

Preserving Our Future




2007 Annual Report

Haywood Electric Membership Corporation

A Touchstone Energy® Cooperative 

A supplement to Carolina Country



*We do not inherit the earth
from our ancestors, we
borrow it from our children.*

—Native American Proverb

Because Haywood EMC's service territory is predominantly rural, we average only nine members per mile of power line. In comparison, investor-owned utilities and publicly-owned municipals in our area serve 25 to 35, or more, consumers per mile of line.

Haywood Electric Membership Corporation is a business based on four core values: integrity, innovation, accountability and commitment to community. For the past 69 years, providing our members with safe, affordable, reliable electric service has always been our number one goal. At no time has our commitment to our membership been stronger than now.

Committed to Our Members

Receiving power through Haywood EMC means that you own the business. You have the right to vote for the members of the board that represent you. You also share in any profit the cooperative gained during the year. It's nice to know you belong to an organization that returns profits back to its members in the form of Capital Credits. That's what a cooperative does.

In 2007, your Board of Directors approved a capital credit refund of about \$364,000. Members who received electricity from 1983 – 2001 received either a check or credit on their electric bill last December. In addition to this refund, HEMC also retired approximately \$272,000 in capital credits to the estates of deceased members for a total retirement of about \$636,000. This is equivalent to a reduction in power costs of about 2 percent. These capital credits represent each member's ownership of HEMC and reflect the cooperative's non-profit nature.

Haywood EMC wants you to know that we work hard to provide the most affordable rates possible, which includes

keeping a diligent watch on the wholesale power costs options of our suppliers. As a part of our ongoing commitment to our members, we conduct surveys to find out what you want from us. Your answer has been "value" and we realize that includes affordability, reliability and advocacy for your needs.

Because HEMC's service territory is predominantly rural, we average only nine members per mile of power line. In comparison, investor-owned utilities (IOU) and publicly-owned municipals in our area serve 25 to 35, or more, consumers per mile of line. In addition, they have a much larger commercial and industrial base, providing larger sums of revenue. The load HEMC serves is 98 percent residential and only two percent commercial and industrial load. Therefore, compared to IOUs and municipals, HEMC only has about one-third the members and one-half the sales. This equates to revenue, per mile of line, one-sixth of that enjoyed by other utilities in our area. That's \$1.00 for every \$6.00 received by utilities like Duke Power and Progress Energy or the Towns of Waynesville and Highlands.

In addition, as a not-for-profit cooperative, we do not increase rates to improve the return on investor dividends, such as an investor-owned utility might do. Our members can be confident that HEMC works to hold electric rates steady. Considering these facts, Haywood EMC does not believe any other electric provider could come in, under the same conditions, and provide the same reliable service for less. That's "value."

Haywood EMC is A Touchstone Energy® Cooperative and ENERGY STAR® Partner.



What is ENERGY STAR®?

ENERGY STAR qualified products and practices help you save money and reduce greenhouse gas emissions by meeting strict energy efficiency guidelines set by the U.S. Environmental Protection Agency and the U.S. Department of Energy.

The Cooperative Difference Survey, conducted annually by Touchstone Energy, also tells us that providing reliable electric service is a consistent driver in member satisfaction. Knowing that reliability and satisfaction can be affected by power outages, we always strive for restoration in the quickest and safest way possible.

Even with all our efforts to prevent outages, our power supply will inevitably be interrupted. Haywood EMC has proactively set a stage for faster restoration after an outage. State of the art technologies and creative resource allocations contribute to our success.

HEMC receives higher American Consumer Satisfaction Index scores than the Touchstone Energy National Cooperative benchmark, even with the challenge of a rugged, mountainous service territory. This is due, in large part, to superior performance by our employees.



As your advocate, Haywood EMC will never forget that you are a member-owner, not just a customer, of our cooperative. That is why we stand ready to assist you with your energy needs. We also look out for you in the legislative halls in Raleigh and Washington, urging, on your behalf, for the decisions that best ensure you continue to receive affordable and reliable service at the least possible cost.

Committed to Promoting Energy Efficiency

As the cost of energy goes up, more and more people are concerned about their utility bills. Consumers are looking for ways to manage their energy use and reduce costs. Haywood EMC has always placed a high priority on promoting energy efficiency to our members.

