

Holmes- Wayne

Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 

6060 S.R. 83 P.O. Box 112
Millersburg, OH 44654-0112
Business hours 7:30 a.m.- 4 p.m.

24 Hour Toll-free Phone:
866-674-1055
888-264-2694

www.hwecoop.com

Board of trustees

Ronnie SchlegelChairman
Donald Buren.....Vice Chairman
Larry Martin.....Sec.-Treas.
David Mann Randy Sprang
Kenneth Conrad Kenneth Bower
Bill Grassbaugh Barry Jolliff

Personnel

Glenn MillerPresident/CEO
John PorterAsst. Manager/Engineer
Vicki Bilek.....Executive Secretary
Casey Wagner.....Accounting Manager
Robyn TatePublic Relations/HR
Stacy ShawLine Supv./Safety Director
Ward VaughnLine Supervisor
Brent SchrockContractor Supervisor
Tim VickersStaking/Field Engineer
Nolan HartzlerGIS Mapping Technician
Gary Snyder.....Operations Field Technician
Craig Duncan .Operations Field Technician
Brian SpencerSystem Engineer
Kenny DePriest.....Energy Advisor
Karen TishPlant Accountant/Purchasing
Curtis Woods.....Warehouse/Mechanic
Lisa BakerBilling Supervisor
Carol Hawkins...Customer Serv. Supervisor
Jeanne Baker.....Customer Service Rep.
Sue Holcomb.....Customer Service Rep.
Lisa Gress.....Customer Service/Accounting
Albert Schonauer.....Class A Lineman
Daryl Reynolds.....Class A Lineman
Harry Morris.....Class A Lineman
Steve JamesClass A Lineman
Fred CombsClass A Lineman
James RoseClass A Lineman
Michael Maurer.....Class A Lineman
Michael Martin.....Class A Lineman
Gregory LemonClass A Lineman
Michael RoweClass A Lineman
Bowe FirebaughClass A Lineman
Jeffrey Young.....Class A Lineman
Ed Walton.....Utility Man
Rick FoxUtility Man
Darin Stefano.....Apprentice Lineman
Steve Asbury.....Apprentice Lineman
Josh Johnson.....Apprentice Lineman

OFFICIAL NOTICE OF ANNUAL MEETING Holmes-Wayne Electric Cooperative, Inc.

Attention members: The Annual Meeting of Members of Holmes-Wayne Electric Cooperative, Inc. will be held Thursday June 26, 2008 at West Holmes High School, 10901 St. Rte. 39, Millersburg, OH.

All Holmes-Wayne Electric Cooperative members, their spouses and children under 18 are welcome to attend the meeting and free dinner. A children's program (12 and under) also will be provided.

Registration and health fair will begin at 5 p.m., dinner at 6 p.m. and the business meeting at 6:30 p.m. Business will include the election results of three (3) Trustees, ratifying and approving all actions taken since the last meeting of members; and the transaction of such other and further business as may properly come before said meeting.

Activities of the evening are:

1. Registration and dinner
2. Meeting called to order
3. Invocation
4. Minutes approved as in Annual Report
5. Chairman's report
6. Financial report for 2007
7. Operation Round Up Foundation financial report for 2007
8. President's report
9. Guest speaker
10. Results of Trustee election and swearing in of Trustees
11. Unfinished business
11. New business
12. Adjournment

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

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

The Nominating Committee selected the following candidates for 2008 trustee election:

District 4:



Ken Conrad and his wife, Mary, reside at 6383 C.R. 19, Millersburg. Ken has represented District 4 since 1990. He has completed the Credentialed Cooperative Director courses and currently pursuing Board Leadership courses. For 39 years, he has been a self-employed farmer and livestock hauler. A lifelong residence of Mechanic Township, the Conrads have three daughters and five grandchildren. He is a member and served as elder and trustee of Clark Community Presbyterian Church. Ken has served for 18 years on the Mechanic Township Trustee Board and Holmes County Fair Board. Ken

graduated from Clark Consolidated School.

D. Kraig Bucklew and his wife, Tami, reside at 3106 St. Rte. 83, Millersburg in Mechanic Township. They have two children. Kraig is an environmental technician at Holmes County Health District. He is a graduate of West Holmes High School. Kraig enjoys bass fishing and cutting firewood.



