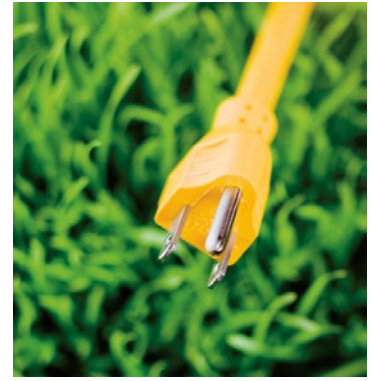




# Holmes-Wayne Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 



## 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 30, 2011 at West Holmes High School, 10901 St. Rte. 39, Millersburg, Ohio.**

All Holmes-Wayne Electric Cooperative members, their spouses and children under 18 are welcome to attend the meeting and free dinner. Registration and health fair will begin at 5 p.m., dinner is at 5:45 p.m. and the business meeting is 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.

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

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

### Activities of the Evening

1. 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 2010
7. Operation Round Up Foundation Financial Report for 2010
8. President's Report
9. Guest Speakers
10. Scholarship Winners Presentation
11. Results of Trustee Election and Swearing in of Trustees
12. Unfinished Business
13. New Business
14. Adjournment

### Board of Trustees

Ronnie Schlegel, Chairman • Donald Buren, Vice Chairman • Larry Martin, Secretary/Treasurer  
David Mann • Randy Sprang • Kenneth Conrad • Kenneth Bower • Bill Grassbaugh • Barry Jolliff



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# Holmes-Wayne Electric Cooperative, Inc.

A Touchstone Energy® Cooperative



## 2011 TRUSTEE ELECTIONS

HWEC Code of Regulations requires a nominating committee consisting of one member from each of the nine districts to select a list of 10 potential candidates for each district election. Also required is a minimum of one and maximum of three candidates for the election process. Candidate information below is presented as provided by each candidate.



### DISTRICT 4



**Kenneth Conrad**  
*Incumbent*

**Home Address:** 6383 CR 19 • Millersburg, Ohio 44654

**Family:** Wife - Mary, married 53 years • 3 Daughters • 5 Grandchildren, 4 Girls, 1 Boy  
2 Great Grandchildren, 1 Boy, 1 Girl

**Coop Membership:** 46 years

**Education:** Graduated from Clark School

**Employment:** Self employed - Trucking livestock 42 years. Farming - life.

**Leadership and Community:** Member, Clark Community Church, Elder - Trustee • Mechanic  
Township Trustee • Holmes County Fair Board

**Additional Information:** Have also completed board leadership courses.



**William H. Muse**

**Home Address:** 1817 SR 83 Unit # 455 • Millersburg, Ohio 44654

**Family:** Married to Jayne A. Muse

**Coop Membership:** 10 years

**Education:** Masters Degree in Education

**Employment:** Retired from West Holmes Local Schools, where I taught for 30 years. I am presently employed at Killbuck Savings Bank Co. as a courier.

**Leadership and Community:** I presently serve as Secretary for Holmes County Masonic Organizations.

**Additional Information:** I believe that I have been given a possible opportunity to serve our community and to learn, firsthand, about the workings of our cooperative.

**Home Address:** 6570 TR 129 • Millersburg, OH 44654 • **Family:** I have one married son.

**Coop Membership:** 28 years • **Education:** I received a degree in Education K-8 from the National College of Education in Evanston, 111 and a Master's degree with a Middle School endorsement in Education from the University of Michigan, Ann Arbor, MI.

**Employment:** I'm a retired teacher from Livonia, MI who taught for 20 years at the elementary and middle school levels. I also worked at the Curriculum Department for Science Education. I was involved in hands-on-science and did several workshops of teacher training introducing the new science curriculum in the Livonia School District. Currently, I've been a substitute teacher in the East Holmes School District for the past 9 years covering classes through 8 grade.

**Leadership and Community:** During my teaching career I served as Science Department Chair at Riley Middle School in Livonia where I taught 7 and 8 grade science. Since moving to our tree farm in Holmes County in 2000, I've volunteered time to Share-A-Christmas, Save and Serve, and to the Pomerene Hospital participating in their Auxiliary Christmas Tree sale, gift shop, and as a "pink" lady doing errands for the hospital staff. I attend the Berlin Mennonite Church and help at many church functions. I'm a Master Gardener and have spent time at the Ohio Agricultural Research Development Center in Wooster helping with the Plant Day Sale held every May, plus spending time in the greenhouses getting plants ready for the sale.

As the co-owner of a 200+ acre managed forest, I'm involved with the Ohio Forestry Association and am currently on the Board of Trustees, plus I'm an active member of the State Tree Farm committee connected to the American Forest Foundation. I served as secretary of this committee from 2004-2008 and have been an active board member for the past 10 years. In 2003, the Ohio Tree Farm committee hosted the Tree Farm National Convention in Columbus for which I served as co-chair. In February of this year, I was in Denver, CO for three days attending the Leadership Conference put on by the American Forest Foundation to represent Ohio at the conference and bring back the information that could be useful for our state committee. This makes the 3rd time I've been selected to do this for the state organization in the past 10 years.

