GreyStone Power Corporation
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2004 ANNUAL REPORT

GREYSTONE

Keeping our promises

We promised...

...to continue providing reliable electric power at low rates.

2004 was the twelfth year in a row without a rate increase.

...to develop a strong distribution system.

GreyStone's average outage time is a third of Georgia's average.

...to keep our commitment to our members: to serve them well.

GreyStone was voted #1 in customer satisfaction in 2004.

We promised *to support the communities and people in our eight-county service area. In 2004, the United Way of Metropolitan Atlanta named GreyStone "A Company That Cares" for the fourth consecutive year.*

GreyStone 2004 Milestones

GreyStone Power passed significant milestones during 2004 that mean better service and greater benefits for member-owners and our communities today and in the future.

AMONG THEM:

More than 94,000 accounts.

A new, multi-year wholesale power supply contract.

More than 17,000 Operation Round Up participants.

An expanded Member Services Center.

More than 3,000 GreyStone Security subscribers.

2004 Annual Report

Letter to member-owners

Dear Friends:

GreyStone Power Corporation, your electric membership cooperative, passed a significant milestone during 2004 by keeping our promise to provide member-owners with reliable, low-cost electric power and other services and to support the communities and people in our eight-county service area.

We joined only a handful of electric cooperatives across the nation that serve more than 94,000 accounts. Indeed, among approximately 1,000 electric cooperatives GreyStone Power ranks in the top 20 in size and top 15 in revenues.

Since 1996, membership in your cooperative increased by 58%, assets have grown by almost $143 million and demand for electricity surged 77%. Most importantly, members' equity increased by $38 million. That represents your increased ownership in GreyStone Power, which is allocated to your Capital Credit account and ends up in your wallet.

Growth Means Greater Member Benefits

GreyStone Power's growth reflects the economic health of the communities we serve and the energy and creativity of your cooperative's employees. Growth also strengthens our ability to provide improved services and greater benefits to member-owners.

During 2004 we took a giant step in improving member services with the creation of a stand-alone call center for faster, personalized service. You said you wanted faster service and we acted. We also broke ground on a new office building in Paulding County to serve the growing number of members there.

So far, GreyStone has disbursed more than $30 million in Capital Credits to members.

Careful planning and stringent financial discipline permitted distribution of more than $2 million in Capital Credit checks to members during 2004. These distributions reinforce the fact that membership in GreyStone is truly an investment that pays off. So far, GreyStone has disbursed more than $30 million in Capital Credits to members.

New Contract Assures Future Power Supplies

GreyStone Power maintained stable power rates during 2004, the 12th consecutive year without a retail rate increase. This extraordinary record resulted, in part, from wholesale power supply contracts negotiated at extremely favorable prices in 1997. Unfortunately, those contracts expired at the end of 2004. Today, of course, energy prices are extremely volatile and much higher than in 1997.

With this deadline in mind, GreyStone had been evaluating new contracts and building new generating plants during the past three years. In May 2004, we were pleased to sign a new, six-year contract with Progress Energy Ventures Inc., Raleigh, N.C., to supply all of your increasing power needs for today and tomorrow.

Understandably, prices are higher under the new contract. But your board of directors and management remain committed to keeping your power rates among the lowest in the nation. As a result, we realigned our rate structure in 2005 so that you should pay approximately the same amount for power as you did in 2004. And if our forecasts hold true, we expect these rates to remain stable for the six-year term of the contract.

Hurricane Response Was Rapid, Courageous

Our investment in equipment and outage management systems and the professionalism of GreyStone linemen paid off as our service area was hit not once, but twice by the remnants of destructive hurricanes. The aftermath of hurricanes Frances and Ivan left up to 17,000 members without power; our automated outage reporting line received almost 24,000 reports. GreyStone crews worked around the clock to remove fallen trees and repair power lines. Within two days, 99% of members' power was restored.

With power restored to members, GreyStone linemen volunteered to help restore power in Florida. One six-man crew from GreyStone saved the life of a Florida man whose generators had poisoned his store.

...the 12th consecutive year without a retail rate increase.

GreyStone People Give Back To The Community

Again in 2004, GreyStone Power, its employees and members were recognized for individual volunteerism and company partnerships in the community.

