


# 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](http://www.hwecoop.com)

## Board of trustees

Ronnie Schlegel .....Chairman  
Donald Buren.....Vice Chairman  
Larry Martin .....Secy.-Treas.  
David Mann                   Randy Sprang  
Kenneth Conrad           Kenneth Bowler  
Bill Grassbaugh           Barry Jolliff

## Personnel

Glenn Miller .....President/CEO  
John Porter .....Asst. Manager/Engineer  
Vicki Bilek.....Executive Secretary  
Casey Wagner.....Accounting Manager  
Robyn Tate .....Public Relations/HR  
Lisa Baker .....Billing Supervisor  
Stacy Shaw .....Line Supv./Safety Director  
Ward Vaughn .....Line Supervisor  
Brent Schrock .....Contractor Supervisor  
Tim Vickers .....Staking/Field Engineer  
Nolan Hartzler .....GIS Mapping Technician  
Gary Snyder.....Operations Field Technician  
Craig Duncan .Operations Field Technician  
Brian Spencer .....System Engineer  
Kenny DePriest.....Energy Advisor  
Karen Tish .....Plant Accountant/Purchasing  
Curtis Woods.....Warehouse/Mechanic  
Carol Hawkins.....Customer Service Rep.  
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 James .....Class A Lineman  
Fred Combs .....Class A Lineman  
James Rose .....Class A Lineman  
Michael Maurer.....Class A Lineman  
Michael Martin.....Class A Lineman  
Gregory Lemon .....Class A Lineman  
Michael Rowe .....Class A Lineman  
Bowe Firebaugh .....Class A Lineman  
Jeffrey Young.....Class A Lineman  
Ed Walton.....Utility Man  
Rick Fox .....Utility 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 25, 2009 at West Holmes High School, 10909 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 2008
7. Operation Round Up Foundation Financial Report for 2008
8. President's Report
9. Guest speakers
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 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 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 2009 HWEC trustee election

## District 1:



**Randy Sprang** and his wife, Bonnie, live at 1601 C.R. 200, Dundee in Paint Township, Holmes County. Randy has served on the Holmes-Wayne board for six years. He has been a farm manager at the OARDC for 37 years and a member of the cooperative since 1976. A graduate of West Holmes High School and a Holmes County

native, Randy serves as a township trustee for Paint Township.

**Wayne R. Troyer** and his wife, Rhonda, and two sons reside at 1748 U.S. 62, Winesburg. He is a lifelong Holmes County resident. He has spent the last 34 years as an employee of Sunny Morn Eggs/R.W. Sauder. Wayne has held a variety of positions within the company prior to his current position of general manager, which he has held for 17 years. Some of his past and present activities include vice president of Winesburg Area Development Board and Holmes County Little League, board member of Ohio Poultry Assn. and Winesburg Park Board. He also is currently a deacon at Zion PCA Church.



**Tony Mullet** and his wife, Annelle, and their two children reside on U.S. 62, Berlin. Tony attended Bluffton College. Currently, he is president of Dutchland Realty, Royal Development, Twilight Mining and co-owns Timberstone Ltd. All businesses are located in Holmes County. He is the area vice president on the executive board for the Ohio Home Builders Association. In addition, he has served on the Economic Development Council for Holmes County for the last 10 years and chairs the local Great Strides Fundraiser for Cystic Fibrosis. His past board experience includes Berlin Area Businessmen's Association, Goodwill Industries and the Holmes Wayne Home Builder Association as president in 2001.

## District 3:



**Larry D. Martin** and his wife, Anna Mae, live at 7631 T.R. 513, Shreve, in Ripley Township, Holmes County. Larry is the current trustee from District 3 and is the secretary-treasurer. He also represents Holmes-Wayne on the board of trustees of Ohio Rural Electric Cooperatives, Inc. A native of Ripley Township, he retired in 1996 from Owens-Brockway in Berlin as production manager. He is a member and past elder of the Ripley Church of Christ. Larry also is involved in the Holmes County Habitat For Humanity and served as Ripley Township clerk for more than 20 years. He is past president of the Holmes County Township Trustees and Clerks Association.

**Richard L. Beery** and his wife, Sandy, reside at 8751 T.R. 513, Shreve. He earned his BSEE from The Ohio State University. As an owner of RBB Systems, Inc. over the past 35 years, he held various positions,



including president, CEO and remains a consultant after his retirement in 2008. Some of Richard's past and present activities include executive council of Control Systems Integrators Assn., founding member of Automation Alliance Group, LLC, advisory board Wayne Cty. Career Center/Ashland West Holmes Joint Vocational School and ATI Fluid Power. Other activities include serving on the boards of trustees for Joel Pomerene Hospital and Wayne-Holmes County Goodwill and board of advisors for Artist Retreat House. He is a deacon and an elder at Westminster Presbyterian Church.



