



# *Focusing on the Future*

**Walton EMC**  
Customer-Owned Electric Power

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*Annual Report 2007*

# Leadership Message

## Focusing on the future

Our nation's great statesman Benjamin Franklin said, "By failing to prepare, you are preparing to fail." It was also Franklin who organized the first cooperative in the United States in 1752 when he suggested to his neighbors that they should pool financial resources to buy fire insurance. Through word and deed, Franklin proved to have good common sense.

As caretakers of an American cooperative spawned from Franklin's idea, we are employing the preparation he advocated and the common sense he demonstrated as we focus on the future of Walton EMC. Electric cooperatives are charged with putting members' best interest first, so we are taking measures now to assure that rates remain low and service high.

Looking to the future requires close attention to two important issues facing not only Walton EMC, but the entire electric industry. In fact, some experts say that what happens in the next two years will affect the availability and price of electricity for perhaps the next 30 years.

The first issue is the skyrocketing demand for electric power. The second is the push to address climate change. These two, separate issues will dramatically impact the future of energy supply and cost.

## Escalating demand

Even a casual observer can see that Walton EMC's service area is growing rapidly. Every day, we're getting new neighbors. Fields that once grew cotton or soybeans now sprout new homes.

More people and homes bring new businesses. Some of these businesses, such as grocery stores and restaurants, spring up to serve new growth. The same people who find that it's nice to live here figure out it's also nice to work here, so they relocate their companies. That means even more business growth.

Between the years 2000 and 2010, Georgia's population is projected to increase 17 percent. In the next 25 years, we'll grow by 3.8 million people, which equals the entire populations of Nevada and Hawaii combined!

Population growth alone dictates the need for more electric power, but it's the smaller concern. Electricity demand will grow at more than double the population growth rate—38 percent. Big-screen televisions and home computers head a long list of energy-hungry electronic devices that are driving a growing demand for power in existing American homes.

## Struggling under restrictions

Common sense dictates that we'll need to build more electric generation and transmission facilities to avoid blackouts and preserve the quality of life our customer-owners now enjoy. But it's not that simple. Special interest groups and politicians are successfully promoting an agenda that prevents us from using our nation's abundant resources.



## Leadership Message *continued*

There is a 250-year supply of coal right under our feet. This natural resource furnishes about 50 percent of our nation's energy at one-third the cost of other fuels. Our industry has been at work for years on reducing emissions from coal plants and continues to invent technology that makes electricity production from coal cleaner and more environmentally friendly. Yet proposed legislation seeks to hamstring this resource by imposing outrageous taxes and other penalties on its use.

Actions to mitigate greenhouse gasses from power plants threaten to have an economic impact greater than any other issue in our lifetime. The cost to each family could be as high as \$4,000 a year, concludes the U.S. Chamber of Commerce. The Electric Power Research Institute reports the cost to the U.S. economy could be nearly \$3 trillion, meaning a doubling or tripling of electric bills. At the same time, a poll by the National Center for Public Policy Research found that 71 percent of Americans solidly reject spending more for electricity to reduce greenhouse gasses.

### Seeking common sense

While an overwhelming majority of us do not want to pay more for power, politicians are going full speed ahead with climate change legislation. If the Liberman-Warner bill passes, the damage doesn't stop at higher electric bills. The effect will ripple throughout our economy with elevated prices of consumer goods and lost jobs.

While our own government is trying to penalize the United States for electricity generation from coal, China is bringing one 500-megawatt coal plant on line every week and expects to do so until at least 2020. India also plans to add another 200 coal plants over the next seven years. The U.S. is now a major coal exporter, shipping this natural resource to China, India and others for power plants.

Nuclear power is even cheaper than coal. Yet the U.S. has only 104 working nuclear plants—the same number as 10 years ago. Excessive regulation and unfounded fears have made nuclear plants too expensive to build.

Affordability and accessibility limit natural gas as the best choice. As we saw just a couple of years ago, one hurricane in the Gulf of Mexico can completely cut off the natural gas supply.

Though Walton EMC supports renewable energy efforts, this power source has severe limitations, too. Wind is impractical because we don't have enough of it in Georgia to make wind turbines viable. Solar arrays are extremely expensive with the kilowatt-hour cost of solar electricity being five to 10 times more than traditionally generated power. It takes 9,800 acres of solar panels to equal the output of one typical coal-fired plant.

There are no quick, easy answers or fixes. As Ben Franklin advises, we must stay focused on the future or else suffer failure. Along with all electric service providers, the leadership of Walton EMC is proceeding slowly and seeking solutions from many different angles. Success will come in common-sense steps carefully taken to protect our standard of living, our ability to compete globally and our national security.



# 2007 Highlights



## Customer-owner numbers up

Despite a slowdown in the housing market, Walton EMC's membership numbers continue to grow. The co-op adds an additional 2,300 new customer-owners, increasing membership to 117,407 by November 2007. These consumers demand an additional 12.5 million kilowatts of power throughout the year. The co-op ends the year with 6,688 miles of power lines delivering energy to a 10-county service area.



## Sharing \$3 million

Walton EMC customer-owners again share \$3 million in capital credits, bringing the 20-year total to \$31 million. Returning money to customer-owners reinforces that Walton EMC is a cooperative, owned and controlled by those who use its services.

## Bear Energy buys power contract

Walton EMC's power contract, which was owned by Williams Energy, is purchased by Bear Energy, a division of Bear Stearns, a global investment banking, securities trading and brokerage firm. Bear Energy announces plans to invest money to build the business, meaning they will expand the supply available to Walton EMC. For customer-owners the sale makes little difference. There is no rate increase. It is still the same power contract, just owned by a different company.



## Temperatures hit record levels

August 2007 has a total of nine days with record-breaking temperatures. Walton EMC reaches its highest demand ever and sells more energy than ever. Despite the record-setting peaks, the co-op experiences no heat-related capacity problems on the system. Close monitoring and good planning, such as building the new Bethabara substation in northwest Oconee County, plays a big part in the system's reliability and excellent performance during the peak power demand period.



## Automated meter reading begins

Walton EMC's first step in converting the system to automated meter reading (AMR) begins in October. AMR enables the co-op to receive the kilowatt-hour reading from customer-owners meters through power lines. Some 4,800 customer-owners served by the Campton substation in Walton County are the first to get new electronic meters, which help the co-op save money, labor and fuel, increase the accuracy of bills, provide daily electricity use data and speed power outage assessment. The conversion will take three and a half years to complete.