**Additional Information:** My family has owned property in Holmes County for the past 54 years. The Potts Tree Farm manages the woods as a sustainable forest with the intent of producing high quality timber for the local markets. I'm an avid forest and wildlife conservationist and am currently the Manager of our property. I'm interested in becoming a member of the Wayne-Holmes Electric Cooperative Board of Trustees to advocate for better service delivered to the membership. I feel that my leadership experience throughout my life makes me qualified to serve as your representative to this Board.



**Carolyn Potts**

**Home Address:** 8011 Township Road 323 • Holmesville, OH 44633

**Family:** Wife, Sandy married 39 years

2 Daughters - Merci (Terry) Williams • Grandchildren: Tory - PFC Army, Aaron, and Jaimi.  
Charity (Jason) Thompson • Grandchildren: Anabelle and Jamison Boone

**Coop Membership:** 32 years

**Education:** Graduate of Waynedale High School • Attended Wayne General College  
NRECA Credentialed Cooperative Director Certification • NRECA Board Leadership Director Certification

**Employment:** Agricultural Equipment Salesman - North Central Ag.

**Leadership and Community:** Member Fredericksburg Presbyterian Church, Former Director Federal Land Bank, 4-H Advisor, 4-H County Committee Chairman and currently serving on Holmes County Expo Board.

**Additional Information:** 27 year member of Board of Trustees of Holmes-Wayne Electric Cooperative. Previously served as Secretary/Treasurer and currently serving as Chairman of the Board of Trustees.



**Ronnie R. Schlegel**  
*Incumbent*

### DISTRICT 5

# DISTRICT 5

Picture Not Available

**Jim Figley**

**Home Address:** 8174 Twp. Rd. 323 • Holmesville, Ohio 44633  
**Family:** Spouse, Deb Figley • Daughters, Rachel and Brianna • **Coop Membership:** 15 Years  
**Education:** Bachelor of Science in Education  
**Employment:** Wooster City Schools, (20 years) • 8th grade science teacher  
 Previous employment history: Manager for the former Yund's Car Wash and Gas Stations  
 The former Rubbermaid of Wooster through college  
**Leadership and Community:** I have been very active in conservation education for many years and am a previous recipient of the "Wayne County Soil and Water Conservation Educator of the Year" award.  
**Other Information:** I value the importance of the rural electric cooperatives in bringing affordable energy to rural communities, their work in the conservation of the natural resources, and the employees who make it possible. It would be a privilege to serve the people of Holmes and Wayne Counties as their Trustee.



**Mark S. Lytle**

**Home Address:** 9861 Twp Rd 262 • Millersburg, Ohio 44654  
**Family:** Wife: Janet; Children: Amy, Erin, Alex; Grandchildren: 2  
**Coop Membership:** 3 Years  
**Education:** Waynedale High School, 1972  
**Employment:** Buckeye Oil Producing Co., Inc. • Current position: CEO & Chairman of Board  
**Leadership and Community:** Member of Millersburg Christian Church for 20 years • Positions held: Deacon, Trustee, Building Superintendent • Ohio Oil & Gas Assn. – 30 years • Currently Trustee, position held for 10 years • Have served on Boards of several companies  
**Other Information:** I am a lifelong resident of Holmes and Wayne Counties. Through my employment at Buckeye Oil, I have worked with several other Co-ops in the State of Ohio.

# DISTRICT 6



**Kenneth L. Bower**  
*Incumbent*

**Home Address:** 6211 Heyl Road • Wooster, Ohio 44691  
**Family:** Son Eric is married to Michelle and they are the parents of Aaron and Zack; Daughter Lisa is married to Bryan Renker and they are the parents of Brianna and Abby.  
**Coop Membership:** Have been a member of the cooperative since 1973 and a member of the Board of Trustees since 1983.  
**Education:** A graduate of Triway High School; Have taken various business-related courses through the Wayne County Schools Career Center and completed courses offered by Ohio Township Trustees Association, Ohio Rural Electric Cooperatives Assoc. and the National Rural Electric Cooperatives Assoc.  
**Employment:** Retired from full-time farming in 1992 and now owner of Ken Bower Trucking LLC.  
**Leadership and Community:** A life-long member of Plain Lutheran Church and a member of Wayne County Farm Bureau. Former member of the Wayne County Fair Board and Plain Township Board of Trustees, serving terms as vice president and president of both, as well as president of the Wayne County Trustees and Fiscal Officers Association and Holmes Wayne Electric Cooperative Board of Trustees.



