


Powering the Everyday

annual report for 2006

GreyStone
Power Corporation
An Electric Membership Corporation

Powering the Everyday

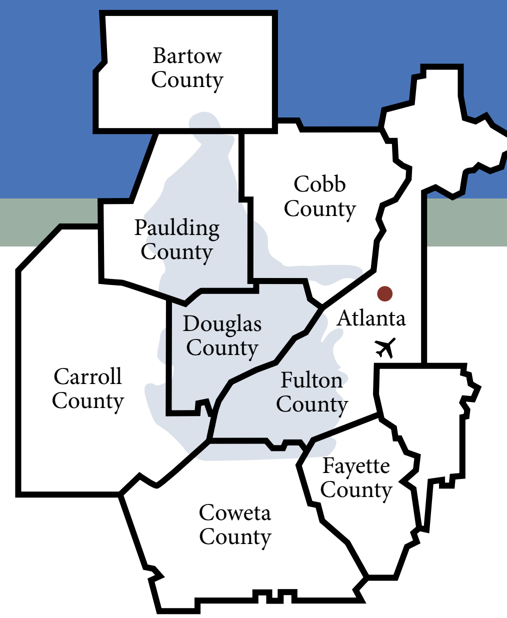
When it comes to supplying the energy that keeps your everyday life running smoothly, GreyStone Power delivers.

Whether it's making sure your computers and coffeemakers operate efficiently or heating and cooling your home, GreyStone works around the clock. But this cooperative goes beyond providing reliable electricity. GreyStone Power, with some of the lowest rates in the state and the nation, provides great value through affordable service and a sincere dedication to the people being served. Powering everyday life ... for less than $3.33* a day. That's real value.

* Figure based on average residential use.

GREYSTONE POWER CORPORATION
An Electric Membership Corporation

	Number of Meters	Operating Revenue	Miles of Line	Kilowatt Hours Sold
1966	14,821	$1,445,944	1,554.00	87,517,010
1976	29,720	$11,272,881	2,286.97	359,273,873
1986	42,633	$38,461,963	2,889.80	624,317,332
1996	63,201	$86,308,632	3,870.77	1,036,465,395
2006	106,049	$199,148,040	5,906.34	2,447,643,815



GreyStone Power Service Area

GreyStone Power Corporation serves portions of eight counties west of Atlanta – one of the fastest growing areas in the nation. These metropolitan Atlanta counties include Douglas, Paulding, Fulton, Coweta, Cobb, Fayette, Carroll, and Bartow.

As a member-owned electric cooperative, GreyStone Power is dedicated to providing the people it serves with the best possible electric service at the lowest possible rates. As a cooperative, the same people who use GreyStone's services own the company. That relationship gives special meaning to *Powering the Everyday*.

EXECUTIVE MESSAGE

Powering your everyday life is what we're all about. When we bring electric service to your home each day for less than the cost of a gallon of gas, we're delivering more than simply energy. We're delivering value. When our energy experts work with businesses to support their efforts to manage energy costs, we're supplying value.

Our crews continually work to prevent any service disruptions, so you may cook a meal, surf the Web or watch TV without any worries about whether or not your power will be there.

GreyStone Power continues to accomplish this at seasonal rates lower than Georgia Power and all other Georgia electric cooperatives. Our affordable rates are the result of ongoing negotiations with power suppliers to ensure the lowest possible cost, and good stewardship of the funds our members entrust to us.

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

Even though we've seen a large increase in the price of the power we purchase, we anticipate only a modest adjustment to our retail rates over the next 12 months. Our operating costs have also gone up, but in order to continue to provide you with affordable electric service, we're keeping those under control.

As you are well aware, energy costs are climbing all around us. I know you've felt the impact at the gas pumps. Natural gas prices, even though they've leveled off, still remain historically high. The cost of providing coal to power generation plants is much higher than it was just a few years ago, and efforts to protect the environment by eliminating pollutants from coal will add hundreds of millions of dollars to the cost of electricity.

While there's a vital need for the energy to keep our growing communities humming, we must balance that with concern for the environment. GreyStone Power is a member of Green Power EMC, which currently generates 9 megawatts of power through a combination of solar, wind, biomass and water generation facilities. The energy to be distributed by Green Power EMC has the same environmental benefit as taking 84,000 cars off the road. You may learn more at *www.greenpoweremc.com*.

The *Sun Power for Schools* program educates young people by providing classrooms with hands-on experience in generating clean energy. The solar panels are based at Hiram High School in Paulding County, but teachers throughout our service area and the state can visit the school and watch electricity as it's generated online for a better understanding of solar power.

