It's about ...
our energy, our future.

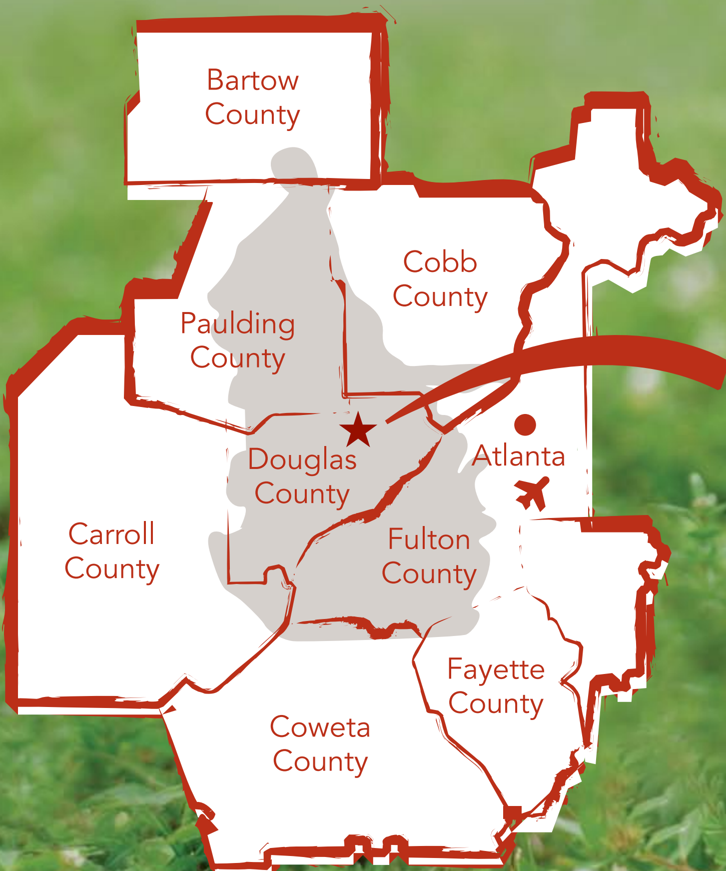
Annual Report for 2008

GREYSTONE
POWER CORPORATION
An Electric Membership Corporation

Mission Statement:

To provide reliable and cost-competitive electric and related services that position the Cooperative as the utility of choice.

Service Area:



Cooperative Headquarters

GREYSTONE POWER CORPORATION
An Electric Membership Corporation

Contents

GREYSTONE POWER CORPORATION

An Electric Membership Corporation

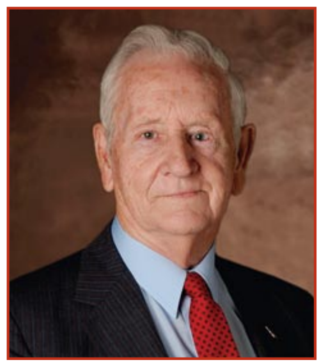
Board of Directors

Gary Miller
President/CEO

Calvin Earwood
Chairman, District 1: Paulding and Bartow counties

John Walton
Vice Chairman, District 2: Paulding County

Jennifer DeNyse
Secretary-Treasurer, District 5: Carroll and Douglas counties



Ed Garrard
District 9: Cobb County

Milton Jones
District 7: Fulton County

Burnell Redding
District 4: Carroll and Douglas counties

Charles Rutland
District 3: Douglas and Paulding counties

Fred Wallace
District 8: Douglas County

Maribeth Wansley
District 6: Fulton, Fayette and Coweta counties

It's about ...
our energy, our future.

Letter to Members

In many ways, the last year and a half has held many challenges. As a business, we faced an economic recession, rising costs for supplies, fuel, power/capital constraints in financial markets, and an uncertain regulatory environment.

