Annual Report

HOOSIERENERGY

2013

2013 Highlights

ENERGY SALES
9.3 MILLION MEGAWATT-HOURS

SALES TO MEMBERS
7.3 MILLION MEGAWATT-HOURS

SALES TO OTHERS
2.0 MILLION MEGAWATT-HOURS

TOTAL OPERATING REVENUE
$668 MILLION

NET MARGINS
$28.3 MILLION

ASSETS
$1.9 BILLION

PEAK DEMAND
1,409 MEGAWATT-HOURS

MEMBER SYSTEMS
18

MEMBER CONSUMERS
296,000

GENERATING CAPACITY
COAL, NATURAL GAS, RENEWABLE
2,014 MEGAWATTS

MILES OF TRANSMISSION LINES
1,720

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Hoosier Energy Profile

Hoosier Energy is a generation and transmission cooperative providing wholesale electric power and services to 18 member electric distribution cooperatives in central and southern Indiana and southeastern Illinois.

With headquarters in Bloomington, Hoosier Energy operates eight power plants. These include two coal-based power production facilities: the 1,070-megawatt Merom Generating Station in Sullivan County and the 250-megawatt Ratts Generating Station in Pike County. The power supplier's generation resources also include 50 percent ownership of the 630-megawatt Holland Energy combined-cycle plant in southern Illinois. It uses natural gas as its fuel source. Hoosier Energy owns two peaking plants using natural gas: the 174-megawatt Worthington Generating Station and 66 percent of the 258-megawatt Lawrence Generating Station.

The generation portfolio also includes renewable energy produced at two landfill methane generation stations and a coalbed methane facility. Hydropower and wind generation purchase power agreements add to a total of 60 megawatts of renewable energy resources.

High-voltage electric power is delivered to member cooperatives over a network of 1,720 miles of transmission lines, 21 primary substations and more than 350 delivery points. Interconnections link Hoosier Energy with seven other major utilities in Indiana and neighboring states.

Collectively, our member cooperatives operate and maintain more than 36,000 miles of distribution lines and provide electric service to nearly 300,000 consumers or about 650,000 people in 59 counties in southern Indiana and southeastern Illinois.

Hoosier Energy is a cooperative business with nearly 500 employees that provides reliable and affordable electric power in an environmentally sound manner, and carries on a commitment to improving the quality of life in the region's communities.

Significant Events

Extended wholesale power contracts with members to 2050.

Began construction of a $27-million corporate headquarters facility in Bloomington.

Completed a third year without a base rate increase and finished the year with lower than budgeted member rates.

Helped create $150 million in investment and 1,200 jobs in member communities through partnerships with members and the region's economic development organizations.

Returned $6.2 million in patronage capital to members along with a special bill credit. Hoosier Energy has returned approximately $64 million to members since 2000.

Lowered average cost of debt to 3.9 percent by taking steps to secure least-cost financing terms for capital projects.

Negotiated coal contract options that will provide savings of more than $65 million during a four-year period.

Celebrated seven years without a lost-time accident by the workforce at the Ratts Station, a milestone that exemplifies a commitment to personal safety.

Began commercial operation of two renewable energy stations — the Osprey Point coalbed methane plant and Livingston landfill methane plant — that advance renewable power goals.

Completed more than $18 million in power delivery projects to support system growth and enhance reliability of the transmission system.

Marked the 40th anniversary of the Hoosier Energy Apprenticeship Training and Safety program, which has graduated 600 apprentices.

Continued demand side management programs that have helped reduce peak loads by more than 51 megawatts and provided long-term member savings.

Completed a new $22-million Power Delivery Operations Center on a 90-acre site that provides more efficient delivery of services.

From the President and the Chairman

Hoosier Energy and its member cooperatives ended the year with substantial achievements and a renewed commitment to the future while preparing to mark the 65th anniversary of the cooperative in 2014.

All 18 members approved wholesale power contract extensions to 2050 during the past year. Contracts are a fundamental underpinning of our power supply organization and the basis for long-term borrowing in the capital intensive utility business. Equally important, contract extensions demonstrate members' continued commitment to the value of working together in an uncertain future.

Hoosier Energy's business is shaped by our mission of providing reliable energy and services to members at competitive costs while meeting our environmental responsibilities. While affordability is challenged by rising costs, a focus on managing costs and taking advantage of low interest rates resulted in average 2013 member rates that were $2 per megawatt-hour below budget estimates.

In addition, an anticipated 2014 base rate increase of $2 per megawatt-hour was avoided. At the same time, Hoosier Energy returned $6.2 million in patronage capital and extended a $4.7 million special credit to members, bringing total retirements and credits to nearly $64 million since 2000.

The power supply cooperative continued to aggressively pursue savings in financial markets. Results included $366 million in Rural Utilities Service (RUS) borrowings at historical low interest rates, refinancing CFC loans, and using interest rate hedges to lock in low rates for $160 million in future borrowing. Hoosier Energy also received an improved outlook from Moody's.

Fuel is Hoosier Energy's largest expense and in 2013 price reopeners were exercised for coal contracts that will result in $66 million in savings during a four-year period.

Capital projects included completing a $400 million multi-year upgrade of the Merom Station, investing $18 million in power delivery projects to support growth and reliability, and continuing progress toward renewable energy goals with the commercial operation of the Osprey Point coalbed methane plant and the Livingston landfill-methane plant.

The year was hardly over when the Eastern United States was hit with the coldest weather in 20 years, dubbed the Polar Vortex. Hoosier Energy set a record demand mark of 1,698 megawatts in January 2014, an 11 percent increase, and the Midcontinent Independent System Operator (MISO) set new all-time peaks as well. Generating units performed well but the ability to rely on gas units was problematic while coal units were instrumental in meeting needs. Cold weather events raised significant cost and deliverability concerns with increasing reliance on gas generation as a bridge to the future, in light of expected declining reserve margins due to coal-fired power plant retirements resulting from increasing environmental requirements.

In early 2014, employees moved into a new Power Delivery Operations Center that includes a system control center, engineering, maintenance, and warehouse facilities. Ground was broken in August 2013 for a new corporate headquarters with planned completion by the end of 2014. The new headquarters will consolidate employees into a modern, efficient facility and eliminate leased office space.

Among other notable 2013 accomplishments were:

- Marking safety milestones of seven years without a lost-time accident at the Ratts Station, and one year without a lost-time accident among Power Delivery crews.
- Achieving a continuous operation record of 231 days at Merom Station unit 1.
- Improving transmission system outage duration by nearly 20 percent compared to benchmark levels.
- Saving $11 million through MISO cost management initiatives.
- Being recognized by the Reliability First audit team for critical cyber-security and reliability systems best practices.

These accomplishments reflect the talents and dedication of Hoosier Energy's nearly 500 employees who demonstrate their commitment to achieving corporate goals efficiently and effectively. The power supply cooperative is building a "culture of execution" as employees aggressively seek opportunities for continuous improvement and to better manage costs.

Members and Hoosier Energy staff collaborated on several initiatives in 2013 including a comprehensive evaluation of wholesale power tariffs and review of Demand Side Management programs that encourage efficiency and send consumers rate signals to help manage their energy usage. Members' participation is essential to program success, and the willingness of member co-ops to devote time and effort to these initiatives is important.

