



Focusing on the Future

Walton EMC
Customer-Owned Electric Power

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

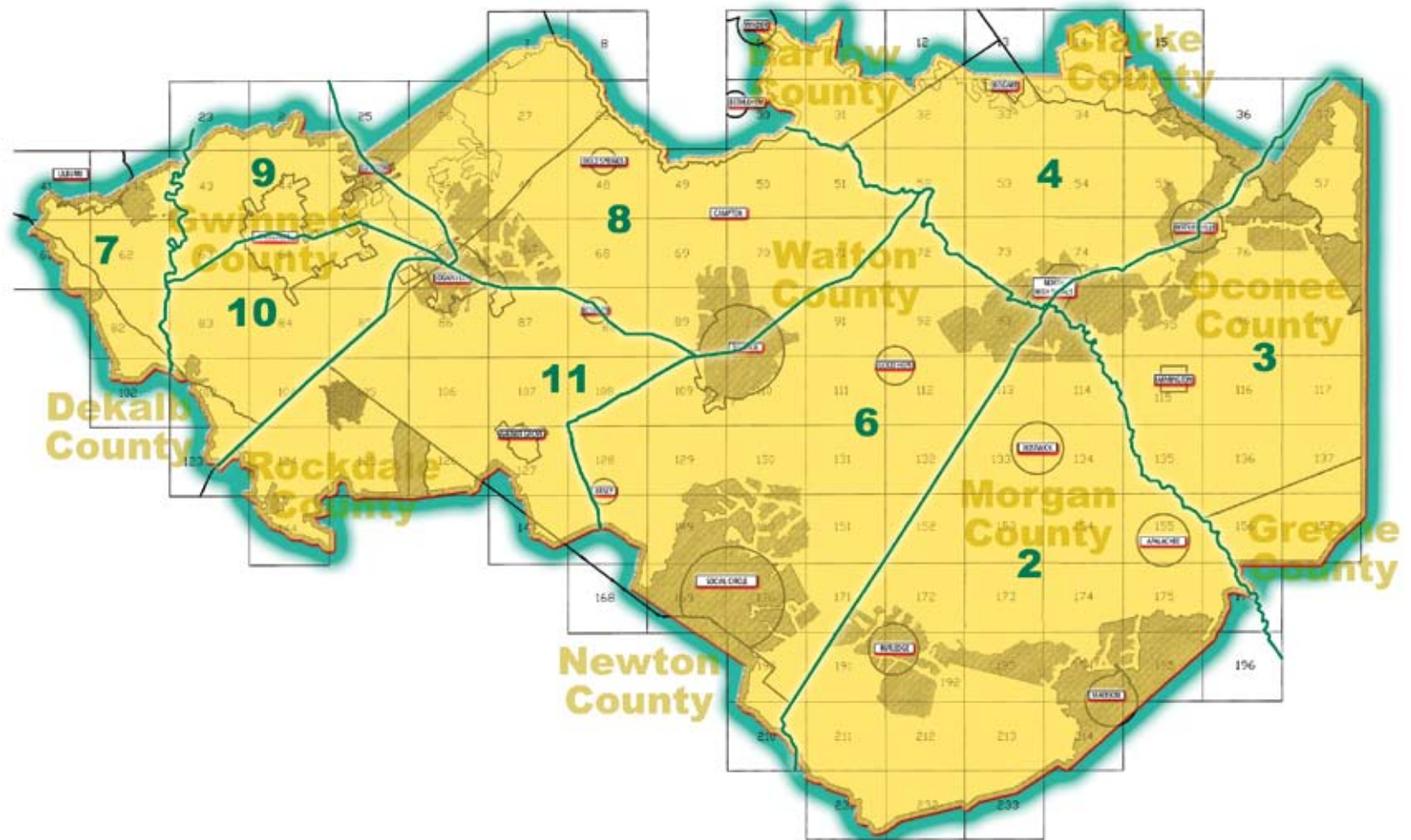
Walton EMC continues its unparalleled culture of giving. Employees of Walton EMC and Walton EMC Natural Gas donate countless hours, money and materials to benefit the American Cancer Society, March of Dimes, United Way, Red Cross, Project Share, Lions Club and others.



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



Walton Electric

Financial Highlights

Consolidated Balance Sheets • June 30

EQUITIES AND LIABILITIES

	2007	2006
Equities		
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
	139,049,756	133,676,636
Long-Term Debt	184,794,923	186,382,097
Accumulated Provision for Postretirement Benefits		
Pension Benefits	6,024,428	-
Medical Benefits	10,848,400	10,504,988
	16,872,828	10,504,988
Current Liabilities		
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
	55,209,328	49,468,780
Deferred Credits	9,559,226	15,756,763
Liabilities Held for Sale	-	32,820,286
Total Equities and Liabilities	\$405,486,061	428,609,550