# 2007 Highlights *continued*



## **Community caring continues**

The generosity of Walton EMC customer-owners continues to have a positive impact in communities with Operation Roundup disbursements reaching a total \$1.28 million to help worthy causes such as First Steps child abuse prevention in Athens, purchasing new library books for the City of Statham Library, encouraging the fine arts with financial support to of the New London Theatre and contributing toward the purchase of a van to transport disabled American veterans for medical care.



## **Employees curb copper thefts**

Due to its high cost, copper theft continues to be a problem. However, thanks to security cameras and the diligence of Walton EMC employees, some thieves were apprehended. Also, legislation is passed that increases the penalty for those caught stealing copper, which should curb future thefts.

## **Linemen win**

After months of spending their off-duty time honing their speed, agility and endurance, Walton EMC's linemen turn in impressive finishes in their first competitive outing in the Georgia Lineman's Rodeo in May and again at the International Lineman's Rodeo in October. Ryan West, apprentice line technician, takes second place in the Hurt Man Rescue competition at the international competition to lead Walton EMC's collection of awards.



## **Customer-owners save energy**

Through Walton EMC's partnership with ENERGY STAR and its Change a Light program, customer-owners and employees save energy and the environment by switching old-fashioned incandescent bulbs to energy-efficient compact fluorescent bulbs. By the end of 2007, those making the switch save a collective 538,620 kilowatt-hours of electricity, 781,190 pounds of greenhouse gas and more than \$50,000.



## **Employees pitch in**

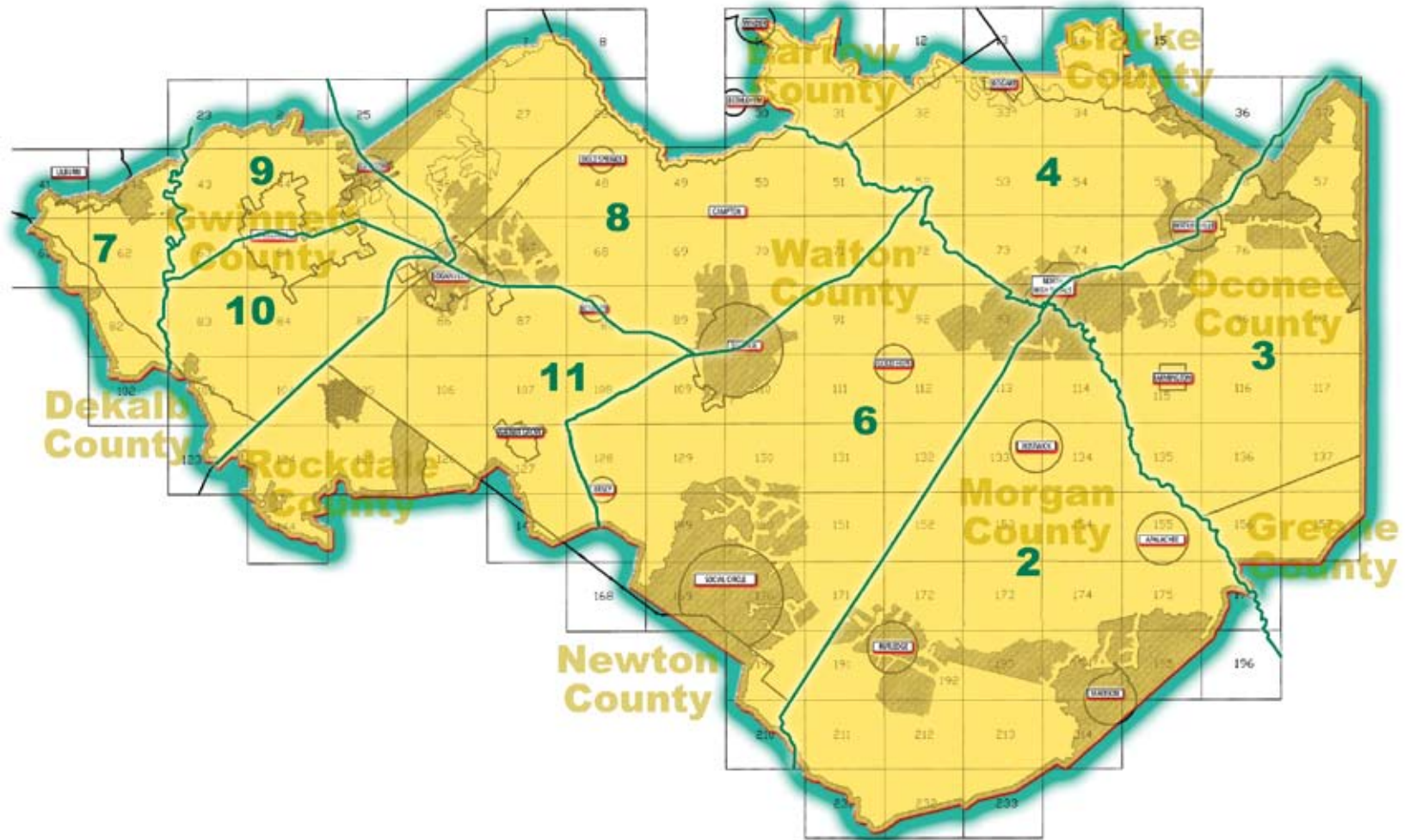
Walton EMC continues its unparalleled culture of giving. Employees of Walton EMC and Walton EMC Natural Gas donate countless hours, money and materials to benefit the American Cancer Society, March of Dimes, United Way, Red Cross, Project Share, Lions Club and others.



# 2007 Highlights *continued*

## Directors redraw boundaries

The board of directors realign director districts within Walton EMC's service territory to more evenly distribute representation and increase the board's efficiency. The move also cuts costs associated with the board's operation.