**Joe Shanower** and his wife reside at 7434 Newkirk Road, Shreve. Joe and his wife have two daughters. They enjoy traveling and gardening. Joe grew up on a dairy farm near Hartville. He has a bachelor's degree in industrial technology from Kent State University. Joe worked in the Human Resources Department for the Ford Motor Company for 34 years. His core work experience included labor contract negotiations and contract administration.

## District 7:

**Donald Buren** and his wife, Teara, live at 191 Congress St., West Salem in Congress Township, Wayne County. The current District 7 trustee, he has served on the board of trustees of Holmes-Wayne Electric Cooperative, Inc. since July 1992, and currently serves as vice chairman of the board. Don also represents the board as a director on the Operation Round Up foundation board. A resident of West Salem, he is a member of the board of directors of the Farmers State Bank and serves as trustee for the Wayne County Community Foundation, Inc. Don attends Congress Community Church. He has two sons, Tim and Jeff, both of Ashland.



**David Tegtmeier** lives at 11360 Franchester Rd., West Salem, with his wife, Rita. They are the parents of three grown children. He graduated from Northwestern H.S. and served in the U.S. Air Force. Dave works at Ashland University, where he researches, engineers and manages the audio/video systems for the Information Technology department. He also operates a family farm, including 100 acres of his own. Other activities include being a member of the Congress Twp. Board of Zoning Appeals, St. Peter Lutheran Church in New Pittsburg, Wayne County Farm Bureau and The American Legion.

**William J. Gallagher** and his wife, Deborah, reside at 13870 Congress St., West Salem. They have one grown son. William is an Ohio State graduate with a BS in education. He was the Ashland University head men's and women's cross country and track and field coach for 25 years. He was a member of the NCAA track and field committee for four years and was the committee chair for three years. From 2006 to current, he has been employed as the general manager of the Barker Products Company in Cleveland.



# 2008 Annual Meeting Minutes

The 71st Annual Meeting of Holmes-Wayne Electric Cooperative, Inc. was held at the West Holmes High School on Thursday, June 26, 2008.

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 28, 2007 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 2008 was more than \$800,000.
- \* NRECA Legislative Conference in Washington, D.C., where two trustees and CEO Glenn Miller met with Ohio legislative representatives to discuss the proposed Lieberman-Warner act on climate change. The grassroots efforts from cooperatives across the nation played a role in ending the proposed bill.
- \* The approval of a full-time staff member as an energy advisor to aid in the education of our membership to limit energy consumption in order to control their electric bills.
- \* Challenges faced by cooperatives to meet the demand for electricity in the future.

David Sparr, CPA, from REA & Associates, Inc., gave the Auditor's Report for 2007, which resulted in a clean, unqualified opinion.

Harold Neuenschwander, vice president of the Operation Round Up Foundation Board, reported that \$37,071.29 was distributed to families in need during 2007 and read a touching note of thanks from Every Woman's House for victim assistance provided by the Foundation Board throughout the year.

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

- \* The last mile of line rebuild from the 2004 and 2005 ice storms is being completed.
- \* We have received approximately \$4.75 million dollars in funding from FEMA during the last three years to rebuild 115 miles of line throughout our system.
- \* The grand total for the ice storm was approximately \$6.3 million dollars.
- \* In addition to ice storm construction, we have made \$10.4 million dollars in electrical infrastructure improvements in less than two and one half years.
- \* We concluded the final year of a four-year tree trimming cycle in 2007, which

has resulted in a significant reduction on tree-related outages. The four-year tree-trimming cycle begins with the trimming of 374 miles in Ripley, West Millersburg and Reedsburg substation areas.

- \* New bill paying options include the ability to view and pay bills online and review monthly electric use charts and cost charts that will help members manage electric bills.
- \* The completion of the first year of a four-year \$16.4 million dollar work plan to build tie lines between substations. This will allow the transfer of members with outages from transmission or substation issues to other substations in order to restore or prevent outages. This plan includes 86 miles of line rebuilding and upgrades to 10 of our 17 substations.
- \* HWEC employees and board members raised \$10,000 for American Cancer Society Relay for Life for a total of \$45,500 in the past five years.
- \* Paid \$1.36 million in kWh Tax to the State of Ohio, and \$700,000 in property taxes that benefit 12 local school districts and local governments.