GreyStone received the 2004 Company of the Year Award from Leadership Douglas and for the fourth time was named "A Company That Cares" by the United Way of Metropolitan Atlanta.

Significantly, more than 17,000 members' donations to GreyStone Power Foundation through Operation Round Up during 2004 resulted in more than $94,000 being distributed to the needy.

We can all be proud of our cooperative and you can be assured that GreyStone Power's board of directors, management and employees will continue to put member-owners first by providing excellent service, by keeping costs low, and by offering benefits that add significant value to membership.

That's our promise.

Gary A. Miller,
PRESIDENT/CEO

C. Billy Peek,
CHAIRMAN OF THE BOARD.

2004 ANNUAL REPORT GREYSTONE

GreyStone Power Services Benefit Members

GreyStone Electrical Power Distribution – GreyStone Power members are partners in a modern, highly automated electric power network. GreyStone built and maintains more than 5,400 miles of energized power distribution lines to serve homes and businesses in an eight-county region in West Georgia. The system is fed by 2,600 miles of high-voltage transmission lines operated by Georgia Transmission Corp., our $1 billion-asset cooperative partner. Oglethorpe Power Corp., another cooperative partner, has invested almost $6 billion in nuclear, hydroelectric, coal and natural gas generation facilities. Georgia's EMCs also can access an additional 16,000 miles of transmission lines through the state's Integrated Transmission System.

During 2004, GreyStone grew to more than 5,443 miles of energized power lines and more than 94,684 meters.

Rates remained stable in 2004 and a new power supply agreement with Progress Energy Ventures Inc. will shield GreyStone members from sharply increasing energy costs through 2010.

GreyStone keeps service interruptions to a minimum. An advanced-technology SCADA system monitors loads continuously, identifies outages faster and sharply reduces response times. As a result, the average length of power outages for GreyStone members is among the nation's lowest.

GreyStone also gives members the power of information. Our expanded Member Services Center, Website and Guest Services Booth at Arbor Place Mall aim to keep you informed about your cooperative.

GreyStone Security – The security of a home or business is a natural extension of GreyStone's partnership with member-owners. GreyStone Security had more than 3,000 systems installed at the end of 2004, and growth continues as GreyStone members benefit from peace of mind at a reasonable cost. Members may transfer the monitoring of an existing system or install a new GreyStone system for a minimal charge.

GreyStone Fleet Services – GreyStone's expertise in servicing line vehicles and equipment is marketed to other vehicle fleet operators and electric cooperatives, leveraging members' investment to create additional revenue.

GreyStone SurgeMaster Plus – Members can protect expensive electronic equipment and appliances from internal and external electrical surges with SurgeMaster Plus. A device on your electric meter and plug-in devices for individual appliances provide comprehensive protection for your home.

GreyStone Infrared Thermal Imaging – Commercial and industrial enterprises must anticipate possible electrical and mechanical thermal weaknesses before they damage equipment and halt production. Using state-of-the-art technology, a GreyStone Infrared Inspection instantly identifies otherwise invisible weaknesses in electrical and mechanical systems before they become critical problems. The inspection is the foundation of preventative maintenance programs that save GreyStone members thousands of dollars.

GEMC Federal Credit Union – This non-profit credit union provides a full range of financial services, including free checking, competitive car loans, mortgages, savings rates, free ATM use and Internet account access. Members get personalized service at our Douglasville and Dallas offices.

GreyStone/SCANA – GreyStone offers natural gas service to members through an alliance with SCANA Energy, an affiliate of Columbia, S.C.-based SCANA Corp., a $5 billion energy holding company.

What Is An EMC?

Electric membership cooperatives (EMCs) were created to provide electricity at reasonable cost to rural communities. They are non-profit cooperatives owned and managed by the customers they serve.

An EMC is committed to providing reliable electricity and other services at the lowest possible cost to its customers, who as member-owners elect the board of directors and share in any appreciation of the asset value of the cooperative through Capital Credits.

A group of local citizens meeting in Douglasville in 1936 created the Farmers Electrical Association, a non-profit EMC, which now serves an eight-county area under the name GreyStone Power Corporation.

