OFFICIAL NOTICE OF ANNUAL MEETING

Holmes-Wayne Electric Cooperative, Inc.

Celebrating 75 years of Service
1935-2010
Your Member Owned Cooperative

Attention members: The Annual Meeting of Members of Holmes-Wayne Electric Cooperative, Inc. will be held Thursday June 24, 2010 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 pm 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.

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 2009
7. Operation Round Up Foundation Financial Report for 2009
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

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.

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

6060 St. Rte. 83; P.O. Box 112
Millersburg, OH 44654-0112
Business hours 7:30 a.m.–4 p.m.
www.hwecoop.com

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

A Touchstone Energy® Cooperative
The power of human connections®

2010 Holmes-Wayne El

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. In both districts 2 and 9, all 10 potential candidates were contacted.

Holmes-Wayne Electric Cooperative, Inc.
A Touchstone Energy® Cooperative

District 2

William Grassbaugh and his wife, Carol, reside at 13951 T.R. 20, Glenmont and has been a cooperative member since 1970. William has represented HWEC's District 2 as trustee for six years. As trustee, he has attended the required classes to obtain his Credentialed Cooperative Director Certificate (CCD) and is currently attending courses toward his Board Leadership Certificate. A dairy farmer for 25 years, William currently has a grain-only operation. He has served as a council member at St. Peter and Paul Church, and keeps the records for the church cemetery.

Rick DeMarco and his wife, Lori, reside at 41380 T.R. 324, Killbuck. He has one grown child and one grandchild. Rick has lived in Holmes County for 44 years. A graduate of West Holmes High School, Rick has worked for Campbell Construction for 20 years. He is a member of Killbuck Valley Christian Church and currently serves as an Elder.

District 9

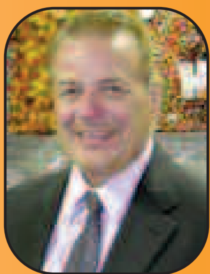
David R. Mann and his wife, Karen, reside at 9743 Munson Rd., Shreve. David is the current representative of HWEC's District 9. As trustee, he obtained his Credentialed Cooperative Director Certificate (CCD) in 2004 and Board Leadership Certificate in 2005. David is a beef and grain farmer who retired from the City of Wooster maintenance department after 25 years of service. He served in the Air National Guard, and is a past 4-H advisor, past Jaycees member and served on the Wayne County Extension advisory committee. Currently, Dave is the chairman of the Wayne County Planning Commission. He is a member of Moreland United Methodist Church, the National Cattleman's Beef Assn., Ohio Cattleman's Assn., and is Moreland Cemetery Assn. chairman. He also serves as Franklin Township trustee and board chairman for South Central Fire District.

District 8

Barry Jolliff and his wife, Amy, live at 760 E. Hutton Road, Wooster. Barry is the current trustee representing HWEC's District 8. He is a graduate of Northwestern High School and The Ohio State University. Barry has lived in Wayne County nearly all of his life. He worked for The Ohio State University for many years as a 4-H and youth development educator. He is currently teaching education classes at ATI/OSU. He also taught school in the Medina City Schools system. He also runs his own business, TEAMPLAY, LLC, where he leads team-building and leadership seminars. In his spare time, Barry enjoys leading square dances and teaches other forms of dancing. Actively involved as a 4-H leader for more than 30 years, Barry is also a member of the Church of the Cross, United Methodist, where he is a youth group leader and plays the piano. Barry is also a board director for the Buckeye Leadership Workshop.

Larry Ouwerkerk and his wife, Sharon, live at 6970 Canaan Center Road, Wooster. Larry received his degree in astronautics from the University of Michigan. Initially his career began at Superior Engineering Company and McDonnell-Douglas Corporation working on the Gemini Space program and other NASA rocket projects. Moving to Wayne County 36 years ago, Larry worked at Rexroth in engineering and purchasing department as well as served on national and international negotiating teams. Larry retired from Rexroth Corporation as the purchasing manager. Since retiring in 2003, Larry is an consultant in both the engineering and purchasing fields. Actively involved in his church, Larry is currently the treasurer, adult bible study teacher and the annual conference delegate for the last 11 years.