# Walton Electric

## Financial Highlights

The Walton Electric Membership Corporation And Subsidiaries Consolidated Balance Sheets • June 30

### ASSETS

|  | 2007                 | 2006          |
|--|----------------------|---------------|
| <b>Utility Plant</b>   |                      |               |
| Electric Plant in Service-At Cost  | <b>\$305,214,663</b> | \$287,744,466 |
| Construction Work in Progress  | <b>3,274,828</b>     | 1,955,801     |
|  | <b>308,489,491</b>   | 289,700,267   |
| Accumulated Provision for Depreciation   | <b>(86,235,507)</b>  | (80,601,160)  |
|  | <b>222,253,984</b>   | 209,099,107   |
| <b>Other Property and Investments</b>  |                      |               |
| Nonutility Property (Net of Depreciation, \$146,072 in 2007 and \$104,373 in 2006)                             | <b>90,614</b>        | 158,016       |
| Investments in Associated Organizations  | <b>57,082,696</b>    | 54,517,175    |
| Other Investments  | <b>1,142,793</b>     | 756,465       |
|  | <b>58,316,103</b>    | 55,431,656    |
|  | <b>78,868,033</b>    | 86,337,748    |
| <b>Long-Term Note Receivable-Capital Lease</b>   |                      |               |
|  | <b>78,868,033</b>    | 86,337,748    |
| <b>Current Assets</b>  |                      |               |
| Cash and Cash Equivalents  | <b>15,057,302</b>    | 5,825,742     |
| Interest Receivable  | <b>64,028</b>        | 43,429        |
| Accounts Receivable (Net of Accumulated Provision for Uncollectibles, \$406,574 in 2007 and \$385,814 in 2006) | <b>21,139,576</b>    | 21,880,809    |
| Current Portion of Note Receivable-Capital Lease   | <b>7,469,716</b>     | 7,035,766     |
| Materials and Supplies   | <b>1,989,592</b>     | 1,748,832     |
| Prepayments  | <b>132,915</b>       | 141,236       |
|  | <b>45,853,129</b>    | 36,675,814    |
|  | <b>194,812</b>       | 1,999,286     |
| <b>Other Assets</b>  | <b>194,812</b>       | 1,999,286     |
| <b>Assets Held for Sale</b>  | -                    | 39,065,939    |
| <b>Total Assets</b>  | <b>\$405,486,061</b> | \$428,609,550 |



# Walton Electric

## Financial Highlights

Consolidated Balance Sheets • June 30

### EQUITIES AND LIABILITIES

|  | 2007                 | 2006               |
|--|----------------------|--------------------|
| <b>Equities</b>  |                      |                    |
| Membership Fees  | \$1,180,825          | \$1,200,515        |
| Patronage Capital  | 136,284,679          | 124,094,848        |
| Accumulated Comprehensive Loss                           | -                    | (2,143,968)        |
| Noncontrolling Interest                                  | -                    | 546,349            |
| Other  | 1,584,252            | 9,978,892          |
|  | <b>139,049,756</b>   | <b>133,676,636</b> |
| <b>Long-Term Debt</b>                                    | <b>184,794,923</b>   | <b>186,382,097</b> |
| <b>Accumulated Provision for Postretirement Benefits</b> |                      |                    |
| Pension Benefits   | 6,024,428            | -                  |
| Medical Benefits   | 10,848,400           | 10,504,988         |
|  | <b>16,872,828</b>    | <b>10,504,988</b>  |
| <b>Current Liabilities</b>                               |                      |                    |
| Current Maturities of Mortgage Notes                     | 11,292,000           | 10,818,800         |
| Line-of-Credit   | 11,700,000           | 9,300,000          |
| Accounts Payable   | 18,125,657           | 17,165,969         |
| Consumer Deposits  | 6,395,142            | 5,450,105          |
| Current Portion of Pension Plan                          | 120,000              | -                  |
| Current Portion of Medical Benefits                      | 448,000              | -                  |
| Accrued Income Taxes                                     | 281,463              | -                  |
| Accrued and Withheld Taxes                               | 2,256,145            | 2,368,765          |
| Accrued Interest   | 1,801,405            | 1,788,088          |
| Other  | 2,789,516            | 2,577,053          |
|  | <b>55,209,328</b>    | <b>49,468,780</b>  |
| <b>Deferred Credits</b>                                  | <b>9,559,226</b>     | <b>15,756,763</b>  |
| <b>Liabilities Held for Sale</b>                         | -                    | 32,820,286         |
| <b>Total Equities and Liabilities</b>                    | <b>\$405,486,061</b> | <b>428,609,550</b> |



# Walton Electric

## Financial Highlights

Consolidated Statements Of Operations For The Years Ended June 30

*continued*

|  | 2007                 | 2006          |
|--|----------------------|---------------|
| <b>Operating Revenues and Patronage Capital</b>  | <b>\$295,251,807</b> | \$295,256,623 |
| <b>Cost of Revenues</b>  | <b>239,832,169</b>   | 240,927,771   |
| <b>Gross Margins</b>   | <b>55,419,638</b>    | 54,328,852    |
| <b>Operating Expenses</b>  |                      |               |
| Distribution Operations  | 7,945,603            | 6,945,402     |
| Distribution Maintenance   | 7,124,920            | 6,793,131     |
| Consumer Accounts  | 7,109,328            | 6,867,628     |
| Consumer Service and Information   | 4,142,864            | 3,611,705     |
| Sales  | 167,600              | 235,403       |
| Administrative and General   | 6,554,216            | 6,259,903     |
| Depreciation and Amortization  | 9,439,765            | 8,869,370     |
| Franchise Requirements   | 1,051,709            | 1,015,624     |
| Other  | 78,511               | 67,736        |
|  | <b>43,614,516</b>    | 40,665,902    |
| <b>Operating Margins Before Interest Expense</b>   | <b>11,805,122</b>    | 13,662,950    |
| <b>Interest Expense</b>  | <b>5,741,660</b>     | 4,875,598     |
| <b>Operating Margins After Interest Expense</b>  | <b>6,063,462</b>     | 8,787,352     |
| <b>Nonoperating Margins</b>  | <b>2,259,842</b>     | 1,561,121     |
| <b>Generation and Transmission Cooperative Capital Credits</b>   | <b>2,031,756</b>     | 1,978,169     |
| <b>Other Capital Credits and Patronage Capital Allocations</b>   | <b>1,312,616</b>     | 1,148,657     |
| <b>Income Tax Benefit (Expense)</b>  | <b>(160,665)</b>     | 210,852       |
| <b>Income from Continuing Operations</b>   | <b>11,507,011</b>    | 13,686,151    |
| <b>Income (Loss) from Operation of Discontinued Component,<br/>    Net of Tax Benefit (Expense) of (\$1,480,509) in 2007 and \$1,667,144 in 2006</b> | <b>1,980,397</b>     | (1,794,762)   |
| <b>Net Margins</b>   | <b>\$ 13,487,408</b> | \$ 11,891,389 |