Rick Daugherty and his wife, Bette, live at 3260 T.R. 166, Sugar creek. A graduate of Wooster High School, Rick received his bachelor degree in animal science and doctorate in veterinary medicine from The Ohio State University. He is the owner of Sugarcreek Veterinary Clinic, including a staff of eight veterinarians. Rick is the vice president of the local veterinarian association and also served as a district representative and secretary of the Ohio Veterinary Medical Association. The Daughertys are members of New Pointe Free Methodist Church and enjoy spending time with their son's family.



District 6:



Kenneth L. Bower and his wife, Elizabeth, reside at 6211 Heyl Rd., Wooster. Ken has represented District 6 since 1983. The Bowers have two children and four grandchildren. A graduate of Triway High School, he is a native of Plain Township. Ken owns and operates Ken Bower Trucking, LLC. For nine years, he has been a Plain Township trustee and has served as president and vice president. Ken has been on the Wayne County Fair Board for 17 years and served as vice president and president. He also is a member of Farm Bureau, Wayne

County Trustees-Clerk's Association, Plain Lutheran Church and Plain Cemetery Association.

Carl Finley and his wife, Peggy, live at 5219 Heyl Road, Wooster. Carl has resided in Wayne County his entire life. He established Carl Finley Builders, Inc. in 1979. He creates custom plans and builds fine homes in Holmes, Wayne, Ashland, Stark and Medina counties. Carl is active in the Wayne County Chamber of Commerce and received the 2003 "Volunteer of the Year" award and 2004 finalist for the "Small Business of the Year" award. A member of the Holmes-Wayne Home Builder's Association, he is on the Board of Directors and the Governmental Affairs committee and Strategic Planning committee. Through the HBA Parade of Homes, he has won "The People's Choice Award" three times and the "Builder of the Year" award.



Anthony Biggio and his wife, Maryanna, live at 5137 Lattasburg Road, Wooster. He graduated from Denison University with a bachelor of arts degree and holds a doctor of dental surgery degree from the Ohio State University. He served two years in the Dental Corps of the U.S. Navy. Anthony has been a resident of Wayne County for over 39 years and has a general practice in Wooster. The Biggios have two grown children. Anthony enjoys woodworking, reading and hunting.



District 5:

Ronnie Schlegel and his wife, Sandy, reside on their farm at 8011 T. R. 323, Holmesville. Ronnie is the current trustee representing HWEC's District 5 and is the chairman of the Board. He



has served eight terms on the Board and has received the Credentialed Cooperative Director certification. Ronnie is an agriculture sales representative in Holmes and Wayne counties for Shearer Equipment. A lifelong resident of Holmes County, Ronnie attended Waynedale High School and Wayne General. The Schlegels are parents of two married daughters and have four grandchildren. He has served as 4-H advisor, 4-H Committee Chairman, board member of Federal Land Bank Association and Advisory Council of Farm Bureau. Ronnie and his wife are members of the Fredericksburg Presbyterian Church.

Paul A. Troyer and his wife, Mary, reside at 9845 C.R. 329, Holmesville. They have three children. For 10 years, Paul has been the owner/operator of Precision Poured Walls Inc. of Holmesville. He graduated from Garaway High School and Ohio Technical College with an associate of applied science in complete automotive. Paul is a member of Pleasant View Mennonite Church and currently a member of the finance committee. He also is a member of the Wayne-Holmes Home Builder's Association.



James R. Hanna and his wife, Lula, live at 4775 C.R. 400, Millersburg. Both natives of Holmes County, their children, grandchildren and great-grandchildren also were raised in Holmes County. James is a full-time market grain farmer and works part-time in a leadership role for the Oval Egg Company. He is an active member of Millersburg Christian Church.



2007 Annual Meeting Minutes

The 70th Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 28, 2007.

The business meeting was called to order by Vice-Chairman of the Board of Trustees Don Buren.

It was moved and seconded to approve the agenda. Motion carried.

It was moved and seconded to approve the minutes of the June 29, 2006 Annual Meeting as presented. Motion carried.

