# Powering Everyday Value

## 2014 ANNUAL REPORT

GREYSTONE
POWER CORPORATION
*An Electric Membership Corporation*

# Our Mission

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

# Who is a Member?

If you receive a bill each month from GreyStone Power, you're a member — and an owner — of this electric cooperative. That's because GreyStone Power is owned by the people it serves. Those same people are at the center of everything we do.

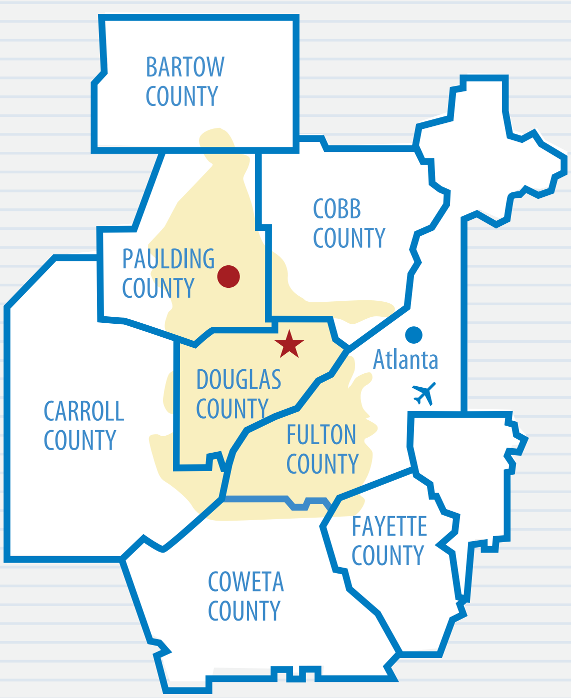
# At a Glance

Statistics at the end of each year:

| | NUMBER OF METERS | OPERATING REVENUE | MILES OF LINE | KILOWATT-HOURS SOLD |
|---|---|---|---|---|
| 2014 | 118,971 | $276,550,531 | 6,769 | 2,690,731,699 |
| 2004 | 94,656 | $150,622,074 | 5,452 | 1,977,762,099 |
| 1994 | 58,809 | $ 72,520,175 | 3,683 | 946,599,697 |
| 1984 | 38,066 | $ 31,216,405 | 2,687 | 533,065,331 |
| 1974 | 27,848 | $ 6,674,682 | 2,212 | 319,386,954 |

# Corporate Profile

GreyStone Power is a member-owned, not-for-profit electric cooperative, serving portions of eight west metro Atlanta counties. We provide electricity to more than 107,000 homes, businesses, schools and industries with close to 119,000 meters.




GREYSTONE POWER CORPORATION
An Electric Membership Corporation

● Dallas Office
★ Douglasville Office & Corporate Headquarters

# POWERING Everyday Value

## Table of Contents


Executive Message ........ 4

Using Energy Wisely & Safely ........ 7

Powering Value Beyond Electric Service ........ 8

Serving Our Local Communities ........ 11

Board of Directors ........ 12

Financials ........ 15


# EXECUTIVE Message

Reliable electric service and affordable power are two of the most important aspects of powering everyday value. Yet, 2014 roared in with winter weather that challenged both.

On Jan. 7, 2014, the metro Atlanta area set a new record low of 6 degrees. Snow and ice storms pummeled the service area into February. GreyStone Power crews often worked 16-hour shifts to combat the massive number of outages during these storms. All power was quickly restored, though, thanks to our champion linemen.

Reliable electric service means ensuring our power delivery system is well-maintained and that we respond quickly when there are outages. We also must plan for our future power supply. With contracts in place for dependable electricity at the lowest possible cost, GreyStone Power has secured energy for years to come.

GreyStone Power's electric portfolio includes a diverse mix of generation sources. A high percentage of this electricity is produced from natural gas and nuclear sources. Electricity produced from coal-fueled plants represents an important, but declining percentage. Green energy resources, such as hydroelectric, biomass and solar, though a small percentage, currently make up the rest.

Solar energy is becoming a more important part of every utility's energy portfolio, and GreyStone Power is examining areas that make financial sense to meet the growing demand for solar options. Priorities drive a business, and we are currently focused on new, convenient self-service options and lowering expenses by revamping our bill payment system.

The efforts to contain costs have paid off. A survey by the Georgia Public Service Commission ranking electric providers by rates based on total 2014 electric bill amounts showed GreyStone Power sixth lowest among all 41 of the state's electric cooperatives for members using 1,000 kilowatt hours (kWh) per month in the summer. In winter, GreyStone was the fifth lowest.

We're working to keep those low rates intact. For example, GreyStone led the state and most of the country in ensuring that our members' voices were heard on Capitol Hill and at the EPA regarding keeping energy affordable.

In 2014, we were able to balance cost efficiencies with great customer service. During the year, our American Customer Satisfaction Index (ACSI) score was at its highest ever during a quarter: 9.05 on a 10-point scale.

In the midst of these accomplishments, Jennifer DeNyse, GreyStone's first female director, celebrated a decade of service and was elected as Chair of our Board of Directors.

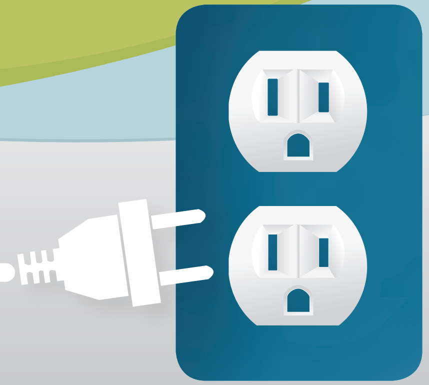
As you'll see on the pages that follow, GreyStone Power is powering everyday value in many different ways. That commitment stands firm for every day in the future, as well.

**Jennifer DeNyse**
*Board Chair*

**Gary Miller**
*President/CEO*

## Great Rates = Great Value

| | GreyStone Power | EMC Average | Georgia Power |
|---|---|---|---|
| Charge for 1,000 kWh | $109.00* | $122.87* | $134.93* |



* According to a 2014 summer rate survey by the Georgia Public Service Commission. Based on GreyStone Power members' average residential monthly use of 1,000 kilowatt hours (kWh).