# Walton Electric

## Financial Highlights

Consolidated Statements of Members' Equity for The Years Ended June 30, 2007 and 2006

|                                | Total<br>Equities    | Membership<br>Fees | Patronage<br>Capital | Accumulated<br>Comprehensive<br>Loss | Noncontrolling<br>Interest | Other<br>Equities   |
|--------------------------------|----------------------|--------------------|----------------------|--------------------------------------|----------------------------|---------------------|
| <b>Balance, June 30, 2005</b>  | \$126,875,452        | \$1,221,977        | \$117,374,983        | \$-                                  | \$-                        | \$ 8,278,492        |
| Net Margins                    | 11,891,389           |                    | 10,190,989           |                                      |                            | 1,700,400           |
| Patronage Capital Retirements  | (3,471,124)          |                    | (3,471,124)          |                                      |                            |                     |
| Membership Fees                | (21,462)             | (21,462)           |                      |                                      |                            |                     |
| Accumulated Comprehensive Loss | (2,143,968)          |                    |                      | (2,143,968)                          |                            |                     |
| Noncontrolling Interest        | 546,349              |                    |                      |                                      | 546,349                    |                     |
| <b>Balance, June 30, 2006</b>  | 133,676,636          | 1,200,515          | 124,094,848          | (2,143,968)                          | 546,349                    | 9,978,892           |
| Net Margins                    | 13,487,408           |                    | 15,736,109           |                                      |                            | (2,248,701)         |
| Patronage Capital Retirements  | (3,546,278)          |                    | (3,546,278)          |                                      |                            |                     |
| Membership Fees                | (19,690)             | (19,690)           |                      |                                      |                            |                     |
| Accumulated Comprehensive Loss | 2,143,968            |                    |                      | 2,143,968                            |                            |                     |
| Noncontrolling Interest        | (546,349)            |                    |                      |                                      | (546,349)                  |                     |
| FAS 158 Adjustment             | (6,144,428)          |                    |                      |                                      |                            | (6,144,428)         |
| Other Equity                   | (1,511)              |                    |                      |                                      |                            | (1,511)             |
| <b>Balance, June 30, 2007</b>  | <b>\$139,049,756</b> | <b>\$1,180,825</b> | <b>\$136,284,679</b> | <b>\$-</b>                           | <b>\$-</b>                 | <b>\$ 1,584,252</b> |

## Cash Flows

|  | 2007          | 2006          |
|--|---------------|---------------|
| <b>Cash Flows from Operating Activities</b>  |               |               |
| Net Margins  | \$ 13,487,408 | \$ 11,891,389 |
| Adjustments to Reconcile Net Margins to Net Cash<br>Provided by Operating Activities |               |               |
| Depreciation and Amortization  | 10,143,462    | 9,560,480     |
| Patronage Capital from Associated Organizations                                      | (3,351,066)   | (3,128,555)   |
| Medical Benefits   | 791,412       | 983,661       |
| Accumulated Comprehensive Loss   | 2,143,968     | (2,143,968)   |
| No controlling Interest  | (546,349)     | 546,349       |
| <b>Change In</b>   |               |               |
| Accounts Receivable (Net)  | 741,233       | (4,136,035)   |
| Accounts Receivable-Related Party  | (239,159)     |               |
| Other Current Assets   | (12,278)      | 225,799       |



# Walton Electric

## Financial Highlights

Consolidated Statements of Cash Flows for The Years Ended June 30 continued

*continued*

|   | 2007                 | 2006         |
|---|----------------------|--------------|
| Accounts Payable  | 959,688              | (859,554)    |
| Accrued and Withheld Taxes                                  | 168,843              | 31,095       |
| Other Current and Accrued Liabilities                       | 225,780              | (4,074,990)  |
| Assets Held for Sale  | 39,065,939           | (39,065,939) |
| Liabilities Held for Sale                                   | <b>(32,820,286)</b>  | 32,820,286   |
|   | <b>30,997,754</b>    | 2,889,177    |
| <b>Cash Flows from Investing Activities</b>                 |                      |              |
| Extension and Replacement of Plant                          | <b>(22,387,322)</b>  | (20,028,113) |
| Return of Equity from Associated Organizations              | 785,545              | 926,592      |
| Deferred Credits  | <b>(6,197,537)</b>   | (7,498,490)  |
| ERC and Other Loans   | 96,568               | 46,660       |
| Plant Removal Costs   | <b>(1,086,623)</b>   | (1,150,885)  |
| Sale of Scrap   | 175,606              | 36,571       |
| Other Assets  | <b>1,804,474</b>     | (1,800,610)  |
| Material Returned to Stock from Retirements                 | -                    | 114,743      |
| Materials and Supplies                                      | <b>(240,760)</b>     | 34,065       |
| Nonutility Property   | 67,402               | (29,928)     |
| Other Investments   | <b>(482,896)</b>     | (386,124)    |
|   | <b>(27,465,543)</b>  | (29,735,519) |
| <b>Cash Flows from Financing Activities</b>                 |                      |              |
| Advances from CFC   | 10,000,000           | 17,000,000   |
| Line-of-Credit  | 2,400,000            | 9,300,000    |
| Memberships   | (19,690)             | (21,462)     |
| Principal Payments on Long-Term Debt                        | <b>(11,113,974)</b>  | (10,224,634) |
| Retirement of Patronage Capital                             | <b>(3,546,278)</b>   | (3,471,124)  |
| Other Equities  | (1,511)              | -            |
| Customer Deposits   | 945,037              | 5,450,105    |
| Capital Lease   | <b>7,035,765</b>     | 6,627,026    |
|   | <b>5,699,349</b>     | 24,659,911   |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | <b>9,231,560</b>     | (2,186,431)  |
| <b>Cash and Cash Equivalents-Beginning</b>                  | <b>5,825,742</b>     | 8,012,173    |
| <b>Cash and Cash Equivalents-Ending</b>                     | <b>\$ 15,057,302</b> | \$ 5,825,742 |



### (1) Summary of Significant Accounting Policies

Accounting policies of the Corporation reflect practices appropriate to the electric utility industry. The following describes the more significant of those policies.