**Seth Andrews**

**Home Address:** 6275 Kister Rd. Wooster, OH 44691  
**Family:** Wife: Kate Andrews, Daughter: Avery due May 3rd 2011 • **Coop Membership:** 2 Years  
**Education:** Graduated from Triway High School in 1999, and Bowling Green State University in 2003 with a Bachelor of Science in Business Administration with a specialization in Marketing, also obtained an Ohio Auctioneers license and Real Estate sales license after completing coursework at the Missouri Auction School and Hondros College.  
**Employment:** Shearer Equipment Sales Consultant 2004-2006. Real Estate Salesperson with Real Estate Showcase 2007-Present. Auctioneer with Andrews Auctioneers LLC/Real Estate Showcase Auction Company 2007-Present.  
**Leadership and Community:** Wayne County Fair Beef Committee President, Springville Cowpokes 4-H club Advisor, Wayne-Holmes Association of Realtors Social Committee Member, National Auctioneers Association Member, Ohio Auctioneers Association Member, National Association of Realtors Member, Ohio Association of Realtors Member, Wayne-Holmes Association of Realtors Member, Wayne County Farm Bureau Member, also donate time to numerous charitable organizations in the form of benefit auctions including: Red Cross, Junior Service Club, College of Wooster W Association, Crippled Children's, Mennonite Relief Sale, American Cancer Society Relay for Life Auction, etc. as well as Wayne and Holmes County Jr. Fair Livestock Auctions.



**Justin Starlin**

**Home Address:** 4149 Congress Road • Wooster, Ohio 44691  
**Family:** Fiancé Danielle Connelly; Father Brad Starlin; Mother Beth Starlin; Sister Jordan Starlin; Brother Shawn Starlin  
**Coop Membership:** Five years as a member of the HWEC  
**Education:** Graduate of Northwestern High School • B.S. in Education from Kent State University in 2004  
 Currently attending Kent State University pursuing a Masters in Public Administration  
**Employment:** Administration office of Wooster City Hall as the Economic and Community Development Administrator  
**Leadership and Community:** Board of Trustees Member - Leadership Wooster Steering Committee  
 Board of Trustees Member - Wooster Growth Corporation • Board of Trustees Member - Viola Startzman Free Clinic  
 Board of Trustees Member - Wayne-Holmes Goodwill (2008-2010) • Board of Trustees Member - Wooster Young Professionals  
 Board of Trustees Member - Northeast Ohio Regional Center • Member - Wooster Rotary Club • Member - Wayne County Young Republicans  
 Member - Wooster Tax Incentive Review Council • Member - International Economic Development Council  
 Wooster United Way Allocations Committee (2008-2009)  
**Other Information:** I am an energetic, young professional that has the ability to bring a new dynamic to the Board of Trustees. Having a comprehensive background of the Wayne and Holmes county area, along with a strong understanding of local, regional and state politics and regulations, will allow me to ensure Holmes Wayne Electric Cooperative members the best possible electric service at the lowest cost possible, by ensuring sound management practices and policy.



# 2010 Annual Meeting Minutes

The Annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 24, 2010.

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 25, 2009 Annual Meeting as presented. Motion carried.

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

- Retirement of Capital Credits of over \$914,000.00 in 2010. This is a reminder of the principles on which the cooperative was built.
- The board spent several Saturdays and board meetings on strategic planning for the growth and future needs of the Cooperative. Balancing the quality of service at an economical price is a constant effort in an ever increasing wholesale power market.
- The board continues to monitor the impact on wholesale power cost due to the price to produce electricity in a very volatile market which is being greatly influenced by the world market impact on fossil fuels, the research and development of green energy, the investment of equipment to meet environmental emission requirements, the increasing price of transmission, the purchase of additional generation facilities to meet consumer demand and the proposed legislative climate change policies.
- I had the opportunity to attend the Legislative Conference in Washington, DC to meet with legislative representatives to express our concerns regarding proposed energy and environmental policies and the devastating impact this would have on our members, along with President/CEO, Glenn Miller, and VP of Engineering and Operations, John Porter.
- We are excited to celebrate 75 years of service for Holmes-Wayne Electric Cooperative, which was started in October 1935.

Chris Roush, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2009, which resulted in a clean, unqualified opinion.

Daniel Mathie, Attorney from Critchfield, Critchfield, and Johnston, LTD and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status

update. Donations of over \$60,786.00 were made in 2009 and over \$38,000.00 was given back to the community to help local people in need where there is no program that matches their need, and also assists various local charitable organizations.