Guest speaker, Tony Ahern, president and CEO of Buckeye Power and Ohio Rural Electric Cooperatives, Inc., reported that the board and CEO of Holmes-Wayne Electric are committed to keeping legislators educated on the challenges facing cooperatives in providing affordable energy that will meet the changing government standards. One of the greatest challenges our country is facing is the cost of producing alternative energy to meet the needs for our future.

Robyn Tate, HR/PR Representative, presented the cooperative's scholarship awards.

Peggy Schmitz, attorney from Critchfield, Critchfield and Johnston, LTD, reported the results of the election:

- \* District 4 — Ken Conrad
- \* District 5 — Ronnie Schlegel
- \* District 6 — Kenneth L. Bower.

Attorney Peggy Schmitz 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.

## Independent Auditor's Report

Feb. 10, 2009

Board of Trustees  
Holmes-Wayne Electric Cooperative

We have audited the accompanying balance sheets of Holmes-Wayne Electric Cooperative, Inc. as of Dec. 31, 2008 and 2007, 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 Dec. 31, 2008 and 2007, 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 Dec. 31, 2008 and 2007, 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 Feb. 10, 2009, 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, 2008 and 2007 (see Independent Auditor's Report)

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>UTILITY PLANT:</b>		
Electric plant in service .....	\$54,763,154	\$51,008,946
Construction work in progress .....	<u>879,822</u>	<u>1,463,343</u>
	55,642,976	52,472,289
Less: Provision for accumulated depreciation .....	<u>12,997,738</u>	<u>13,577,520</u>
Net utility plant.....	42,645,238	38,894,769
<b>OTHER ASSETS AND INVESTMENTS:</b>		
Investments in associated organizations .....	1,976,367	1,969,419
Patronage capital from associated organizations.....	<u>13,042,994</u>	<u>12,821,119</u>
Total other assets and investments.....	15,019,361	14,790,538
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	730,088	357,309
Cash — construction funds .....	200	200
Accounts receivable, net of allowance.....	2,851,303	2,741,388
FEMA receivable.....	467,129	651,495
Materials and supplies .....	1,207,292	1,221,764
Other current assets .....	<u>61,231</u>	<u>228,615</u>
Total current assets.....	5,317,243	5,200,771
<b>Total assets</b> .....	<u>\$ 62,981,842</u>	<u>\$58,886,078</u>
 <b>EQUITIES AND LIABILITIES</b>		
<b>EQUITY:</b>		
Patronage capital.....	\$ 28,350,316	\$28,223,837
Other equities .....	1,350,006	1,155,308
Accumulated other comprehensive income.....	<u>(185,695)</u>	<u>(185,695)</u>
Total equity .....	29,514,627	29,193,450
<b>LONG-TERM LIABILITIES:</b>		
Mortgage notes payable .....	28,390,928	24,965,201
Deposits .....	224,603	197,819
Postretirement benefits.....	<u>254,612</u>	<u>241,200</u>
Total long-term liabilities.....	28,870,143	25,404,220
<b>CURRENT LIABILITIES:</b>		
Current maturities of mortgage notes payable .....	808,000	767,000
Line of credit .....	500,000	375,000
Accounts payable .....	1,853,135	1,842,168
Postretirement benefit obligation, current portions .....	25,000	33,600
Accrued taxes .....	875,942	821,946
Customers' deposits.....	161,612	115,218
Other current liabilities .....	<u>373,383</u>	<u>333,476</u>
Total current liabilities.....	4,597,072	4,288,408
<b>Total equities and liabilities</b> .....	<u>\$ 62,981,842</u>	<u>\$58,886,078</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b> .....	\$ 27,833,927	\$ 25,746,309
<b>OPERATING EXPENSES:</b>		
Cost of purchased power.....	16,609,463	15,156,786
Operations .....	2,369,788	2,127,637
Maintenance .....	1,760,241	2,180,695
Consumer accounts .....	798,790	712,845
Customer service and informational expense.....	64,732	38,433
Administrative and general .....	1,253,057	1,241,901
Depreciation .....	1,664,508	1,539,552
Tax expense .....	1,366,017	1,362,415
Interest — other .....	6,428	4,478
Other deductions .....	<u>6,800</u>	<u>5,913</u>
Total cost of electric service .....	<u>25,899,824</u>	<u>24,370,655</u>
Operating margins before fixed charges.....	1,934,103	1,375,654
<b>FIXED CHARGES</b> , interest on long-term debt .....	<u>1,420,520</u>	<u>1,256,658</u>
Operating margins after fixed charges .....	513,583	118,996
<b>PATRONAGE CAPITAL CREDITS:</b>		
Generation and transmission credits.....	790,056	1,488,187
Other credits .....	<u>80,577</u>	<u>53,546</u>
.....	<u>870,633</u>	<u>1,541,733</u>
Net operating margins.....	1,384,216	1,660,729
<b>NONOPERATING MARGINS:</b>		
Interest income .....	59,100	87,911
Other income .....	<u>171</u>	<u>533</u>
.....	<u>59,271</u>	<u>88,444</u>
Net margins.....	<u>\$ 1,443,487</u>	<u>\$ 1,749,173</u>
<b>PATRONAGE CAPITAL</b> , beginning of year.....	\$ 28,223,837	\$ 27,298,377
Net margins .....	1,443,487	1,749,173
Retirement of capital credits .....	(1,317,008)	(823,713)
Reassigned capital credits .....	<u>0</u>	<u>0</u>
<b>PATRONAGE CAPITAL</b> , end of year .....	<u>\$ 28,350,316</u>	<u>\$ 28,223,837</u>
<b>NET MARGINS</b> .....	\$ 1,443,487	\$ 1,749,173
<b>OTHER COMPREHENSIVE INCOME:</b>		
Postretirement benefit plan adjustment .....	<u>0</u>	<u>(185,695)</u>
<b>COMPREHENSIVE INCOME</b> .....	<u>\$ 1,443,487</u>	<u>\$ 1,563,478</u>