We also realize the need for more money in your pocket. That's why GreyStone's Board directed a more than $3 million dollar return of capital credits to our members last fall. As you know, cooperatives are not-for-profit. Money left over at the end of each fiscal year is allocated to you according to how much electricity you purchased. This past record retirement amount is due to the strong financial condition of your cooperative.

But the value of your cooperative doesn't stop there. Last fall, your Board of Directors authorized the merger of GreyStone Security with EMC Security. GreyStone Power joined Jackson EMC and Walton EMC, two of the state's largest electric cooperatives, in offering you security and fire protection – as well as other technologies like advanced wiring, central vacuum, home theater systems, whole house audio, video and a wide range of commercial and industrial products and services.

You've told us reliable electric service is just as valuable to you as saving money. We couldn't agree more. Last year, according to the

6:45 A.M.

While most of us are still getting ready for the day, GreyStone Power crews are on the road to ensure we have the reliable energy we need to get things done.

Average Service Availability Index, GreyStone members could expect to have power 99.95 percent of the time. Our efforts to regularly trim right-of-way areas and to use the most current technology allow us to reduce outage times and keep the power flowing.

I assure you that as we at GreyStone Power continue to grow, adding nearly 7,000 members a year and increasing our investment in our power poles, lines and equipment by $30 million a year, we'll never lose focus of our mission – to deliver value to you, our member/owners.

It is a pleasure for us to power your everyday, every day of the year.

Gary Miller
President/CEO

Calvin Earwood
Chairman of the Board

powering the everyday

The GreyStone Power Board of Directors includes *(L-R)* Chairman Calvin Earwood, *District 1: Paulding/Bartow counties;* President/CEO Gary Miller; Secretary-Treasurer Jennifer DeNyse *(seated), District 5: Carroll and Douglas counties;* Vice Chairman John Walton, *District 2: Paulding County;* Milton Jones, *District 7: Fulton County;* Fred Wallace, *District 8: Douglas County;* Charles Rutland *(seated), District 3: Douglas and Paulding counties;* Burnell Redding, *District 4: Carroll and Douglas counties;* Maribeth Wansley, *District 6: Fulton, Fayette and Coweta counties;* and Ed Garrard, *District 9: Cobb County*.

10:15 A.M.

GreyStone powers education every day in many ways. For example, the cooperative assists three elementary schools in Douglas, Paulding and Cobb counties as part of the Partners in Education program. The schools include Beulah Elementary, P.B. Ritch Elementary and Clarkdale Elementary.

In addition to financial support from the cooperative, employees volunteer their time and talents to mentor children and assist children and adults in learning to read. The goal is to provide a wholesome and positive educational experience for students, helping each one succeed.

That partnership continues with high school juniors who represent GreyStone Power on the Rural Electric Youth Tour to Washington, D.C. Candidates are student leaders chosen by counselors and teachers from participating schools in GreyStone's service area. After studying provided materials, the candidates take an exam. The six students with the highest test scores receive an all-expenses-paid trip to Washington, D.C. on the Youth Tour. The 2006 winners included Matthew Cole, Krizia Diya, Will Geeslin, Jeremy Hale, Jeff Libby, and Charlita Lockett.

Older students are eligible for both college, university and technical college scholarships. In 2006, the GreyStone Power Foundation awarded its first scholarships. Five $3,000 scholarships went to GreyStone Power members or their children who are either seniors in high school or currently enrolled in college for fall 2006.

12:10 P.M.

GreyStone Power keeps energy flowing so members like Marvine and Charlie McMillan can enjoy a meal, and businesses – like Martin's Restaurant – may prosper.

The 2006 GreyStone Power Foundation Scholars included Karen Allen, Crystal Barnes, Patrick Eisenmann, Kizzy Howell and Lauren Winslow. The scholarships, provided by the GreyStone Power Foundation, Inc./Operation Round Up, were based on need, academic achievement and community involvement. Members of the GreyStone Power Foundation, Inc. Board of Directors, which disburses Operation Round Up funds contributed by GreyStone Power members, determined the recipients.

GreyStone also awards the Tim B. Clower Scholarship each year to two deserving technical students. In August 2006, two $2,500 scholarships went to Chattahoochee Technical College Paulding Campus student Amy Scheid and West Central Technical College Paulding Campus student Mandy Whiteley.

GreyStone employees give back to the community

Volunteers can be found everywhere, often working behind the scenes at an event or off the clock in schools, giving of themselves to help improve the quality of life in a community. Three GreyStone employees were honored in 2006 for their volunteer efforts in Douglas County. Ebony Cintron-Hawes, operations and engineering clerk, was named the Amanda Hyatt Volunteer of the Year by United Way of Douglas County. The Douglas County School System honored Charlotte Lockhart, executive assistant, as winner of the Christina Hughes Starfish Mentor of the Year Award, and the Douglas County chapter of the American Business Women's Association (ABWA) named Marcita Scharnhorst, vice president of human resources, the 2006 Woman of the Year.