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

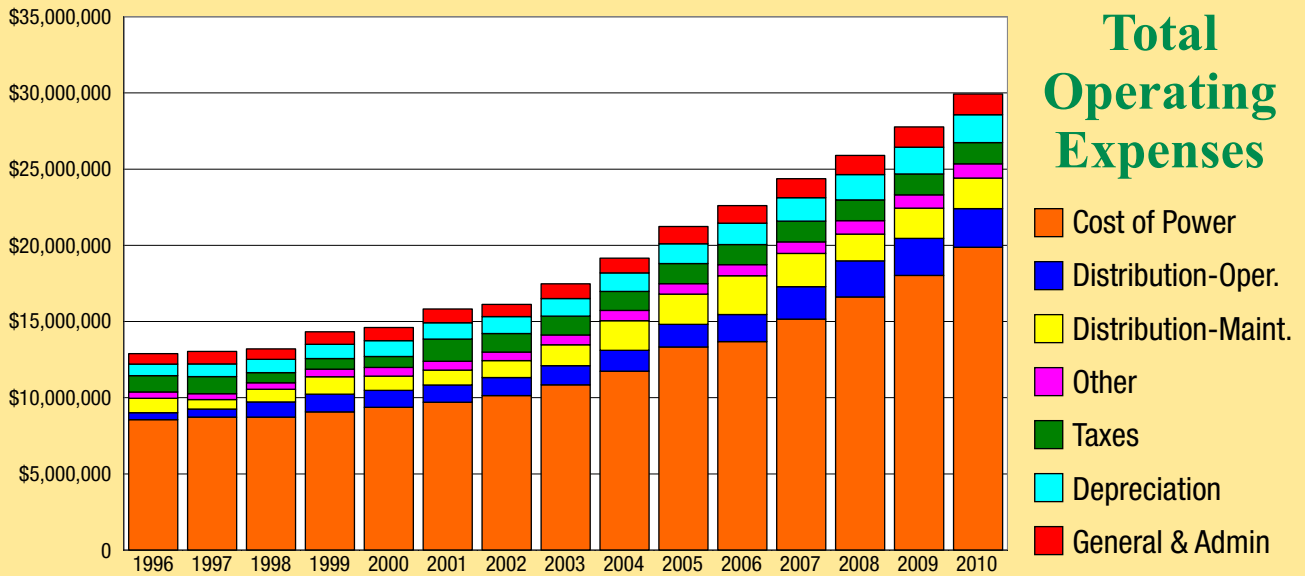
- In continuing efforts to improve reliability, we recently completed a \$16.4 million dollar work plan which focused on building tie lines between substations so we can transfer effected members to other substations in the event of transmission outages. This will not eliminate outages from our transmission supplier but will greatly reduce the length of an outage.
- With tree limbs on power lines being our number one source of power outages, in 2004 we began a strategic tree trimming program. Currently we are in our second, system-wide, four-year cycle of trimming. We have trimmed 2,470 miles of our system and this year will trim another 406 miles in Mohicanville, Clear Creek, West Salem, Golden Corners and North Wayne substation areas.
- In our efforts to continually increase communication and customer service to our members, we now offer an outage management listing that can be viewed on our website.
- Added 186 new services in 2009 for a total of 18,457 at year's end.
- Our staff remains active in promoting energy efficiency and safety by visiting local schools, safety fairs and other groups. Energy Savings days were conducted at Millersburg and West Salem to educate members on energy conservation to help manage their power cost. A consumption history graph was added to our bill and we have introduced the "kill-a-watt" program with monitors that are available to members to educate themselves on usage.
- The Cooperative employees have raised and donated over \$10,000.00 to American Cancer Society Relay for Life. This makes the sixth consecutive year at the \$10,000.00 level.
- The Cooperative has paid \$1.37 million in KWH Tax to the State of Ohio, and \$756,000.00 in property taxes that benefit 12 local school districts and local governments.
- The cooperative remains actively involved in the legislative process. As a member-owner company, we feel it is our responsibility to make you aware of the options you have to keep your power affordable. Last year 852 of you joined of "Our Energy,

## Total Plant Investment

(dollars per consumer)



## Total Operating Expenses



# 2010 Annual Meeting Minutes (cont.)

Our Future” campaign. Tonight you have the opportunity of joining COPA (Co-op Owners Political Action).

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

Guest speaker, Ken Keylor, vice president of statewide services, Buckeye Power and Ohio Rural Electric Cooperative, Inc. addressed the challenges facing the electric utilities across the country that drive wholesale energy costs including the politics of energy policy and current investment cycle. Mr. Keylor noted we will see another couple of years of wholesale price rise, and then things should quiet down again, and yet our wholesale cost is among the very lowest in the state. Mr. Keylor encouraged the members to exercise their political voice on issues facing cooperatives.

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

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

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

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

There was no unfinished business.

There was no new business.

Upon motion made and seconded, the meeting was adjourned.