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

# STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margins .....	\$1,443,487	\$1,749,173
Adjustments to reconcile net margins to net cash provided by (used in) operating activities:		
Depreciation .....	1,664,508	1,539,552
Noncash capital credits received .....	(860,723)	(1,546,925)
(Increase) decrease in assets:		
Accounts receivable, net .....	(109,915)	(410,594)
FEMA receivable .....	184,366	(356,021)
Other current assets .....	167,384	59,414
Increase (decrease) in liabilities:		
Accounts payable .....	10,967	(97,599)
Accrued taxes .....	53,996	111,720
Customers' deposits .....	46,394	14,082
Other current liabilities .....	39,907	31,248
Deposits .....	26,784	(18,489)
Postretirement benefit obligation .....	4,812	5,232
Total adjustments .....	<u>1,228,480</u>	<u>(668,380)</u>
Net cash provided by operating activities .....	2,671,967	1,080,793
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Construction and acquisition of utility plant .....	(5,371,895)	(5,255,374)
(Increase) decrease in materials and supplies .....	14,472	(248,491)
Investments in associated organizations .....	(8,568)	(1,028)
Proceeds from redemption of capital credits.....	638,848	616,516
Return of investment in associated organizations .....	<u>1,621</u>	<u>5,792</u>
Net cash used in investing activities .....	(4,725,522)	(4,882,585)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from line of credit .....	125,000	375,000
Proceeds from mortgage notes payable .....	4,244,000	4,656,000
Principle payments on mortgage notes payable .....	(777,272)	(704,517)
Patronage capital credits retired .....	(1,317,008)	(823,713)
Retired capital credits – gain.....	(21,542)	(39,725)
Donated capital (retired) received .....	<u>173,156</u>	<u>28,385</u>
Net cash provided by financing activities .....	<u>2,426,334</u>	<u>3,491,430</u>
Net increase (decrease) in cash and cash equivalents.....	372,779	(310,362)
<b>CASH AND CASH EQUIVALENTS, beginning of year .....</b>	<u>357,309</u>	<u>667,671</u>
<b>CASH AND CASH EQUIVALENTS, end of year .....</b>	<u>\$ 730,088</u>	<u>\$357,309</u>

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

## NOTES TO FINANCIAL STATEMENTS, December 31, 2008 and 2007

### 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.

# NOTES TO FINANCIAL STATEMENTS, December 31, 2008 and 2007

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 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in equities as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of equity. Additional disclosures about the amounts of such liabilities will be required also. 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 by applying FASB Statement No. 5, Accounting for Contingencies. The Cooperative has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3.