#### Consolidation

The consolidated financial statements include the accounts and results of operations of the Corporation and its wholly-owned and majority-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

#### Nature of Operations

The Walton Electric Membership Corporation is a not-for-profit corporation whose purpose is to provide electric service to its members. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

Doyle I, LLC, a wholly-owned subsidiary of The Walton Electric Membership Corporation, is a generation facility whose purpose is to provide Oglethorpe Power Corporation with all of the facility output, pursuant to a power purchase and sale agreement. (Note 4)

Walton Energy, Inc. d/b/a Walton EMC Natural Gas, a wholly-owned subsidiary of The Walton Electric Membership Corporation, is a natural gas affiliate whose purpose is to provide natural gas service to its customers. Walton Energy, Inc. entered into a purchase agreement effective January 1, 2007 to acquire 50.01 percent of Texican Industrial Energy Marketing, LLC (TIEM). TIEM is a company established to market natural gas products and services to industrial customers, large commercial customers and small municipalities in the Southeast. The Corporation subsequently entered into a sale agreement for the acquired interest in TIEM, resulting in a gain on disposition.

#### Discontinued Operations

The financial statements include the accounts and results of operation of the Corporation and its discontinued component interest in TIEM in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, for fiscal years ended June 30, 2007 and 2006.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For the assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

Accounting standards require the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations



*continued*

related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the lives of the distribution assets.

### **Utility Plant**

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

### **Depreciation and Maintenance**

Depreciation of the capitalized cost is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.0 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.0 to 14.3 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

### **Accounts Receivable**

An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of such accumulated allowance.

### **Materials and Supplies**

Materials and supplies are stated at lower of cost or market. Cost is determined by the moving average method of inventory valuation.

### **Equities and Margins**

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of patronage. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited.

### **Operating Revenues and Patronage Capital**

Operating revenues represent electric and natural gas revenues. Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electricity which had been used by the members of the Corporation but had not been billed to the members was not recorded. This unbilled electric revenue totaled approximately \$10,207,000 and \$9,673,000 for the years ended June 30, 2007 and 2006, respectively. Natural gas revenues are billed to customers on a monthly basis with revenues recorded at the time of billing.

### **Cost of Revenues**

Cost of revenues for electricity and natural gas is expensed as consumed.

### **Generation and Transmission Cooperative Capital Credits**

Generation and transmission cooperative capital credits represent the annual capital furnished generation and transmission cooperatives through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.



*continued*

### Cash Equivalents

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

### Fair Value of Financial Instruments

Financial instruments include cash, other investments and long-term debt. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations.

The carrying value of cash and other investments approximates fair value because of the short maturity of those instruments. The carrying value of long-term debt approximates fair value based on the current rates offered to the Corporation for debt of the same remaining maturities.

### Income Taxes

The Corporation operates under the Internal Revenue Code Section 501(c)(12) as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made in the consolidated financial statements.

Walton Energy, Inc. operates under the Georgia Corporation Code as a for-profit corporation. The income expense related to income from this entity is a component of nonoperating margins in accordance with the FERC Chart of Accounts. Income tax benefits associated with loss from operations in the amount of \$122,298 and \$210,852 were recognized for the years ended June 30, 2007 and 2006, respectively. Income tax expense of \$282,963 was incurred for the year ended June 30, 2007 associated with net worth and the disposition of a discontinued component unit.

### New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan. The Corporation was required to adopt the recognition and disclosure provisions of SFAS No. 158 for the fiscal year ended June 30, 2007 and will be required to adopt the measurement date provision for the fiscal year ending June 30, 2008.

**(2) Utility Plant** Listed below are the major classes of the electric utility plant as of June 30:

|                                  | 2007                 | 2006          |
|----------------------------------|----------------------|---------------|
| Distribution Plant               | \$276,345,234        | \$259,824,515 |
| General Plant                    | 28,869,429           | 27,919,951    |
| <b>Electric Plant in Service</b> | <b>305,214,663</b>   | 287,744,466   |
| Construction Work in Progress    | 3,274,828            | 1,955,801     |
|                                  | <b>\$308,489,491</b> | \$289,700,267 |

**(3) Investments in Associated Organizations**

|  |           |           |
|--|-----------|-----------|
| National Rural Utilities Cooperative Finance Corporation |           |           |
| Membership Fee   | \$1,000   | \$1,000   |
| Capital Term Certificates                                | 4,634,984 | 4,531,059 |
| Capital Credits  | 3,102,910 | 2,808,220 |
| Capital Stock  | 100       | 100       |



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

|   | 2007                | 2006         |
|---|---------------------|--------------|
| Oglethorpe Power Corporation                |                     |              |
| Capital Credits                             | <b>38,305,780</b>   | 36,913,133   |
| Georgia Transmission Corporation            |                     |              |
| Contributed Capital                         | <b>3,743,638</b>    | 3,743,638    |
| Capital Credits                             | <b>5,273,358</b>    | 4,635,241    |
| Georgia Systems Operations Corporation      |                     |              |
| Capital Credits                             | <b>11,847</b>       | 10,857       |
| GRESKO Utility Supply, Inc.                 |                     |              |
| Capital Credits                             | <b>346,515</b>      | 320,560      |
| Southeastern Data Cooperative, Inc.         |                     |              |
| Capital Credits                             | <b>186,804</b>      | 177,987      |
| Georgia Electric Membership Corporation     |                     |              |
| Workers' Compensation Fund Capital Credits  | <b>109,791</b>      | 93,788       |
| Data ComLink, Inc.                          |                     |              |
| Contributed Capital                         | <b>60,000</b>       | 60,000       |
| Smarr EMC                                   |                     |              |
| Contributed Capital                         | <b>630,622</b>      | 630,622      |
| Capital Credits                             | <b>525,681</b>      | 464,698      |
| Federated Rural Electric Insurance Exchange |                     |              |
| Capital Credits                             | <b>126,757</b>      | 104,363      |
| Green Power EMC                             |                     |              |
| Membership Fee                              | <b>25</b>           | 25           |
| Capital Credits                             | <b>21,874</b>       | 21,874       |
| Georgia Right-of-Way Company, Inc.          |                     |              |
| Membership Fee                              | <b>1,000</b>        | -            |
| Other                                       | <b>10</b>           | 10           |
|   | <b>\$57,082,696</b> | \$54,517,175 |

#### (4) Note Receivable-Capital Lease

In 2000, Doyle I, LLC entered into a power purchase and sale agreement with Oglethorpe Power Corporation. Oglethorpe Power Corporation committed to purchase all of the output of the generation facility for a period covering 15 years. At the end of the 15-year term, Oglethorpe Power Corporation has the option to purchase Doyle I, LLC for \$10,000,000, which is considered to be the bargain purchase price. Therefore, the power purchase and sale agreement is shown as a note receivable-capital lease on the consolidated financial statements.