# Balance Sheets

As of December 31, 2010 and 2009 (see Independent Auditor's Report)

## ASSETS

### UTILITY PLANT:

	<u>2010</u>	<u>2009</u>
Electric plant in service.....	\$ 60,198,255	\$ 58,539,559
Construction work in progress.....	1,326,881	457,399
	61,525,136	58,996,958
Less: provision for accumulated depreciation .....	14,458,854	13,511,222
Net utility plant	47,066,282	45,485,736

### OTHER ASSETS AND INVESTMENTS:

Investments in associated organizations.....	2,208,315	2,193,599
Patronage capital from associated organizations .....	12,014,647	12,299,376
Total other assets and investments .....	14,222,962	14,492,975

### CURRENT ASSETS:

Cash and cash equivalents .....	1,083,655	862,462
Accounts receivable, net of allowance .....	4,136,750	3,550,361
Materials and supplies .....	872,006	808,627
Other current assets.....	160,182	100,254
Total current assets .....	6,252,593	5,321,704
<b>Total assets</b> .....	<b>\$ 67,541,837</b>	<b>\$ 65,300,415</b>

## EQUITIES AND LIABILITIES

### EQUITY:

	<u>2010</u>	<u>2009</u>
Patronage capital.....	\$ 27,641,872	\$ 27,598,450
Other equities.....	1,523,669	1,434,298
Accumulated other comprehensive income.....	(185,695)	(185,695)
Total equity .....	28,979,846	28,847,053

### LONG-TERM LIABILITIES:

Mortgage notes payable.....	32,654,006	31,528,733
Deferred credits.....	70,678	192,544
Postretirement benefit obligation.....	264,410	271,352
Total long-term liabilities .....	32,989,094	31,992,629

### CURRENT LIABILITIES:

Current maturities of mortgage notes payable.....	1,005,000	853,400
Accounts payable.....	1,979,908	1,967,401
Postretirement benefit obligation, current portion .....	24,300	22,600
Accrued taxes.....	999,058	940,318
Customers' deposits .....	177,591	165,286
Other current liabilities .....	1,387,040	511,728
Total current liabilities .....	5,572,897	4,460,733
<b>Total equities and liabilities</b> .....	<b>\$ 67,541,837</b>	<b>\$ 65,300,415</b>

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

# Statements of Revenue and Patronage Capital

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b> .....	\$ 32,053,364	\$ 29,586,571
<b>OPERATING EXPENSES</b>		
Cost of purchased power.....	19,872,659	18,021,023
Operations.....	2,542,327	2,439,061
Maintenance.....	2,000,932	1,977,833
Consumer accounts.....	847,156	798,120
Customer service and informational expense.....	78,876	72,593
Administrative and general.....	1,365,061	1,327,876
Depreciation.....	1,829,344	1,750,486
Tax expense.....	1,389,106	1,368,666
Interest - other.....	8,545	7,880
Other deductions.....	<u>2,866</u>	<u>2,750</u>
Total cost of electric service.....	<u>29,936,872</u>	<u>27,766,288</u>
Operating margins before fixed charges.....	2,116,492	1,820,283
<b>FIXED CHARGES</b> , interest on long-term debt.....	<u>1,512,214</u>	<u>1,563,456</u>
Operating margins after fixed charges.....	604,278	256,827
<b>PATRONAGE CAPITAL CREDITS</b>		
Generation and transmission credits.....	398,629	0
Other credits.....	<u>90,129</u>	<u>99,332</u>
	<u>488,758</u>	<u>99,332</u>
Net operating margins.....	1,093,036	356,159
<b>NON-OPERATING MARGINS</b>		
Interest income.....	71,806	79,674
Other income.....	<u>814</u>	<u>216</u>
	<u>72,620</u>	<u>79,890</u>
Net margins.....	<u>\$ 1,165,656</u>	<u>\$ 436,049</u>
<b>PATRONAGE CAPITAL</b> , beginning of year.....	\$ 27,598,450	\$ 28,350,316
Net margins.....	1,165,656	436,049
Retirement of capital credits.....	<u>(1,122,234)</u>	<u>(1,187,915)</u>
<b>PATRONAGE CAPITAL</b> , end of year.....	<u>\$ 27,641,872</u>	<u>\$ 27,598,450</u>