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

- Retirement of Capital Credits for 2007 in the amount of \$590,061.53.
- NRECA Legislative Conference in Washington, D.C. where two Trustees and CEO Glenn Miller met with Ohio legislative representatives to present the challenges cooperatives will face in the future.
- The new focus on Renewable Energy.
- The rising cost of energy and how each member can manage energy consumption through conservation.

David Sparr, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2006, which resulted in a clean, unqualified opinion.

Harold Neuenschwander, Vice President of the Operation Round Up Foundation Board, gave a brief description of the program and reported:

- More than 11,000 members are participating in Operation Round Up
- \$68,000.00 was donated last year, with \$38,000.00 being distributed to families in need and the remaining funds deposited.

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

- FEMA approved the rebuild of 115 miles of line resulting from the 2004 and 2005 ice storms.
- Currently completed 73 miles of line rebuilding and hope to complete another 30-35 miles in 2007.
- Anticipate the completion of the project by March 2008.
- Transmission outages have increased to unacceptable levels. There have been regular meetings with our primary transmission suppliers and state legislators to improve transmission reliability.
- Continuing efforts to improve reliability include building tie lines between substations in order to transfer affected members to other

substations in the event of transmission outages. This very large project will take 4 years to complete and includes the rebuilding of 86 miles of line and upgrades to 10 of our 17 substations.

- Elimination of Wengerd and Plains substations and completion of the Reedsburg substation.
- Total of \$4.2 million dollars in electrical infrastructure improvements were made in 2006.
- Trimmed over 1,340 miles of trees in the past 3 years and 375 miles will be trimmed in 2007 to complete the 1st system-wide 4-year tree trimming cycle.
- Donated \$10,000.00 to American Cancer Society Relay for Life for a total of \$35,500.00 over the past 4 years. All money raised by the staff of the Cooperative.
- Honored by the Holmes County Chamber of Commerce as "Business of the Year" in medium sized business category for 2006.
- Paid \$1.32 million in KWH Tax to the State of Ohio, and \$632,000.00 in property taxes that benefit 12 local school districts and local governments.

Guest speaker, Ken Keylor, Vice President of Statewide Services, reported that great leadership and long-term vision by the local Cooperative representatives on the statewide board has resulted in wholesale power rates being the lowest in the state of Ohio. The future will bring rising costs for providing electric service due to deregulation and environmental mandates.

Robyn Tate, HR/PR Representative, presented the Cooperative's scholarship awards. There were 40 applicants this year.

Garrett Roach, attorney from Critchfield, Critchfield, and Johnston, LTD, reported the results of the election:

- District 2 – William Grassbaugh
- District 8 – Barry Jolliff
- District 9 – David Mann

Attorney Garrett Roach administered the oath to all the Trustees elected.

There was no unfinished business.

There was no new business.

Upon motion made and seconded, the meeting was adjourned.

March 15, 2008

Independent Auditor's Report

Board of Trustees
Holmes-Wayne Electric Cooperative

We have audited the accompanying balance sheets of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2007 and 2006, and the related statements of revenue, patronage capital, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

During the years ended December 31, 2007 and 2006, the Cooperative received no long-term loan fund advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 15, 2008, on our consideration of Holmes-Wayne Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

BALANCE SHEETS

As of December 31, 2007 and 2006 (see Independent Auditor's Report)

ASSETS

UTILITY PLANT:

	<u>2007</u>	<u>2006</u>
Electric plant in service.....	\$ 51,008,946	\$ 46,578,097
Construction work in progress	<u>1,463,343</u>	<u>1,981,131</u>
	52,472,289	48,559,228
Less: Provision for accumulated depreciation.....	<u>13,577,520</u>	<u>13,380,281</u>
Net utility plant.....	38,894,769	35,178,947

OTHER ASSETS AND INVESTMENTS:

Investments in associated organizations	1,969,419	1,974,183
Patronage capital from associated organizations	<u>12,821,119</u>	<u>11,890,710</u>
Total other assets and investments.....	14,790,538	13,864,893

CURRENT ASSETS:

Cash and cash equivalents	357,309	667,671
Cash — construction funds.....	200	200
Accounts receivable, net of allowance	2,741,388	2,330,794
FEMA receivable.....	651,495	295,474
Materials and supplies	1,221,764	973,273
Other current assets.....	<u>288,615</u>	<u>288,029</u>
Total current assets	<u>5,200,771</u>	<u>4,555,441</u>
Total assets	<u>\$ 58,886,078</u>	<u>\$ 53,599,281</u>