Titus W. Yoder and his wife, Carla, live at 5840 Clearcreek Valley Road, Wooster. Born in Stark County, Titus graduated from the Respiratory Therapy Program at Shenandoah College, Virginia. Relocating to Wooster in 1975, Titus was director of the Cardio-Pulmonary Department at Wooster Community Hospital. He established Wayne Health Services in 1986 and is currently the owner and operator with 22 employees. Titus is a member of the Ohio Assn. of Medical Equipment Suppliers, American Assn. of Respiratory Care, American Homecare Assn. and the National Assn. of Independent Medical Equipment Suppliers. He serves on St. Mary's church finance committee, is a board member of Wayne County Crippled Children and Adults, Inc., and assists with other fundraising activities in the Wooster and Wayne County community.



2009 Annual Meeting Minutes

The 72nd Annual meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 25, 2009.

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 26, 2008, Annual Meeting as presented. Motion carried.

Daniel Mathie, attorney from Critchfield, Critchfield and Johnston, LTD and president of Holmes-Wayne Electric Foundation, gave an Operation Round Up status update. In April 2009, the Foundation reached its goal of $100,000 invested for emergencies. Donations of more than $61,000 were made in 2008 and more than $38,000 was given back to the community. Operation Round Up provides help to local people in need where there is no program that matches their need, and also assists various local charitable organizations.

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 2009 of more than $962,000. 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.

Environmental updates at Buckeye Power almost eliminate nitrogen oxide, sulfur dioxide and mercury. These updates of more than $800,000,000 are more than the original cost to build the coal plant. Currently 15 percent of your Holmes-Wayne electric bill represents the cost of compliance with environmental regulations. That number will increase to 20 percent next year which does not include the potential added cost of proposed cap and trade legislation.

Two trustees, Don Buren and David Mann, and President/CEO Glenn Miller, attended this year's Legislative Conference in Washington, D.C., to meet with legislative representatives on the proposal of cap and trade legislation and its effect on coal-generated electricity.

Real time data from green energy research programs are available on the Holmes-Wayne's Web site.

The cooperative employees will be handing out energy-efficient CFL bulbs as you leave. Replacing three incandescent light bulbs with CFLs will save more than $200 in the lifetime of the three bulbs.

David Spar, CPA, from Rea & Associates, Inc., gave the Auditor's Report for 2008, which resulted in a clean, unqualified opinion.

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

In continuing efforts to improve reliability, our current $16.4 million dollar work plan focuses on building tie lines between substations so we can transfer affected members to other substations in the event of transmission outages. The work was originally projected to take four years to complete, but was completed in just over two years.

In the past three years we have rebuilt more than 215 miles of line within our distribution system.

We are in the process of installing a SCADA system at our substations to ensure the longevity of our substation equipment by using real-time data monitoring to proactively prevent equipment failure, which is another outage avoidance measure.

In the past three years we have invested more than $12 million in our system's infrastructure.

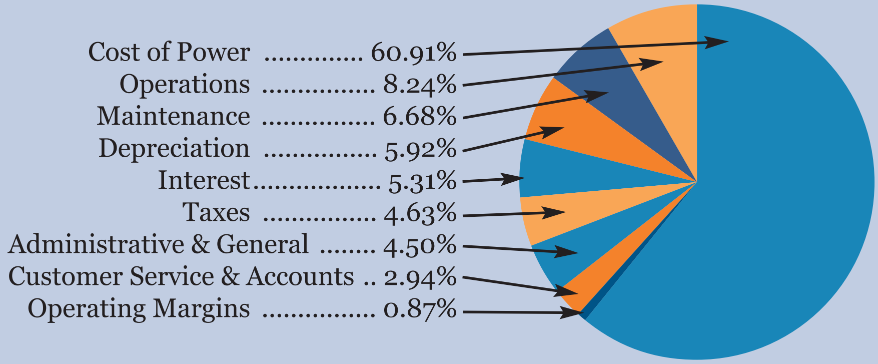
With tree limbs on power lines being our number one source of power outages, we have trimmed approximately 2,086 miles of our system since the beginning of our strategic tree trimming program in 2004.