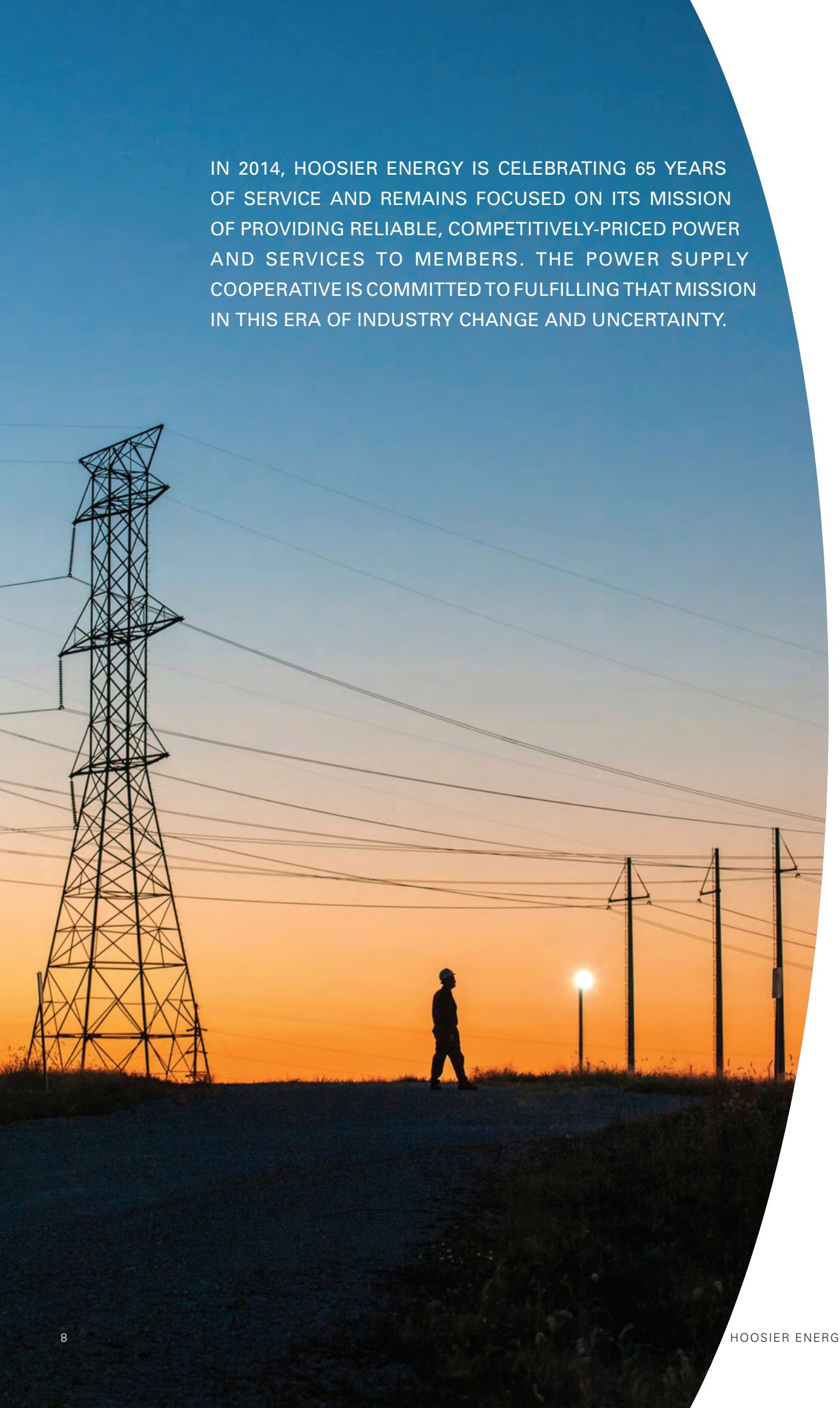
The Hoosier Energy Power Network is proud of the accomplishments and results of 2013, and looks forward to continuing to deliver safe, reliable and affordable power to central and southern Indiana and southeastern Illinois as the power supplier begins our 65th year of service.

James S. Weimer
Board Chairman

J. Steven Smith
President and Chief Executive Officer

Board Chairman Jim Weimer (left) and President and Chief Executive Officer J. Steven Smith.

IN 2014, HOOSIER ENERGY IS CELEBRATING 65 YEARS OF SERVICE AND REMAINS FOCUSED ON ITS MISSION OF PROVIDING RELIABLE, COMPETITIVELY-PRICED POWER AND SERVICES TO MEMBERS. THE POWER SUPPLY COOPERATIVE IS COMMITTED TO FULFILLING THAT MISSION IN THIS ERA OF INDUSTRY CHANGE AND UNCERTAINTY.



The Osprey Point Renewable Energy Station is a first-of-its-kind project that uses methane from underground coalbed seams as a fuel to produce electricity. Hoosier Energy's Will Kaufman (left) and Brian Hayes check equipment at the gas collection system.

Meeting member power needs with a diverse generation portfolio

On January 6, 2014, with average temperatures of minus 15 degrees in the southern Indiana and Illinois region, Hoosier Energy set an all-time demand record of 1,698 megawatts. The figure was 11 percent higher than the power supplier's previous peak recorded in July 2012.

A diverse mix of generating resources is used today to meet member power requirements and better manage risks. Fifteen years ago, Hoosier Energy's generating capacity consisted solely of coal-fired power plants. Today, natural gas and renewable generation make up 35 percent of resources while coal accounts for less than 65 percent of capacity.

The Merom Station produced 5.8 million megawatt-hours in 2013, an increase of 7 percent compared to the previous year. A 2013 outage at Merom Unit 1 centered on maintenance of control devices including scrubbers, electrostatic precipitators, selective catalytic reduction equipment, and the sulfur trioxide mitigation process.

While continuing to assess the impact of environmental rules and industry changes, current plans call for idling the 250-megawatt Ratts Station in the second quarter of 2015.

The coal-fired plant has provided reliable and efficient generation for more than four decades, including during a transition to a cycling operation the past three years. The plant generated 620,000 megawatt-hours in 2013 with an equivalent availability factor above 86 percent for the year.

The Ratts Generating Station has produced dependable electricity for four decades and its workforce has compiled an exceptional safety record of more than seven years without a recordable accident.

Generation from natural gas plants helps supply baseload, intermediate and peaking capacity needs in addition to meeting important reserve capacity requirements. The Holland, Lawrence and Worthington natural gas stations produced almost 500,000 megawatt-hours during the year.

The Holland Energy plant recorded operational reliability of 100 percent with generation of almost 470,000 megawatt-hours. Operational reliability at Worthington and Lawrence was above 98 percent with similarly high start-up reliability.

More than 26,000 megawatt-hours of energy were generated at the Clark-Floyd, Livingston and Osprey Point renewable energy stations (RES). Since beginning operation in 2007, the Clark-Floyd RES reached a production milestone of 100,000 megawatt-hours.

Securing a favorable financial outlook

Member contract extensions, long-term financing at low rates and cost management savings set the stage for a favorable financial outlook for 2014. Members approved power supply contract extensions to 2050, a sign of confidence that reinforces least-cost financing and the cooperative business relationship.

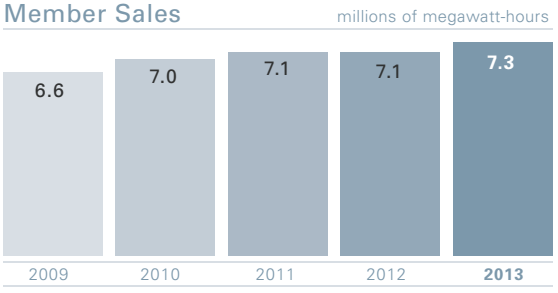
A moderately improving economy and weather contributed to a 2.6 percent increase in member energy sales to 7.3 million megawatt-hours. Total revenue of $668 million produced an operating margin of $26.1 million or 3.9 percent.

Hoosier Energy maintains a competitive cost position among Indiana wholesale power providers. Approximately $64 million has been returned to members in patronage capital in the past 13 years, including nearly $11 million in patronage retirements and a special credit in 2013.

Aggressive strategies locked in least-cost financing that is essential in the capital-intensive electric power business. The average cost of capital on outstanding debt stood at 3.9 percent at year-end.

Moody's Investor Service revised the co-op's outlook from stable to positive, and both Moody's and Standard & Poor's affirmed solid credit ratings.

Fuel expense and regulatory requirements are cost drivers in the utility industry. While the cost of coal has increased approximately 60 percent since 2008, increases have been mitigated through contract reopeners that are expected to save more than $65 million during the next four years.



Cost management and efficiency efforts by the workforce have saved $17 million in recent years. Expanded use of new technology in computer information systems, inventory management, and financial and maintenance information have contributed substantial savings as well.