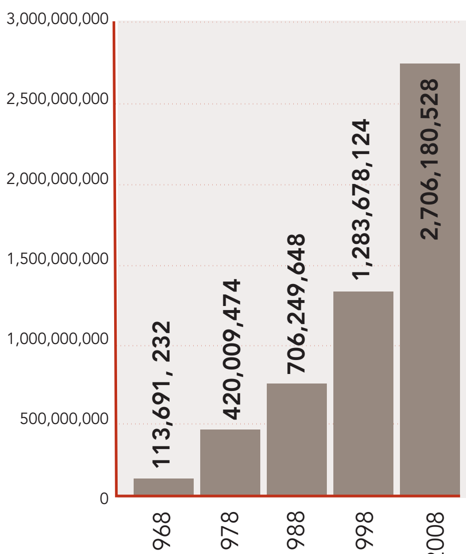
Yet in spite of this, 2008 and the first months of 2009 were remarkable periods for us. In September and October, growth slowed, and our membership declined for the first time in our history. But within two months, we made up for those losses. January through May 2009 we saw positive growth, but at a rate one-tenth of previous years.

During slower periods, we simply turned our attention to the future, beginning new projects that will translate into advances in service and reliability. We shifted employees into planning roles, and made plans for new accounting, work asset management and customer care and billing systems. These will greatly improve service, provide members with additional information and serve as a framework for new services.

(L-R) Calvin Earwood, Chairman of the Board, and Gary Miller, President/CEO

Through the Co-op Connections Card program, GreyStone members received more than $394,000 in prescription benefits, and saved on a variety of services at 290 participating businesses.

Killowatt Hours Sold



The reduced demand for labor forced us to release 250 as-needed contractors, who worked on new construction, and led us to freeze hiring. At the same time, our call center showed a 15 to 20 percent increase in calls as members lost jobs, faced other financial hardships or needed assistance from our member service representatives.

It's about … helping members save money

We were able to keep rates competitive. Surveys consistently rank GreyStone as having some of the lowest rates in the state and the nation.

A variety of programs and partnerships assist members as well, including our participation in Touchstone Energy's Co-op Connections Card program. As of November, GreyStone members have received more than $455,000 in prescription benefits alone, and saved at 290 participating local businesses. In 2008, we also began the Cooperative Healthy Savings program to assist members with dental, vision and hearing costs.

Members also benefit through our alliance with natural gas provider, Our Operation Round Up program donated $397,477 to worthy local causes, including Douglas County Public Safety Employees' programs.

Gas South. GreyStone members receive discounts on all standard residential Gas South rate plans. GEMC Federal Credit Union continues to offer members great rates and dividends. Increased self-service options, including online checking and billing, have reduced the cost of doing business, as well as environmental impact. Our alliance with EMC Security helps provide peace of mind at competitive prices.

It's about … caring for others

Our members truly demonstrated generosity in 2008 through Operation Round Up. By allowing us to round their electric bills to the next dollar each month, they funded $397,477 in grants to deserving organizations and causes, including the Douglas County Public Safety Employees' Santas program, and the Paulding County Cops for Kids program. GreyStone Power Foundation, Inc. members also awarded five scholarships of $3,000 to outstanding students from our community using Operation Round Up funds.

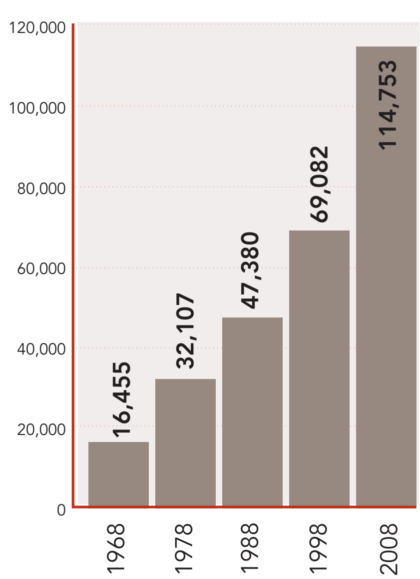
Pharoah Barnes conserves energy by turning off the lights when leaving a room.