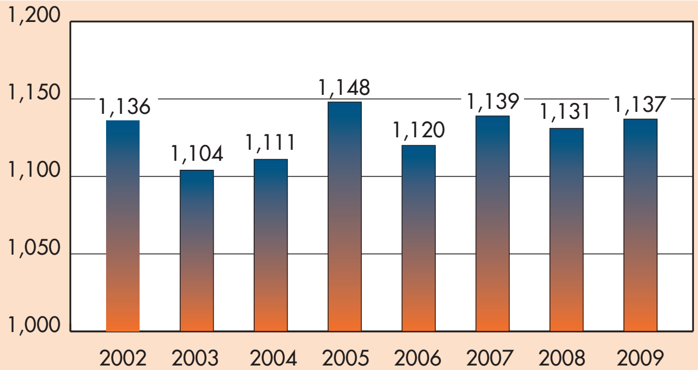
Safety at the cooperative is a priority and we are currently completing a rigorous three-year safety accreditation program through our national association.

The cooperative's employees have raised and donated $10,000 to the American Cancer Society Relay for Life for a total of $55,500 in the last six years.

The cooperative has paid $1.37 million in KWH Tax to the State of Ohio, and $703,000 in

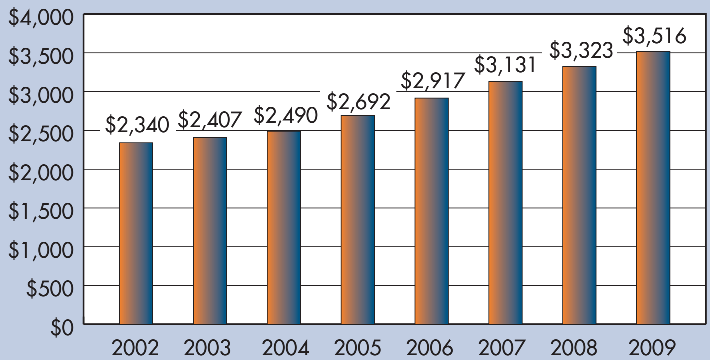
2009 How Your Electric Bill Dollar Was Spent





Average Monthly Use (kWh—Farm & Residential Use)

Total Plan Investment (Dollars per Consumer)



2009 Annual Meeting Minutes

property taxes that benefit 12 local school districts and local governments.

Guest speaker, Bob Daniel, vice president of finance for Ohio Rural Electric Cooperatives, Inc., reported on how cooperatives are responding to the current economy by continuing to monitor costs and to seek new operating efficiencies. Even though costs are continuing to rise due to the onslaught of environmental regulations and fuel volatility, Buckeye Power is still expected to be one of the lowest-cost wholesale electricity suppliers in the state. He encouraged the membership to stay informed about issues affecting the electric cooperative by reading *Country Living* magazine, tuning in to their local cooperative and its initiatives, and supporting the nationwide political campaign "Our Energy, Our Future" by signing up today.

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 1 — Randy Sprang, District 3 — Larry D. Martin, District 7 — Donald Buren.

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, 2009 and 2008 (see Independent Auditor's Report)

ASSETS	2009	2008
UTILITY PLANT:		
Electric plant in service	$ 58,539,559	$ 54,763,154
Construction work in progress	497,712	879,822
	59,037,271	55,642,976
Less: Provision for accumulated depreciation	13,551,535	12,997,738
Net utility plant	45,485,736	42,645,238
OTHER ASSETS AND INVESTMENTS:		
Investments in associated organizations	2,193,599	1,976,367
Patronage capital from associated organizations	12,299,376	13,042,994
Total other assets and investments	14,492,975	15,019,361
CURRENT ASSETS:		
Cash and cash equivalents	862,262	730,088
Cash — construction funds	200	200
Accounts receivable, net of allowance	3,550,361	2,851,303
FEMA receivable	0	467,129
Materials and supplies	808,627	1,207,292
Other current assets	100,254	61,231
Total current assets	5,321,704	5,317,243
Total assets	$65,300,415	$ 62,981,842