Membership in the Midcontinent Independent System Operator (MISO) provides power supply, reliability and market benefits but requires an ongoing focus on project and cost management. Hoosier Energy joined in a challenge at the U.S. Supreme Court to MISO's proposed cost recovery formula for expensive transmission projects to deliver renewable energy to eastern load centers that would provide limited benefits in Indiana. Meanwhile, preservation of grandfathered supply agreements and other market management tools provided $11 million in annual savings.

Adding renewable energy resources

Renewable energy goals are being reached by pursuing projects that offer costs comparable to other new generation resources.

With two new renewable energy projects completed and put into operation in 2013, renewable capacity nearly doubled to 61 megawatts and now accounts for about 4 percent of power supply.

The Osprey Point Renewable Energy Station began commercial operation in June 2013. The facility uses coalbed methane that would otherwise escape into the atmosphere to generate power for members.

The second new facility, the 14-megawatt Livingston Renewable Energy Station, is a landfill generation plant in northern Illinois that began operation in November. With the existing Clark-Floyd plant in southern Indiana, Hoosier Energy's landfill methane generating capacity increased to 18 megawatts.

Additional clean energy resources include hydro and wind purchase power agreements.

Grants were provided to members to fund local renewable energy projects including electric vehicles and small solar and wind units, and operating and cost information for small-scale wind and solar projects was provided to consumers to help them make more informed decisions.

Reliable electric service is an important goal for electric cooperatives. Crews built a new substation to meet increasing demand for electricity for the Holiday World amusement park complex in Southern Indiana Power's service territory.

Completing environmental projects, the regulatory future

Hoosier Energy has made major environmental investments at power plants that resulted in 63 percent reductions in sulfur dioxide and nitrogen oxide emissions in the past decade. By 2018, emissions will be reduced 93 percent from 1982 levels, the year the Merom Station began operation.

The Environmental Protection Agency has proposed and is continuing to develop new regulations that create regulatory uncertainty for power generation including rules for carbon dioxide emissions at existing power plants. The power supply cooperative, member cooperatives, Indiana Statewide and the National Rural Electric Cooperative Association are working to advocate responsible public policies to meet environmental goals while keeping electricity affordable and reliable for consumers.

In addition to expected air regulations, Hoosier Energy is monitoring developments related to new water and coal combustion residue regulations.

Meeting safety, reliability, compliance goals

Worker safety, power supply reliability and regulatory compliance are fundamental issues in the utility business.

The Ratts Station workforce extended a remarkable safety milestone in 2013 by completing seven years without a lost-time accident. Meanwhile, power delivery transmission, substation and technical services crews made substantial progress in their safety record by surpassing one year without a lost-time accident.

Transmission and generation reliability has shown solid improvement. Transmission outage duration figures in 2013 were nearly 19 percent better than benchmarked levels.

Considerable resources are committed to meeting North American Electric Reliability Corporation (NERC) reliability and cyber-security requirements. Hoosier Energy was recognized for industry best practices in a 2013 Critical Infrastructure Protection (CIP) audit, where auditors identified strengths including innovative technology solutions, comprehensive policies and effective program structure.

Opposite page top:
Favorable interest rates, solid credit ratings and stable rates were among positive financial results for 2013. Chief Financial Officer Donna Snyder (standing) meets with staff members, seated from left, Caleb Steiner, Jon Jackson and Trina Pardue.

Above:
With the completion of environmental and other projects, the Merom Station is positioned to meet compliance goals. Operations Manager Kriss Miller surveys the Unit 2 turbine-generator.

Maintaining power delivery reliability

Hoosier Energy provides power to member cooperatives through a transmission network of 1,720 miles of high-voltage lines, 21 primary substations and more than 350 substations and delivery points.

In 2013, nearly $18 million in power delivery maintenance projects and new facilities were completed to support system growth and enhance reliability.

One of the largest transmission system improvements was a $3.8 million project to replace 345-kilovolt circuit breakers at the Merom Station switchyard.

In another major project, extensive line, metering and substation work was completed to meet power requirements for the White Oak Coal Mine served by Wayne-White Counties Electric Cooperative in southeastern Illinois.

The final year of a three-year project using light detection and ranging technology or "LiDAR" to identify transmission line clearances, leading to improved reliability, was completed in 2013. LiDAR uses aerial patrols and technology to assess line characteristics and compare them to design specifications.

Right-of-way management projects included clearing trees and vegetation that jeopardize transmission system reliability and crew safety. Efficiencies achieved in right-of-way and labor reduced costs more than $800,000 compared to 2012 as substation, transmission, meter-relay and communications systems improvements were completed.

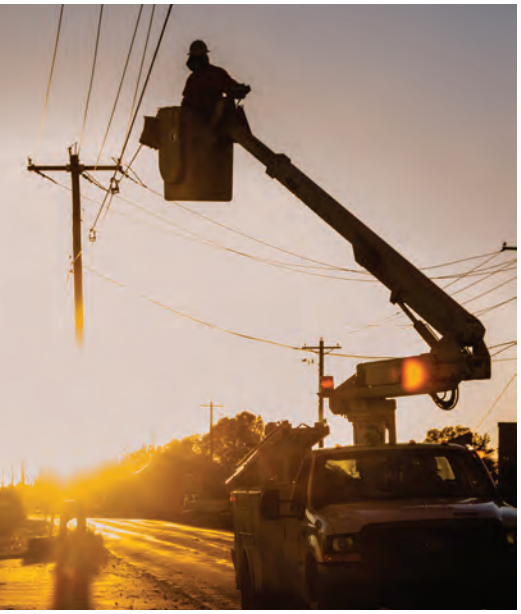
Planning and design teams were combined into a more effective Power Delivery Engineering Department that creates collaboration and productivity benefits.

Transformer capacity increases were completed at four substations serving WIN Energy, and improvements were completed at two others serving RushShelby Energy and Orange County REMC.

To meet increasing load requirements, a new substation was constructed near the Holiday World amusement park for Southern Indiana Power. A facility was also completed to serve the Osprey Point Renewable Energy Station in Sullivan County.

Other maintenance projects included:

- Building a 300-foot microwave tower at the new Power Delivery Operations Center, linking it with the existing communication system.
- Replacing more than 470 transmission structures, 210 cross-arms, and construction of 10 miles of new transmission lines.
- Installing radio-controlled switches, capacitor banks and upgrading transformers.



Hoosier Energy and members offer programs that help homeowners and businesses use energy more efficiently. During the past five years, residential consumers have installed nearly 1.5 million compact fluorescent bulbs.

Helping consumers use energy efficiently

Wholesale power tariff design changes four years ago paved the way for expanding demand side management (DSM) and efficiency efforts with members. In addition to providing favorable return on investments, DSM efforts are building a cooperative approach to reducing peak demand and energy use.

Control of more than 13,000 water heaters, air conditioners and heat pumps contribute to lower costs and better reliability in times of high demand. A 2013 pilot program reduced load control events and hours substantially over previous levels.

More than 3,500 incentives were provided to consumers to encourage installation of higher efficiency heating and cooling systems. During the last four years, members distributed more than 1.5 million compact fluorescent lights that are producing long-term energy savings.

A record 72 homes were built to Touchstone Energy Home standards in 2013 that feature superior energy efficient design and construction to lower energy costs. Two member cooperatives worked with local Habitat for Humanity organizations to build Touchstone Energy Homes.

The appliance recycling program saw another successful year as 1,000 inefficient refrigerators and freezers were recycled. In the last five years, 5,100 units have been recycled as a cost-effective way to achieve energy savings and dispose of used appliances in an environmentally safe manner.

The residential weatherization program to reduce energy costs concluded in 2013. Over the life of the program, nearly 13,000 consumers were helped with home energy improvements including air duct sealing, installation of more efficient lighting and insulation.

A new mobile display that showcases weatherization and construction techniques was created for member use as another way to educate and inform consumers.

Other DSM programs in 2013 helped business and industrial customers reduce operating costs and peak energy use through more efficient lighting, motors, pumps and other measures.