EQUITIES AND LIABILITIES

EQUITY:

	<u>2007</u>	<u>2006</u>
Patronage capital	\$ 28,223,837	27,298,377
Other equities	1,155,308	1,166,648
Accumulated other comprehensive income.....	(185,695)	0
Total equity	<u>29,193,450</u>	<u>28,465,025</u>

LONG-TERM LIABILITIES:

Mortgage notes payable.....	24,965,201	21,091,718
Deposits	197,819	216,308
Postretirement benefits.....	<u>241,200</u>	<u>83,873</u>
Total long-term liabilities.....	25,404,220	21,391,899

CURRENT LIABILITIES:

Current maturities of mortgage notes payable.....	767,000	689,000
Line of credit	375,000	0
Accounts payable.....	1,842,168	1,939,767
Postretirement benefit obligation, current portions	33,600	0
Accrued taxes	821,946	710,226
Customers' deposits.....	115,218	101,136
Other current liabilities	<u>333,476</u>	<u>302,228</u>
Total current liabilities.....	<u>4,288,408</u>	<u>3,742,357</u>
Total equities and liabilities	<u>\$ 58,886,078</u>	<u>\$ 53,599,281</u>

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

STATEMENTS OF REVENUE, PATRONAGE CAPITAL AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES	\$ 25,746,309	\$ 23,761,895
OPERATING EXPENSES:		
Cost of purchased power	15,156,786	13,680,757
Operations	2,127,637	1,782,915
Maintenance	2,180,695	2,546,282
Consumer accounts.....	712,845	668,445
Customer service and informational expense	38,433	45,327
Administrative and general.....	1,241,901	1,152,206
Depreciation	1,539,552	1,401,379
Tax expense	1,362,415	1,319,601
Interest — other.....	4,478	4,370
Other deductions	<u>5,913</u>	<u>4,668</u>
Total cost of electric service	<u>24,370,655</u>	<u>22,605,950</u>
Operating margins before fixed charges.....	1,375,654	1,155,945
FIXED CHARGES , interest on long-term debt	<u>1,256,658</u>	<u>1,061,899</u>
Operating margins after fixed charges.....	118,996	94,046
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits.....	1,488,187	1,659,374
Other credits	<u>53,546</u>	<u>40,289</u>
	<u>1,541,733</u>	<u>1,699,663</u>
Net operating margins	1,660,729	1,793,709
NONOPERATING MARGINS:		
Interest income	87,911	120,644
Other income	<u>533</u>	<u>186</u>
	<u>88,444</u>	<u>120,830</u>
Net margins.....	<u><u>1,749,173</u></u>	<u><u>1,914,539</u></u>
PATRONAGE CAPITAL , beginning of year.....	27,298,377	26,857,042
Net margins	1,749,173	1,914,539
Retirement of capital credits.....	(823,713)	(1,602,822)
Reassigned capital credits	<u>0</u>	<u>129,618</u>
PATRONAGE CAPITAL , end of year	<u><u>\$ 28,223,837</u></u>	<u><u>\$ 27,298,377</u></u>
NET MARGINS	\$ 1,749,173	\$ 1,914,539
OTHER COMPREHENSIVE INCOME:		
Postretirement benefit plan adjustment	<u>(185,695)</u>	<u>0</u>
COMPREHENSIVE INCOME	<u><u>\$ 1,563,478</u></u>	<u><u>\$ 1,914,539</u></u>