GreyStone, as an EMC, reflects and serves the local community.

2004 Washington Youth Tour

GreyStone sponsored six local student leaders to join students across the United States in the 2004 Washington Youth Tour. The students were introduced to the nation's capital and their government in action. Natalie Hall (right) was one of the students.

GreyStone Power Serves The Community

GreyStone Power's promise goes beyond providing electricity and other services. The corporation, its employees and its member-owners are committed to the communities where they work and live.

The cooperative was honored to receive the 2004 Company of the Year award from Leadership Douglas. The award recognized the "true leadership" of GreyStone and its employees in educational partnerships, student mentoring programs, charity drives and civic organizations.

Again, GreyStone was named "A Company That Cares" by the United Way of Metropolitan Atlanta the fourth consecutive year, recognizing employee volunteerism and company partnerships with the community.

During 2004, more than 17,000 members joined Operation Round Up, allowing their bills to be rounded up each month to fund GreyStone Power Foundation. As a result, the Foundation distributed more than $94,000 to needy individuals and community organizations. The Foundation has distributed almost $305,000 since its inception in 1999.

Finally, GreyStone sponsored six local student leaders to join students across the United States in the 2004 Washington Youth Tour. The students were introduced to the nation's capital and their government in action.

As part of its commitment to Green Power, GreyStone Power is currently investigating the feasibility of wind power in Georgia.

Green Power From GreyStone

GreyStone Power is a founding member of Green Power EMC which began producing environmentally cleaner power from landfill sites in October, 2003.

Landfill gas is the most abundant and economical renewable resource in Georgia, and GreyStone is happy to be part of a statewide effort to produce cleaner energy.

GreyStone members can support the Green Power initiative by enrolling to pay an additional $5 a month for a 150-kilowatt-hour block of sponsored power. A portion of the proceeds will fund research and development of other renewable resources such as wind, solar and low-impact hydro.

GreyStone Lifesavers

Six GreyStone Power linemen received the Georgia EMC Life Saving Award in 2004 for their life-saving efforts while working on storm damage in Florida.

The six volunteers were helping restore power to the 10,000 members of Escambia River Electric Cooperative following hurricane Ivan when they responded to cries for help from police officers. A husband and wife had collapsed in their fish market near Pensacola, but sheriff's deputies couldn't enter the building because of burglar bars on the windows. The GreyStone crew used their line truck's large winch to remove the bars and gain entry.

The woman died at the scene, but her husband was revived at the hospital. An investigation indicated that the couple suffered carbon monoxide poisoning while trying to refrigerate fish using three generators inside the building.

The GEMC Life Saving Award recognizes courage and skill in assisting individuals who face grave and immediate danger.

(Clockwise) Aaron Parrott, Matt Williams, Patrick LeCroy, Eddie Elrod, and Matt Gilbert were honored by Life Saving Awards from both GreyStone and Georgia Electric Membership Corporation for saving a life in Florida during hurricane relief efforts.

"The Electric Cowboy"

Line foreman Roy Burton retired from GreyStone Power after 32 years of riding the lines of your cooperative.

Burton had a baptism of fire soon after joining GreyStone in August 1972. A devastating combination of freezing rain, sleet and snow in January 1973 closed down GreyStone's entire electric grid. Linemen fought for weeks to restore power.

"Having to work in it for that long was a real 'breaking-in' experience," he said. "It was after about two weeks that I finally got home. I only spent two nights at home during that time, and even then I only had time to take the meat out of the fridge and hang it up outside."

Burton now has more time for his hobby of restoring antique cars, but he will always be a lineman. "People don't have any idea what linemen go through—what kind of life it is," he said. "We go to work at all times of the day, in all kinds of weather, to places no one else goes."

Burton says he might write a book about the friendships made and lessons learned working the line. He'd like to call it "The Electric Cowboy."

Douglasville Resident Gets Harrison Scholarship

Ami Thaker, a Douglasville resident and Georgia State University student, was awarded a 2004 Walter Harrison Scholarship.

Several $1,000 scholarships are awarded annually in honor of the late Walter Harrison, a pioneer in the electric cooperative industry. The scholarship recognizes academic achievement and community involvement.