**We're powering everyday value for about $4* per day.**
**That's less than the cost of a large, fancy latte.**

Yet, with GreyStone's low rates, that's all it costs the average home to operate everything from morning coffee to evening homework. That's how GreyStone powers everyday value in your life.

* Based on 2014 average cost per day for GreyStone residential members.

# USING ENERGY wisely & safely

Today's consumers are looking for the best value for their hard-earned dollars. One way GreyStone Power delivers is by educating members about how to use energy more efficiently. This helps to reduce power bills, improve comfort and sustain the environment.

To assist in this effort, the free Energy Efficiency 101 (EE101) seminars, held during the spring and fall of 2014, informed participants about how to perform their own home energy audits, giving them the tools they need to take their own energy-saving steps.

Members can also purchase renewable energy in blocks of 150 kilowatt-hours for $5 a block through Green Power EMC. The amount is simply added to participants' bills. In 2014, 284 GreyStone Power members bought 367 blocks.

The cooperative offered energy efficiency rebates to switch from gas heat to a high-efficiency heat pump or a dual-fuel system, as well as changing from a gas or propane water heater to an electric or solar unit. Close to 50 rebates were issued.

Rebates also encouraged the installation of photovoltaic solar panels. For members interested in learning more about solar, the cooperative offered a free Solar Energy 101 seminar in the summer.

Education extended into the topic of safety, as well. GreyStone employees presented Safety City demonstrations to seven local elementary schools. As a result, hundreds of children are safer, especially around power lines.

That commitment to safety has been important internally, too. In 2014, GreyStone Power earned the highest safety accreditation score ever awarded by Georgia Electric Membership Corp. (EMC).

At GreyStone Power, it's safety first. Energy efficiency is close behind with a long list of resources available online under "Save Money/Energy" at *GreyStonePower.com*.

**Top:** Linemen present safety demonstrations to help young people learn how to be safe around electricity in the home, as well as in their neighborhoods.

**Center:** EE 101 seminars, led by GreyStone's residential energy services professionals, empowered 136 people to save money by using energy more wisely and efficiently.

**Bottom:** Georgia EMC honored GreyStone employees Chris Foust, left, and Leroy Perryman for their lifesaving efforts to rescue two people in 2014.

# POWERING VALUE
## beyond electric service

Delivering reliable, affordable electricity is essential. Providing value for the money frees up members' budgets and enhances everyday lives.

That's why GreyStone Power provides the Co-op Connections® Card to all members. When used, consumers can get discounts from participating businesses and pharmacies.

For example, about 111,725 prescriptions have been discounted thanks to this service. Through the end of 2014, GreyStone Power members had saved more than $1.8 million through the many medical discounts available through the Co-op Connections Card alone.

In addition to providing discounts, the cooperative put money back in members' pockets through capital credits. These are among the most tangible benefits of being served by an electric cooperative, as margins are periodically returned to members based on the financial health of the co-op.

More than 120,000 checks totaling $4.6 million were sent to GreyStone Power members in 2014. More than $70 million has been returned to members since 1936.

Providing value that goes beyond electric service means working to assist, as well as attract, large businesses and the jobs they provide. Highlighting 2014 was ResMed's decision for GreyStone Power to serve its Riverside Parkway location. ResMed manufactures and distributes medical equipment (such as CPAP) for treating, diagnosing and managing sleep-disordered breathing and other respiratory disorders. Locally, they will employ 80 people.

GreyStone Power also provides ancillary services to members through EMC Security, SurgeMaster Plus, GEMC Federal Credit Union and Gas South. This cooperative believes serving members means providing value that goes beyond the electric meter. That's powering everyday value.


**Top:** GreyStone members and their families have access to a full range of financial services through GEMC Federal Credit Union. It is located in both GreyStone offices in Douglasville and Dallas, and offers free seminars on topics like how to establish or rebuild a good credit history and obtain your credit report.

**Center:** GreyStone Power and Gas South have partnered to save members money on natural gas. Members receive a special discount that has already saved participants more than $1.2 million.

**Bottom:** GreyStone energy advisors regularly assist members with reducing costs through energy efficiency.

**GreyStone Power members have more money for the fun things in life with the help of services like the Co-op Connections® Card.**

GreyStone members saved over

**$1.8 million**

through 2014 thanks to the Co-op Connections® Card.


More than

**325**

local businesses are offering discounts.


About **120,105** current and former members received capital credits totaling **$4.6 million*** in 2014.

* The amount of money members receive as capital credits is determined by how much electricity they used during the years for which capital credits are being retired and the co-op's cost of distributing the power during that time. In 2014, members received capital credits for the years 1995 and 2013. Only those receiving electric service from GreyStone Power during those years received capital credits returns.

# SERVING OUR local communities

Thanks to the 24,000 GreyStone Power members who have agreed to have their monthly bills rounded up, 51 local organizations benefited from the $376,000 — more than a quarter of a million dollars — contributed in 2014. Since 1999, more than $3.7 million has been donated through Operation Round Up®.

Some of the funds, distributed through the GreyStone Power Foundation, Inc., helped S.H.A.R.E. House and Shepherd's Rest provide shelter to domestic violence survivors. Other donated funds provided food for the needy through Helping Hands of Paulding County, Lighthouse Food Ministry and Warehouse of Hope.

Persons with challenges competed in Special Olympics of Georgia with the Foundation's help. Children who lost both parents were supported through the Children's Village at Christian City. Sweetwater Camp operated a medical facility that has provided free medical and dental assistance thanks to Operation Round Up.

The program also allowed GreyStone to award two $2,500 technical college scholarships for Michelle Jones and Stacey Sing-Tucker and five other $3,000 scholarships to students in the co-op's service area.

Beyond the school walls, GreyStone selected five high school students to represent the co-op on the 2014 Washington Youth Tour. While there, they visited elected officials, learned more about cooperatives and developed leadership skills in a fun environment with more than 1,000 other co-op youth representatives from across the nation.