Communicating energy issues

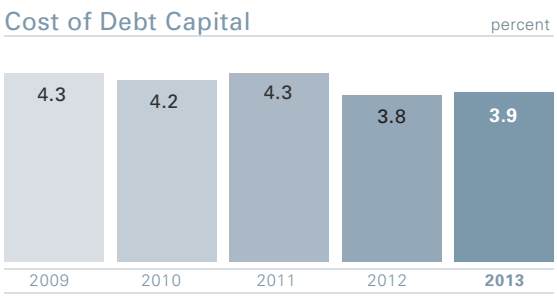
The award-winning Team Up to Save program was revised to bring together information and integrate marketing, demand side management and communications programs. As part of the changes, a new website was created with information about heating and cooling equipment incentives, residential lighting, appliance recycling, energy management, and commercial and industrial efficiency.

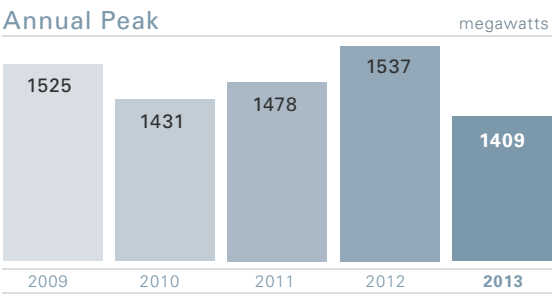
The Team Up program complements the Touchstone Energy brand campaign that brings efficiency messages to consumers through more than 50 local newspapers and radio stations and in six regional TV markets.

The communications department provided support to members through more than 50 projects, from production of annual meeting video programs to writing articles and news releases, and providing event sponsorships.

More than 100 member directors, employees and other guests learned more about power supply operations through tours of the generation and transmission cooperative's facilities.

Hoosier Energy has a long-standing commitment to environmental outreach and energy education that includes presentations at community schools, an environmental education center and an online lending library. In addition, the power supplier coordinates participation in Indiana's Touchstone Energy Camp and Earth Day activities.





Providing training and services to members

The power supply cooperative's history of member services began with the Hoosier Energy Apprenticeship Training and Safety (HEATS) program that marks its 40th year in 2014. The program prepares co-op line specialists and other employees with the skills to do their jobs safely and more efficiently. Nearly 600 member system and Hoosier Energy apprentices have graduated from the program over the past four decades including 22 graduates in 2013.

Other types of training were presented for more than 350 power network workers last year in subjects including substation operations, material handling, metering, computer and technology training, herbicide application, and other topics.

In addition, a new mobile live-line demonstration unit was made available to member cooperatives for safety and education programs.

Additional services provided to members included assistance with power requirements studies, forecasting and rates, human resources, key employee recruiting and labor relations, and regulatory compliance. Technical services are available for regulator maintenance, automated metering infrastructure, power quality and others.

Supporting businesses, industries and local economies

Hoosier Energy and member cooperatives share a tradition of making rural areas better places to work and live. It's another way cooperatives demonstrate the principle of commitment to community. The importance of economic development and key accounts programs lies in its support for attracting and retaining jobs and encouraging investment in member served communities.

Economic development results in 2013 included 54 new and expanded commercial and industrial projects that are expected to result in approximately 1,200 jobs, $150 million in capital investment and create about 26 megawatts of electric demand for member systems.

Key growth sectors included agriculture, automotive and defense related industries. Working in partnership with the Indiana Department of Agriculture, Hoosier Energy

Integrity, accountability, innovation and commitment to community are the core values of the Touchstone Energy brand initiative, which celebrated 15 years during 2013.

Substantial progress was made toward clean energy goals in 2013 when the Osprey Point and Livingston Renewable Energy Stations went online.

supported development of brochures and marketing materials used at trade and industry shows.

Seminars were held for business and industrial consumers while local economic development organizations received education scholarships and other support including aerial photography services, print and web advertising, and site selection assistance.

Key accounts representatives worked with member systems on rate, power factor and energy efficiency improvements for more than 250 commercial and industrial customers.

Building new facilities for efficiency, effectiveness

New facilities are being developed that will strengthen service to members for decades to come.

In January 2014, a new $22 million Power Delivery Operations Center became the home for 60 engineering, transmission and warehouse employees. Built on 90 acres in Owen County, the complex includes an 18,000-square-foot office building that will house a new system control center in mid 2014.

Another 82,000 square-feet of warehouse, maintenance and vehicle storage space creates a more efficient and productive work center for transmission, substation and power delivery workers.

State and local officials joined Hoosier Energy in an August 2013 ceremony that marked the start of a new corporate headquarters on the south side of Bloomington.

The 83,000-square-foot building is designed for long-term business operations and sustainability, and targets gold certification under Leadership in Energy and Environmental Design or LEED standards. Completion is expected by the end of 2014.

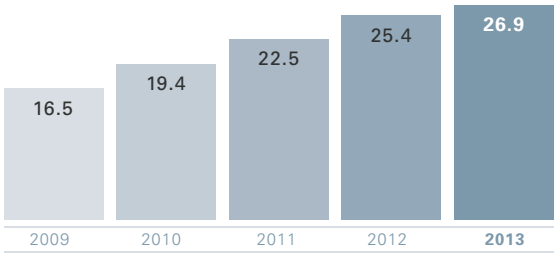
Celebrating 65 years of power supply

For 65 years, member cooperatives and Hoosier Energy have forged a powerful partnership based on cooperation, a focus on consumers, and a fundamental commitment to improving the quality of life in rural communities.

The accomplishments of 2013 further strengthen that partnership, and establish a legacy of affordable, reliable electricity and value-added services that will serve future generations well.

Fuel Costs

dollars/megawatt-hour generated



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3 Herbert C. Haggard
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Management Staff

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2 R.M. Mike Rampley
Senior Vice President
Marketing and Business
Development

3 Robert Hochstetler
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Power Production

4 Robert I. Richhart
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Power Supply

6 Donna L. Snyder
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Chief Financial Officer

7 Tom Van Paris
Vice President
Member Services
and Communication

Financial Contents

Independent Auditor's 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, 2013 and 2012, 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 the financial audits contained in *Governmental 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.

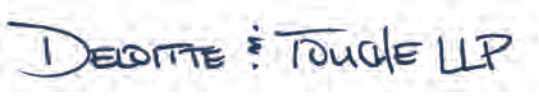
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, 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, 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.



Indianapolis, Indiana
March 14, 2014

Balance Sheets

For the years ended December 31, 2013 and 2012 (in thousands)	2013	2012
Assets		
ELECTRIC PLANT:		
In service, at original cost	$ 2,316,110	$ 2,073,123
Construction work in progress	54,433	179,852
Plant held for future use	3,437	1,932
Plant expected to be retired, net (Note 2)	84,730	85,676
Total electric plant	2,458,710	2,340,583
Less accumulated depreciation	(1,020,630)	(996,626)
Electric plant, net	1,438,080	1,343,957
INVESTMENTS:		
Investments, at cost	64,426	49,025
CURRENT ASSETS:		
Cash and cash equivalents	91,295	50,498
Short-term investments	3,046	25,851
Receivables	58,279	45,242
Unrecovered power costs	7,320	2,093
Fuel	65,688	89,100
Materials and supplies	43,911	42,294
Prepayments and other	9,615	11,130
Total current assets	279,154	266,208
Deferred charges and other	68,373	54,239
Total assets	$ 1,850,033	$ 1,713,429
Equity and Liabilities		
EQUITY:		
Patronage capital and other equities	$ 275,089	$ 253,074
Accumulated other comprehensive income (loss)	135	(744)
Total equity	$ 275,224	$ 252,330
LONG-TERM DEBT:		
Secured notes under the Indenture	1,294,315	989,869
Capital lease obligations	44,400	57,410
Credit lines	—	165,000
Other unsecured notes	50,338	38,754
Total long-term debt	1,389,053	1,251,033
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	75,829	64,168
Accounts payable	54,855	96,716
Accrued interest	6,578	7,331
Accrued taxes	5,869	5,990
Other current liabilities	5,573	5,100
Total current liabilities	148,704	179,305
Deferred credits and other	9,033	9,165
Other long-term liabilities	28,019	21,596
Commitments and contingencies (Note 10)	—	—
Total equity and liabilities	$ 1,850,033	$ 1,713,429

See notes to financial statements.