Thaker, whose parents emigrated from India, is a straight A student and active in local and national youth anti-tobacco campaigns.

"My parents keep me motivated; I want to make them proud," Thaker said. "They came to America to provide better opportunities for our family and I do not want to disappoint them."

After earning her undergraduate degree in Public Relations, Thaker plans to pursue a Masters in Business Administration.

http://www.greystonepower.com

Town Square

Town Square Tells "What's Happening"

GreyStone Power reflects the communities of its member-owners and now you can all find out "what's happening" in our eight-county service area through GreyStone's Town Square on the World Wide Web.

During 2004, GreyStone unveiled Town Square for members to discover and post upcoming events, concerts, community activities, sports scores, church services and more. Members can post their own happenings on Town Square by visiting the GreyStone Web site.

Try it! Just visit www.greystonepower.com and click on Town Square to find or announce what's happening in your community.

In 2004, we began planning to

break ground

for a new office building in Paulding County to serve the growing number of member-owners.

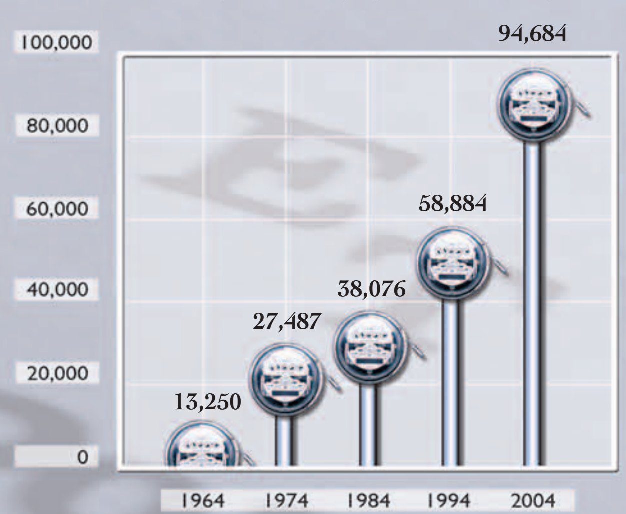
GreyStone Board of Directors

From left to right: Bill Parks, Jennifer DeNyse, J. Calvin Earwood, Fred E. Wallace, Ed Garrard, John Walton, C. Billy Peek, L. Burnell Redding, Charles E. Rutland, Gary A. Miller.

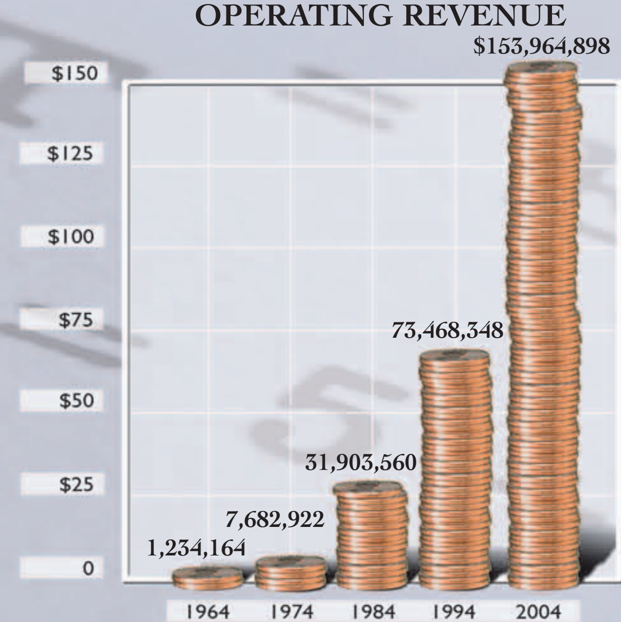
GreyStone Statistics

GreyStone's service area encompasses a growing eight-county region west of Atlanta.