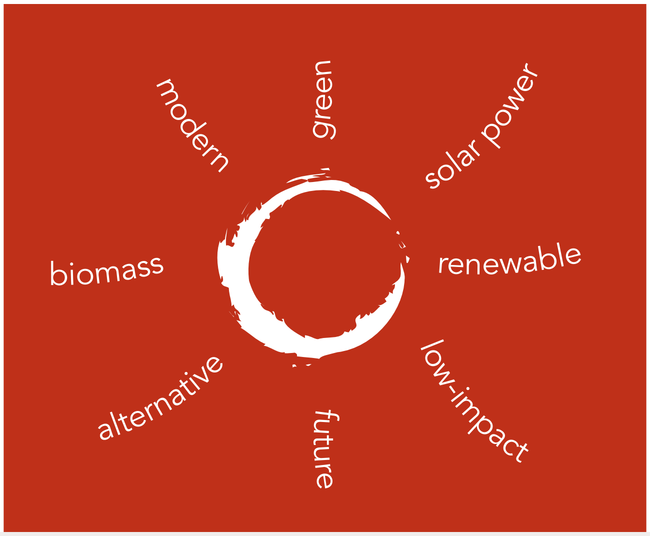
It's about … energy efficiency

In 2008, we began the mammoth task of replacing approximately 116,000 electric meters throughout our eight-county service area with technologically advanced meters. These new "smart" meters will provide faster outage notification and restoration of power and will enable us to offer prepaid service in the future. Members who prepay traditionally consume 10 percent less electricity, which can go a long way to help us control the demand for energy. A renewed focus on reliability led us to add system automation devices. Thanks to them, we are now able to re-route electricity to keep the power on or restore power more quickly.

We are also in the process of applying for a $2 million grant in government stimulus funds. The money would advance our new automated meter reading system by paying for state-of-the-art load management options, which would help keep power costs stable.

Number of Meters





Through local partnerships, such as the Hiram High School Solar Project, GreyStone promotes renewable energy in the community.

It's about … new sources of energy

As we move toward a crisis in having enough power generation to meet the demand for it, energy efficiency and conservation are more important than ever. We will continue to work to offer you better ways to reduce costs through energy efficiency.

Economic indicators and changing market dynamics led us to the decision to withdraw from our commitment with other electric cooperatives to build Plant Washington, a state-of-the-art coal plant. We will likely replace the electricity generated at the proposed facility with natural gas-fired resources.

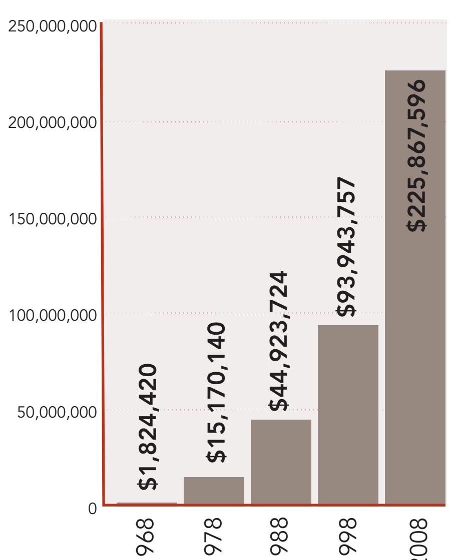
Through Green Power EMC, a partnership of 38 electric cooperatives in Georgia, we've been working to expand renewable energy options. In 2008, the EMC was the first utility

Taking small steps, such as using compact fluorescent lightbulbs, can go a long way to boost energy efficiency.

A portion of margins (revenues in for-profit businesses) are returned in the form of capital credit checks. Since 1936, GreyStone has distributed approximately $41 million to its members.

During Earth Day at Arbor Place Mall, GreyStone Power employees provided information on how to use energy more wisely.

Operating Revenue



in Georgia to earn the distinguished Green-e Energy™ certification, which recognizes excellence in meeting rigorous environmental standards. For the past two years, GreyStone celebrated Earth Day at Arbor Place Mall, where our employee representatives helped shoppers realize the importance of renewable energy and living green.

It's about … members owning this business

Any margins – or profits, as they are called in an investor-owned business – are returned periodically to GreyStone members. In 2008, we returned more than $3 million to members, bringing the total returned through 2008 to $41 million.

It's about … taking action

This past year, GreyStone members made their voices heard in the halls of Congress. Through the Our Energy, Our Future campaign, organized by the National Rural Electric Cooperative Association, co-op

Adrian Williams, the co-op's 100,000th member, *(L)* is welcomed to GreyStone by Gary Miller.