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	\$ 1,749,173	\$ 1,914,539
Adjustments to reconcile net margins to net cash provided by (used in) operating activities:		
Depreciation	1,539,552	1,401,379
Noncash capital credits received	(1,546,925)	(1,697,902)
(Increase) decrease in assets:		
Accounts receivable, net	(410,594)	(211,893)
FEMA receivable	(356,021)	(235,624)
Other current assets	(59,414)	(180,317)
Increase (decrease) in liabilities		
Accounts payable	(97,599)	395,304
Accrued taxes	111,720	21,410
Customer's deposits	14,082	330
Other current liabilities	31,248	31,486
Deposits.....	(18,489)	(64,040)
Postretirement benefit obligation	5,232	6,152
Total adjustments.....	<u>(668,380)</u>	<u>(533,715)</u>
Net cash provided by operating activities	1,080,793	1,380,824
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(5,255,374)	(5,330,906)
(Increase) decrease in materials and supplies.....	(248,491)	25,030
Investments in associated organizations	(1,028)	(14,478)
Proceeds from redemption of capital credits	616,516	683,139
Return of investment in associated organizations	<u>5,792</u>	<u>593</u>
 Net cash used in investing activities	 (4,882,585)	 (4,636,622)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Membership fees returned	0	(116,590)
Net proceeds from line of credit	375,000	0
Proceeds from mortgage notes payable	4,656,000	3,000,000
Principle payments on mortgage notes payable	(704,517)	(650,797)
Patronage capital credits retired	(823,713)	(1,602,822)
Retired capital credits – gain	(39,725)	173,227
Donated capital (retired) received	<u>28,385</u>	<u>(46,007)</u>
 Net cash provided by financing activities	 <u>3,491,430</u>	 <u>757,011</u>
Net increase (decrease) in cash and cash equivalents	(310,362)	(2,498,787)
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>667,671</u>	 <u>3,166,458</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 357,309</u></u>	<u><u>\$ 667,671</u></u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE A: ORGANIZATION

Holmes-Wayne Electric Cooperative, Inc. (the Cooperative) is a nonprofit corporation operating on a cooperative basis. Its primary purpose is to provide electric power and energy to its membership, which includes individuals as well as commercial and industrial businesses.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Cooperative's accounting policies conform to generally accepted accounting principles following the accounting procedures common to rural electrical Cooperatives and as recommended by the Rural Development Utilities Program (RDUP).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Electric Plant, Equipment and Depreciation

The Cooperative records improvements and additions to the distribution plant at cost using continuing property records. Retirements are removed from the asset and accumulated depreciation accounts at a standard cost, which approximates original cost, which is updated periodically.

The general plant and equipment is recorded at cost based on the unit method. Any retirements or disposals of general plant and equipment are removed at cost from the asset and accumulated depreciation.

Depreciation is provided for by the straight-line method over the estimated useful lives of the property. The provisions are determined by the use of functional composite rates as follows:

Distribution Plant	3.2%
General Plant:	
Structure and improvements	2.0%
Office furniture and equipment	5.4%
Computer equipment	25.0%
Transportation equipment.....	14.0%
Power operating equipment.....	12.0%
Communications equipment.....	7.2%
Other general plant	4.32%

Investments

Investments in associated organizations are recorded at cost, which is the same as par value. The investments have no ready market and are included in the financial statements as long-term assets. These investments would, for the most part, represent equity contributions in other cooperatives and patronage capital received from other cooperatives.

Accounts Receivable and Revenues

Revenue from the sale of electricity is recorded when billed. The Cooperative bills monthly for all consumers. A few commercial consumers have "Demand" meters and are billed based upon meter readings made by Cooperative personnel. All other consumers are billed based upon self-read meter readings. Substantially all of the Cooperative's consumers are located in Holmes and Wayne counties.

Materials and Supplies

Inventory of materials and supplies not allocated to construction in progress is valued at average cost.

Patronage Capital

Net margins arising from operations are allocated to the members in the form of capital credits based on each member's billings during the year. No portion of the current allocation is paid in cash.

Income Taxes

The Cooperative is a Rural Electric Cooperative exempt from federal income taxes under Internal Revenue Code Section 501(c)(12). Accordingly, no provision for federal income taxes has been made. An informational tax return, Form 990, is prepared and filed each year with the Internal Revenue Service.

Statement of Cash Flows

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Net cash flows from operating activities includes cash payments for interest of \$1,261,136 and \$1,066,269 for the years ended Dec. 31, 2007 and 2006, respectively. There were no payments for federal income taxes for 2007 or 2006.

During 2007, SFAS 158 "Accounting for Defined Benefit Pension and Other Postretirement Plans" became effective for the Cooperative. As such, \$185,695 was recorded as an increase to the postretirement benefit obligation and a decrease to equity through other comprehensive income. This was a noncash transaction and, therefore, was omitted from the statement of cash flows for 2007.