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

### Note Receivable-Capital Lease *continued*

Future minimum lease payments to be received as of June 30, 2007 are as follows:

|  |                      |
|--|----------------------|
| Total Future Minimum Lease Payments              | \$111,648,737        |
| Amount Representing Interest                     | (25,310,988)         |
| Present Value of Minimum Lease Payments          | 86,337,749           |
| Current Portion of Note Receivable-Capital Lease | (7,469,716)          |
| Long-Term Note Receivable-Capital Lease          | <u>\$ 78,868,033</u> |

Future minimum lease payments to be received for the ensuing five years and thereafter are as follows:

| Year       | Amount               |
|------------|----------------------|
| 2008       | \$ 7,469,716         |
| 2009       | 7,930,431            |
| 2010       | 8,418,564            |
| 2011       | 8,938,866            |
| 2012       | 9,490,195            |
| Thereafter | 44,089,977           |
|            | <u>\$ 86,337,749</u> |

### (5) Patronage Capital

|            | 2007                  | 2006           |
|------------|-----------------------|----------------|
| Assignable | <b>\$ (1,049,486)</b> | \$ (6,982,848) |
| Assigned   | <b>176,112,327</b>    | 166,309,580    |
|            | <b>175,062,841</b>    | 159,326,732    |
| Retired    | <b>(38,778,162)</b>   | (35,231,884)   |
|            | <b>\$ 136,284,679</b> | \$ 124,094,848 |

### (6) Long-Term Debt

Long-term debt consists of mortgage notes payable to the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and a note payable to the National Cooperative Services Corporation (NCSC). The notes are secured by a mortgage agreement between the Corporation and the lending institutions. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes have maturity periods varying from September 8, 2006 to December 14, 2039 and are payable on an installment basis.

On December 29, 1999, a loan agreement was established between The Walton Electric Membership Corporation and Doyle I, LLC. The terms of this agreement state that a generating facility is to be designed, constructed, operated, maintained and owned by Doyle I, LLC. Doyle I, LLC is required to make quarterly principal and



*continued*

### Long-Term Debt *continued*

interest payments for a term of fifteen years from the last day of construction. The interest payable shall bear a stated interest rate equal to the current rate payable under the Corporation's loan from NRUCFC.

| Holder of Note                        | Interest Rate  | 2007                 | 2006          |
|---------------------------------------|----------------|----------------------|---------------|
| NRUCFC                                | 3.80% to 7.05% | \$106,730,808        | \$100,550,121 |
| NRUCFC (Related to Doyle I, LLC)      | 3.80% to 6.25% | 84,725,979           | 91,650,776    |
| NCSC (Related to Walton Energy, Inc.) | 7.85%          | 4,630,136            | 5,000,000     |
|                                       |                | <b>196,086,923</b>   | 197,200,897   |
|                                       |                | <b>(11,292,000)</b>  | (10,818,800)  |
|                                       |                | <b>\$184,794,923</b> | \$186,382,097 |

The estimated principal maturities of long-term debt are approximately \$11,292,000 for each of the ensuing five years. In addition, the Corporation has a \$24,000,000 line-of-credit at 6.90 percent with NRUCFC which had outstanding balances of \$11,700,000 and \$9,300,000 as of June 30, 2007 and 2006, respectively. Of the above line-of-credit, \$1,500,000 is pledged as collateral for Cooperative Choice, LLC, an equity investment.

Total interest cost was \$10,614,444 and \$10,263,611, of which \$4,906,628 and \$5,239,153, the amounts related to Doyle I, LLC, are reflected as a reduction in interest expense for 2007 and 2006, respectively. Interest income which is a component of nonoperating margins is reduced by a like amount.

Interest payments totaled \$10,638,141 and \$9,938,787 for 2007 and 2006, respectively.

### (7) Retirement Benefits

#### *Pension Plan (Defined Benefit)*

Pension benefits for substantially all employees of the Corporation are provided through participation in a retirement and security program, a defined benefit plan qualified under Section 401 and tax exempt under 501 (a) of the Internal Revenue Code.

The Corporation has adopted the recognition provisions of FASB Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ~ An Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, as of June 30, 2007, which requires that the funded status of defined benefit pension plan be fully recognized in the consolidated balance sheets. The incremental effects of applying FASB Statement 158 on individual line items in the balance sheets as of that date are as follows:

|  | Before Application<br>of SFAS No. 158 | Other<br>Comprehensive<br>Income | After Application of<br>SFAS No. 158 |
|--|---------------------------------------|----------------------------------|--------------------------------------|
| Accumulated Provisions for Pension Benefits-Noncurrent | \$-                                   | \$6,024,428                      | \$6,024,428                          |
| Accumulated Provisions for Pension Benefits-Current    | \$-                                   | \$120,000                        | \$120,000                            |



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

The status of the Corporation's pension plan as of June 30, 2007 is detailed as follows:

|                                |                     |
|--------------------------------|---------------------|
| Projected Benefit Obligation   | \$24,742,743        |
| Fair Value of Assets           | (18,598,315)        |
| Funded Status                  | <u>\$ 6,144,428</u> |
| Employer Contributions         | \$ 1,200,000        |
| Plan Participant Contributions | \$ ~                |
| Benefits Paid                  | <u>\$ 1,348,023</u> |

Amounts recognized in the consolidated balance sheets consisted of:

|                        |                     |
|------------------------|---------------------|
| Noncurrent Liabilities | \$ 6,024,428        |
| Current Liabilities    | 120,000             |
|                        | <u>\$ 6,144,428</u> |

Amounts recognized as a reduction in equity consisted of:

|  |                     |
|--|---------------------|
| Transition Obligation  | \$10,682,312        |
| Prior Service Cost   | (3,045,763)         |
| Actuarial Gain   | (1,492,121)         |
| Amount Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost | <u>\$ 6,144,428</u> |

For measurement purposes, a 3 percent annual compensation rate increase was assumed for 2007. The weighted average discount rate used in determining the projected benefit obligation was 6.25 percent. The expected rate of return on plan assets was 8.5 percent.