FSP FIN 48-3 defers the effective date of Interpretation 48 for nonpublic enterprises, such as the Cooperative, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Organizations will be required to adopt FIN 48 in its 2009 annual financial statements. Management has not assessed the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

## 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 \$1,330,067 and \$1,261,136 for the years ended December 31, 2008 and 2007, respectively. There were no payments for federal income taxes for 2008 or 2007.

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.

## NOTE C: UTILITY PLANT AND DEPRECIATION

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

	2008	2007
Intangible plant	\$ 248,131	\$ 248,131
Distribution plant	48,086,416	45,194,278
General plant	6,428,607	5,566,537
Electric plant in service	54,763,154	51,008,946
Construction work in progress	879,822	1,463,343
Total utility plant at cost	\$ 55,642,976	\$ 52,472,289

## NOTE D: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

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

Equity capital:	2008	2007
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 633,482	\$ 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.	115,276	109,363
CoBank common stock	2,315	1,000
Other	1,763	1,737
Total investments in associated organizations	\$ 1,976,367	\$ 1,968,419
Patronage capital from associated organizations:		
Rural Electric Supply Cooperative, Inc.	307,737	277,035
Buckeye Power, Inc.	12,524,929	12,345,405
NRUCFC	70,578	73,106
National Information Solutions Cooperative	44,766	43,587
Federated Rural Electric Insurance Exchange	87,952	78,110
Cooperative Response Center	7,032	3,876
Total patronage capital from associated organizations	13,042,994	12,821,119
Total other assets and investments	\$ 15,019,361	\$ 14,790,538

## NOTE E: PATRONAGE CAPITAL

At Dec. 31, 2008 and 2007, patronage capital consisted of:

	2008	2007
Assignable	\$ 1,443,487	\$ 1,749,173
Unclaimed general retirement reassigned	0	129,618
Assigned	40,647,034	38,897,861
	42,090,521	40,647,034
Retired	(13,740,205)	(12,423,197)
Total patronage capital	\$ 28,350,316	\$ 28,223,837

The Cooperative's patronage capital balances represent 45.0 percent and 47.9 percent of the total assets at December 31, 2008 and 2007, respectively. Capital credit retirements in the amount of \$1,317,008 and \$823,713 were paid in 2008 and 2007, respectively.

The Cooperative received donated capital from members totaling \$173,156 and \$28,385 during 2008 and 2007, respectively, which is included in the patronage capital retired for the year.

Patronage capital at December 31, 2008 and 2007 includes \$15,622,538 and \$14,659,885, 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, 2008 and 2007, other equities consisted of:

	2008	2007
Donated capital	\$ 489,475	\$ 461,089
Retired capital credits — gain	665,833	705,559
Total other equities	\$ 1,155,308	\$ 1,166,648

## 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 avail-

# NOTES TO FINANCIAL STATEMENTS, December 31, 2008 and 2007

able 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 2008 and 2007 was \$281,033 and \$290,730, 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 \$75,811 and \$71,545 for the years ended December 31, 2008 and 2007, respectively.