EQUITIES AND LIABILITIES	2009	2008
EQUITY:		
Patronage capital	$ 27,598,450	28,350,316
Other equities	1,434,298	1,350,006
Accumulated other comprehensive income	(185,695)	(185,695)
Total equity	28,847,053	29,514,627
LONG-TERM LIABILITIES:		
Mortgage notes payable	31,528,733	28,390,928
Deferred Credits	192,544	224,603
Postretirement benefit obligation	271,352	254,612
Total long-term liabilities	31,992,629	28,870,143
CURRENT LIABILITIES:		
Current maturities of mortgage notes payable	853,400	808,000
Line of credit	0	500,000
Accounts payable	1,967,401	1,853,135
Postretirement benefit obligation, current portion	22,600	25,000
Accrued taxes	940,318	875,942
Customers' deposits	186,353	161,612
Other current liabilities	490,661	373,383
Total current liabilities	4,460,733	4,597,072
Total equities and liabilities	$ 65,300,415	$ 62,981,842

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

STATEMENTS OF REVENUE AND PATRONAGE CAPITAL

For the years ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUES	$29,586,571	$ 27,833,927
OPERATING EXPENSES:		
Cost of purchased power	18,021,023	16,609,463
Operations	2,439,061	2,369,788
Maintenance	1,977,833	1,760,241
Consumer accounts	798,120	798,790
Customer service and informational expense	72,593	64,732
Administrative and general	1,327,876	1,253,057
Depreciation	1,750,486	1,664,508
Tax expense	1,368,666	1,366,017
Interest — other	7,880	6,428
Other deductions	2,750	6,800
Total cost of electric service	27,766,288	25,899,824
Operating margins before fixed charges	1,820,283	1,934,103
FIXED CHARGES, interest on long-term debt	1,563,456	1,420,520
Operating margins after fixed charges	256,827	513,583
PATRONAGE CAPITAL CREDITS:		
Generation and transmission credits	0	790,056
Other credits	99,332	80,577
	99,332	870,633
Net operating margins	356,159	1,384,216
NONOPERATING MARGINS:		
Interest income	79,674	59,100
Other income	216	171
	79,890	59,271
Net margins	$ 436,049	$ 1,443,487
PATRONAGE CAPITAL, beginning of year	$ 28,350,316	$ 28,223,837
Net margins	436,049	1,443,487
Retirement of capital credits	(1,187,915)	(1,317,008)
` **PATRONAGE CAPITAL**, end of year	$ 27,598,450	$ 28,350,316

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margins	$ 436,049	$ 1,443,487
Adjustments to reconcile net margins to net cash provided by (used in) operating activities:		
Depreciation	1,750,486	1,664,508
Non-cash capital credits received	(59,312)	(860,723)
(Increase) decrease in assets:		
Accounts receivable, net	(699,058)	(109,915)
FEMA receivable	467,129	184,366
Other current assets	(39,023)	167,384
Increase (decrease) in liabilities:		
Accounts payable	114,266	10,967
Accrued taxes	64,376	53,996
Customers' deposits	24,741	46,394
Other current liabilities	117,278	39,907
Deferred Credits	(32,059)	26,784
Postretirement benefit obligation	14,340	4,812
Total adjustments	1,723,164	1,228,480
Net cash provided by operating activities	2,159,213	2,671,967
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction and acquisition of utility plant	(4,507,872)	(5,371,895)
Decrease in materials and supplies	398,665	14,472
Investments in associated organizations	(217,557)	(8,568)
Proceeds from redemption of capital credits	802,930	638,848
Return of investment in associated organizations	325	1,621
Net cash used in investing activities	(3,523,509)	(4,725,522)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (borrowing on) line of credit	(500,000)	125,000
Proceeds from mortgage notes payable	9,000,000	4,244,000
Principle payments on mortgage notes payable	(5,815,365)	(777,272)
Patronage capital credits retired	(1,187,915)	(1,317,008)
Retired capital credits – gain	(42,271)	(21,542)
Donated capital received	42,021	173,156
Net cash provided by financing activities	1,496,470	2,426,334
Net increase in cash and cash equivalents	132,174	372,779
CASH AND CASH EQUIVALENTS, beginning of year	730,088	357,309
CASH AND CASH EQUIVALENTS, end of year	$ 862,262	$ 730,088

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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	4.3-4.7%

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, 2009 and 2008 was $40,000 in both years. Bad debt expense for 2009 and 2008 was $30,923 and $29,820, 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..