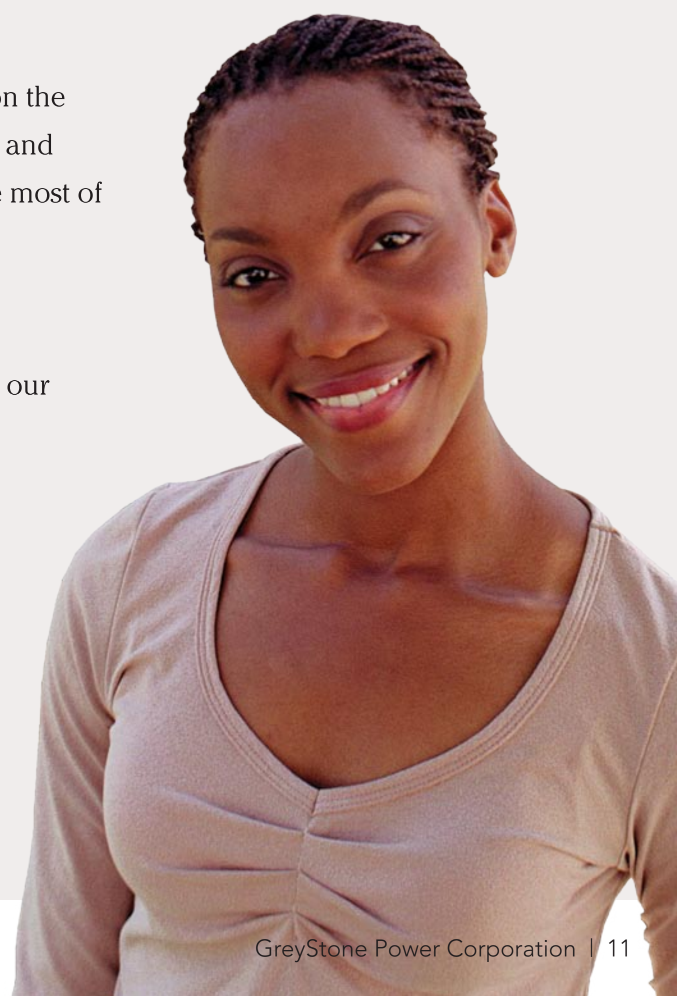
consumers aimed to influence lawmakers by pressing them on the climate change debate. More than 2,100 GreyStone members and employees sent letters and e-mails to their representatives, the most of any Georgia cooperative.

It's about … growth

In February of 2008 we celebrated the milestone of adding our 100,000th member, Adrian Williams of Fairburn. He and his family expressed excitement about once again being served by an electric cooperative, GreyStone Power.

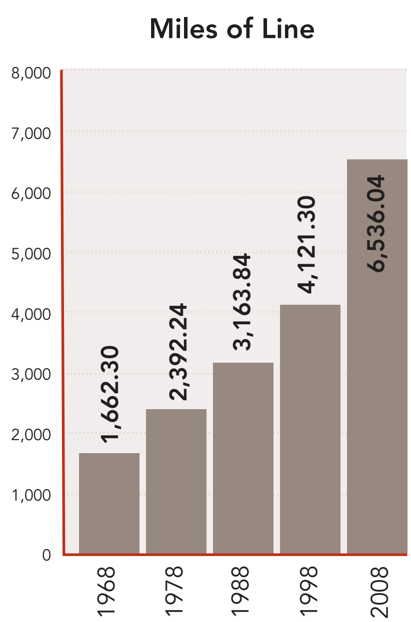
It's about … great employees

We would be remiss if we did not compliment our employees on a job well done. Although it has been a challenging year due to necessary actions taken in response to a slowed economy, the same GreyStone spirit



GreyStone's public relations and communications department earned nine top honors in the National Rural Electric Cooperative Association's Spotlight on Excellence program. *(L-R)* Vicki Harshbarger, Kizzy Howell, Amanda Pitts, Ashley Kramer, Lizzie Bowen and Megan McKoy.

GreyStone Power Linemen won first and fifth place in the EMC division at the 2008 International Lineman's Rodeo. The winners, shown top center, include *(L-R)* Derek Carruth, Tony Brown, Matt Williams, Tim Costner, Jeremy Brown, Patrick LeCroy, Josh Jones and *(not pictured)* John Atcheson.