The cooperative continually sponsored — and continues to support — many local events, like the Fourth of July S.H.A.R.E. House barbecue and festival and the air show at the Paulding Airport.

GreyStone Power is energizing local organizations and education, developing future leaders for our communities and providing members with opportunities for family-oriented activities. Powering everyday value means powering our communities, too.

**Top:** 2014 Washington Youth Tour delegates included, from left, Francesca Noelette, Rhiannon Delgado, chaperones Andy and Vanessa Bonaparte, Grace Essien, Caroline Basch and Agi Jallow.

**Center:** Paulding County Sheriff Gary Gulledge presented the GreyStone Power Foundation, Inc. Board of Directors with a plaque expressing thanks for the support of the Cops for Kids Christmas shopping program.

**Bottom:** GreyStone's Foundation Board (back row) recognizes the 2014 college scholarship recipients (front row, from left) Courtney Knight, Karim Lakhani, Autumn Cole and Madeline Detraz. Recipient Deja Stith is not pictured.

# BOARD of Directors

**Gary Miller**
President/CEO

**Jennifer DeNyse**
Chair, District 5

**Jim Johns**
Vice Chair, District 8

**Milton Jones**
Secretary-Treasurer, District 7

**Calvin Earwood**
District 1

**Ed Garrard**
District 9

**Burnell Redding**
District 4

**Charles Rutland**
District 3

**John Walton**
District 2

**Maribeth Wansley**
District 6

## GreyStone Power Districts & the Counties Represented

**District 1:**
Paulding and Bartow counties

**District 2:**
Paulding County

**District 3:**
Douglas and Paulding counties

**District 4:**
Carroll and Douglas counties

**District 5:**
Carroll and Douglas counties

**District 6:**
Fulton, Fayette and Coweta counties

**District 7:**
Fulton County

**District 8:**
Douglas County

**District 9:**
Cobb County

# "ANYTHING is possible.

Never before in the history of GreyStone Power have we achieved so much in a one-year period.

But the best is yet to come."

*– Gary Miller, President/CEO*

# KEY Statistics

**6° on Jan. 7, 2014**
new record low set for metro Atlanta

**9.05**
Highest ever customer satisfaction score achieved during a quarter in 2014

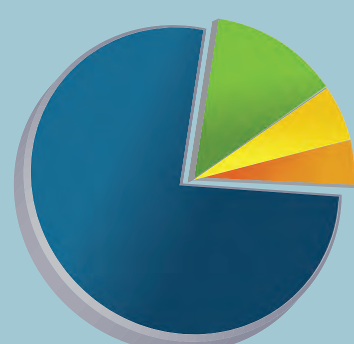
**$20,000**
granted for college scholarships

**1,368**
new services in 2014

Operation Round Up funded **$376,000** to 51 organizations in need in 2014

**2,800** attended the annual meeting

| | | | |
|---|---|---|---|
| 23.58 % | Small Commercial | 12.10 % | Large Commercial |
| 0.96 % | Public Lighting | 63.35% | Residential |



| | | | |
|---|---|---|---|
| 12.69 % | Operating Expenses | 5.69 % | Depreciation |
| 4.27 % | Interest | 77.35% | Purchased Power |

**Where the money comes from** | **Where the money goes**

**MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC**
**CERTIFIED PUBLIC ACCOUNTANTS**
389 Mulberry Street • Post Office Box One • Macon, GA 31202
Telephone (478) 746-6277 • Facsimile (478) 743-6858
www.mmmcpa.com
October 24, 2014

## REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
GreyStone Power Corporation

**Report on the Financial Statements**
We have audited the accompanying financial statements of **GreyStone Power Corporation**, which comprise the balance sheets as of August 31, 2014 and 2013, and the related statements of revenue, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2014 and 2013, 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.

**Report on Other Legal and Regulatory Requirements**
In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2014 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 in considering GreyStone Power Corporation's internal control over financial reporting and compliance.

MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC
McNair, McLemore, Middlebrooks & Co., LLC

# ASSETS

| | 2014 | 2013 |
|---|---|---|
| **Utility Plant** | | |
| Electric Plant in Service-At Cost | **$444,361,184** | $432,650,814 |
| Construction Work in Progress | **6,110,439** | 7,476,639 |
| Gross Utility Plant | **450,471,623** | 440,127,453 |
| Accumulated Provision for Depreciation | **(101,663,011)** | (96,453,486) |
| | **348,808,612** | 343,673,967 |
| **Other Property and Investments** | | |
| Investments in Associated Organizations | **22,629,474** | 21,526,762 |
| Other Investments | **614,922** | 24,496,003 |
| | **23,244,396** | 46,022,765 |
| **Current Assets** | | |
| Cash and Cash Equivalents | **57,866,605** | 57,862,599 |
| Short-Term Investments | **23,900,000** | - |
| Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $684,028 in 2014 and $992,168 in 2013) | **26,054,846** | 24,891,460 |
| Materials and Supplies | **2,147,509** | 3,846,500 |
| Prepayments | **5,699,367** | 2,387,071 |
| Other | **1,280,755** | 1,561,514 |
| | **116,949,082** | 90,549,144 |
| **Deferred Debits** | **9,496,337** | 17,774,829 |
| **Total Assets** | **$498,498,427** | $498,020,705 |

*See accompanying notes which are an integral part of these financial statements.*

## MEMBERS' EQUITY and LIABILITIES

| | 2014 | 2013 |
|---|---|---|
| **Members' Equity** | | |
| Membership Fees | **$ 1,067,095** | $ 1,051,890 |
| Patronage Capital | **202,151,478** | 192,263,273 |
| Other | **7,112,038** | 6,910,347 |
| | **210,330,611** | 200,225,510 |
| **Long-Term Debt** | **230,608,523** | 245,985,359 |
| **Current Liabilities** | | |
| Current Portion of Long-Term Debt | **10,311,000** | 9,071,000 |
| Accounts Payable | **17,274,127** | 12,001,450 |
| Consumer Deposits | **18,387,941** | 18,663,822 |
| Other | **10,995,713** | 10,238,451 |
| | **56,968,781** | 49,974,723 |
| **Deferred Credits** | **590,512** | 1,835,113 |
| **Total Members' Equity and Liabilities** | **$498,498,427** | $498,020,705 |