Members can perform a free energy audit of their home on our website, www.haywoodemc.com, or they can schedule an appointment to have an employee come out and visually

inspect their home for inefficient energy use. In addition, the Home Energy Saver guide and other brochures are available on our website and at our local offices, to give you practical

ways to improve your home's electric efficiency. HEMC also offers loans to members for financing the purchase of an energy-efficient heat pump or for weatherizing an existing home with items such as insulation, weather stripping and thermal windows.

Energy efficiency is a responsibility shared by government, regulators, utilities and consumers. In 2006, the federal government passed the "Energy Policy Act" and last summer, Governor Easley signed into law "Senate Bill 3" which is North Carolina's Renewable Energy and Energy Efficiency Portfolio Standard. Senate Bill 3 mandates that by the year 2018, ten percent of the electricity Haywood EMC delivers to its members must be generated by renewable resources or offset by energy efficiency programs. We anticipate that in the near future lawmakers at the federal level will introduce additional legislation dealing with climate change that will directly affect our industry.

HEMC knows our members have a growing interest in renewable energy and independence from foreign sources of energy. Renewable energy includes electricity generated from wind, hydro, solar, geothermal and bio-fuel. While each of these can play an important role in reducing greenhouse gas emissions, they all have their limitations because technologies are still developing and, in most cases, the cost is high. The additional expense of developing and expanding renewable energy will ultimately be passed down to our members.

Haywood EMC is an advocate of a clean environment and will always continue to encourage energy efficiency for our members. We recognize the benefits of a diversified energy portfolio that includes renewable energy. However, HEMC feels cost should be a part of this discussion as well. Studies show that generation from renewable resources currently costs more than power generated from traditional fuels, such as coal and nuclear. We will continue to work hard to hold down electric prices. You, too, can play an important role in controlling energy costs by letting your government officials know the importance of balancing new programs and rising expenses.

With our members actively supporting energy efficiency by taking simple steps to trim unnecessary energy use and the implementation of generation from renewable resources, we can help improve our environment. However, we do not foresee that these resources will displace the need for future base-load generation. These plants will still be required to supply our future energy needs.



Committed to Our Communities

Reaching out into the communities to help those in need is a rewarding part of HEMC's business. Project HEMC has been a success as our members continue to "round up" their electric bills each month to the next whole dollar. This extra change has amounted in over \$225,000 worth of donations since the inception in September 2006. This community service program, distributed through the Department of Social Services, provides HEMC families in need with an emergency supply of whatever heating and cooling resources they use.

HEMC employees again volunteered in the United Way's Day of Caring by repairing Brenda Butler's mobile home. The work included extensive kitchen remodeling, building new porch steps,

weather stripping, insulating the home for air leaks and repairing roof leaks. The Day of Caring provides a great way for co-op employees to reach out to the community and improve team-building skills as they work together outside the normal work environment.

As always, Haywood EMC values the importance of local volunteer fire departments. We share the same goal to serve and protect our communities. Eight departments looked to the co-op for assistance in 2007 and we were glad to help. The Board of Directors approved to contribute to the purchases of new tools, safety equipment, back-up power generation, a hazardous gas detector, headlamps, new radio repeaters and a new sign. Helping to keep our local volunteer fire stations operating smoothly, will in turn, help keep our membership safe.

Committed to Our Youth

Haywood EMC understands that the lifeline of our business is our membership. We must involve as many people in our communities as we can and at a young age. Therefore, in cooperation with our statewide office, NCEMC, we invested approximately \$21,000 last year to sponsor many youth programs, including Bright Ideas, the Rural Electric Youth Tour and Cooperative Leadership Conference, the Touchstone Energy Scholarship, the Youth Leadership Council and the Kay Yow and Roy Williams basketball camps.

All of these youth programs are part of HEMC's ongoing commitment to our communities. For example, last year's Bright



Committed to Advancing Technology

As advances in technology continue, Haywood EMC is excited about our Automatic Meter Reading (AMR) project. We have installed over 25,500 AMR meters on our system. Once fully implemented, the advanced technology will allow us to improve the accuracy and timeliness of reading your meter in a less intrusive manner. The two-way automatic communication system uses our power lines to relay data from the meter, such as monthly readings and power outages.