Statements of Operations and Comprehensive Income

For the years ended December 31, 2013 and 2012 (in thousands)	2013	2012
Operating Revenue		
Member	$ 554,446	$ 532,487
Nonmember	113,306	115,241
Other	236	215
Total revenue	$ 667,988	$ 647,943
Operating Expenses		
Operations:		
Fuel	$ 187,574	$ 170,411
Other production expenses	58,370	56,013
Purchased power	141,825	149,973
Transmission and distribution	30,389	27,029
Administrative and general	34,398	32,779
Maintenance	60,425	60,439
Depreciation and amortization	74,598	65,831
Income tax and other	(1,265)	(969)
Total operating expenses	586,314	561,506
Operating Margin before Fixed Charges	$ 81,674	$ 86,437
Fixed Charges and Other		
Interest expense	48,441	48,019
Other interest and amortization of debt expense	7,133	12,313
Total fixed charges and other	55,574	60,332
Operating Margin	$ 26,100	$ 26,105
Nonoperating Margin		
Investment income and other	3,499	2,654
Nonoperating income tax expense	(1,340)	(889)
Total nonoperating margin	2,159	1,765
Net Margin	$ 28,259	$ 27,870
Other Comprehensive Income		
Unrealized gain (loss) on postretirement benefit plans	879	(1,293)
Comprehensive Income	$ 29,138	$ 26,577

See notes to financial statements.

Statements of Changes in Equity

For the years ended December 31, 2013 and 2012 (in thousands)	Member Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2012	$ 218,253	$ 15,413	$ 549	$ 234,215
Patronage retirement	(8,462)	–	–	(8,462)
Other comprehensive income	–	–	(1,293)	(1,293)
Net margin	26,105	1,765	–	27,870
Balance, December 31, 2012	$ 235,896	$ 17,178	$ (744)	$ 252,330
Patronage retirement	(6,244)	–	–	(6,244)
Other comprehensive income	–	–	879	879
Net margin	26,100	2,159	–	28,259
Balance, December 31, 2013	$ 255,752	$ 19,337	$ 135	$ 275,224

See notes to financial statements.

Statements of Cash Flows

For the years ended December 31, 2013 and 2012 (in thousands)	2013	2012
Cash Flows from Operating Activities		
Net margin	$ 28,259	$ 27,870
Adjustments to reconcile net margin to net cash:		
Depreciation and amortization	74,598	65,831
Deferred charges and credits	(14,889)	(1,008)
Change in receivables and unrecovered power costs	(18,264)	6,391
Change in fuel and materials inventories	21,796	(45,052)
Change in accounts payable	(1,433)	(9,344)
Change in accrued interest	(1,991)	(8,365)
Change in other current assets and liabilities	1,867	(6,568)
Net cash provided by operating activities	89,943	29,755
Cash Flows from Investing Activities		
Capital expenditures	(200,390)	(208,093)
Purchases of investments	(15,000)	(36,572)
Maturities and calls of investments	23,763	9,289
Net cash used in investing activities	(191,627)	(235,376)
Cash Flows from Financing Activities		
Proceeds from long-term credit lines	75,000	165,000
Payments on long-term credit lines	(240,000)	–
Proceeds from long-term borrowings	386,653	34,654
Principal payments on long-term debt	(71,972)	(72,866)
Patronage retirements	(7,200)	(10,384)
Net cash provided by financing activities	142,481	116,404
Net increase (decrease) in cash and cash equivalents	40,797	(89,217)
Cash and cash equivalents, beginning of year	50,498	139,715
Cash and cash equivalents, end of year	$ 91,295	$ 50,498

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 the 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 asset impairment existed in 2013 or 2012.

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 2013 and 2012 are:

	2013	2012
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 $59,614 and $56,524 for 2013 and 2012, respectively. Depreciation and amortization includes amortization related to Plant expected to be retired (Note 2) which was $5,355 and $4,994 for 2013 and 2012, respectively.

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 and $23,026 in available-for-sale municipal and corporate debt securities with maturities less than one year which are included in Short-term investments as of December 31, 2013 and 2012, respectively, with no unrealized gains or losses recorded in other comprehensive income. Hoosier also held $2,946 and $2,825 in trading securities at December 31, 2013 and 2012, respectively, which are included in Short-term investments.

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, interest rate contracts 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, 2013 and 2012 were as follows:

Fair Value Measurements at December 31, 2013, Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Observable Inputs (Level 3)
Assets				
Investments				
Available for sale securities	$ 100	$ –	$ 100	$ –
Trading securities	2,946	2,946	–	–
	3,046	2,946	100	–
Derivative financial instruments	422	283	139	$ –
	$ 3,468	$ 3,229	$ 239	$ –
Liabilities				
Derivative financial instruments	$ 627	$ –	$ 627	$ –

Fair Value Measurements at December 31, 2012, Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets				
Investments				
Available for sale securities	$ 23,026	$ –	$ 23,026	$ –
Trading securities	2,825	2,825	–	–
	25,851	2,825	23,026	–
Derivative financial instruments	674	674	–	–
	$ 26,525	$ 3,499	$ 23,026	$ –
Liabilities				
Derivative financial instruments	$ 958	$ 647	$ 311	$ –

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. The carrying value and estimated fair value of Hoosier's secured notes and other notes payable at December 31, 2013 and 2012 are as follows:

	December 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$1,407,472	$1,451,315	$1,246,173	$1,406,987

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, 2013, the under-recovery is recorded as Unrecovered power costs on the balance sheet in current assets. Member and nonmember accounts are as follows:

	Members		Nonmembers		Totals	
	Receivables	Under Collected Power Costs	Receivables	Under Collected Power Costs	Receivables	Under Collected Power Costs
2013	$ 47,215	$ 7,300	$ 11,064	$ 20	$ 58,279	$ 7,320
2012	$ 33,465	$ 2,084	$ 11,777	$ 9	$ 45,242	$ 2,093

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.

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, 2013 and 2012, Hoosier held derivative instruments in the form of natural gas option and 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 Financial Transmission Rights (FTRs) to hedge price risk associated with transmission congestion. At December 31, 2013, Hoosier held energy swaps for the purpose of hedging against rising market power prices. During 2013, Hoosier entered into interest rate contracts in order to hedge the risk of rising interest rates associated with future borrowings.

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 $1,783 and $1,913 as of December 31, 2013 and 2012, respectively, recorded as regulatory assets as a component of deferred charges and other. Regulatory liabilities include $139 in unrealized gains at December 31, 2013 and are included with deferred credits and other.

	Realized (Loss) Gain	Location of (Loss) Gain Recognized in Income	Unrealized Loss (Gain) Recognized in Deferred Charges
2013			
Natural gas contracts	$ (1,045)	Fuel – gas expense	$ 353
Heating oil contracts	526	Fuel – coal expense	(328)
Interest rate contracts	(10)	Interest expense	1,203
FTR contracts	1,112	Purchased power	555
Purchase power contracts	—	Purchased power	(139)
	$ 583		$ 1,644
2012			
Natural gas contracts	$ (2,191)	Fuel – gas expense	$ 1,882
Heating oil contracts	1,349	Fuel – coal expense	(280)
FTR contracts	$ 658	Purchased power	$ 311
	$ (184)		$ 1,913

Derivative Instrument	Statement of Financial Position Location	2013 Derivative Fair Value Assets	2013 Derivative Fair Value Liabilities	2012 Derivative Fair Value Assets	2012 Derivative Fair Value Liabilities
Heating oil contracts	Prepayments and other	$ 450	$ –	$ 674	$ –
Natural gas contracts	Prepayments and other [1]	(167)	–	–	(647)
Interest rate contracts	Other current liabilities	–	(72)	–	–
FTR contracts	Other current liabilities	–	(555)	–	(311)
Purchase power contracts	Receivables	139	–	–	–

[1] Excluded from derivative assets are $314 and $1,128 as of December 31, 2013 and 2012, 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 closure costs and coal pile remediation.