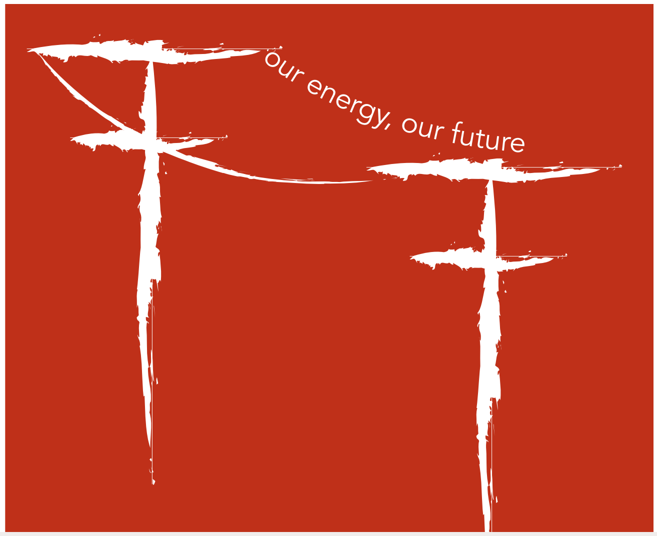
has been ever-present. Our employees are people of integrity; the true grit of members who began the co-op 73 years ago, and of the employees and members who have carried the tradition up to the present day. It's integrity that keeps any business serving customers for 73 years.

Our linemen have continued to bring home top honors from linemen competitions, practicing on their own time to compete. Member service reps earned a 2008 Cooperative Research Network Cooperative Innovators Award for their excellent service to members. Our communications department recently garnered nine national awards for their efforts to keep you informed. In 2008, our employees worked a year without a single lost-time accident, a feat considered nearly impossible. In addition, our reliability record is one of the best. According to the Average Service Availability Index, GreyStone members had power an average 99.97 percent of the time.

It's about … you being involved

Your annual meeting in October 2008 had a record attendance of 1,420

Blake Pendley and Gary Miller with the NRECA plaque recognizing the co-op's safety accreditation.



registered members. With husbands, wives and children added, we estimated a crowd of 3,500 at the event. This year, you are about to cast your ballots in a new way. The board of directors "vote by mail" process will enable members to more easily have a voice in who represents them here at GreyStone Power.

Whether it's providing value to members, helping you save energy in your home, or making sure your voice is heard, it is our privilege to work for you. It's all about our energy and our future.

Sincerely,

Gary A. Miller,
President/CEO

J. Calvin Earwood
Chairman of the Board

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP
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Telephone (478) 746-6277 • Facsimile (478) 743-6858
www.mmmcpa.com

October 27, 2008

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
GreyStone Power Corporation

We have audited the accompanying balance sheets of GreyStone Power Corporation as of August 31, 2008 and 2007 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 of 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, 2008 and 2007 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 our report dated October 27, 2008 on our consideration of GreyStone Power Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audits.

McNair, McLemore, Middlebrooks & Co., LLP

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLP

GREYSTONE POWER CORPORATION
BALANCE SHEETS
AUGUST 31

ASSETS

	2008	2007
Utility Plant		
Electric Plant in Service-At Cost	**$ 353,402,520**	$ 323,991,946
Construction Work in Progress	**10,710,795**	17,901,147
Gross Utility Plant	**364,113,315**	341,893,093
Accumulated Provision for Depreciation	**(62,566,773)**	(57,371,658)
	301,546,542	284,521,435
Other Property and Investments		
Investments in Associated Organizations	**15,786,046**	15,099,446
Notes Receivable	**89,429**	110,821
Other Investments	**106,493**	312,625
	15,981,968	15,522,892
Current Assets		
Cash and Cash Equivalents	**37,639,473**	35,202,453
Accounts Receivable (Less Accumulated Provision for Uncollectible Accounts of $912,178 in 2008 and $648,041 in 2007)	**26,127,414**	21,915,690
Current Portion of Notes Receivable	**51,813**	44,777
Materials and Supplies	**5,347,767**	4,721,215
Other	**1,586,064**	1,596,923
	70,752,531	63,481,058
Deferred Debits	**8,935,515**	1,379,132
Total Assets	**$ 397,216,556**	$ 364,904,517