*See accompanying notes which are an integral part of these financial statements.*

## Statements of Revenue for the Years Ended August 31

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | **$276,550,531** | $263,471,664 |
| **Operating Expenses** | | |
| Cost of Power | **206,482,455** | 194,477,697 |
| Distribution Operations | **7,677,516** | 7,205,222 |
| Distribution Maintenance | **7,704,285** | 7,934,907 |
| Consumer Accounts | **6,657,224** | 6,754,274 |
| Consumer Information and Sales | **2,641,230** | 1,655,603 |
| Administrative and General | **9,209,523** | 10,142,472 |
| Depreciation | **15,191,379** | 14,923,512 |
| **Total Operating Expenses** | **255,563,612** | 243,093,687 |
| **Operating Margins Before Interest Expense** | **20,986,919** | 20,377,977 |
| **Interest Expense** | **11,392,196** | 10,811,040 |
| **Operating Margins** | **9,594,723** | 9,566,937 |
| **Nonoperating Margins** | **3,066,284** | 2,105,633 |
| **Generation and Transmission Cooperative Capital Credits** | **1,024,131** | 1,114,968 |
| **Other Capital Credits and Patronage Capital Allocations** | **299,071** | 364,664 |
| **Net Margins** | **$ 13,984,209** | $ 13,152,202 |

*See accompanying notes which are an integral part of these financial statements.*

## Statements of Changes in Members' Equity for the Years Ended August 31, 2014 and 2013

| | Total Members' Equities | Membership Fees | Patronage Capital | Other Equities |
|---|---|---|---|---|
| **Balance, August 31, 2012** | $190,626,482 | $1,035,085 | $183,175,294 | $6,416,103 |
| Net Margins | 13,152,202 | - | 13,152,202 | - |
| Membership Fees | 16,805 | 16,805 | - | - |
| Retirement of Patronage Capital | (4,064,223) | - | (4,064,223) | - |
| Retired Capital Credit Gains | 494,244 | - | - | 494,244 |
| **Balance, August 31, 2013** | 200,225,510 | 1,051,890 | 192,263,273 | 6,910,347 |
| Net Margins | 13,984,209 | - | 13,984,209 | - |
| Membership Fees | 15,205 | 15,205 | | - |
| Retirement of Patronage Capital | (4,096,004) | - | (4,096,004) | - |
| Retired Capital Credit Gains | 201,691 | - | - | 201,691 |
| **Balance, August 31, 2014** | **$210,330,611** | **$1,067,095** | **$202,151,478** | **$7,112,038** |

*See accompanying notes which are an integral part of these financial statements.*

## Statements of Cash Flows for the Years Ended August 31

| | 2014 | 2013 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net Margins | **$13,984,209** | $13,152,202 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation | **16,097,410** | 15,178,169 |
| Amortization of Pension Plan Prepayment | **1,111,987** | 741,325 |
| Bad Debt Provision | **586,692** | 610,491 |
| Patronage Capital from Associated Organizations | **(1,390,187)** | (1,546,935) |
| Equity in Earnings from Partnership Interests | **(648,939)** | (486,420) |
| Net Postretirement Benefit Cost | **970,414** | (284,894) |
| Prepaid Power Applied | **13,863,209** | 18,589,379 |
| Postretirement Healthcare Plan Contributions | **(304,765)** | (298,527) |
| Voluntary Prepaid Pension Contribution | **-** | (11,119,873) |
| **Change In** | | |
| Accounts Receivable | **(1,750,078)** | 848,643 |
| Prepaid Power | **(11,030,433)** | (14,713,920) |
| Other Current Assets | **1,449,607** | (1,164,141) |
| Deferred Debits | **(147,415)** | 1,156,767 |
| Accounts Payable | **5,272,677** | (7,533,756) |
| Other Current Liabilities | **(184,268)** | (435,770) |
| Deferred Credits | **(1,244,601)** | 1,245,947 |
| | **36,635,519** | 13,938,687 |
| **Cash Flows from Investing Activities** | | |
| Extension and Replacement of Plant | **(21,232,055)** | (19,846,742) |
| Materials and Supplies | **1,698,991** | (854,538) |
| Return of Equity | **917,495** | 866,097 |
| | **(18,615,569)** | (19,835,183) |
| **Cash Flows from Financing Activities** | | |
| Advances from Long-Term Debt | **20,368,762** | 40,233,301 |
| Advanced Payments on Long-Term Debt Unapplied | **(16,430,324)** | (755,045) |
| Principal Repayment of Long-Term Debt | **(18,075,274)** | (11,338,486) |
| Retirement of Patronage Capital | **(4,096,004)** | (4,064,223) |
| Other | **216,896** | 840,404 |
| | **(18,015,944)** | 24,915,951 |
| **Net Increase in Cash and Cash Equivalents** | **4,006** | 19,019,455 |
| **Cash and Cash Equivalents - Beginning** | **57,862,599** | 38,843,144 |
| **Cash and Cash Equivalents - Ending** | **$57,866,605** | $57,862,599 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash Payments of Interest | **$11,331,927** | $10,693,635 |

*See accompanying notes which are an integral part of these financial statements.*

## (1) Summary of Significant Accounting Policies

Accounting policies of the Corporation reflect practices appropriate to the electric utility industry and accounting principles generally accepted in the United States of America (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified and adopted by the Rural Utilities Service (RUS). 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.

### Regulated Operations

The Corporation, in its rate-making capacity, accounts for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980*.

### 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 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 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 re-evaluated when circumstances or events change.

U.S. GAAP requires 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

Electric distribution plant is capitalized at cost less related contributions in aid of construction. In general, electric distribution 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 distribution plant 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 weighted average straight-line composite rate of 3.3 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The weighted average rate on general plant is 7.49 percent per annum.

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

### Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 90 days past due, the Corporation writes off the associated 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.

### Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Other than Oglethorpe Power Corporation (OPC) capital credits, investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of financing, product or service. Investments in other cooperative organizations, other than OPC capital credits, are carried at cost plus allocated equities in accordance with *ASC 905-325-30*. The Corporation has elected to account for OPC capital credits as a financial instrument under U.S. GAAP, based on an expectation of a return of capital. OPC capital credits are measured at fair value on an annual basis.

### Materials and Supplies

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. They are charged to construction or operations at moving average cost when used.

### Cash Equivalents, Short-Term and Other Investments

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. Similar instruments with an original maturity of more than three months, but less than one year, are considered short-term investments. Any instruments that mature in more than one year are included in other investments.

### 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 42 and 40 percent of total assets as of August 31, 2014 and 2013, respectively.

### Advertising

The Corporation expenses advertising costs as incurred. Advertising costs are a component of consumer information and sales expense in the statements of revenue.

### Operating Revenues and Patronage Capital

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Corporation's results of operations if recorded in the financial statements. Unbilled electric revenue was estimated to be approximately $12,469,000 and $12,004,000 as of August 31, 2014 and 2013, respectively.

### Cost of Purchased Power

Cost of power is expensed as consumed.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

### Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. The Corporation expects to meet the requirement for the tax year ended December 31, 2014. Accordingly, no provision for income taxes has been made in the financial statements.

The Corporation's federal information returns for the tax years ended after December 31, 2011 are subject to examination by the Internal Revenue Service.

### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for nonpublic companies for reporting periods beginning after December 15, 2017, and interim and annual reporting periods thereafter. The standard will require the Corporation to accrue unbilled electric revenue with retrospective application and will require a change in accounting principle in the period adopted.

### Sales Tax

A portion of the Corporation's sales are subject to sales tax. The Corporation collects the sales tax from the customers and remits the tax to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

**Reclassifications**
Certain reclassifications have been made within the August 31, 2013 financial statements to conform to the August 31, 2014 presentation. The reclassifications had no effect on net margins for the year ended August 31, 2013.

**Subsequent Events**
In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 24, 2014, the date the financial statements were available to be issued.

## (2) Utility Plant

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

| | 2014 | 2013 |
|---|---|---|
| Distribution Plant | **$401,533,918** | $391,371,671 |
| General Plant | **42,827,266** | 41,279,143 |
| **Electric Plant in Service** | **444,361,184** | 432,650,814 |
| Construction Work in Progress | **6,110,439** | 7,476,639 |
| | **$450,471,623** | $440,127,453 |

## (3) Investments in Associated Organizations

| | 2014 | 2013 |
|---|---|---|
| National Rural Utilities Cooperative Finance Corporation | | |
| Capital Term Certificates | **$ 1,743,887** | $ 1,774,240 |
| Capital Credits | **930,544** | 898,876 |
| Georgia Rural Electric Service Corporation | | |
| Capital Credits | **1,628,049** | 1,628,049 |
| Georgia Transmission Corporation | | |
| Contributed Capital | **2,860,384** | 2,860,384 |
| Capital Credits | **12,032,209** | 11,075,082 |
| Smarr EMC | | |
| Contributed Capital | **318,393** | 318,393 |
| Capital Credits | **1,799,071** | 1,732,542 |
| Other | **1,316,937** | 1,239,196 |
| | **$ 22,629,474** | $ 21,526,762 |

### (4) Other Investments

Other investments are comprised of the following as of August 31:

| | 2014 | 2013 |
|---|---|---|
| Investment in GEMC 220, LLC | **$ 14,539** | $ 21,811 |
| Investment in Cooperative Choice, LLC | **600,383** | 574,192 |
| NRUCFC Medium-Term Notes Maturing in Excess of One Year | **-** | 23,900,000 |
| | **$ 614,922** | $24,496,003 |

The Corporation accounts for its investments in GEMC 220, LLC and Cooperative Choice, LLC utilizing the equity method. For the year ended August 31, 2014, the Corporation recorded income of $648,939, as a component of nonoperating margins, related to these investments.

### (5) Prepaid Power Program

The Corporation has elected to participate in a prepayment of power bills program initiated by one of its wholesale power providers. Under the terms of the program, the Corporation prepays its wholesale power costs and earns a prepayment discount on its power bills. The Corporation had prepaid power costs of $5,291,765 and $8,124,541 as of August 31, 2014 and 2013, respectively. Based on maturity dates provided to the wholesale power provider, those amounts are classified as follows on the balance sheets:

| | 2014 | 2013 |
|---|---|---|
| Prepayments | **$5,291,765** | $ 810,621 |
| Deferred Debits | **-** | 7,313,920 |
| | **$5,291,765** | $ 8,124,541 |

### (6) Deferred Debits

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

| | 2014 | 2013 |
|---|---|---|
| Voluntary Prepaid Pension Contribution *(Note 11)* | **$9,266,561** | $10,378,548 |
| Prepaid Power in Excess of One Year | **-** | 7,313,920 |
| Transportation Clearing | **112,498** | 28,856 |
| Long-Range Work Plans | **63,577** | 50,374 |
| Other | **53,701** | 3,131 |
| | **$9,496,337** | $17,774,829 |

### (7) Deferred Credits

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

| | 2014 | 2013 |
|---|---|---|
| Benefits Clearing | **$ 1,233** | $ 1,396,377 |
| Marketing Incentives | **315,609** | 202,435 |
| Unearned Pole Rental Income | **273,670** | 236,301 |
| | **$ 590,512** | $ 1,835,113 |

### (8) Patronage Capital

| | 2014 | 2013 |
|---|---|---|
| Assignable | **$ 8,338,294** | $ 7,778,517 |
| Assigned | **262,423,882** | 248,999,450 |
| | **270,762,176** | 256,777,967 |
| Retired | **(68,610,698)** | (64,514,694) |
| | **$202,151,478** | $192,263,273 |

### (9) Other Equities

| | 2014 | 2013 |
|---|---|---|
| Nonoperating Margins | **$ 50,517** | $ 50,517 |
| Operating Margins | **55,909** | 55,909 |
| Donated Capital | **477,033** | 471,169 |
| Gain on Retired Capital Credits | **6,529,470** | 6,333,643 |
| Capital Losses | **(891)** | (891) |
| | **$ 7,112,038** | $ 6,910,347 |

## (10) Long-Term Debt

Long-term debt consists primarily of mortgage notes payable to the United States of America acting through RUS, Federal Financing Bank (FFB), NRUCFC 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.