The following table represents the details of Hoosier's asset retirement obligations as reported on the balance sheet in other long-term liabilities. Cash flow revisions are primarily related to changes in the estimated settlement amounts of certain obligations associated with the Ratts Station.

	Beginning Balance	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Ending Balance
2013	$ 11,832	$ 33	$ (35)	$ 827	$ 6,365	$ 19,022
2012	$ 8,804	$ 639	$ (911)	$ 711	$ 2,589	$ 11,832

2. Electric Plant

Electric plant, at December 31, 2013 and 2012, consists of the following:

	2013	2012
Production plant (Note 7)	$ 1,826,374	$ 1,628,687
Transmission plant	249,054	234,901
Distribution plant	116,013	109,814
General plant	99,234	73,984
Intangible plant	25,737	25,737
Electric plant in service	2,316,412	2,073,123
Construction work in process	54,433	179,852
Plant held for future use	3,135	1,932
Plant expected to be retired, net	84,730	85,676
	$ 2,458,710	$ 2,340,583

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.

The balance of $84,730 and $85,676 at December 31, 2013 and 2012, respectively, identified as Plant expected to be retired represents the undepreciated cost of the Ratts Station. In 2012, the Board of Directors took action to establish a regulatory asset, pursuant to ASC 980-360-35, for the undepreciated cost of the Ratts Station beyond its useful life. Recent events have resulted in the likelihood the plant will be removed from service in the future, before fully recovered in rates. Per accounting guidelines set forth in ASC 980-360-35, the undepreciated costs have been considered abandoned and removed from plant in service. As the entire balance will be recovered in future rates, it has been recorded as a regulatory asset that will be recovered and amortized over the remaining depreciable life of the Ratts plant which is fifteen years.

As of December 31, 2013 and 2012, Hoosier's accounts payable balances included $16,604 and $56,077 for capital expenditures, respectively. These amounts will be included as a cash outflow from investing activities for capital expenditures when paid.

3. Investments — At Cost

Investments, at December 31, 2013 and 2012, consist of the following:

	2013	2012
CoBank, Class C and E stock	$ 3,522	$ 3,410
CFC, capital and equity term certificates	11,217	12,054
CFC, capital securities	10,000	10,000
CFC, capital patronage certificates	2,301	2,180
RUS, cushion of credit	36,212	20,167
Membership in associated organization	787	787
Other investments	387	427
	$ 64,426	$ 49,025

4. Deferred Charges and Credits

Deferred charges, net of accumulated amortization, at December 31, 2013 and 2012, consist of the following:

	2013	2012
Debt issuance costs, losses on early extinguishment of debt, and other	$ 4,477	$ 6,139
Regulatory asset for termination of long-term financing obligations	27,642	31,142
Regulatory asset for valuation allowance of tax benefits	8,439	10,126
Regulatory asset for fair value of derivative instruments	1,783	1,913
Regulatory asset for abandoned project	7,455	–
Pension prepayment, net of current portion (Note 9)	15,467	–
Other deferred charges	3,110	4,919
	$ 68,373	$ 54,239

Debt issuance costs and losses on early extinguishment of debt arising from repricing transactions are being amortized over 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 the life of the related new debt, which is the same period over which the related revenue will be collected from members.

A valuation allowance to reduce certain safe harbor tax benefits to zero was recognized in 2004 and will be amortized over 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.

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 $10,439 and $6,952 in 2013 and 2012, respectively.

Deferred credits at December 31, 2013 and 2012, consist of the following:

	2013	2012
Gain on sale leaseback (Note 7)	$ 4,600	$ 5,690
Other deferred credits	4,433	3,475
	$ 9,033	$ 9,165

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 of Directors, 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's Indenture and certain loan agreements (Note 6) contain restrictions on distributions.

The Board of Directors authorized and the RUS approved retirement of $6,244 and $8,462 in patronage capital for each of the years 2013 and 2012, 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:

		2013	2012
Secured notes under the Indenture:			
Rural Utilities Service (RUS) **(a)**		$ 8,116	$ 9,007
Federal Financing Bank (FFB) **(b)**		1,007,441	685,894
CoBank **(c)**		50,636	52,598
CFC **(d)**		44,013	49,928
Series 2011 A Notes **(e)**		190,000	190,000
Series 2011 B Notes **(f)**		50,000	50,000
	Subtotal:	$ 1,350,206	$ 1,037,427
Less portion due within one year:			
RUS		$ 926	$ 891
FFB		46,482	38,820
CoBank		2,091	1,962
CFC		6,392	5,885
	Subtotal:	55,891	47,558
	Total:	$ 1,294,315	$ 989,869

(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, 2013.

(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 2012 through January 2040, and the weighted average interest rate was at 3.7% December 31, 2013.

(c) The terms of the CoBank notes provide for quarterly payments of principal and monthly payments of interest at a weighted average rate of 4.3% at December 31, 2013. Maturity dates range from October 2019 to April 2030. 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% at December 31, 2013. The notes mature in October 2019.

(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 $3,312 and $3,562 at December 31, 2013 and 2012, respectively. The current portion was $250 and $237 at December 31, 2013 and 2012, respectively. At December 31, 2013, the interest rate was 2.9%.

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 $6,316 and $7,229 at December 31, 2013 and 2012, respectively. The current portion was $913 and $846 at December 31, 2013 and 2012, respectively. At December 31, 2013, 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 $23,914 and $27,963 at December 31, 2013 and 2012, respectively. The current portion was $4,050 and $3,909 at December 31, 2013 and 2012, respectively.

A note with CoBank bears interest at 2.9% and matures May 2023. The long-term portion of the note was $16,797 at December 31, 2013. The current portion was $1,715 at December 31, 2013.

At December 31, 2013, estimated principal maturities of secured notes under the Indenture and other unsecured notes are as follows:

Years Ending December 31		
2014	$	62,819
2015		56,762
2016		47,405
2017		53,581
2018		61,919
Thereafter		1,124,986
	$	**1,407,472**

Credit Lines

Hoosier has a $400,000 syndicated revolving credit facility which matures April 30, 2018. 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 options. There were no amounts outstanding as of December 31, 2013.

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, 2013 and 2012.

Cash paid for interest was $54,534 and $60,077 during the years ended December 31, 2013 and 2012, respectively. Interest totaling $5,340 and $4,231 was capitalized in 2013 and 2012, 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 plant (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, 2013 and 2012, the electric plant includes $178,000 of capital lease assets. Amortization related to these capital leases is $5,531 annually using the straight-line method.

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

Years Ending December 31		
2014	$	16,321
2015		16,314
2016		16,292
2017		16,262
Total minimum lease payments		65,189
Less amount representing interest at 6.58%		(7,779)
Present value of net minimum lease payments		57,410
Less portion due within one year		(13,010)
	$	44,400

The lease agreements provide that the rental payments may be increased or decreased based upon certain elections available to Hoosier.

8. Income Taxes

Income taxes consist of the following:

	2013	2012
Income taxes credited to operating margin, current:		
Federal	$ (984)	$ (783)
State	(281)	(186)
	(1,265)	(969)
Income taxes charged to nonoperating margin, current:		
Federal	1,059	703
State	281	186
	1,340	889
Net income tax expense (benefit)	$ 75	$ (80)

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

Hoosier has net operating loss carryforwards for federal income tax purposes of $307,279 and $307,279, for 2013 and 2012, respectively, which are available to offset future taxable income. These net operating loss carryforwards will expire between 2018 and 2032. 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 2010 through 2013 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 2013 and in 2012 represented less than 5% of the total contributions made to the plan by all participating employers. Hoosier made regular contributions to the plan of $7,202 in 2013 and $6,988 in 2012.

Additionally, 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 billing rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years but is subject to change as a result of actual plan experience.