Reclassification of Financial Statement Presentation

Certain items in the 2006 financial statements have been reclassified to conform to the 2007 financial statement presentation. These reclassifications had no impact on total assets, liabilities, or net margin.

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	2007	2006
Intangible plant	\$ 739	\$ 739
Distribution plant	45,194,278	41,239,186
General plant	<u>5,813,929</u>	<u>5,338,172</u>
Electric plant in service	51,008,946	46,578,097
Construction work in progress	<u>1,463,343</u>	<u>1,981,131</u>
Total Utility Plant at Cost	<u>\$ 52,472,289</u>	<u>\$ 48,559,228</u>

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in Associated Organizations consisted of the following on Dec. 31:

	2007	2006
Equity Capital:		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 633,788	\$ 633,788
Equity contribution with Buckeye Power, Inc.	1,209,981	1,209,981
NRUCFC membership	1,000	1,000
Cooperative Response Center membership	12,500	12,500
Rural Electric Supply Cooperative, Inc. — membership 50		50
Heartland Emergency Equipment, Ltd.	109,363	115,155
CoBank common stock	1,000	0
Other	<u>1,737</u>	<u>1,709</u>
Total investments in associated organizations	\$ 1,969,419	\$ 1,974,183
Patronage Capital from Association Organizations:		
Rural Electric Supply Cooperative, Inc.	277,035	253,190
Buckeye Power, Inc.	12,345,405	11,448,334
NRUCFC	73,106	75,529
National Information Solutions Cooperative	43,587	43,259
Federated Rural Electric Insurance Exchange	78,110	70,398
Cooperative Response Center	<u>3,876</u>	<u>0</u>
Total patronage capital from associated organization	12,821,119	11,890,710
Total other assets and investments	<u>\$ 14,790,538</u>	<u>\$ 13,864,893</u>

NOTE E: PATRONAGE CAPITAL

At Dec. 31, 2007 and 2006, patronage capital consisted of:

	2007	2006
Assignable	\$ 1,749,173	\$ 1,914,539
Unclaimed general retirement reassigned	0	129,618
Assigned	<u>38,897,861</u>	<u>36,853,704</u>
	40,647,034	38,897,861
Retired	<u>(12,423,197)</u>	<u>(11,599,484)</u>
Total patronage capital	<u>\$ 28,223,837</u>	<u>\$ 27,298,377</u>

The Cooperative's equity represents 49.5% and 53.1% of the total assets at December 31, 2007 and 2006, respectively. Capital credit retirements in the amount of \$823,713 and \$1,602,822 were paid in 2007 and 2006, respectively

The Cooperative received donated capital from members of \$28,385 in 2007 and reallocated donated capital of \$46,007 in 2006, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2007 and 2006 includes \$14,659,885 and \$13,108,238, respectively, reinvested in Buckeye Power, Inc. which has been restricted by action of the Board of Trustees and members of the Cooperative. This patronage capital reinvested in Buckeye Power, Inc. has been separately identified on the books of the Cooperative and will not be available for retirement by the Cooperative until retired in cash by Buckeye Power, Inc.

NOTE F: OTHER EQUITIES

At Dec. 31, 2007 and 2006, other equities consisted of:

	2007	2006
Donated capital	\$ 489,475	\$ 461,089
Retired capital credits – gain	<u>665,833</u>	<u>705,559</u>
Total other equities	<u>\$ 1,155,308</u>	<u>\$ 1,166,648</u>

NOTES TO FINANCIAL STATEMENTS-continued

December 31, 2007 and 2006

NOTE G: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multiemployer defined benefit pension plan qualified under section 410 and tax exempt under section 501(a) of the Internal Revenue Code. The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member Cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2007 and 2006 was \$290,730 and \$225,631, respectively.

All employees not covered by a bargaining agreement of Holmes-Wayne Electric Cooperative, Inc. are eligible to participate in the selected pension plan and trust defined contribution benefit plan administered by NRECA. The Cooperative contributes 1 percent of all eligible participants' wages and matches up to an additional 4 percent of a participant's voluntary contributions. The Cooperative expensed \$71,545 and \$59,944 for the years ended December 31, 2007 and 2006, respectively.