NUMBERS OF METERS

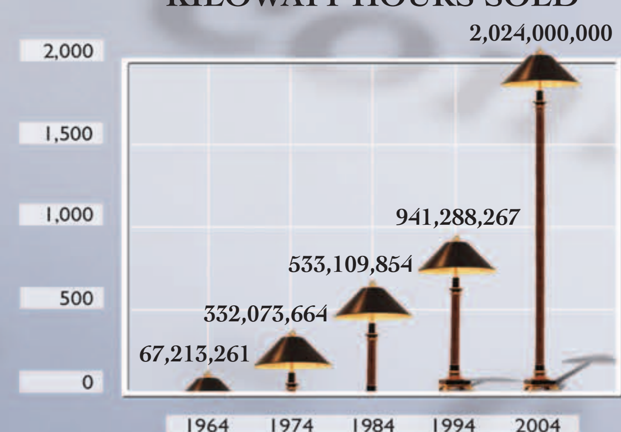


OPERATING REVENUE



MILES OF LINES

KILOWATT HOURS SOLD



Report of Independent Accountants

We have audited the accompanying balance sheets of **GreyStone Power Corporation** as of August 31, 2004 and 2003 and the related statements of revenue, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GreyStone Power Corporation as of August 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated October 14, 2004 on our consideration of GreyStone Power Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

McNAIR, McLEMORE,
MIDDLEBROOKS & CO., LLP

Balance Sheets

August 31

ASSETS	2004	2003
Utility Plant		
Electric Plant in Service-At Cost	$ 242,892,377	$ 222,801,229
Construction Work in Progress	7,777,834	6,086,069
Gross Utility Plant	250,670,211	228,887,298
Accumulated Provision for Depreciation	(42,249,437)	(38,529,864)
	208,420,774	190,357,434
Other Property and Investments		
Investments in Associated Organizations	11,385,052	15,553,533
Notes Receivable	284,629	374,581
Other Investments	294,232	358,166
	11,963,913	16,286,280
Current Assets		
Cash and Cash Equivalents	43,307,589	16,029,790
Accounts Receivable (Less Accumulated Provision for Uncollectible Accounts of $191,300 in 2004 and $148,244 in 2003)	17,731,564	16,352,297
Current Portion of Notes Receivable	100,355	112,320
Materials and Supplies	2,465,421	2,576,575
Other	782,129	939,068
	64,387,058	36,010,050
Deferred Debits	213,012	205,216
Total Assets	$ 284,984,757	$ 242,858,980

EQUITIES AND LIABILITIES	2004	2003
Equities		
Membership Fees	$ 832,596	$ 784,818
Patronage Capital	98,096,455	89,726,476
Other	2,986,046	2,774,474
	101,915,097	93,285,768
Long-Term Debt	140,452,344	116,240,722
Other Long-Term Liabilities		
Accumulated Provision for Postretirement Benefits Other Than Pensions	8,749,332	8,031,614
Current Liabilities		
Lines-of-Credit	6,294,893	2,000,000
Current Maturities of Mortgage Notes	3,611,000	1,859,000
Accounts Payable	13,767,740	12,304,615
Consumer Deposits	5,546,485	4,534,133
Other	4,647,866	4,603,128
	33,867,984	25,300,876
Total Equities and Liabilities	$ 284,984,757	$ 242,858,980

The accompanying notes are an integral part of these balance sheets.

Statements of Revenue

For the years ended August 31

	2004	2003
Operating Revenue and Patronage Capital	$ 150,622,074	$ 137,410,446
Operating Expenses		
Cost of Power	100,649,643	91,912,207
Distribution Operations	4,320,912	4,927,948
Distribution Maintenance	3,876,819	4,039,556
Consumer Accounts	4,781,546	5,229,765
Consumer Service and Information	1,775,075	1,695,901
Administrative and General	5,522,625	5,742,067
Depreciation	7,398,072	6,628,435
	128,324,692	120,175,879
Operating Margins Before Interest Expense	22,297,382	17,234,567
Interest Expense	6,731,228	5,853,971
Operating Margins After Interest Expense	15,566,154	11,380,596
Nonoperating Margins	(1,082,535)	669,061
Generation and Transmission Cooperative Capital Credits	(4,134,043)	(7,429,456)
Other Capital Credits and Patronage Capital Allocations	243,522	814,154
Net Margins	$ 10,593,098	$ 5,434,355