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 80% funded on January 1, 2013 and between 65% and 80% funded on January 1, 2012, 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 $1,265 and $1,224 in 2013 and 2012, respectively.

Post-Retirement Health Plan

Hoosier provides post-retirement health benefits to eligible retirees, which includes 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.

	2013	2012
Accumulated post-retirement benefit obligation, beginning of year	$ 5,151	$ 3,711
Service cost	261	185
Interest cost	202	191
Actuarial loss (gain)	(860)	1,274
Benefits paid	(222)	(210)
Accumulated post-retirement benefit obligation, end of year	$ 4,532	$ 5,151
Fair value of plan assets, beginning of year	$ –	$ –
Company contributions	222	210
Benefits paid	(222)	(210)
Fair value of plan assets, end of year	$ –	$ –
Funded status, other long-term liabilities	$ (4,532)	$ (5,151)
Service cost	$ 261	$ 185
Interest cost	202	191
Recognized actuarial loss (gain)	19	(15)
Amortization of prior service cost	–	(4)
Net periodic benefit cost	$ 482	$ 357
Unrecognized actuarial loss (gain)	$ (135)	$ 744
Accumulated other comprehensive income	$ (135)	$ 744

A 9% increase in the cost of covered health care benefits under age 65 was assumed for 2013. This rate is assumed to decrease incrementally to 5% by 2024 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 $379 at year end 2013 and increase the service and interest cost components of the net periodic post-retirement benefit cost by $51 for the year. A 1% decrease in the health care trend rate would decrease the accumulated post retirement benefit obligation by $336 at year end 2013 and decrease the total service and interest cost components of net periodic post-retirement benefit cost by $45 for the year. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 4.75% and 4.00% for 2013 and 2012, respectively. 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		
2014	$	228
2015		278
2016		323
2017		407
2018		443
2019–2023	$	2,855

Long-Term Disability Plan

Hoosier also provides long-term disability benefits to its employees, which includes payment of 100% of single coverage premiums and 80% of dependent coverage premiums. Accrued long-term disability benefits of $1,518 and $1,788 were recorded in Other Long-Term Liabilities as of December 31, 2013 and 2012, respectively.

Deferred Compensation Plan

Hoosier maintains a nonqualified deferred compensation program (Deferred Plan) to provide supplemental retirement payments to certain employees. The Deferred Plan liability was $2,946 and $2,825 as of December 31, 2013 and 2012, 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 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. The fair value of exchange-traded mutual funds in the rabbi trust is measured using Level 1 inputs (quoted prices for identical assets in active markets), and was $2,946 and $2,825 as of December 31, 2013 and 2012, respectively. 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

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 $91,942 and $86,164 during 2013 and 2012, respectively.

Hoosier has entered into long-term contracts for the supply of coal. Certain of these contracts extend through 2017, and provide for price escalation under certain terms, primarily based on the market price of fuel oil. Coal payments under contracts for 2013 and 2012 were $135,777 and $189,500, respectively, and total estimated minimum payments for the contracts through the year 2017 are:

Years Ending December 31	
2014	$ 122,440
2015	142,596
2016	84,769
2017	50,945
	$ 400,750

During 1982 Hoosier sold tax benefits related to Merom. Terms of the sales agreements provide that Hoosier will indemnify the buyers against the loss of tax benefits for certain reasons, and that the buyers may be required to indemnify Hoosier in the event that actual tax benefits received exceed those anticipated in the original lease. The agreement expired in 2012.

Hoosier leases three hundred and twenty-four railroad cars, as well as certain equipment used in the operations of its generating facilities. Rental expense was $1,462 and $1,803 in 2013 and 2012, respectively. Future annual rental payments under the operating leases are:

Years Ending December 31	
2014	$ 915
2015	376
2016	290
2017	321
2018	353
	$ 2,255

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 $8,484 and $8,231 for 2013 and 2012, respectively.

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, 2013 and 2012, and there were no liabilities recorded against the guaranty.

In August 2009, the Environmental Protection Agency (EPA) issued a Notice of Violation under the New Source Review provisions of the Clean Air Act. Hoosier entered into a Consent Decree with the EPA, the Indiana Department of Environmental Management, and the United States Justice Department on November 4, 2010. The Consent Decree requires Hoosier to provide $5,000 in community environmental mitigation projects of which $1,845 is currently accrued and reflected in Accounts Payable until projects are commenced. The Consent Decree requires reductions in SO2, NOx and particulate matter through 2017.

On June 2, 2010, EPA finalized a new National Ambient Air Standard which will require further reductions in SO2 emissions.

The EPA finalized the Mercury and Air Toxics Standards on December 16, 2011, which require reductions in mercury and acid gases in 2015. States can also grant one year extensions for retrofits. The EPA issued Cross State Air Pollution Rules in July 2011 which were intended to limit SO2 and NOx effective January 1, 2012. The Cross State Air Pollution Rules that were to become final in 2012 were overturned by the US Court of Appeals. The Supreme Court heard the case in December 2013 and a decision is expected in 2014. EPA is re-assessing alternatives to reduce SO2 and NOx effects on neighboring states. The Clean Air Interstate Rule remains in place until a substitute can be finalized.

There are many current environmental and energy policy issues 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.

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, as that term is defined in ASC 855, through March 14, 2014, the date the financial statements were available to be issued.

Comparative Statistical Summary

FIVE-YEAR SUMMARY OF OPERATIONS

(Dollars in thousands)	2013	2012	2011	2010	2009
Revenues:					
Sales of electricity	$ 667,752	$ 647,728	$ 649,431	$ 652,869	$ 574,896
Other revenue	236	215	177	147	148
TOTAL OPERATING REVENUE	667,988	647,943	649,608	653,016	575,044
Operations expense:					
Production expense	245,945	226,424	242,738	221,942	205,937
Other power supply	141,825	149,973	142,126	151,640	140,299
Transmission and distribution	30,389	27,029	24,027	20,635	21,542
Administrative and general expenses	34,397	32,779	32,904	23,267	23,685
Depreciation and amortization	74,598	65,831	61,909	61,462	57,437
Taxes	–	–	–	–	–
Income tax and other	(1,265)	(969)	(832)	(992)	(2,396)
Fixed charges, primarily interest expense	55,574	60,332	57,279	58,945	71,184
TOTAL OPERATIONS EXPENSE	581,463	561,399	560,151	536,899	517,688
Maintenance expense:					
Production	49,396	49,234	50,481	74,945	36,075
Transmission	5,166	5,000	5,136	6,562	6,920
Distribution	3,302	4,200	4,114	3,638	238
General plant	2,561	2,005	1,435	1,412	1,743
Total maintenance expense	60,425	60,439	61,166	86,557	44,976
Total cost of electric service	641,888	621,838	621,317	623,456	562,664
Operating margin	26,100	26,105	28,291	29,560	12,380
Nonoperating margin and other	2,159	1,765	2,054	2,888	4,184
Net margin	$ 28,259	$ 27,870	$ 30,345	$ 32,448	$ 16,564
Member systems served	18	18	18	18	18
Peak demand by members (MW)	1,385	1,537	1,478	1,431	1,525
Sales to members (MWh)	7,313,567	7,125,320	7,128,995	7,037,225	6,617,631
Sales to others (MWh)	2,011,618	2,172,782	2,938,344	3,813,163	5,032,213
Average revenue/MWh sold	$ 71.61	$ 69.66	$ 64.51	$ 60.17	$ 49.35
Members average cost/MWh	$ 76.07	$ 74.77	$ 71.10	$ 68.83	$ 69.13
Member consumers end of year	295,873	294,910	293,278	292,676	292,116
Net generation (MWh)	6,746,513	6,516,319	8,059,602	8,405,515	9,235,796
Purchased power (MWh)	2,753,238	2,992,517	2,282,688	2,692,258	2,642,340
Coal burned (Tons)	3,065,687	2,795,400	3,570,096	3,698,217	4,311,420
Number of employees	478	483	473	475	470