NOTE H: LONG-TERM DEBT

Long-term debt is comprised substantially by mortgage notes payable to the United States of America, supplemental mortgages to NRUFC and a term loan with CoBank. Following is a summary of outstanding long-term debt as of Dec. 31, 2007 and 2006:

	2007	2006
RUS notes:		
5% Note due Dec 31, 2009	\$ 43,715	\$ 66,960
5% Note due Dec. 31, 2009	43,715	66,960
5% Note due March 31, 2012	94,159	114,928
5% Note due March 31, 2012	94,159	114,928
5% Note due March 31, 2015	329,675	368,105
5% Note due March 31, 2015	330,912	369,282
5% Note due July 31, 2018	318,915	341,642
5% Note due July 31, 2018	333,678	357,295
5% Note due March 31, 2026	613,420	633,877
5% Note due March 31, 2026	630,019	650,933
4.625% Note due July 31, 2029	401,163	411,884
5% Note due July 31, 2029	398,620	408,814
5.280% Note due May 2, 2040	1,985,215	2,000,000
4.780% Note due May 2, 2040	991,730	1,000,000
4.960% Note due May 2, 2040	1,642,849	0
4.940% Note due May 2, 2040	1,985,931	0
Advanced payments unapplied	(13,348)	(12,703)
FFB notes:		
4.503% Note due Dec. 31, 2031	907,158	924,129
5.611% Note due March 31, 2008	1,732,451	1,766,404
4.950% Note due Dec. 31, 2008	891,784	910,994
6.288% Note due Dec. 31, 2009	456,138	464,242
6.345% Note due March 31 2010	913,076	929,165
5.261% Note due March 31, 2011	896,842	915,322
4.880% Note due June 30, 2012	923,358	939,765
3.974% Note due March 31, 2013	906,124	924,726
3.937% Note due June 30, 2013	917,289	936,231
4.550% Note due Jan. 2, 2035	953,536	971,401
4.353% Note due Dec. 31, 2034	962,317	980,923
4.543% Note due Dec. 31, 2034	2,315,308	2,358,735
Mortgage notes subtotal	\$22,999,908	\$19,914,942
CFC notes:		
5.500% Note due Nov. 29, 2009	47,970	73,390
5.750% Note due Feb. 10, 2012	102,401	124,551
6.700% Note due Jan. 26, 2015	340,240	377,175
6.700% Note due July 28, 2018	332,097	353,253
6.250% Note due March 14, 2026	521,669	536,945
6.300% Note due July 28, 2029	352,916	360,462
6.050% Note due Sept. 30, 2009 to CoBank	1,000,000	0
Sewer tap payable (no interest) due 2014	35,000	40,000
Total mortgage notes	25,732,201	21,780,718
Less: current portion of mortgage notes	767,000	689,000
Total long-term mortgage notes payable	<u>\$ 24,965,201</u>	<u>\$ 21,091,718</u>

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUFC at December 31, 2007. The interest rate on the line of credit was 6.40 percent at December 31, 2007, and the Cooperative had an outstanding balance on the line of \$375,000 at that time. The Cooperative did not have any balance due on the line of credit at December 31, 2006. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

It is expected that the FFB notes with maturity dates in 2008 will be refinanced to a longer term at a lower fixed rate. As such, the current portion of mortgage notes has been calculated based on the estimated extended terms. As of March 15, 2008, the refinancing terms had not been finalized.

In January 2008, the Cooperative drew down on the remaining available RUS advance in the amount of \$244,000. The note carries a fixed interest rate of 4.34 percent. The final payment is due in May 2040.

The Cooperative has an additional \$4,000,000 in loan funds available to them through CoBank at December 31, 2007. The agreement calls for the Cooperative to make draw downs on these loan funds in a series of \$1,000,000 tranches. The fixed interest rates on these tranches expire as follows: 6.10 percent on tranche 2 expires June 30, 2008; 6.10 percent on tranche 3 expires on September 30, 2008; 6.15 percent on tranche 4 expires December 31, 2008; and 6.15 percent on tranche 5 expires on March 31, 2009. The Cooperative drew down the first \$1,000,000 on tranche 1 in 2007. Interest only

payments are to be made on a quarterly basis, with the entire principal amount drawn due on September 30, 2009.