Statements of Members' Equity

For the years ended August 31, 2004 and 2003

	Total Equities	Membership Fees	Patronage Capital	Other Equities
Balance, August 31, 2002	$ 89,453,338	$ 741,087	$ 86,436,393	$ 2,275,858
Net Margins	5,434,355		5,434,355	
Membership Fees	43,731	43,731		
Donated Capital	29,043			29,043
Retirement of Patronage Capital	(2,144,272)		(2,144,272)	
Retired Capital Credit Gains	469,573			469,573
Balance, August 31, 2003	93,285,768	784,818	89,726,476	2,774,474
Net Margins	10,593,098		10,593,098	
Membership Fees	47,778	47,778		
Donated Capital	1,213			1,213
Retirement of Patronage Capital	(2,223,119)		(2,223,119)	
Retired Capital Credit Gains	210,359			210,359
Balance, August 31, 2004	$ 101,915,097	$ 832,596	$ 98,096,455	$ 2,986,046

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

For the years ended August 31

	2004	2003
Cash Flows From Operating Activities		
Net Margins	$ 10,593,098	$ 5,434,355
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	8,031,738	7,244,551
Amortization	2,199	(87,398)
Patronage Capital from Associated Organizations	3,928,991	6,613,932
Postretirement Benefits	717,718	1,142,514
Change In		
Accounts Receivable	(1,379,267)	(699,083)
Other Current Assets	156,939	(150,814)
Accounts Payable	1,463,125	770,435
Other Current Liabilities	44,738	991,866
	23,559,279	21,260,358
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(25,592,182)	(22,757,547)
Plant Removal Costs	(902,352)	(1,001,620)
Material Salvaged	399,456	151,082
Deferred Debits	(7,796)	(31,756)
Materials and Supplies	111,154	(76,098)
Return of Equity from Associated Organizations	237,291	449,064
Notes Receivable	101,917	139,561
Other Investments	63,934	20,369
	(25,588,578)	(23,106,945)
Cash Flows from Financing Activities		
Advances of Long-Term Debt	35,764,000	69,122,705
Memberships	47,778	43,731
Principal Repayment of Long-Term Debt	(2,932,807)	(9,156,140)
Other Borrowings	141,104	100,000
Retirement of Patronage Capital	(2,223,119)	(2,144,272)
Consumer Deposits	1,012,352	701,730
Other Equities	211,572	498,616
Lines-of-Credit	4,294,893	(52,697,000)
Advance Payments on Long-Term Debt Unapplied	(7,008,675)	–
	29,307,098	6,469,370
Net Increase in Cash and Cash Equivalents	27,277,799	4,622,783
Cash and Cash Equivalents – Beginning	16,029,790	11,407,007
Cash and Cash Equivalents – Ending	$ 43,307,589	$ 16,029,790
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest	$ 6,358,710	$ 6,250,170

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

(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.

Nature of Operations

GreyStone Power Corporation is a not-for-profit corporation organized 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.

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 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 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 life 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 3.12 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 to 25 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 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.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

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 individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 35.8 and 38.4 percent of total assets as of August 31, 2004 and 2003, respectively.

Operating Revenues and Patronage Capital

Operating revenues which include patronage capital are billed monthly to consumers. Electricity which had been used by members of the Corporation but had not been billed to the members was not recorded. This unbilled electric revenue approximated $3,258,000 and $3,222,300 for the years ended August 31, 2004 and 2003, respectively.

Cost of Purchased Power

Cost of power is expensed as consumed.

Capital Credits from Associated Organizations

The Corporation accounts for capital credits in associated organizations in accordance with the requirements of Statement of Position 85-3. Capital credits are the result of member patrons providing substantial capital to the organizations. Capital investments are made primarily to obtain an economical source of product to the member and not with the expectation of typical returns. The investments are accounted for as follows:

- At cost, reduced if the carrying amount cannot be fully recovered.
- Refunds are recognized upon notification by the organization or when patronage occurs if it is probable that:

  a patronage refund will be declared,

  events confirming the receipt of a patronage refund are expected to occur,

  the amount of the refund can be reasonably determined, and

  the accrual can be consistently made from year to year.

Based on the above process, management has made the decision to record all capital credits at cost as patronage occurs, except those related to Oglethorpe Power Corporation (OPC). This decision was based on management's inability to determine if a refund will be declared and when such a refund could be expected to occur.