Long-term debt is comprised of the following as of August 31:

| Holder of Note | Weighted Average Interest Rate | 2014 | 2013 |
|---|---|---|---|
| RUS | 4.95% | **$ 86,855,280** | $ 89,532,135 |
| NRUCFC | - | **-** | 9,532,443 |
| FFB | 3.78% | **173,796,530** | 157,501,948 |
| CoBank | 4.59% | **12,333,698** | 14,125,494 |
| | | **272,985,508** | 270,692,020 |
| Maturities Due Within One Year | | **(10,311,000)** | (9,071,000) |
| | | **262,674,508** | 261,621,020 |
| RUS Advance Payments Unapplied | | **(32,065,985)** | (15,635,661) |
| | | **$230,608,523** | $245,985,359 |

The Corporation's mortgage agreement requires the maintenance of certain financial ratios. The Corporation achieved all the required ratios at December 31, 2013, the most recent measurement date.

The Corporation has a $26,700,000 line-of-credit at 2.9 percent with NRUCFC which had no outstanding balance as of August 31, 2014 and 2013. The Corporation also has a $20,000,000 line-of-credit at 2.81 percent with CoBank which had no outstanding balance as of August 31, 2014 and 2013.

Principal maturities of long-term debt range from $10,000,000 to $11,000,000 for the ensuing five years.

The Corporation had no unadvanced loan funds on commitment as of August 31, 2014. The Corporation received approval of a $37,073,000 loan from FFB on September 16, 2014. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreement.

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 and FFB.

## (11) Retirement Benefits

***Defined Benefit Pension Plan***

Pension benefits for substantially all employees of the Corporation are provided through participation in the RS Plan, a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $3,181,141 and $4,213,859 for the years ended August 31, 2014 and 2013, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was greater than 80 percent funded at January 1, 2014 and 2013 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The Corporation made a voluntary prepaid pension contribution to the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) of $11,119,873. The prepayment was equivalent to approximately 2.5 times the calendar year 2013 annual required contribution and, based on assumptions utilized by RS Plan actuaries, will reduce the Corporation's billing rate by approximately 25 percent over the next 15 years. However, assumptions utilized by RS Plan actuaries are subject to changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes and other factors that may have an impact on the differential in billing rates over the 15-year period. RUS approved the accounting treatment for the voluntary prepayment and issued guidance on amortization. The voluntary prepayment will be amortized over 120 months in accordance with the guidance issued. The Corporation began amortizing the amount effective January 1, 2013. As of August 31, 2014, the unamortized balance of the voluntary prepayment was $9,266,561. This amount is included as a deferred debit on the balance sheets.

***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 $127,990 and $94,576 for the years ended August 31, 2014 and 2013, respectively.

***Postretirement Healthcare Benefits***

The Corporation provides major medical benefits upon retirement as follows:

- For employees hired prior to June 1, 1992 who have reached early (age 55) or normal (age 62 or 30 years of service) retirement dates with 10 years or more of active service with the Corporation at the time retirement commences, the Corporation shall bear the expense of premium payments for employee coverage under the higher deductible plan that the Corporation approves for employees.
- Regular, full time employees hired between June 1, 1992 and December 31, 2004 with 20 to 25 years of active service with the Corporation at normal retirement dates shall have 50 percent of the premium paid by the Corporation for employee coverage; those with 25 to 30 years shall have 75 percent of the premium paid by the Corporation for employee coverage; and those reaching 30 years or more of active service shall receive the benefit of having 100 percent of the employee premium paid for the coverage for the higher deductible plan that the Corporation approves for employees.
- Corporation employees hired on or after January 1, 2005 shall not be eligible for any major medical insurance benefits upon retirement, regardless of the number of years of active service with the Corporation.
- Regular, part-time employees and employees, hired prior to January 1, 2005, with less than the required years of active service and who retire in good standing shall be permitted to retain coverage for them, their spouses, and their dependents by paying the full premium.

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

| | 2014 | 2013 |
|---|---|---|
| Accumulated Postretirement Benefit Obligation, Beginning | **$24,078,482** | $23,929,323 |
| Service Cost | **722,214** | 832,650 |
| Interest Cost | **1,143,680** | 941,857 |
| Change in Actuarial Assumptions | **1,420,139** | (1,326,821) |
| Actual Benefits Paid | **(304,765)** | (298,527) |
| Accumulated Postretirement Benefit Obligation, Ending | **27,059,750** | 24,078,482 |
| Fair Value of Plan Assets, Beginning | **24,379,505** | 23,646,925 |
| Contributions | **304,765** | 298,527 |
| Actual Benefits Paid | **(304,765)** | (298,527) |
| Actual Return on Plan Assets | **2,315,619** | 732,580 |
| Fair Value of Plan Assets, Ending | **26,695,124** | 24,379,505 |
| Over (Under) Funded | **$ (364,626)** | $ 301,023 |

The plan's funded status is included in other current liabilities on the balance sheets as of August 31, 2014 and other current assets as of August 31, 2013.