Haywood EMC utilizes outage management systems that greatly improve our responsiveness during outages. These systems offer predictive analysis that examines incoming outage calls and "predicts" where the problem is likely to be. This technology ties information together from the customer information system, mapping, automatic meter reading and the Interactive Voice Response (IVR) system. IVR handles 30 to 50% of outage telephone calls and has greatly reduced member hold time and busy signals. The IVR can update the Data Voice system, which proves to be a very effective means of controlling the accuracy and timeliness of information delivery back to the membership.

To better enhance communication during both outage and daily work, HEMC installed a new communication system in 2007. This two-way radio system allows radio conversations on a particular channel to be heard at all sites, allowing wide-area communications throughout our service territory. Another benefit of the system is its ability to use Global Positioning Systems to locate service trucks for quick, coordinated dispatch response during power outages or other emergencies, which should increase efficiency even more.

All of these systems are examples of Haywood EMC's commitment to continuously improve service and reliability, and provide the most up-to-date technology to our members.

Ideas grant program brought in 38 applications from around western North Carolina. Local teachers submitted many fresh and innovative ideas to incorporate some excitement and fun into their classrooms. We awarded over \$8,850 to nine of these outstanding teachers. Haywood EMC believes that education must be a top priority for the children in our communities. Every year we look forward to visiting our local classrooms to see what an impact a Bright Ideas Grant can make.



Waynesville Headquarters, 1953

Committed to Our Future

Haywood EMC has operated out of our current headquarter building in Waynesville since 1953. Since then, our membership has grown from 3,936 to over 25,500 active accounts. Technology has also taken giant leaps during the past 55 years. All of this growth has left our current building lacking the ability to accommodate our needs. Your Board of Directors realized the necessity for new facilities to keep up with the growing demands of the future.

Therefore, HEMC began to develop plans for a new facility in 2007. We have broken ground at 376 Grindstone Road, off Highway 276, in Jonathan Creek. We expect to move in to our new “home” in 2009. Our new headquarters will house the latest technology in energy efficient lighting and high efficient air source heat pumps. The decision to build a new facility is the best way to manage the needs of a growing co-op while wisely controlling the stability of the co-op’s future.

Commitment to the co-op’s future is only one of many issues Haywood EMC faces. We know what an impact a clean environment will make on our nation’s future. Preserving the environment for our youth is vital, but not at the expense of our economy. A mix of power generation has many benefits as long as researchers and lawmakers consider the associated costs as well. How much your electric bill is affected depends on the decisions made in the legislature and Congress.

Green power requires a lot of ‘greenbacks’ and we do not want “going green” to be an economic hardship that drives your energy costs up 30 to 50 percent, as some analysts are predicting. Therefore, we must encourage law makers in

Raleigh and Washington to carefully evaluate all options for reducing greenhouse gases and carbon emissions in our environment, while at the same time being sure the solutions will keep electric rates affordable and our economy thriving.

In doing so, legislation must encourage research in the emerging technology of electricity generation, such as fuel cells, micro turbines and liquefied natural gas. Research is also needed to find the best use of one of our nation’s most abundant fuels; coal. Coal is to America what oil is to the Middle East. It is one of the most inexpensive ways to generate electricity and currently meets 50 percent of our nation’s electrical needs.

The government also needs to encourage more nuclear generation in our nation’s energy portfolio. Nuclear power is a proven technology that is safe, has no carbon emissions and would contribute to our national energy independence. Even though the disposal of spent fuel is an issue that must be addressed, we are optimistic that nuclear generation will be a vital base load resource in the solution to meeting our national energy needs.

Reviewing the past year allows us to reflect on our accomplishments. However, we are committed to continue improving the ways we serve our members. What we do today will affect our future and we want the impact to be positive. Keeping energy costs as affordable as possible, without adversely affecting our reliability level, is a top priority. Preserving our environment is as well, and we will continue to encourage our members to be energy efficient.

Haywood EMC will continue to be an advocate for our membership. Being able to say that we will always strive to do what is best for you is a privilege that few businesses have. It is the cooperative way and it will carry us far into tomorrow.