In addition, management reviews the balance recorded in previous years as patronage occurred and adjusts the carrying cost if, in their opinion, the carrying value will not be fully recovered. Factors reviewed and considered in this process include:

- Financial forecast,
- Debt requirements,
- Market conditions and other factors.

The carrying value of OPC capital credits adjustment totals $26,270,969 and $20,329,000 for the years ended August 31, 2004 and 2003, respectively.

Use of Estimates

The preparation of 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 financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

The carrying value of cash and cash equivalents and other investments approximates fair value because of the short maturity of those instruments. Additional information pertinent to the value of long-term debt is provided in the footnote for long-term debt.

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 financial statements.

(2) Utility Plant

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

	2004	2003
Distribution Plant	$ 215,153,858	$ 195,906,334
General Plant	27,738,519	26,894,895
Electric Plant in Service	242,892,377	222,801,229
Construction Work In Progress	7,777,834	6,086,069
	$ 250,670,211	$ 228,887,298

(3) Investments in Associated Organizations

	2004	2003
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	$ 1,000	$ 1,000
Capital Term Certificates	2,270,231	2,272,430
Capital Credits	776,444	786,943
Oglethorpe Power Corporation		
Capital Credits	–	4,857,087
Georgia Rural Electric Service Corporation		
Capital Credits	597,975	597,975
GEMC Workers' Compensation Fund		
Capital Credits	72,375	67,473
Southeastern Data Cooperative, Inc.		
Capital Credits	48,895	48,335
Georgia Transmission Corporation		
Membership Fee	5	5
Contributed Capital	2,860,384	2,860,384
Capital Credits	2,840,855	2,314,643
CoBank		
Membership Fee	1,000	1,000
Capital Credits	550,491	539,746
Balance – Carried Forward	$ 10,019,655	$ 14,347,021
Balance – Brought Forward	$ 10,019,655	$ 14,347,021
Georgia Systems Operations Corporation		
Capital Credits	6,936	5,944
Smarr EMC		
Membership Fee	5	5
Contributed Capital	730,267	730,267
Capital Credits	585,038	468,473
Federated Rural Electric Membership Exchange		
Subscriber Equity	43,116	1,788
Green Power EMC		
Membership Fee	25	25
Chattahoochee EMC		
Membership Fee	5	5
Talbot EMC		
Membership Fee	5	5
	$ 11,385,052	$ 15,553,533

(4) Deferred Debits

Deferred debits are comprised of the following as of August 31, 2004

	2004	2003
Transportation Costs	$ 28,024	$ 57,439
Alarm Security Accounts	71,586	79,585
Other	113,402	68,192
	$ 213,012	$ 205,216

(5) Patronage Capital

	2004	2003
	$ 12,275,916	$ 8,270,229
Assigned	114,491,830	107,904,419
	126,767,746	116,174,648
Retired	(28,671,291)	(26,448,172)
	$ 98,096,455	$ 89,726,476

(6) Other Equities

	2004	2003
Nonoperating Margins	$ 50,517	$ 50,517
Operating Margins	56,108	56,108
Donated Capital	106,418	105,206
Retired Capital Credits-Gain	2,773,895	2,563,535
Capital Losses	(892)	(892)
	$ 2,986,046	$ 2,774,474

(7) Long-Term Debt

Long-term debt consists primarily of mortgage notes payable to the United States of America acting through the Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (NRUCFC) and Federal Financing Bank (FFB). The notes are secured by a mortgage agreement among the Corporation, RUS, NRUCFC and FFB. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis.

Other long-term debt has a five-year maturity period and is payable on an installment basis.

Holder of Note	Interest Rate	2004	2003
RUS	2% to 5.5%	$ 62,518,009	$ 27,557,569
RUS Cushion-of-Credit	5.00%	(7,008,675)	–
NRUCFC	2.80% to 6.70%	26,789,182	28,492,889
FFB	4.46% to 4.92%	61,730,739	62,000,000
Other	8%	34,089	49,264
		144,063,344	118,099,722
Maturities Due Within One Year		(3,611,000)	(1,859,000)
		$140,452,344	$116,240,722

The Corporation has a $26,700,000 line-of-credit at 6.30 percent with NRUCFC which had no outstanding balance as of August 31, 2004 and 2003. The Corporation also has a $20,000,000 line-of-credit at 2.89 percent with CoBank which had outstanding balances of $6,294,893 and $2,000,000 as of August 31, 2004 and 2003, respectively.