Net postretirement benefit cost consisted of the following for the years ended August 31:

| | 2014 | 2013 |
|---|---|---|
| Service Cost | **$ 722,214** | $ 832,650 |
| Interest Cost | **1,143,680** | 941,857 |
| Actual Return on Plan Assets | **(2,315,619)** | (732,580) |
| Amortization of Actuarial (Gain) Loss | **1,420,139** | (1,326,821) |
| | **$ 970,414** | $ (284,894) |

The Corporation's accumulated postretirement benefit obligation (APBO) and net postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, healthcare trend rates, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis. Weighted average assumptions for the years ended August 31 are as follows:

| Description | 2014 | 2013 | 2012 |
|---|---|---|---|
| Discount Rate on Net Period Benefit Cost | **4.90%** | 4.00% | 5.00% |
| Discount Rate on Projected Benefit Obligation | **4.55%** | 4.90% | 4.00% |
| Healthcare Cost Trend Rate | | | |
| Initial | **7.00%** | 8.65% | 8.00% |
| Ultimate | **5.00%** | 5.65% | 5.00% |
| Fiscal Year Reached | **2020** | 2019 | 2018 |

Based on the third-party actuarial study, the impact of the health care trend rates is as follows:

| | 1 % Decrease in Rates | 1 % Increase in Rates |
|---|---|---|
| Change in APBO, End of Year - (Increase) Decrease | $(4,728,300) | $6,239,045 |
| Change in Sum of Service and Interest Costs - (Increase) Decrease | $ (355,978) | $ 476,530 |

The Corporation has elected to recognize actuarial gains or losses in the year incurred. As a result, the Corporation does not recognize comprehensive income related to its postretirement healthcare plan.

The Corporation's expected future benefit payments under the plan are as follows:

| Year | Amount |
|---|---|
| 2015 | $ 472,727 |
| 2016 | 524,907 |
| 2017 | 567,211 |
| 2018 | 649,430 |
| 2019 | 723,957 |
| 2020 - 2024 | 5,272,993 |

Plan assets are held in a trust and administered by an independent investment management company (the Trustee). The trust is a separate legal entity. Assets held by the trust are not subject to the general creditors of the Corporation, and have been placed in the trust for the specific purpose of funding the Corporation's postretirement healthcare obligation.

The following table sets forth the weighted-average asset allocations of the plan assets as of August 31:

| Year | Cash and Cash Equivalents | Fixed Income Securities | Foreign Equities | Domestic Equities | Total |
|---|---|---|---|---|---|
| **2014** | **2.60%** | **72.05%** | **8.29%** | **17.06%** | **100.00%** |
| 2013 | 5.63% | 64.47% | 6.81% | 23.09% | 100.00% |

The Corporation, through the Trustee, employs a total-return investment approach whereby a mix of foreign and domestic equity securities 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 current asset allocation adheres to the Corporation's overall investment strategy for plan assets. The fair value measurement is based on unadjusted quoted market prices in active markets for identical assets. This is considered a Level 1 fair value measurement, measured utilizing the market approach, in accordance with U.S. GAAP.

The Corporation estimates that it will make no voluntary contributions to the trust during the year ended August 31, 2015.

### (12) Commitments

The Corporation has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its assignment of fixed costs through the term of these contracts, as well as any variable cost incurred above the allocated fixed cost amounts.

The most significant of these contracts and related fixed costs for the year ended August 31, 2014 were as follows:

| Corporation/Facility | Contract Expiration | Percentage of Fixed or Designated Cost | Fixed Cost |
|---|---|---|---|
| Oglethorpe Power Corporation | | | |
| Chattahoochee Energy Facility | 12/31/2025 | 6.8084% | $ 2,602,232 |
| Talbot EMC | 12/31/2025 | 20.7685% | 5,607,044 |
| Doyle Facility | 8/25/2015 | 3.7930% | 734,358 |
| All Other OPC Resources | 12/31/2050 | 5.8921% | 40,231,070 |
| Smarr EMC | | | |
| Smarr Energy Facility | 12/31/2014 | 6.9417% | 505,852 |
| Sewell Creek Energy Facility | 12/31/2015 | 3.9080% | 774,212 |

In addition to these items, the Corporation has agreed to guarantee .7816 percent of the outstanding indebtedness of Smarr EMC related only to the Sewell Creek Facility. The total indebtedness for the facility as of December 31, 2013 was approximately $25,828,000 and the Corporation's maximum potential obligation as of that date was approximately $201,900. This amount decreases as the value of the indebtedness decreases.

The Corporation is a member of a transmission cooperative known as Georgia Transmission Corporation and, as such, has a Member Transmission Service Agreement which was executed in 1996. This agreement, and an approved extension, requires the Corporation to take transmission-related services through December 31, 2060. Transmission services under this agreement were approximately $15,591,000 for the year ended August 31, 2014 and are expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

The Corporation is party to a block purchase agreement with a third party through December 31, 2014. The Corporation has to meet certain RUS and NRUCFC financial covenants or provide a predefined level of credit support as specified by the agreement. The Corporation currently meets the required covenants. The cost under the agreement was approximately $6,946,000 for the year ended August 31, 2014. The Corporation has an agreement with a third party to provide power requirement needs through December 31, 2015. 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. The cost under the agreement was approximately $95,223,000 for the year ended August 31, 2014.

The Corporation is party to a Power Purchase Agreement with the Southeastern Power Administration (SEPA), acting through the United States Department of Energy, for electric power generated by federal reservoir projects. The cost incurred under the agreement was approximately $2,114,000 for the year ended August 31, 2014. Costs related to this contract are expected to remain relatively constant in future years.

The Corporation has entered into various assignment and assumption agreements through Green Power EMC and its participating members. These "green power" agreements are in support of the Corporation's receiving capacity and energy from the various renewable generation projects that the Corporation has chosen to participate in through Green Power EMC. The Corporation incurred approximately $1,170,000 capacity and energy payments for these generation assets in the year ended August 31, 2014.

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.

## (13) Contingencies

A class-action lawsuit was filed on March 13, 2014 against three distribution cooperatives, OPC and GTC. The plaintiffs in the case seek a class-action certification of other members of OPC and GTC, including the Corporation, as additional defendants in the case. The lawsuit challenges patronage capital distribution practices. An answer as well as a motion to dismiss has been filed with the Court. Management believes the case is without merit and intends to defend the case vigorously. It is not possible to estimate the likelihood of an unfavorable outcome in the case; however, a decision in favor of the plaintiffs could significantly impact the financial position of the Corporation.

The Corporation is involved in various other unresolved legal actions. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses or recovery, the Corporation believes these unresolved legal actions will not have a material effect on its financial position or results of operations and intends to vigorously defend its position related to the unresolved issues. However, any resolution that differs from management's position could adversely impact the financial statements.