Statement 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 $1,615,221 and $1,330,067 for the years ended December 31, 2009 and 2008, respectively. There were no payments for federal income taxes for 2009 or 2008.

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 5, 2010, the date on which the financial statements were issued.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008 -continued

NOTE C: UTILITY PLANT AND DEPRECIATION

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

	2009	2008
Intangible Plant	$ 248,131	$ 248,131
Distribution Plant	51,308,830	48,086,416
General Plant	6,982,598	6,428,607
Electric Plant in Service	58,539,559	54,763,154
Construction Work in Progress	497,712	879,822
Total Utility Plant at Cost	$ 59,037,271	$ 55,642,976

NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following on Dec. 31:

Investments in Associated Organizations:	2009	2008
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	$ 633,157	$ 633,482
NRUCFC member capital securities	200,000	0
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.	121,046	115,276
CoBank common stock	14,087	2,315
Rural Cooperative Credit Union	1,778	1,763
Total investments in associated organizations	$ 2,193,599	$ 1,976,367
Patronage capital from associated organizations:		
Rural Electric Supply Cooperative, Inc.	339,962	307,737
Buckeye Power, Inc.	11,742,100	12,524,929
NRUCFC	75,386	70,578
National Information Solutions Cooperative	44,732	44,766
Federated Rural Electric Insurance Exchange	90,164	87,952
Cooperative Response Center	7,032	7,032
Total patronage capital from associated organizations	12,299,376	13,042,994
Total other assets and investments	$14,492,975	$15,019,361

NOTE E: PATRONAGE CAPITAL

At Dec. 31, 2009 and 2008, patronage capital consisted of:

	2009	2008
Assignable	$ 436,049	$ 1,443,487
Assigned	42,090,521	40,647,034
	42,526,570	42,090,521
Retired	(14,928,120)	(13,740,205)
Total patronage capital	$ 27,598,450	$ 28,350,316

The Cooperative's patronage capital balances represent 42.3 percent and 45.0 percent of the total assets at December 31, 2009 and 2008, respectively. Capital credit retirements in the amount of $1,187,915 and $1,317,008 were paid in 2009 and 2008, respectively.

The Cooperative received donated capital from members totaling $42,021 and $173,156 during 2009 and 2008, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2009 and 2008 includes $15,902,498 and $15,622,538, 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, 2009 and 2008, other equities consisted of:

	2009	2008
Donated capital	$ 704,652	$ 662,630
Retired capital credits – gain	729,646	687,376
Total other equities	$1,434,298	$1,350,006

NOTE G: BENEFIT PLANS

All employees of Holmes-Wayne Electric Cooperative, Inc., participate in the National Rural Electric Cooperative Association (NRECA) Retirement and 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 2009 and 2008 was $350,079 and $281,033, 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 $88,379 and $75,811 for the years ended December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2007 —continued

NOTE H: LONG-TERM DEBT

Long-term debt is composed substantially of mortgage notes payable to the United States of America (RUS and FFB) and supplemental mortgages to NRUCFC. Following is a summary of outstanding long-term debt as of December 31, 2009 and 2008:

	2009	2008
RUS notes:		
5% Note due Dec 31, 2009	$ 0	$ 19,289
5% Note due Dec. 31, 2009	0	19,289
5% Note due March 31, 2012	49,399	72,336
5% Note due March 31, 2012	49,399	72,336
5% Note due March 31, 2015	246,852	289,294
5% Note due March 31, 2015	248,219	290,594
5% Note due July 31, 2018	269,913	295,027
5% Note due July 31, 2018	282,756	308,854
5% Note due March 31, 2026	569,315	591,920
5% Note due March 31, 2026	584,928	608,038
4.625% Note due July 31, 2029	378,178	389,937
5% Note due July 31, 2029	376,641	387,905
5.280% Note due May 2, 2040	1,936,066	1,961,292
4.780% Note due May 2, 2040	964,585	978,483
4.960% Note due May 2, 2040	1,599,490	1,621,709
4.940% Note due May 2, 2040	1,933,435	1,960,334
4.340% Note due May 2, 2040	237,012	240,723
Advanced payments unapplied	(14,743)	(14,028)
Mortgage notes subtotal	$ 9,711,445	$ 10,093,332
FFB notes:		
4.503% Note due Dec. 31, 2031	863,093	885,620
4.120% Note due Dec. 31, 2031	1,645,928	1,691,090
2.736% Note due Dec. 31, 2031	844,223	871,855
4.269% Note due Dec. 31, 2031	438,662	447,673
6.345% Note due March 31, 2010	878,364	896,269
5.261% Note due March 31, 2011	857,394	877,635
4.880% Note due June 30, 2012	888,574	906,389
3.974% Note due March 31, 2013	867,046	886,972
3.937% Note due June 30, 2013	877,514	897,792
4.550% Note due Jan 2, 2035	915,784	935,088
4.353% Note due Dec. 31, 2034	923,079	943,124
4.543% Note due Dec. 31, 2034	2,223,544	2,270,466
3.889% Note due Dec. 31, 2042	6,000,000	0
3.849% Note due Dec. 31, 2042	3,000,000	0
CFC notes:		
5.500% Note due Nov. 29, 2009	0	21,120
5.750% Note due Feb. 10, 2012	54,120	78,949
5.050% Note due Jan. 26, 2015	258,585	300,768
5.050% Note due July 28, 2018	285,322	309,486
6.250% Note due March 14, 2026	488,123	505,416
6.300% Note due July 28, 2029	336,333	344,884
CoBank notes:		
6.050% Note due Sept. 30, 2009	0	1,000,000
6.100% Note due Sept. 30, 2009	0	1,000,000
6.100% Note due Sept. 30, 2009	0	1,000,000
6.150% Note due Sept. 30, 2009	0	1,000,000
6.150% Note due Sept. 30, 2009	0	1,000,000
Sewer tap payable (no interest) due 2014	25,000	35,000
Total mortgage notes	32,382,133	29,198,928
Less: current portion of mortgage notes	853,400	808,000
Total long-term mortgage notes payable	$31,528,733	$28,390,928

The short-term line of credit of $5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2009. The interest rate on the line of credit at December 31, 2009 and 2008 was 4.25 percent and 5.00 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:

2010	853,400
2011	971,000
2012	944,700
2013	981,300
2014	$ 1,027,900
Thereafter	27,603,833
	$32,382,133

The Cooperative has available $2,100,000 in loan funds from FFB that has not been advanced to the Cooperative as of December 31, 2009

NOTE I: DEFERRED CREDITS

Deferred Credits are summarized as follows:	2009	2008
Consumer energy prepayments	$ 8,542	$ 12,708
Construction deposits	184,002	211,895
	$192,544	$224,603

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 $1,775,058 and $1,570,889 at December 31, 2009 and 2008, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were $1,263,181 and $1,890,554 for the years ended December 31, 2009 and 2008, 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 $103,183 and $96,785 for the years ended December 31, 2009 and 2008, 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 $42,599 and $43,619 for the years ended December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008 -continued

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange, of which it is a member and owner. Total premiums paid were $113,788 and $25,560 for the years ended December 31, 2009 and 2008, 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:

	2009	2008
APOBO, beginning of year	$279,612	$ 274,800
Service cost	11,200	11,200
Interest cost	16,078	14,800
Amortization	7,200	7,200
Additional expenses	48,201	36,926
Less: actual cash payments	(68,339)	(65,314)
APBP, end of year	293,952	279,612
Less: current portion	(22,600)	(25,000)
APBO, long-term portion	$271,352	254,612

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

2010	$ 22,600
2011	24,300
2012	26,100
2013	20,500
2014	16,100
2015-2018	64,400

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

	Medical	Drugs
2009	9.5%	10.0%
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.

INDEPENDENT AUDITOR'S REPORT

February 5, 2010
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, 2009 and 2008, 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, 2009 and 2008, the cooperative received no long-term loan fund advances from CFC on loans controlled by the CFC Loan Agreement and/or Mortgage or Security 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, 2009 and 2008, 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 5, 2010, 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.

Kea & Associates, Inc.