Walton Electric

Financial Highlights

Consolidated Statements Of Operations For The Years Ended June 30

continued

	2007	2006
Operating Revenues and Patronage Capital	\$295,251,807	\$295,256,623
Cost of Revenues	239,832,169	240,927,771
Gross Margins	55,419,638	54,328,852
Operating Expenses		
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
	43,614,516	40,665,902
Operating Margins Before Interest Expense	11,805,122	13,662,950
Interest Expense	5,741,660	4,875,598
Operating Margins After Interest Expense	6,063,462	8,787,352
Nonoperating Margins	2,259,842	1,561,121
Generation and Transmission Cooperative Capital Credits	2,031,756	1,978,169
Other Capital Credits and Patronage Capital Allocations	1,312,616	1,148,657
Income Tax Benefit (Expense)	(160,665)	210,852
Income from Continuing Operations	11,507,011	13,686,151
Income (Loss) from Operation of Discontinued Component, Net of Tax Benefit (Expense) of (\$1,480,509) in 2007 and \$1,667,144 in 2006	1,980,397	(1,794,762)
Net Margins	\$ 13,487,408	\$ 11,891,389



Walton Electric

Financial Highlights

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

	Total Equities	Membership Fees	Patronage Capital	Accumulated Comprehensive Loss	Noncontrolling Interest	Other Equities
Balance, June 30, 2005	\$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	
Balance, June 30, 2006	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)
Balance, June 30, 2007	\$139,049,756	\$1,180,825	\$136,284,679	\$-	\$-	\$ 1,584,252

Cash Flows

	2007	2006
Cash Flows from Operating Activities		
Net Margins	\$ 13,487,408	\$ 11,891,389
Adjustments to Reconcile Net Margins to Net Cash 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
Change In		
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	(32,820,286)	32,820,286
	30,997,754	2,889,177
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(22,387,322)	(20,028,113)
Return of Equity from Associated Organizations	785,545	926,592
Deferred Credits	(6,197,537)	(7,498,490)
ERC and Other Loans	96,568	46,660
Plant Removal Costs	(1,086,623)	(1,150,885)
Sale of Scrap	175,606	36,571
Other Assets	1,804,474	(1,800,610)
Material Returned to Stock from Retirements	-	114,743
Materials and Supplies	(240,760)	34,065
Nonutility Property	67,402	(29,928)
Other Investments	(482,896)	(386,124)
	(27,465,543)	(29,735,519)
Cash Flows from Financing Activities		
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	(11,113,974)	(10,224,634)
Retirement of Patronage Capital	(3,546,278)	(3,471,124)
Other Equities	(1,511)	-
Customer Deposits	945,037	5,450,105
Capital Lease	7,035,765	6,627,026
	5,699,349	24,659,911
Net Increase (Decrease) in Cash and Cash Equivalents	9,231,560	(2,186,431)
Cash and Cash Equivalents-Beginning	5,825,742	8,012,173
Cash and Cash Equivalents-Ending	\$ 15,057,302	\$ 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
Electric Plant in Service	305,214,663	287,744,466
Construction Work in Progress	3,274,828	1,955,801
	\$308,489,491	\$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	38,305,780	36,913,133
Georgia Transmission Corporation		
Contributed Capital	3,743,638	3,743,638
Capital Credits	5,273,358	4,635,241
Georgia Systems Operations Corporation		
Capital Credits	11,847	10,857
GRESKO Utility Supply, Inc.		
Capital Credits	346,515	320,560
Southeastern Data Cooperative, Inc.		
Capital Credits	186,804	177,987
Georgia Electric Membership Corporation		
Workers' Compensation Fund Capital Credits	109,791	93,788
Data ComLink, Inc.		
Contributed Capital	60,000	60,000
Smarr EMC		
Contributed Capital	630,622	630,622
Capital Credits	525,681	464,698
Federated Rural Electric Insurance Exchange		
Capital Credits	126,757	104,363
Green Power EMC		
Membership Fee	25	25
Capital Credits	21,874	21,874
Georgia Right-of-Way Company, Inc.		
Membership Fee	1,000	-
Other	10	10
	\$57,082,696	\$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	\$ (1,049,486)	\$ (6,982,848)
Assigned	176,112,327	166,309,580
	175,062,841	159,326,732
Retired	(38,778,162)	(35,231,884)
	\$ 136,284,679	\$ 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
		196,086,923	197,200,897
		(11,292,000)	(10,818,800)
		\$184,794,923	\$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 of SFAS No. 158	Other Comprehensive Income	After Application of 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:

	Before Application of SFAS No. 158	Other Comprehensive Income	After Application of SFAS No. 158
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	11,296,400
Fair Value of Assets	~
Funded Status	\$11,296,400
Employer Contributions	\$ 570,053
Plan Participant Contributions	\$ 60,360
Benefits Paid	\$ 630,413
Amounts recognized in the consolidated balance sheets consisted of:	
Noncurrent Liabilities	\$10,848,400
Current Liabilities	448,000
	\$11,296,400



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	\$ 927,071

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
	\$194,812	\$ 1,999,286

(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
	\$ 9,559,226	\$15,756,763



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:

	Controlling Interest Equity	Noncontrolling Interest Equity	Total
Balance, June 30, 2005	\$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)
Balance, June 30, 2006	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)
Balance, June 30, 2007	\$139,049,756	\$-	\$139,049,756



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
	\$ -	\$39,065,939

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
	\$ -	\$32,820,286

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.