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

GREYSTONE POWER CORPORATION
BALANCE SHEETS
AUGUST 31

EQUITIES AND LIABILITIES

	2008	2007
Equities		
Membership Fees	$ 1,009,775	$ 992,461
Patronage Capital	144,852,526	129,390,884
Other	3,895,534	3,263,287
	149,757,835	133,646,632
Long-Term Debt	191,209,963	185,450,266
Other Long-Term Liabilities		
Accumulated Provision for Postretirement Benefits Other Than Pensions	323,226	-
Current Liabilities		
Lines-of-Credit	8,000,000	-
Current Maturities of Mortgage Notes	5,890,000	5,519,000
Accounts Payable	19,337,193	21,259,051
Consumer Deposits	15,533,658	13,713,030
Other	7,027,081	5,316,538
	55,787,932	45,807,619
Deferred Credits	137,600	-
Total Equities and Liabilities	$397,216,556	$ 364,904,517

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

GREYSTONE POWER CORPORATION
STATEMENTS OF REVENUE
FOR THE YEARS ENDED AUGUST 31

	2008	2007
Operating Revenue and Patronage Capital	**$225,867,596**	$210,440,864
Operating Expenses		
Cost of Power	**156,487,430**	152,810,724
Distribution Operations	**7,252,708**	6,982,527
Distribution Maintenance	**6,975,175**	6,357,013
Consumer Accounts	**8,649,017**	7,826,301
Consumer Service and Information	**1,696,968**	1,801,658
Administrative and General	**7,711,586**	6,527,513
Depreciation	**10,817,668**	9,653,339
	199,590,552	191,959,075
Operating Margins Before Interest Expense	**26,277,044**	18,481,789
Interest Expense	**10,060,305**	9,216,702
Operating Margins After Interest Expense	**16,216,739**	9,265,087
Nonoperating Margins	**1,289,267**	1,886,328
Generation and Transmission Cooperative Capital Credits	**1,008,585**	1,689,150
Other Capital Credits and Patronage Capital Allocations	**369,526**	395,609
Net Margins	**$ 18,884,117**	$ 13,236,174

The accompanying notes are an integral part of these statements.

GREYSTONE POWER CORPORATION
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	Total Equities	Membership Fees	Patronage Capital	Other Equities
Balance, August 31, 2006	$123,490,533	$ 945,733	$119,410,210	$3,134,590
Net Margins	13,236,174		13,236,174	
Membership Fees	46,728	46,728		
Donated Capital	50,473			50,473
Retirement of Patronage Capital	(3,255,500)		(3,255,500)	
Retired Capital Credit Gains	78,224			78,224
Balance, August 31, 2007	133,646,632	992,461	129,390,884	3,263,287
Net Margins	18,884,117		18,884,117	
Membership Fees	17,314	17,314		
Donated Capital	67,386			67,386
Retirement of Patronage Capital	(3,422,475)		(3,422,475)	
Retired Capital Credit Gains	564,861			564,861
Balance, August 31, 2008	**$149,757,835**	**$1,009,775**	**$144,852,526**	**$3,895,534**

The accompanying notes are an integral part of these statements.

GREYSTONE POWER CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31

Cash Flows From Operating Activities	**2008**	2007
Net Margins	**$ 18,884,117**	$ 13,236,174
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	**11,468,314**	10,277,689
Patronage Capital from Associated Organizations	**(1,374,984)**	(2,181,872)
Postretirement Benefits	**3,823,226**	1,014,076
Change In		
Accounts Receivable	**(4,211,724)**	(572,362)
Other Current Assets	**10,859**	9,816
Accounts Payable	**(1,921,858)**	3,001,400
Other Current Liabilities	**1,710,543**	532,861
	28,388,493	25,317,782
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(27,716,125)**	(40,685,135)
Plant Removal Costs	**(2,043,672)**	(1,534,061)
Material Salvaged	**1,266,376**	611,862
Deferred Debits	**(7,556,383)**	(888,117)
Deferred Credits	**137,600**	-
Materials and Supplies	**(626,552)**	(1,801,596)
Return of Equity from Associated Organizations	**606,470**	216,974
Notes Receivable	**14,356**	58,793
Other Investments	**206,132**	(18,393)
	(35,711,798)	(44,039,673)
Cash Flows from Financing Activities		
Advances of Long-Term Debt	**12,213,000**	20,000,000
Membership Fees	**17,314**	46,728
Principal Repayment of Long-Term Debt	**(5,798,428)**	(5,217,212)
Retirement of Patronage Capital	**(3,422,475)**	(3,255,500)
Consumer Deposits	**1,820,628**	3,615,957
Other Equities	**632,247**	128,697
Lines-of-Credit	**8,000,000**	(5,000,000)
Advance Payments on Long-Term Debt Unapplied	**(283,875)**	7,740,636
Funding of Postretirement Medical Benefits	**(3,500,000)**	(1,954,492)
Capital Term Certificates	**81,914**	125,567
	9,760,325	16,230,381
Net Increase (Decrease) in Cash and Cash Equivalents	**2,437,020**	(2,491,510)
Cash and Cash Equivalents-Beginning	**35,202,453**	37,693,963
Cash and Cash Equivalents-Ending	**$ 37,639,473**	$ 35,202,453
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest	**$ 9,921,008**	$ 9,245,745