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

# Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net margins.....	\$ 1,165,656	\$ 436,049
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation.....	1,829,344	1,750,486
Non-cash capital credits received.....	(448,884)	(59,312)
(Increase) decrease in assets:		
Accounts receivable, net.....	(586,389)	(699,058)
FEMA receivable.....	0	467,129
Other current assets.....	(59,927)	(39,023)
Increase (decrease) in liabilities:		
Accounts payable.....	12,507	114,266
Accrued taxes.....	58,741	64,376
Customers' deposits.....	12,304	24,741
Other current liabilities.....	875,312	117,278
Deferred credits.....	(121,866)	(32,059)
Postretirement benefit obligation.....	<u>(5,242)</u>	<u>14,340</u>
Total adjustments.....	<u>1,565,900</u>	<u>1,723,164</u>
Net cash provided by operating activities.....	2,731,556	2,159,213
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and acquisition of utility plant.....	(3,409,888)	(4,507,872)
(Increase) decrease in materials and supplies.....	(63,379)	398,665
Investments in associated organizations.....	(15,062)	(217,557)
Proceeds from redemption of capital credits.....	733,613	802,930
Return of investment in associated organizations.....	<u>346</u>	<u>325</u>
Net cash used in investing activities.....	(2,754,370)	(3,523,509)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit.....	0	(500,000)
Proceeds from mortgage notes payable.....	4,317,756	9,000,000
Principal payments on mortgage notes payable.....	(3,040,886)	(5,815,365)
Patronage capital credits retired.....	(1,122,234)	(1,187,915)
Retired capital credits - loss (gain).....	40,040	(42,271)
Donated capital received.....	<u>49,331</u>	<u>42,021</u>
Net cash provided by financing activities.....	<u>244,007</u>	<u>1,496,470</u>
Net increase in cash and cash equivalents.....	221,193	132,174
<b>CASH AND CASH EQUIVALENTS, beginning of year.....</b>	<u>862,462</u>	<u>730,288</u>
<b>CASH AND CASH EQUIVALENTS, end of year.....</b>	<u>\$ 1,083,655</u>	<u>\$ 862,462</u>

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



# Notes to Financial Statements

December 31, 2010 and 2009

## NOTE A: ORGANIZATION

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

## NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General

The Cooperative's accounting policies conform to generally accepted accounting principles of the United States of America following the accounting procedures common to rural electrical cooperatives and as recommended by the Rural Utilities Service (RUS).

### Estimates

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

### Electric Plant, Equipment and Depreciation

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

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

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

Distribution Plant.....	3.2%
General Plant:	
Structure and improvements.....	2.0%
Office furniture and equipment .....	5.4%
Computer equipment .....	25.0%
Transportation equipment.....	14.0%
Power operating equipment.....	12.0%
Communications equipment.....	7.2%
Other general plant .....	4.3-4.7%

### Investments

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

### Accounts Receivable and Revenues

Revenue from the sale of electricity is recorded monthly based on consumer electricity consumption. The Cooperative bills monthly for all consumers. A few commercial consumers have

"Demand" meters and are billed based upon meter readings made by Cooperative personnel. All other consumers are billed based upon self-read meter readings. Substantially all of the cooperative's consumers are located in Holmes and Wayne counties. The allowance for doubtful accounts at December 31, 2010 and 2009 was \$40,000 in both years. Bad debt expense for 2010 and 2009 was \$43,148 and \$30,923, respectively.

### Materials and Supplies

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

### Patronage Capital

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

### Income Taxes

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

The Cooperative presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits. Interest and penalties would be recorded as operating expenses when they are incurred.

### Statements of Cash Flows

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

Net cash flows from operating activities include cash payments for interest of \$1,509,300 and \$1,561,379 for the years ended December 31, 2010 and 2009, respectively. There were no payments for federal income taxes for 2010 or 2009.

### Fair Value Measurements

The Financial Accounting Standards Board (FASB) has established a hierarchy that prioritizes the valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable market assumptions (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

#### Subsequent Events

Management has evaluated subsequent events through February 8, 2011, the date on which the financial statements were issued.

#### NOTE C: UTILITY PLANT AND DEPRECIATION

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

	<u>2010</u>	<u>2009</u>
Intangible Plant.....	\$ 248,131	\$ 248,131
Distribution Plant.....	53,164,686	51,308,830
General Plant.....	<u>6,785,438</u>	<u>6,982,598</u>
Electric Plant in Service.....	60,198,255	58,539,559
Construction Work in Progress....	<u>1,326,881</u>	<u>457,399</u>
Total Utility Plant at Cost....	<u>\$ 61,525,136</u>	<u>\$ 58,996,958</u>

#### NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

	<u>2010</u>	<u>2009</u>
<b>Investments in Associated Organizations</b>		
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC).....		
NRUCFC member capital securities...	200,000	200,000
Equity contribution with Buckeye Power, Inc. ....		
NRUCFC membership.....	1,000	1,000
Cooperative Response Center membership.....		
Rural Electric Supply Cooperative, Inc. membership.....	12,500	12,500
Heartland Emergency Equipment, Ltd....	50	50
CoBank common stock.....	123,060	121,046
Rural Cooperative Credit Union .....	27,128	14,087
Total investments in associated organizations .....	<u>1,785</u>	<u>1,778</u>
Total investments in associated organizations .....	2,208,315	2,193,599