Principal maturities of long-term debt approximate $3,611,000, $4,200,000, $4,900,000, $5,600,000 and $6,300,000 for the ensuing five years.

The Corporation has unadvanced loan funds totaling $367,000 on commitment from NRUCFC and unadvanced loan funds totaling $65,608,000 on commitment from RUS. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

The Corporation has made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program the Corporation may make voluntary deposits into a special cushion-of-credit account. The cushion-of-credit account balance accrues interest to the Corporation at a rate of 5 percent per annum. The use of the cushion-of-credit account is restricted to funding the future debt service payments that the Corporation is obligated to pay against its outstanding indebtedness to RUS.

Fair value of long-term debt is not materially different from cost-based borrowing rates for debt with similar maturities at the balance sheet date.

(8) Pension Plan

The employees of the Corporation participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. The Corporation makes annual contributions to the plan equal to the amounts accrued for pension expense. In this master multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Pension costs were $1,484,604 in 2004 and $1,401,686 in 2003.

The Corporation participates in the NRECA SelectRE 401K Plan for all eligible employees. There were no pension costs related to this plan in 2004 and 2003.

(9) Postretirement Benefits Other Than Pensions

The Corporation provides medical benefits and life insurance for qualified retired employees, directors and attorneys.

The plan's status as of August 31, 2004 based on the January 1, 2002 valuation is as follows:

Accumulated Postretirement Benefit Obligation (APBO)	
Retirees and Dependents	$ 2,446,000
Fully Eligible Active Plan Participants	1,713,100
Other Active Plan Participants	4,378,400
Unrecognized Actuarial Loss	(1,434,400)
Expense Less Benefits Paid Since January 1, 2003	1,646,232
	$ 8,749,332

Net periodic postretirement benefit cost includes the following components:

	2004	2003
Service Cost	**$ 321,100**	$ 321,100
Interest Cost on Accumulated Postretirement Benefit Obligation	**545,300**	545,300
	866,400	866,400
Amortization of Actuarial Gain	**46,000**	46,000
	$ 912,400	$ 912,400

For measurement purposes, an 8.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate was assumed to decrease gradually to 5.5 percent by the year 2009 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 August 31, 2004 by $1,576,400 and the aggregate of the service and interest cost components of postretirement expense for the year then ended by $182,100.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7 percent.

(10) Commitments

The Corporation has a wholesale power contract with OPC through 2025. Under the terms of the contract, the Corporation is responsible for 5.8921 percent of OPC's fixed costs.

The Corporation's portion of these costs, which totaled approximately $30,673,000 for the year ended August 31, 2004, are expected to be at the same level for future years.

The Corporation entered into a power purchase agreement with Smarr EMC for a facility known as the Smarr Energy Facility. Under the terms of the agreement, the Corporation is responsible for 6.9417 percent of the Smarr Energy Facility fixed costs.

In addition, the Corporation has agreed to guarantee 3.9080 percent of the indebtedness of Smarr EMC related to the Sewell Creek Facility. The total indebtedness for the facility as of December 31, 2003 was approximately $155,000,000.

The Corporation entered into power purchase agreements dated November 1, 2001, related to the Chattahoochee Energy Facility and the Talbot Energy Facility. These facilities are owned by OPC, and under the terms of the agreements, the Corporation is responsible for 6.8084 percent of the Chattahoochee Energy Facility fixed costs and 20.7685 percent of the Talbot Energy Facility fixed costs. The Corporation's portion of these fixed costs, which totaled approximately $2,630,000 for the Chattahoochee Energy Facility and $5,552,000 for the Talbot Energy Facility for the year ended August 31, 2004, are expected to be at the same level for future years. The agreements are in effect through December 31, 2025.

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.

(11) 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 August 31, 2004, commercial paper of NRUCFC in the amount of $40,705,287 which was held by the Corporation 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.