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 straight-line rates of 2.3 to 3.67 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 1.67 to 20.83 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 37.7 and 36.6 percent of total assets as of August 31, 2008 and 2007, 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 $10,856,000 and $11,530,000 for the years ended August 31, 2008 and 2007, 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 $31,206,309 and $29,948,309 for the years ended August 31, 2008 and 2007, 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, notes receivable, 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.

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 August 31, 2007 and will be required to adopt the measurement date provision for the fiscal year ending August 31, 2009.

(2) Utility Plant

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

	2008	2007
Distribution Plant	**$319,536,588**	$290,990,025
General Plant	**33,865,932**	33,001,921
Electric Plant in Service	**353,402,520**	323,991,946
Construction Work In Progress	**10,710,795**	17,901,147
	$364,113,315	$341,893,093

(3) Investments in Associated Organizations

	2008	2007
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	$ 1,000	$ 1,000
Capital Term Certificates	2,004,593	2,086,507
Capital Credits	747,185	887,342
Georgia Rural Electric Service Corporation		
Capital Credits	1,352,509	1,183,344
GEMC Workers' Compensation Fund		
Capital Credits	93,251	97,251
Southeastern Data Cooperative, Inc.		
Capital Credits	128,143	81,020
Georgia Transmission Corporation		
Membership Fee	5	5
Contributed Capital	2,860,384	2,860,384
Capital Credits	6,227,906	5,368,332
CoBank		
Membership Fee	1,000	1,000
Capital Credits	299,156	606,829
Georgia Systems Operations Corporation		
Capital Credits	11,547	10,702
Smarr EMC		
Membership Fee	5	5
Contributed Capital	474,582	474,582
Capital Credits	1,476,031	1,327,865
Federated Rural Electric Membership Exchange		
Subscriber Equity	108,724	113,253
Green Power EMC		
Membership Fee	25	25
	$15,786,046	$15,099,446

(4) Deferred Debits

Deferred debits are comprised of the following as of August 31:

	2008	2007
Transportation Costs	$ 106,307	$227,538
AMR Project	3,005,481	913,760
Power Supply	1,597,142	-
Clearing Accounts	2,573,423	-
Information System Conversion	1,162,384	-
Other	490,778	237,834
	$8,935,515	$ 1,379,132

(5) Deferred Credits

Deferred credits are comprised of the following as of August 31:

	2008	2007
Marketing Incentives	$ 137,600	$ -

(6) Patronage Capital

	2008	2007
Assignable	**$ 10,433,334**	$ 5,469,121
Assigned	**174,185,087**	160,265,183
	184,618,421	165,734,304
Retired	**(39,765,895)**	(36,343,420)
	$144,852,526	$129,390,884

(7) Other Equities

	2008	2007
Nonoperating Margins	**$ 50,517**	$ 50,517
Operating Margins	**56,108**	56,108
Donated Capital	**252,323**	184,937
Retired Capital Credits-Gain	**3,537,478**	2,972,617
Capital Losses	**(892)**	(892)
	$ 3,895,534	$ 3,263,287

(8) 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), Federal Financing Bank (FFB) and CoBank. The notes are secured by a mortgage agreement among the Corporation, RUS, NRUCFC, FFB and CoBank. 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.