#### Patronage Capital from Associated Organizations

Rural Electric Supply Cooperative, Inc.....	361,968	339,962
Buckeye Power, Inc. ....	11,427,788	11,742,100
NRUCFC .....	80,399	75,386
National Information Solutions Cooperative.....	45,773	44,732
Federated Rural Electric InsuranceExchange .....	91,687	90,164
Cooperative Response Center.....	<u>7,032</u>	<u>7,032</u>
Total patronage capital from associated organizations .....	<u>12,014,647</u>	<u>12,299,376</u>
Total other assets and investments...	<u>\$ 14,222,962</u>	<u>\$ 14,492,975</u>

#### NOTE E: PATRONAGE CAPITAL

At December 31, 2010 and 2009, patronage capital consisted of:

	<u>2010</u>	<u>2009</u>
Assignable.....	\$ 1,165,656	\$ 436,049
Assigned.....	<u>42,526,570</u>	<u>42,090,521</u>
	43,692,226	42,526,570
Retired.....	<u>(16,050,354)</u>	<u>(14,928,120)</u>
Total patronage capital .....	<u>\$ 27,641,872</u>	<u>\$ 27,598,450</u>

The Cooperative's patronage capital balances represent 40.9 percent and 42.3 percent of the total assets at December 31, 2010 and 2009, respectively. Capital credit retirements in the amount of \$1,222,234 and \$1,187,915 were paid in 2010 and 2009, respectively.

The Cooperative received donated capital from members totaling \$49,332 and \$42,021 during 2010 and 2009, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2010 and 2009 includes \$15,578,250 and \$15,902,498, respectively, reinvested in Buckeye Power, Inc. which has been restricted by action of the Board of Trustees and members of the Cooperative. This patronage capital reinvested in Buckeye Power, Inc. has been separately identified on the books of the Cooperative and will not be available for retirement by the Cooperative until retired in cash by Buckeye Power, Inc.

#### NOTE F: OTHER EQUITIES

At December 31, 2010 and 2009, other equities consisted of:

	<u>2010</u>	<u>2009</u>
Donated capital .....	\$ 753,984	\$ 704,652
Retired capital credits - gain ...	769,685	729,646
Total other equities.....	<u>\$ 1,523,669</u>	<u>\$ 1,434,298</u>

#### NOTE G: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc. participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a multi-employer defined benefit pension plan qualified under Section 410 and tax exempt under Section 501(a) of the Internal Revenue Code.

The Cooperative makes annual contributions to the Program equal to the amounts accrued for pension expense except for the period when a moratorium on contributions is in effect. In this Plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The pension expense for 2010 and 2009 was \$492,829 and \$350,079, respectively.

All employees of Holmes-Wayne Electric Cooperative, Inc. are eligible to participate in the selected pension plan and trust defined contribution benefit plan administered by NRECA. The Cooperative contributes 1 percent of all eligible participants' wages and matches up to an additional 4 percent of a participant's voluntary contributions. The Cooperative expensed \$98,306 and \$88,379 for the years ended December 31, 2010 and 2009, respectively.

#### NOTE H: LONG-TERM DEBT

Long-term debt is comprised substantially of mortgage notes payable to the United States of America (RUS & FFB) and supplemental mortgages to NRUCFC. Following is a summary of outstanding long-term debt as of December 31, 2010 and 2009:

<u>Loan</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>	<u>2010</u>	<u>2009</u>
RUS	5.000%	03/31/2012	\$ 0	\$ 49,399
RUS	5.000%	03/31/2012	0	49,399
RUS	5.000%	03/31/2015	0	246,852
RUS	5.000%	03/31/2015	0	248,219
RUS	5.000%	07/31/2018	0	269,913
RUS	5.000%	07/31/2018	0	282,756
RUS	5.000%	03/31/2026	0	569,315
RUS	5.000%	03/31/2026	0	584,928
RUS	4.625%	07/31/2029	365,864	378,178
RUS	5.000%	07/31/2029	364,800	376,641
RUS	5.280%	05/02/2040	1,909,475	1,936,066
RUS	4.780%	05/02/2040	950,007	964,585
RUS	4.960%	05/02/2040	1,576,143	1,599,490
RUS	4.940%	05/02/2040	1,905,176	1,933,435
RUS	4.340%	05/02/2040	233,136	237,012
RUS advance payments unapplied			(15,494)	(14,743)
FFB	4.503%	12/31/2031	839,847	863,093
FFB	4.120%	12/31/2031	1,599,423	1,645,928
FFB	2.736%	12/31/2031	816,012	844,223
FFB	4.269%	12/31/2031	426,495	438,662
FFB	4.295%	12/31/2031	855,387	878,364
FFB	5.261%	03/31/2011	836,431	857,394
FFB	4.880%	06/30/2012	870,224	888,574
FFB	3.974%	03/31/2013	846,595	867,046
FFB	3.937%	06/30/2013	856,705	877,514
FFB	4.550%	01/02/2035	895,922	915,784
FFB	4.353%	12/31/2034	902,472	923,079
FFB	4.543%	12/31/2034	2,175,270	2,223,544
FFB	3.889%	12/31/2042	5,956,285	6,000,000
FFB	3.849%	12/31/2042	2,977,949	3,000,000
FFB	4.419%	12/31/2042	2,086,423	0
CFC	5.750%	02/10/2012	27,832	54,120
CFC	5.050%	01/26/2015	211,924	258,585
CFC	5.050%	07/28/2018	257,720	285,322
CFC	6.250%	03/14/2026	469,722	488,123
CFC	6.300%	07/28/2029	327,231	336,333
CFC	2.250% - 5.150%	04/29/2019	995,718	0
CFC	2.100% - 4.850%	09/23/2026	1,118,312	0
Sewer tap payable (no interest) due 2014			<u>20,000</u>	<u>25,000</u>
Total mortgage notes			33,659,006	32,382,133
Less: current portion of mortgage notes			<u>1,005,000</u>	<u>853,400</u>
Long-term mortgage notes payable			<u>\$ 32,654,006</u>	<u>\$ 31,528,733</u>