## NOTE H: LONG-TERM DEBT

Long-term debt is comprised substantially of mortgage notes payable to the United States of America, supplemental mortgages to NRUCFC, and a term loan with CoBank. Following is a summary of outstanding long-term debt as of December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
RUS notes:		
5% Note due Dec 31, 2009	\$ 43,715	\$ 43,715
5% Note due Dec. 31, 2009	43,715	43,715
5% Note due March 31, 2012	94,159	94,159
5% Note due March 31, 2012	94,159	94,159
5% Note due March 31, 2015	329,675	329,675
5% Note due March 31, 2015	330,912	330,912
5% Note due July 31, 2018	318,915	318,915
5% Note due July 31, 2018	333,678	333,678
5% Note due March 31, 2026	613,420	613,420
5% Note due March 31, 2026	630,019	630,019
4.625% Note due July 31, 2029	401,163	401,163
5% Note due July 31, 2029	398,620	398,620
5.280% Note due May 2, 2040	1,985,215	1,985,215
4.780% Note due May 2, 2040	991,730	991,730
4.960% Note due May 2, 2040	1,642,849	1,642,849
4.940% Note due May 2, 2040	1,985,931	1,985,931
4.340% Note due May 2, 2040	240,723	0
Advanced payments unapplied	(14,028)	(13,348)
Mortgage notes subtotal	\$ 10,093,332	\$ 10,224,527
FFB notes:		
4.503% Note due Dec. 31, 2031	885,620	907,158
5.611% Note due March 31, 2008	1,691,090	1,732,451
4.950% Note due Dec. 31, 2008	871,855	891,784
6.288% Note due Dec. 31, 2009	477,673	456,138
6.345% Note due March 31, 2010	896,269	913,076
5.261% Note due March 31, 2011	877,635	896,842
4.880% Note due June 30, 2012	906,389	923,358
3.974% Note due March 31, 2013	886,972	906,124
3.937% Note due June 30, 2013	897,792	917,289
4.550% Note due Jan. 2, 2035	935,088	953,536
4.353% Note due Dec. 31, 2034	943,124	962,317
4.543% Note due Dec. 31, 2034	2,270,466	2,315,308
CFC notes:		
5.500% Note due Nov. 29, 2009	21,120	47,970
5.750% Note due Feb. 10, 2012	78,949	102,401
6.700% Note due Jan. 26, 2015	300,768	340,240
6.700% Note due July 28, 2018	309,486	332,097
6.250% Note due March 14, 2026	505,416	521,669
6.300% Note due March 14, 2026	344,884	352,916
CoBank notes:		
6.050% Note due Sept. 30, 2009	1,000,000	1,000,000
6.100% Note due Sept. 30, 2009	1,000,000	0
6.100% Note due Sept. 30, 2009	1,000,000	0
6.150% Note due Sept. 30, 2009	1,000,000	0
6.150% Note due Sept. 30, 2009	1,000,000	0
Sewer tap payable (no interest) due 2014	35,000	35,000
	<u>29,198,928</u>	<u>25,732,201</u>
Total mortgage notes	29,198,928	25,732,201
Less: current portion of mortgage notes	808,000	767,000
Total long-term mortgage notes payable	\$ 28,390,928	\$ 24,965,201

The short-term line of credit of \$5,000,000 maximum is available to the Cooperative on loan commitments from NRUCFC at December 31, 2008. The interest rate on the line of credit at December 31, 2008 and 2007 was 5.00 percent and 6.40 percent, respectively, with outstanding balances on the line of \$500,000 and \$375,000, 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 annual maturities of long-term debt for the next five years are as follows:

2009 .....	\$ 1,784,000
2010 .....	763,000
2011 .....	803,000
2012 .....	774,000
2013 .....	823,000
Thereafter .....	25,176,828
	<u>\$ 29,198,928</u>

The CoBank notes due in 2009 are expected to be refinanced into long-term debt by the Cooperative. The Cooperative plans to utilize financing available by the FFB. FFB has approved \$11,100,000 in funding available to the Cooperative starting in 2009.

## NOTE I: DEPOSITS

Deposits are summarized as follows:

	<u>2008</u>	<u>2007</u>
Consumer energy prepayments	\$ 12,708	\$ 15,119
Deposits	211,895	182,700
Total deposits	\$ 224,603	\$ 197,819

## 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 \$1,570,889 and \$1,412,295 at December 31, 2008 and 2007, respectively.

The Cooperative purchases material from the Rural Electric Supply Cooperative, Inc., of which it is an owner and member. Total purchases were \$1,890,554 and \$2,746,377 for the years ended December 31, 2008 and 2007, 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 \$96,785 and \$99,133 for the years ended December 31, 2008 and 2007, 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 \$43,619 and \$42,199 for the years ended December 31, 2008 and 2007, respectively.

The Cooperative maintains insurance coverage through Federated Rural Electric Insurance Exchange, of which it is a member and owner. Total premiums paid were \$25,560 and \$102,504 for the years ended December 31, 2008 and 2007, 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.

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 funded status and the accrued postretirement benefit liability at December 31, 2008 and 2007, respectively:

	<u>2008</u>
Accumulated postretirement benefit obligation immediately prior to adoption	\$ 89,105
Fair value of plan assets	0
Unfunded status	<u>89,105</u>
Postretirement benefit plan adjustment	<u>\$ 185,695</u>
Accrued postretirement benefit obligation recognized in the accompanying balance sheets	<u>\$ 274,800</u>
Net periodic postretirement benefit cost for the year	<u>\$ 38,067</u>
Benefits paid	<u>\$ 30,768</u>

The following table sets forth the plan's accrued postretirement benefit obligation ("APBO") at December 31, 2008:

APOBO, beginning of year .....	\$ 274,800
Service cost .....	11,200
Interest cost .....	14,800
Amortization .....	7,200
Additional expenses .....	36,926
Less: actual cash payments .....	(65,314)
APBO, end of year .....	279,612
Less: current portion .....	(25,000)
APBO, long-term portion .....	\$ 254,612