Holder of Note	Interest Rate	2008	2007
RUS	4.45% to 5.5%	**$120,787,855**	$111,220,568
RUS Cushion-of-Credit	5.00%	**(283,875)**	-
NRUCFC	4.0% to 5.9%	**18,381,453**	20,187,009
FFB	4.46% to 4.92%	**57,020,537**	58,297,353
CoBank	6.52%	**1,193,993**	1,264,336
		197,099,963	190,969,266
Maturities Due Within One Year		**(5,890,000)**	(5,519,000)
		$191,209,963	$185,450,266

The Corporation has a $26,700,000 line-of-credit at 6.3 percent with NRUCFC which had no outstanding balance as of August 31, 2008 and 2007. The Corporation also has a $20,000,000 line-of-credit at 4.22 percent with CoBank which had outstanding balances of $8,000,000 and $-0- as of August 31, 2008 and 2007, respectively.

Principal maturities of long-term debt approximate $5,890,000 for the ensuing five years.

The Corporation has unadvanced loan funds totaling $367,000 on commitment from NRUCFC and unadvanced loan funds totaling $45,775,000 on commitment from FFB. 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 had 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.

(9) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the National Rural Electric Cooperative Association (NRECA) 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 makes annual contributions to the program equal to the amounts recorded for the pension expense. Total pension cost of $2,228,876 and $2,041,904 was charged to operations for the years ended August 31, 2008 and 2007, respectively. In this 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.

Defined Contribution Plan

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $53,682 and $31,976 for the years ended August 31, 2008 and 2007, respectively.

Postretirement Healthcare Benefits

The Corporation provides medical benefits and life insurance to qualified retirees and directors. 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 healthcare and any other postretirement benefits on an accrual basis.

The Corporation also adopted the recognition provisions of 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),* as of August 31, 2007, which requires that the funded status of defined benefit pension and other postretirement plans be fully recognized in the balance sheets. The application of SFAS No. 158 had no effect on individual line items in the balance sheets because there were no significant amounts which had not been recorded.

The status of the Corporation's postretirement healthcare plan as of August 31, 2008 is detailed as follows:

Accumulated Postretirement Benefit Obligation

Retirees, Dependents and Others	$ 5,339,300
Fully Eligible Active Plan Participants	3,567,200
Actives Not Yet Fully Eligible	7,461,300
Total Accumulated Postretirement Benefit Obligation	16,367,800
Fair Value of Assets Held by Voluntary Employee Benefit Association	(16,044,574)
Funded Status	$ 323,226

Employer Contributions	$ 3,500,000
Plan Participant Contributions	-
Benefits Paid	$ 219,283

Amounts recognized in the balance sheets consisted of:

Other Long-Term Liabilities	$ 323,226

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

Service Cost	$ 3,252,379
Interest Cost	876,800
Total Recognized in Net Periodic Cost	$ 4,129,179

For measurement purposes, a 9.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2008. The rate was assumed to decrease gradually to 5 percent by the year 2017 and remain at that level thereafter. The healthcare cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of August 31, 2008 by $3,255,900 and the aggregate of the service and interest cost components of postretirement expense for the year then ended by $307,100.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.75 percent.

The following benefits are expected to be paid:

Year	Amount
2009	$ 439,800
2010	501,600
2011	538,600
2012	606,700
2013	644,500
2014-2018	3,705,100

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement medical benefits at August 31, 2008 and 2007 by asset category.

Year	Cash and Cash Equivalents	Bond Funds	Stock Funds	Totals
2008	24.3%	41.8%	33.9%	100.00%
2007	14.1%	49.3%	36.6%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews and annual liability measurements.

The Corporation estimates that it will make $1,000,000 in voluntary contributions to its postretirement medical plan in 2008.

(10) Commitments

The Corporation has a wholesale power contract with OPC through 2050. 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 $31,412,000 for the year ended August 31, 2008, 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, 2007 was approximately $103,310,000.

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 $2,349,000 for the Chattahoochee Energy Facility and $5,596,000 for the Talbot Energy Facility for the year ended August 31, 2008, are expected to be at the same level for future years. The agreements are in effect through December 31, 2050.

The Corporation has an agreement with a third party to provide power requirement needs through December 31, 2010. As part of the agreement, the Corporation has agreed to meet certain financial covenants or provide credit enhancement in accordance with the terms of the agreement. The Corporation currently meets the required covenants.

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, 2008, commercial paper of NRUCFC in the amount of $10,100,000, 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.

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