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2010. The interest rate on the line of credit at December 31, 2010 and 2009 was 4.25 percent and 4.25 percent, respectively, with outstanding balances on the line of \$0 and \$500,000, respectively. Substantially all of the assets of the Cooperative are pledged for the mortgage notes payable and the line of credit. Principal and interest installments on the above notes are due either quarterly or monthly.

The Cooperative also entered into a corporate charge card agreement with US Bank and NRUCFC. The terms of the agreement state that CFC will extend the Cooperative credit, if needed, at CFC's current line of credit rate, payable upon demand by CFC.

The annual maturities of long-term debt for the next five years are as follows:

	<u>2010</u>
2011	\$ 1,005,000
2012	990,000
2013	1,015,000
2014	1,070,000
2015	965,000
Thereafter	<u>28,614,006</u>
	<u>\$ 33,659,006</u>

The Cooperative has available \$11,000,000 in loan funds from FFB that has not been advanced to the Cooperative as of December 31, 2010.

#### NOTE I: DEFERRED CREDITS

Deferred credits are summarized as follows:

	<u>2010</u>	<u>2009</u>
Consumer energy prepayments	\$ 7,268	\$ 8,542
Construction deposits	<u>63,410</u>	<u>184,002</u>
	<u>\$ 70,678</u>	<u>\$ 192,544</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 \$1,860,065 and \$1,775,058 at December 31, 2010 and 2009, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,223,924 and \$1,263,181 for the years ended December 31, 2010 and 2009, 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 \$115,145 and \$103,183 for the years ended December 31, 2010 and 2009, respectively.

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

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

The Cooperative has an investment in Cooperative Response Center (CRC). CRC provides after hours emergency telephone services for the Cooperative. Total fees for services were \$42,873 and \$42,599 for the years ended December 31, 2010 and 2009, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange of which it is a member and owner. Total premiums paid were \$113,192 and \$113,788 for the years ended December 31, 2010 and 2009, respectively.

**NOTE K: EMPLOYEE POSTRETIREMENT BENEFITS**

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

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

The following table sets forth the plan’s accrued postretirement benefit obligation (“APBO”) at December 31:

	<u>2010</u>	<u>2009</u>
APBO, beginning of year	\$ 293,952	\$ 279,612
Service cost	11,200	11,200
Interest cost	17,008	16,078
Amortization	7,200	7,200
Additional expenses	64,432	48,201
Less: actual cash payment	<u>(105,082)</u>	<u>(68,339)</u>
APBO, end of year	288,710	293,952
Less: current portion	<u>(24,300)</u>	<u>(22,600)</u>
APBO, long-term portion	<u>\$ 264,410</u>	<u>\$ 271,352</u>

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

2011.....	\$ 24,300
2012.....	26,100
2013.....	20,500
2014.....	16,100
2015.....	16,100
2016-2018.....	48,300

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

	<u>Medical</u>	<u>Drugs</u>
2010.....	9.0%	9.0%
2011.....	8.5%	8.5%
2012.....	8.0%	8.0%
2013.....	7.5%	7.5%
2014.....	7.0%	7.0%
2015.....	6.5%	6.5%
2016.....	6.0%	6.0%
2017.....	5.5%	5.5%
2018 and later.....	5.0%	5.0%

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

**NOTE L:**

Certain amounts previously reported in the December 31, 2009 financial statements have been reclassified to conform to the reporting presentation of the financial statements at December 31, 2010.

## Independent Auditor’s Report

February 8, 2011  
 To the Board of Trustees  
 Holmes-Wayne Electric Cooperative, Inc.

We have audited the accompanying balance sheets of Holmes-Wayne Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the related statements of revenue, patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those 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, 2010 and 2009, the Cooperative received \$2,217,756 and \$0 in long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreement.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The graphs included on pages 23 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2011, 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.

*Lea & Associates, Inc.*