## (14) Concentrations

As of August 31, 2014, commercial paper and medium-term notes of NRUCFC in the amount of $71,218,700 which were held by the Corporation were included in cash and cash equivalents, short-term and other investments. These instruments are not secured or otherwise subject to federally insured deposit liability coverage.

In addition, the Corporation has an investment account through CoBank which totaled $5,290,737 as of August 31, 2014. This amount is included in cash and cash equivalents on the balance sheets and is not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation maintains interest-bearing cash balances in multiple financial institutions; those cash balances throughout the year periodically exceed the federally insured deposits limits. The Corporation believes that its cash is not exposed to any significant risk and the Corporation has not experienced any loss in accounts which exceed federally insured limits.

The Corporation serves customers in the state of Georgia. The geographic concentration of the Corporation's customers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a customer does not pay its bill based on the terms of its service agreement, the Corporation may require a consumer deposit as a condition for continued service.

## (15) Fair Value of Financial Instruments

***Fair Value Hierarchy***

The Corporation records certain financial and nonfinancial assets using fair value measurements. The Corporation uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets of liabilities.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following valuation techniques are used to estimate the fair value of each class of financial instrument:

*(1)* *Market approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) and deriving fair value based on these inputs.

*(2)* *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

*(3)* *Cost approach*. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). This approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset or comparable utility, adjusted for obsolescence.

***Recurring and Nonrecurring Fair Value Measurements***

The Corporation has cumulative capital credit notifications from OPC totaling $50,247,249 and $47,027,075 as of December 31, 2013 and 2012 respectively. OPC assigns patronage capital on a calendar year basis. The Corporation has elected to account for OPC capital credits as financial instruments under U.S. GAAP, based on an expectation of a return of capital, and measures these capital credits at fair value on an annual basis (recurring fair value measurement) using significant unobservable inputs (Level 3). No market data exists for these instruments.

The Corporation had no nonrecurring fair value measurements for the years ended August 31, 2014 and 2013, respectively.

Recurring fair value measurements included in the financial statements are as follows:

| | Carrying Value as of August 31 | Fair Value Measurements Using: Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains (Losses) |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Recurring Fair Value Measurement | | | | | |
| Investments in Associated Organizations | | | | | |
| OPC Capital Credits | $ - | | | $ - | $ - |
| 2013 | | | | | |
| Recurring Fair Value Measurement | | | | | |
| Investments in Associated Organizations | | | | | |
| OPC Capital Credits | $ - | | | $ - | $ - |

Unobservable inputs are inputs that reflect management's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances.

Level 3 fair value measurements for the years ended August 31 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Beginning Balance | $ - | $ - |
| Transfers into Level 3 | - | - |
| Total Gains or Losses for the Period | | |
| Included in Margins | | |
| Patronage Notifications | 3,176,780 | 2,869,583 |
| Fair Value Adjustment(s) | (3,176,780) | (2,869,583) |
| Purchases, Issues, Sales and Settlements | - | - |
| Ending Balance | $ - | $ - |

Gains and losses included in earnings for each period are presented as a component of generation and transmission cooperative capital credits in statements of revenue.

For Level 3 fair value measurements, the Corporation's management determines the fair value measurement valuation policies and procedures. In accordance with board policy, the board of directors assess and approve the fair value measurement policies and procedures. On an annual basis, management determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and any available third-party information. There were no changes in the valuation techniques during the current year.

Quantitative information about Level 3 fair value measurements for the years ended August 31, 2014 and 2013 is as follows:

| Financial Instrument | Fair Value | Valuation Technique | Unobservable Input | Percentage |
|---|---|---|---|---|
| OPC Capital Credits | $-0- | Discounted Cash Flow | Expected Return of Capital | 0.0% |

The significant unobservable input used in the fair value measurement of the Corporation's OPC capital credits is an expected return of capital. Management has assessed that no expected return of capital exists based on the following factors:

- Uncertainty as to return of capital since no capital has been returned in recent years.
- Capital returns limited by debt agreements.
- Review of major construction and related debt requirements.
- Regulatory environment.
- No known market.

An increase in the percentage of expected capital returns would result in a significantly higher fair value measurement.

***Other Fair Value Disclosures Required by U.S. GAAP***

A summarized schedule of the Corporation's financial instruments is as follows:

| | | August 31, 2014 | | August 31, 2013 | |
|---|---|---|---|---|---|
| | **Technique** | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **FINANCIAL ASSETS** | | | | | |
| Other Investments | | | | | |
| NRUCFC Medium-Term Notes | (1) | **-** | **-** | 23,900,000 | 23,900,000 |
| Not Practicable to Estimate Fair Value | N/A | **614,922** | **614,922** | 596,003 | 596,003 |
| Cash and Cash Equivalents | (1) | **57,866,605** | **57,866,605** | 57,862,599 | 57,862,599 |
| Short-Term Investments | | | | | |
| NRUCFC Commercial Paper | (1) | **47,318,700** | **47,318,700** | 46,514,000 | 46,514,000 |
| NRUCFC Medium-Term Notes | (1) | **23,900,000** | **23,900,000** | - | - |
| **FINANCIAL LIABILITIES** | | | | | |
| Long-Term Debt | (1) | **240,919,523** | **249,548,485** | 255,056,359 | 265,064,067 |
| Consumer Deposits | (1) | **18,387,941** | **18,387,941** | 18,663,822 | 18,663,822 |

Investments in other cooperative organizations, excluding OPC capital credits, which are included in investments in associated organizations, represent capital investments made primarily to obtain an economical source of financing, product or service. These investments were made without an expectation of a return of capital and therefore not considered to be financial instruments. Furthermore, the Corporation does not consider NRUCFC term certificates to be financial instruments due to the fact that these investments are directly related to borrowing.

The fair value of the Corporation's long-term debt is based on the current rates offered to the Corporation for debt of the same or similar maturities.

GREYSTONE
POWER CORPORATION
*An Electric Membership Corporation*

P.O. Box 897 • Douglasville, GA 30133 • greystonepower.com • 770-942-6576

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