Member Distribution System Profiles

As of December 31, 2013	Number of Member-Consumers	Miles of Line	Net Utility Plant Value	Full Time Employees
Bartholomew County REMC	11,306	1,199	36,233,287	29
Clark County REMC	22,585	1,720	90,162,053	50
Daviess-Martin County REMC	8,001	1,358	27,069,149	25
Decatur County REMC	7,817	1,054	30,184,542	31
Dubois REC	13,368	1,669	38,519,561	29
Harrison REMC	23,026	2,154	64,180,401	45
Henry County REMC	9,608	1,028	16,981,698	24
Jackson County REMC	23,940	2,907	76,289,926	66
Johnson County REMC	23,809	1,596	68,541,274	54
Orange County REMC	7,737	1,093	27,502,210	23
RushShelby Energy	14,373	2,082	61,556,213	44
South Central Indiana REMC	33,609	3,540	117,056,614	87
Southeastern Indiana REMC	26,672	3,198	87,020,281	64
Southern Indiana Power	9,157	1,611	36,420,576	26
Utilities District of Western Indiana REMC	18,825	2,653	60,773,699	54
Wayne-White Counties Electric Cooperative	13,590	3,205	52,690,164	45
Whitewater Valley REMC	11,818	1,768	31,050,864	24
WIN Energy	16,632	2,625	60,132,168	48
Total	**295,873**	**36,460**	**$982,364,680**	**768**

Glossary of Terms

Baseload Power Plant: A generating station that is operated continuously over long periods to meet all or part of the electricity demand of a system.

Capacity: The amount of electric power delivered or required for which a generator, turbine, transformer, transmission circuit, station, or system is rated by the manufacturer.

Climate Change: Any significant change in measures of climate (such as temperature, precipitation or wind) lasting for decades or longer. Preferred use over "global warming" by National Academy of Sciences.

Combined Cycle Plant: An electric generating station that uses waste heat from its gas turbines to produce steam for conventional steam turbines.

Demand Side Management (DSM): The process of planning, implementing and monitoring activities of electric utilities that are designed to encourage consumers to modify their pattern of electricity usage.

Flue Gas Desulfurization System: Commonly called a scrubber. An equipment group that uses a chemical process to remove sulfur dioxide from coal combustion gases.

Generation and Transmission Cooperative (G&T): A utility owned by distribution cooperatives to provide its members wholesale electric power and related services.

Generating Capability: The maximum amount of electric power which a generating unit or station can produce under specified conditions for a specified time.

Heat Rate: A measure of how efficiently a power plant uses fuel.

Independent System Operator (ISO): An independent entity or institution that joins the electric transmission systems of participating companies into a single regional system.

Integrated Resource Plan (IRP): Also known as least cost planning, an IRP is a planning process to determine the mix of resources that will produce the lowest costs.

Interconnection Agreement: An agreement between two utilities to connect their transmission systems. An interconnection refers to the facilities that connect two power delivery systems.

Kilowatt-hour: A measure of the quantity of electric energy equal to one kilowatt of power generated or consumed in one hour.

Megawatt: One million watts or 1,000 kilowatts.

Member Systems: Cooperatives that operate and maintain distribution facilities and provide services to retail customers. Hoosier Energy provides power to 18 electric cooperatives that are members.

Patronage Capital: Margins retained by a cooperative to provide working capital for a period of time before being paid to members. Patronage capital is paid based on margins for a specific year.

Peaking Power Plant: A generating facility that is operated during periods of high usage such as summer months to meet the highest levels of electricity demand.

Peak Load: A level of electric energy required during a specified period of greatest demand. Peaking periods can be defined by hour, month, year, or seasonal periods.

Rate: Charge applied to billing components including demand and energy (the cost per kilowatt-hour of electricity).

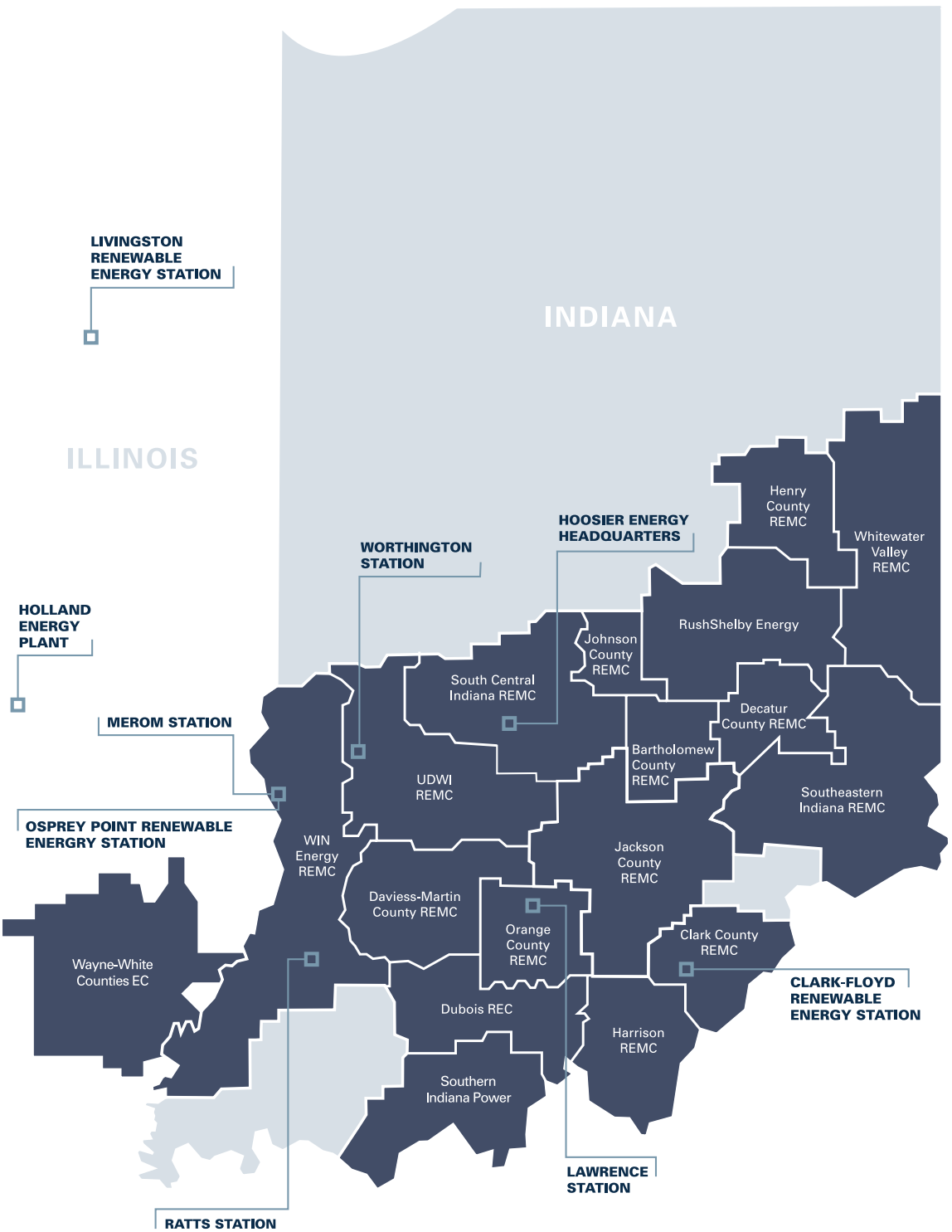
Renewable Energy: Energy obtained from sources that are essentially inexhaustible and can be replenished in a brief period. Renewable sources include landfill methane, wood, wind, photovoltaic, and solar.

Rural Utilities Service (RUS): An agency of the U.S. Department of Agriculture authorized under the Rural Electrification Act of 1936 to make and guarantee loans to finance the construction and operation of generating plants, transmission facilities and distribution systems.

Smart Grid: The use of technology such as advanced meter infrastructure to help better meet consumers' needs reliably and affordably by more effectively monitoring and controlling demand and system conditions on a real-time basis.

Wholesale Customer: A customer who purchases all or part of their electricity from a utility at wholesale rates for resale.

Service Area Map



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