind and solar power.

Holland Energy Plant, 630 megawatts, natural gas combined cycle, located near Beecher City, Illinois. Hoosier Energy owns half the facility. Wabash Valley Power Association owns the other half.

PEAKING

The quick-start capabilities of these plants help meet member needs during a few hours of the year. Fast-start capability adds power supply flexibility and the units help meet MISO reserve requirements. Hoosier Energy has two peaking facilities.

Lawrence Station, 258 megawatts, located near Bedford, Indiana. Hoosier Energy owns two-thirds of the Lawrence Station's generating units, and Wabash Valley Power Association owns the other third.

Worthington Station, 174 megawatts, located in Greene County, Indiana. Hoosier Energy owns 100 percent of Worthington.

Output may vary from the nameplate capacity stated here.

MEMBER DISTRIBUTION SYSTEM PROFILES

As of December 31, 2016	Member Consumers	Number of Miles of Line	Net Utility Plant Value	Full Time Employees
Bartholomew County REMC	11,656	1,219	44,893,531	32
Clark County REMC	23,771	1,792	96,467,321	49
Daviess-Martin County REMC	8,099	1,363	28,750,370	24
Decatur County REMC	7,879	1,057	32,105,368	27
Dubois REC	13,617	1,694	41,433,240	29
Harrison REMC	22,578	2,184	65,657,363	47
Henry County REMC	9,478	1,031	32,804,558	28
Jackson County REMC	24,091	2,925	76,767,195	65
Johnson County REMC	25,016	1,660	104,391,737	56
Orange County REMC	7,749	1,104	29,465,262	25
RushShelby Energy REC	14,620	2,088	66,003,834	42
South Central Indiana REMC	33,158	3,566	118,552,636	89
Southeastern Indiana REMC	26,915	3,213	93,320,498	68
Southern Indiana Power	9,241	1,638	36,822,047	24
Utilities District of Western Indiana REMC	18,974	2,661	67,964,372	53
Wayne-White Counties Electric Cooperative	13,575	3,211	58,177,585	47
Whitewater Valley REMC	11,864	1,769	37,100,308	24
WIN Energy REMC	16,792	2,652	76,610,671	53
Total	**299,073**	**36,827**	**1,107,287,896**	**782**

7 COOPERATIVE PRINCIPLES

The consumer-owned cooperative business model is guided by seven important principles—principles that were established in 1844 in Rochdale, England, and have been adopted by cooperatives around the world ever since. These 7 principles are the foundation for providing our member systems with safe, reliable and clean energy every day.

Principle #1: Voluntary and Open Membership

Cooperatives are voluntary organizations. Membership is open to all who use our services without gender, social, racial, political or religious discrimination.

Principle #2: Democratic Member Control

We are a democratic organization. That means, an elected representative from each of our 18 member distribution systems actively participates in setting policies and making decisions for the benefit of all.

Principle #3: Members' Economic Participation

As a cooperative, Hoosier Energy is just as focused on providing an affordable and reliable power supply as our member distribution cooperatives. Our goal is to run the business as efficiently as possible, not to make a profit. Any additional revenue is invested directly into the business, then returned to member systems after a specified number of years.

Principle #4: Autonomy and Independence

Cooperatives are autonomous, self-help organizations. If Hoosier Energy enters into agreements with other organizations or raises capital from external sources, it does so only if the terms ensure democratic member control and autonomy. Because the 7 cooperative principles define the values we live by, cooperatives in general, and Hoosier Energy in particular, would never forsake those principles for financial gain.

Principle #5: Education, Training, and Information

With the ever-changing energy landscape, Hoosier Energy works proactively to ensure a diverse mix of generation resources will provide the best balance for affordable and reliable power to member systems. Those efforts include extensive member services to provide cooperative employees with the education and training they need to contribute effectively to the development of their cooperative.

Principle #6: Cooperation Among Cooperatives

The philosophy of cooperation is a way of life for cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

Cooperatives formed Hoosier Energy in 1949 to supply electric distribution systems with a dependable, economical source of power. Working together, we are providing better value for members' energy dollars.

Principle #7: Concern for Community

As a cooperative, our focus is always local. We are a part of the communities we serve. Our members' concerns are our concerns, and we work hard every day to keep the power on, keep electric bills low, and make our communities better places to live.

HOOSIER ENERGY

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