As of December 31, 2007, annual maturities of long-term debt for the next five years are as follows:

2008	\$ 726,000
2009	1,784,000
2010	763,000
2011	803,000
2012	774,000
Thereafter	20,841,201
	<u>\$ 25,732,201</u>

NOTE I: DEPOSITS

Deposits are summarized as follows:

	2007	2006
Consumer energy prepayments	\$ 15,119	\$ 17,683
Deposits	182,700	198,625
Total deposits	<u>\$ 197,819</u>	<u>\$ 216,308</u>

NOTE J: COMMITMENTS AND RELATED PARTY TRANSACTIONS

The Cooperative purchases all of its power from Buckeye Power, Inc., a non-profit corporation operating on a cooperative basis whose membership includes Holmes-Wayne Electric Cooperative, Inc. Rates for service members of Buckeye Power, Inc. are in accordance with the provisions of the Wholesale Power Agreement. The Cooperative had accounts payable due to Buckeye Power, Inc. of \$1,412,295 and \$1,234,893 at December 31, 2007 and 2006, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$2,746,377 and \$1,622,217 for the years ended December 31, 2007 and 2006, respectively.

The Cooperative has an agreement with National Information Solutions Cooperative (NISC), St. Louis, Missouri to participate in data processing services offered by NISC. This contract will continue until terminated by written notice given by either party. The total expense under this agreement was \$99,133 and \$99,853 for the years ended December 31, 2007 and 2006, respectively.

The Cooperative borrows funds from National Rural Utilities Cooperative Finance Corporation of which it is a member and owner (see also Note H).

The Cooperative has an investment in Heartland Emergency Equipment, Ltd., a limited liability company (LLC). The LLC's members consist of 12 rural electric cooperatives. The purpose of the LLC is for the cooperatives to pool resources for the provision and use of emergency substation equipment.

The Cooperative has an investment in Cooperative Response Center Cooperative (CRC). CRC provides after-hours emergency telephone services for the Cooperative. Total fees for services were \$42,199 and \$48,534 for the years ended December 31, 2007 and 2006, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$102,504 and \$102,493 for the years ended December 31, 2007 and 2006, respectively.

NOTE K: EMPLOYEE POSTRETIREMENT BENEFITS

The Cooperative sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from the Cooperative. Such a plan requires the recording of the net periodic postretirement benefit cost as employees render services necessary to earn such benefits, and requires the accrual of the postretirement benefit obligation.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158 related to phase one of its pension and postretirement benefit accounting project. The new standard requires recognition of a liability for unfunded postretirement plans, thereby eliminating the SFAS No. 106 deferral and amortization of net actuarial gains and losses on the balance sheet. The adoption for the year ended December 31, 2007 resulted in an additional liability of \$185,695 being recorded and reported as Other Comprehensive Income.

The following table sets forth the plan's funded status and the accrued postretirement benefit liability at December 31, 2007 and 2006, respectively:

	2007	2006
Accumulated postretirement benefit obligation immediately prior to adoption	\$ 89,105	
Fair value of plan assets	0	
Unfunded status	89,105	
Postretirement benefit plan adjustment	\$ 185,695	
Accrued postretirement benefit obligation recognized in the accompanying balance sheets	<u>\$ 274,800</u>	<u>\$ 83,873</u>
Net periodic postretirement benefit cost for the year	<u>\$ 38,067</u>	<u>\$ 39,046</u>
Benefits paid	<u>\$ 30,768</u>	<u>\$ 42,261</u>

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

2008	\$ 33,600
2009	25,000
2010	22,600
2011	24,300
2012	26,100
2013-2017	\$ 84,900

RUS is not requiring the Cooperative to fund the plan. The Cooperative is paying benefits to retirees on a "pay-as-you-go" basis. Therefore, there are no assets available for benefits.

For measurement purposes, a 8.0 percent and 8.5 percent annual rate of increase in the per capital cost of covered health care benefits was assumed for 2007 and 2006; the rate was assumed to decrease gradually to 5.5 percent at 2017. The health care cost trend rate assumption has a significant effect on the amounts reported. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.75 percent.