Bobby J. Tucker
President

Bobby J. Tucker



Norman Sloan
Executive Vice President and General Manager

Norman Sloan

Board of Directors



Bobby J. Tucker
President
11 years on the board



Larry Clark
Vice President
17 years on the board



David Noland
Secretary/Treasurer
17 years on the board



James P. Boyette
2 years on the board



David Edwards
35 years on the board



Dr. Kenneth Israel
18 years on the board



Ted Mullet
2 years on the board



Roy Stamey
26 years on the board



Emmit Wood
29 years on the board



Norman Sloan
Executive Vice President
and General Manager



Billy Q. McDonald
12 years on the board

In Memoriam: Director Billy Q. McDonald passed away on December 19, 2007. He was a true community leader and served as an example to us all. His work with Haywood EMC will long be remembered. He will be missed.

Financial Report

(reflects independent auditing firm's consolidated report)

Operating Statement

for years ending December 31, 2007 and 2006

	2007	2006
Operating Revenue & Patronage Capital	\$33,308,919	\$32,222,857
Operating Expenses:		
Cost of Power Purchased	16,265,033	16,044,426
Transmission - Operation	15,948	1,880
Transmission - Maintenance	16,796	12,420
Distribution - Operation	1,677,948	1,635,450
Distribution - Maintenance	3,124,371	2,896,989
Consumer Accounts	1,294,568	1,151,820
Customer Service and Informational	417,163	422,886
Administrative & General Expenses	2,048,017	1,902,494
Depreciation and Amortization	2,891,299	2,694,839
Taxes	1,110,727	1,096,277
Interest on Long-Term Debt	2,992,629	2,656,892
Other Deductions	106,333	17,557
Total Operating Expenses	31,960,832	30,533,930
Operating Margins before Patronage Allocations	1,348,087	1,688,927
Patronage Allocations	344,747	379,438
Net Operating Margins	1,692,834	2,068,365
Nonoperating Margins		
Interest Income	189,171	124,220
Gain on disposition of property and equipment - net	3,507	7,195
Other	18,470	(835)
Total Nonoperating Margins	211,148	130,580
Net Margins	1,903,982	2,198,945
Patronage capital - Beginning of Year	28,023,797	26,649,553
Margins not subject to allocation	(211,148)	(130,580)
Retirement of capital credits - net	(793,697)	(694,121)
Patronage capital - end of year	\$28,922,934	\$28,023,797

Key Statistics

	2007	2006
Total Services in Place:	29,218	28,741
Total Kilowatt Hours Sold:	270,528,808	261,160,154
Total Number of Employees:	70	65
Miles of Transmission Line:	20.71	20.71
Miles of Distribution Line:		
Underground	745.95	711.96
Overhead	2,035.81	2,026.69
Total Miles of Line:	2,802.47	2,759.36

Balance Sheet

for years ending December 31, 2007 and 2006

Assets

Utility Plant

	2007	2006
Electric plant in service (at cost)	\$107,342,360	\$97,405,343
Construction work-in-progress	3,386,276	2,925,472
	110,728,636	100,330,815
Less- accumulated provision for depreciation/amortization	(22,021,101)	(21,269,300)
Utility Plant - net	88,707,535	79,061,515

Other property and investments (at cost)

Non-utility property	130,109	130,109
Investments in associated organizations	2,381,846	2,344,289
Notes receivable - less current portion	44,938	25,896
Total other property and investments	2,556,893	2,500,294

Current assets

Cash and cash equivalents	4,253,610	1,029,444
Consumer accounts receivable (less provision for doubtful accounts of \$125,832 in 2005 and \$87,896 in 2004)	2,477,973	2,577,320
Unbilled revenue	2,211,837	2,514,917
Other accounts receivable	659,193	426,476
Materials and supplies	689,176	641,443
Prepayments	46,042	27,680
Other current assets	7,645	7,330
Notes receivable - current portion	6,465	21,130
Total current assets	10,351,941	7,245,740
Deferred debits	610,372	438,830
Total assets	\$102,226,741	\$89,246,379

Liabilities & Equities

Equities

Patronage capital	\$28,922,934	\$28,023,797
Other equities	3,159,701	2,725,321
Donated capital	1,201	723
Total equities	32,083,836	30,749,841