The Corporation expects to contribute \$1,850,000 to the pension plan for the year ending June 30, 2008.

The following benefits are expected to be paid:

| Year      | Amount     |
|-----------|------------|
| 2008      | \$ 120,000 |
| 2009      | 273,000    |
| 2010      | 536,000    |
| 2011      | 711,000    |
| 2012      | 903,000    |
| 2013-2017 | 7,885,000  |



*continued*

### Postretirement Health care Benefits

The Corporation provides medical benefits and life insurance to qualified retirees, directors and attorneys. The Corporation had previously adopted SFAS No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions. This standard requires cooperatives to recognize the estimated future cost of providing health care and any other postretirement benefits on an accrual basis.

The Corporation has adopted the recognition provisions of FASB Statement 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ~ An Amendment of FASB Statements No. 87, 88, 106 and 132(R), as of June 30, 2007, which requires that the funded status of the postretirement health care plan be fully recognized in the consolidated balance sheets. The incremental effects of applying FASB Statement 158 on individual line items in the consolidated balance sheets as of that date are as follows:

|   | <b>Before Application<br/>of SFAS No. 158</b> | <b>Other<br/>Comprehensive<br/>Income</b> | <b>After Application of<br/>SFAS No. 158</b> |
|---|---|---|--|
| Accumulated Provisions for Postretirement Benefits Other Than Pensions-Noncurrent | \$10,848,400                                  | \$ ~                                      | \$10,848,400                                 |
| Accumulated Provisions for Postretirement Benefits Other Than Pensions-Current    | \$ 448,000                                    | \$ ~                                      | \$ 448,000                                   |

The status of the Corporation's postretirement health care plan as of June 30, 2007 is detailed as follows:

### Accumulated Postretirement Benefit Obligation

|   |                     |
|---|---------------------|
| Retirees, Dependents and Others                                     | \$ 4,857,452        |
| Fully Eligible Active Plan Participants                             | 2,259,280           |
| Actives Not Yet Fully Eligible                                      | 4,179,668           |
| Total Accumulated Postretirement Benefit Obligation                 | <u>11,296,400</u>   |
| Fair Value of Assets  | ~                   |
| Funded Status   | <u>\$11,296,400</u> |
| Employer Contributions  | <u>\$ 570,053</u>   |
| Plan Participant Contributions                                      | <u>\$ 60,360</u>    |
| Benefits Paid   | <u>\$ 630,413</u>   |
| Amounts recognized in the consolidated balance sheets consisted of: |                     |
| Noncurrent Liabilities  | \$10,848,400        |
| Current Liabilities   | 448,000             |
|   | <u>\$11,296,400</u> |



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

Other changes in benefit obligations recognized in patronage capital are as follows:

|   |                   |
|---|-------------------|
| Service Cost  | \$ 263,178        |
| Interest Cost   | 663,893           |
| Total Recognized in Net Periodic Cost and Patronage Capital | <u>\$ 927,071</u> |

For measurement purposes, a 6.25 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5.5 percent by the year 2012 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 2007 by \$1,895,000 and the aggregate of the service and interest cost components of postretirement expense for the year then ended by \$183,000.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.25 percent.

The following benefits are expected to be paid:

| Year      | Amount     |
|-----------|------------|
| 2008      | \$ 448,000 |
| 2009      | 510,000    |
| 2010      | 554,000    |
| 2011      | 587,000    |
| 2012      | 600,000    |
| 2013-2017 | 3,296,000  |

### (8) Other Assets

Other assets are comprised of the following as of June 30:

|                               | 2007             | 2006                |
|-------------------------------|------------------|---------------------|
| Deferred Tax Asset            | \$-              | \$ 1,359,211        |
| Notes Receivable-Other        | 79               | 230                 |
| Miscellaneous Deferred Debits | 194,733          | 639,845             |
|                               | <u>\$194,812</u> | <u>\$ 1,999,286</u> |

### (9) Deferred Credits

Deferred credits are comprised of the following as of June 30:

|   | 2007                | 2006                |
|---|---------------------|---------------------|
| Unclaimed Retired Capital Credits             | \$ 2,724,124        | \$ 4,243,745        |
| Deferred Gain on Early Extinguishment of Debt | 159,532             | 638,129             |
| Power Cost Revenue Deferral                   | 6,654,145           | 10,869,577          |
| Other   | 21,425              | 5,312               |
|   | <u>\$ 9,559,226</u> | <u>\$15,756,763</u> |



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

The gain on early extinguishment of debt represents the discount recognized by the Corporation as a result of the prepayment of Rural Utilities Service (RUS) mortgage notes. Management has elected to defer recognition of this gain in accordance with Financial Accounting Statement Number 71. The gain will be recognized as a reduction of interest expense on a straight-line basis over the life of the replacement debt.

Plan transactions were as follows:

|                                     | 2007              | 2006              |
|-------------------------------------|-------------------|-------------------|
| Gain from Debt Extinguishment       | \$ 5,717,033      | \$ 5,717,033      |
| Accumulated Amortization, Beginning | (5,078,904)       | (4,600,307)       |
| Current Year Amortization           | (478,597)         | (478,597)         |
| Remaining Balance                   | <u>\$ 159,532</u> | <u>\$ 638,129</u> |

Beginning January 1, 2001, a power cost revenue deferral was established. The power cost revenue deferral represents revenues which are being recognized to reduce the impact of power cost on the Corporation's rate structure. This revenue deferral is in compliance with Financial Accounting Statement Number 71.