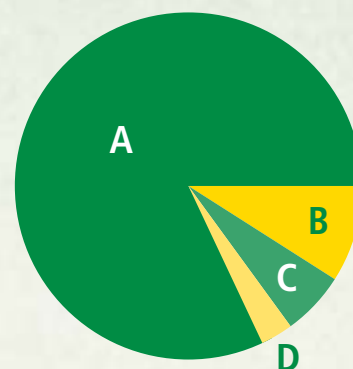
Noncurrent liabilities

Long-term debt - less current portion	62,668,296	51,246,214
Other long-term obligations	180,810	185,461
Total noncurrent liabilities	62,849,106	51,431,675

Current liabilities

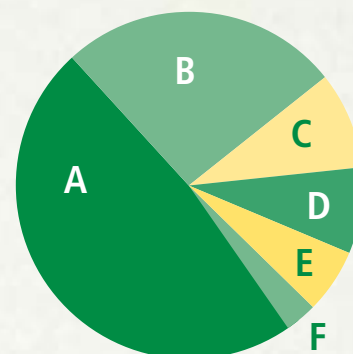
Current portion of long-term debt	1,691,830	1,655,244
Accounts payable	4,349,782	4,211,162
Consumer deposits	510,484	456,697
Accrued taxes	43,720	60,039
Other current and accrued liabilities	697,983	681,721
Total current liabilities	7,293,799	7,064,863
Total liabilities & equities	\$102,226,741	\$89,246,379

Where Our Dollar Comes From



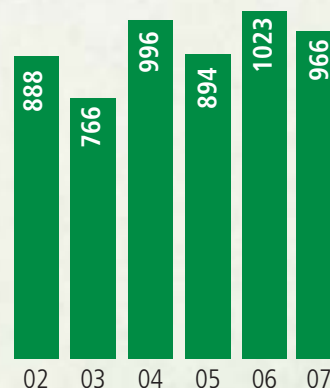
A: Residential	82%
B: Seasonal	9%
C: Sm Commercial	6%
D: Industrial	3%

Where Our Dollar Goes



A: Purchased Power	48%
B: Operating Expense	26%
C: Interest	9%
D: Depreciation	8%
E: Member Equity	6%
F: Taxes	3%

New Services Connected



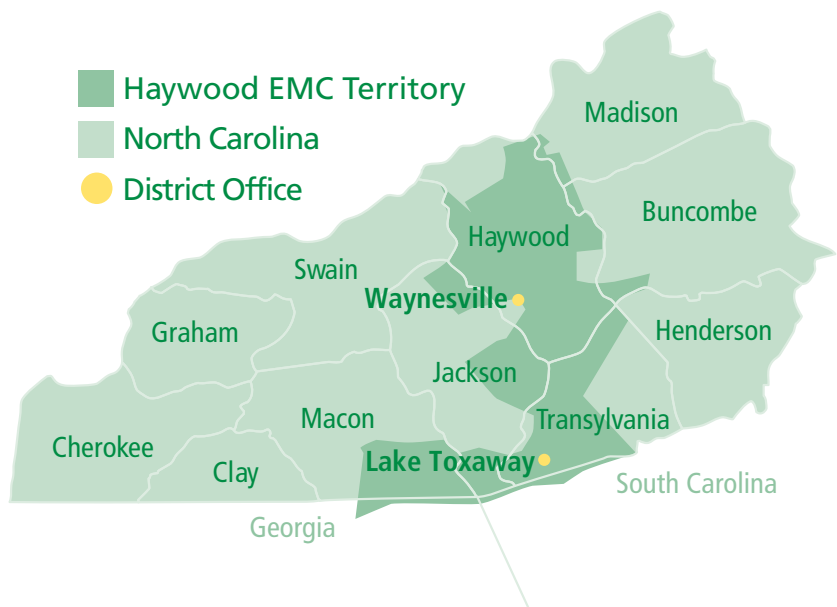


Energy Saving Tip

Replacing traditional incandescent bulbs with high-efficient compact fluorescent ones can reduce your lighting expense as much as 75% per month.

*Haywood Electric
Membership Corporation*

is a member-owned electric cooperative serving more than 25,500 electric services in Western North Carolina, as well as a part of South Carolina and Georgia. District offices are located in Lake Toxaway and Waynesville.



A Touchstone Energy[®] Cooperative