Plan transactions were as follows:

|                          | 2007                | 2006                 |
|--------------------------|---------------------|----------------------|
| Beginning Balance        | \$ 10,869,577       | \$ 18,296,078        |
| Current Year Recognition | (4,215,432)         | (7,426,501)          |
| Ending Balance           | <u>\$ 6,654,145</u> | <u>\$ 10,869,577</u> |

### (10) Nonoperating Margins

|  | 2007                | 2006                |
|--|---------------------|---------------------|
| Interest Income                        | \$ 211,902          | \$ 241,341          |
| Income (Expense) from Merchandise      | 5,941               | (140,478)           |
| Nonoperating Margins from Subsidiaries | 2,009,539           | 1,460,258           |
| Gain on Disposition of Property        | 32,460              | -                   |
|  | <u>\$ 2,259,842</u> | <u>\$ 1,561,121</u> |

### (11) Commitments

The Corporation has an amended and restated wholesale power contract dated August 1, 1996 with Oglethorpe Power Corporation (OPC) through December 31, 2050. Under the terms of the contract, the Corporation is responsible for 8.6783 percent of OPC's annual fixed costs. The Corporation's portion of these fixed costs, which totaled approximately \$43,407,000 for the year ended June 30, 2007, are expected to be at the same level for future years. The Corporation has a liability for a pro rata share of all resources covered under this agreement.

Effective January 24, 2001, the Corporation entered into a power supply and energy call agreement. The agreement commenced on June 1, 2001 and will continue through December 31, 2015. Under the terms of the agreement, the Corporation is required to maintain a modified debt service coverage ratio equal to or greater than 1.35 and a debt to equity ratio less than 2.5:1. In the event these conditions are not met, the Corporation will be required to provide the supplier with acceptable credit support in an amount equal to \$40 million. Once conditions are again met by the Corporation, the remaining amount of credit support will be returned.



*continued*

### **Commitments** *continued*

Also under the terms of the agreement, the supplier will supply 100 percent of regulation, spinning reserves and supplemental reserves and 50 percent of planning reserve capacity until December 31, 2007 and thereafter 100 percent of all reserve requirements.

Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

In addition, Walton Energy, Inc. is subject to a natural gas supply management agreement, as amended, with an outside third party. The third party acts as the gas asset manager and is responsible for "management services" which include, but are not limited to, performing all administrative and operational tasks associated with providing the Corporation with transportation services, storage services, consulting services and nominating services.

Walton Energy, Inc. services both fixed- and variable-rate customers. The third party bills the Corporation monthly for the volume of gas used by each customer type. When fixed-rate customers lock their rate in with Walton EMC Natural Gas, the third party is required by the agreement to sell that volume at a negotiated fixed price to the Corporation. Therefore, the transaction is not considered a hedging activity, and no exposure to the Corporation exists as of the balance sheet date unless the third party fails to perform.

The Corporation is also involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results from operations.

### **(12) Concentration of Credit Risk**

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of \$100,000.

At June 30, 2007, commercial paper of NRUCFC in the amount of \$9,200,000, which was held by the Corporation's subsidiaries, was included in cash and cash equivalents. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

Concentrations of credit risk with respect to consumer accounts receivable are limited due to the large number of customers comprising the Corporation's customer base.



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

### (13) Components of Equity Comprehensive Income

The components of comprehensive income are as follows:

|                                  | <b>Controlling<br/>Interest<br/>Equity</b> | <b>Noncontrolling<br/>Interest<br/>Equity</b> | <b>Total</b>         |
|----------------------------------|--|---|----------------------|
| <b>Balance, June 30, 2005</b>    | \$126,875,452                              | \$ -  | \$126,875,452        |
| Equity at Acquisition            | -  | 5,947,560                                     | 5,947,560            |
| Other Comprehensive Income       |  |   |                      |
| Beginning Balance                | (6,978,093)                                | (6,975,302)                                   | (13,953,395)         |
| Change in Comprehensive Income   | 4,834,125                                  | 4,832,191                                     | 9,666,316            |
| Ending Balance                   | (2,143,968)                                | (2,143,111)                                   | (4,287,079)          |
| Net Margins (Loss)               | 11,891,389                                 | (3,258,100)                                   | 8,633,289            |
| Patronage Capital Retirements    | (3,471,124)                                | -   | (3,471,124)          |
| Membership Fees                  | (21,462)                                   | -   | (21,462)             |
| <b>Balance, June 30, 2006</b>    | 133,130,287                                | 546,349                                       | 133,676,636          |
| Other Comprehensive Income       |  |   |                      |
| Change in Comprehensive Income   |  |   |                      |
| In Disposition of Component Unit | 2,143,968                                  | (546,349)                                     | 1,597,619            |
| Net Income                       | 13,487,408                                 | -   | 13,487,408           |
| Patronage Capital Retirements    | (3,546,278)                                | -   | (3,546,278)          |
| Membership Fees                  | (19,690)                                   | -   | (19,690)             |
| FAS 158 Adjustment               | (6,144,428)                                | -   | (6,144,428)          |
| Other Equity                     | (1,511)                                    | -   | (1,511)              |
| <b>Balance, June 30, 2007</b>    | <b>\$139,049,756</b>                       | <b>\$-</b>                                    | <b>\$139,049,756</b> |



## Financial Highlights

Notes to Consolidated Financial Statements

*continued*

### (14) Assets and Liabilities Held for Sale

Assets held for sale are comprised of the following as of June 30:

|                                   | 2007        | 2006                |
|-----------------------------------|-------------|---------------------|
| Nonutility Property (Net)         | \$ -        | \$80,789            |
| Cash and Cash Equivalents         | -           | 964,685             |
| Accounts Receivable-Trade         | -           | 25,195,156          |
| Accounts Receivable-Related Party | -           | 2,750,000           |
| Inventory                         | -           | 5,930,430           |
| Intangible Assets                 | -           | 3,847,557           |
| Prepayments                       | -           | 297,322             |
|                                   | <u>\$ -</u> | <u>\$39,065,939</u> |

Liabilities held for sale are comprised of the following as of June 30:

|                            | 2007        | 2006                |
|----------------------------|-------------|---------------------|
| Accounts Payable-Trade     | \$ -        | \$26,552,637        |
| Price Risk Liabilities     | -           | 3,537,079           |
| Prepaid Gas Sales          | -           | 714,511             |
| Accrued and Withheld taxes | -           | 1,733,665           |
| Other                      | -           | 282,394             |
|                            | <u>\$ -</u> | <u>\$32,820,286</u> |

The assets and liabilities held for sale listed above were part of the sale of interest in TIEM effective December 31, 2006.

### (15) Reclassifications

Certain reclassifications have been made in the 2006 financial statements to conform to the 2007 presentation.