Saving lives

Employees Stephen Bragg and John Archer were given Georgia EMC and GreyStone's highest service honor – the Life Saving Award – for their quick responses to life-threatening situations. Bragg helped a confused motorist undergoing a diabetic seizure, by securing the driver's car and keeping him from hurting himself until help came. Archer caught a department store employee who was having a stroke and correctly identified the man's condition, allowing medical professionals to respond more quickly. GreyStone employees do more than construct and maintain power lines – they protect the people they serve.

Supporting existing and new businesses in the area

While keeping power flowing to existing area businesses is vital, GreyStone Power helps recruit and support new businesses in our area. In 2006, these included:

- Publix on Chapel Hill Road in Douglas County, and Ridge Road and Highway 61 in Paulding County.
- Kohl's on Chapel Hill Road in Douglas County.
- Jones-Hall Elementary and Hall Road High School in Fulton County.
- The American Red Cross in Douglas County, which will have its 185,000 square foot facility completed by summer. The facility will employ between 400-600 people.
- The PepsiCo facility in Douglas County, with 913,000 square feet. Their operation employs more than 100 people.

Spend $5 a day on lunch? GreyStone delivers power to your home for less than a fast-food meal. We provide you with electricity to dry your hair, heat and cool your home and charge your electronics. Powering everyday life ... for less than $3.33 a day.

That's real value.

To keep pace with the growth in the area over the past 14 months, GreyStone has invested more than $22.5 million in the power delivery system that brings electricity to homes and businesses.

GEMC celebrated 10th year of service

As the area has grown, so has the need for financial services. In July 2006, the GEMC Federal Credit Union celebrated a decade of service to the GreyStone community. The credit union has more than doubled in size, serving 11,000 members, since opening its membership to the GreyStone community. The credit union offers many additional services for members, such as a car buying service, child safety identification program, scholarships and auto insurance. GreyStone Power members and their families are eligible to join GEMC FCU and take advantage of the great rates, outstanding service and numerous financial options.

Miller named to national bank Board of Directors

Gary A. Miller, President/CEO of GreyStone Power since 1999, was named to a four-year term on the board of directors of CoBank, the bank for rural America's cooperatives. Most of CoBank's 21-member board is elected by its customer-owners. However, the board may appoint additional directors to complement the skills and backgrounds of the elected board members.

CoBank has a deep and long-standing commitment to the rural energy industry. It currently supports 332 energy customers, including electric distribution and generation and transmission cooperatives, with $6.9 billion in loan commitments at year-end 2005.

Supporting our troops

Flint Weathers and Andy Harper, both apprentice linemen IV at GreyStone, were deployed in 2005 for tours of duty in Iraq. While Andy was able to return in 2005, Flint returned in May 2006 – along with Jason Starnes, son of Anne Starnes, GreyStone member services representative. Erroll Bowen, son of Lizzie Bowen, general clerk, also returned from serving in Iraq to first serve in Virginia in 2005 and back home in 2006.

A bucket truck archway greeted the soldiers during a parade as they returned to Georgia after serving in Iraq for the last year.

GreyStone Power held Flint's and Andy's positions, so their jobs would be waiting when they returned from serving our nation. Employees kept in touch and supported families while their loved ones were away.

8:20 P.M.

Young people across GreyStone's service area benefit from support ranging from scholarships to ballfield light installations. When it comes to powering the everyday, the co-op believes that starts with energizing youth in meaningful ways.

GreyStone employees also provided Christmas gifts of toys and clothing for the families and children of the soldiers of the Douglasville National Guard Army, provided funds for a Christmas lunch and hosted a Christmas get-together at the co-op's office.

Keeping people secure day and night

While providing reliable energy is at the core of GreyStone Power's mission, the cooperative formed an EMC Security partnership in October 2006. GreyStone joined Jackson Electric Membership Corporation (EMC) and Walton EMC to offer security and fire protection, along with other technologies such as advanced wiring, central vacuum, home theater, whole house audio, video and a wide range of commercial and industrial products and services.

powering the everyday

11:43 P.M.

While most of us sleep, GreyStone continues to power the night, as well as the day. It's a 24-hour-a-day job, 365 days a year to monitor, maintain and repair the electric delivery system.

Providing value that goes beyond keeping the lights on means looking for new ways to serve the cooperative's almost 100,000 members. It also includes exploring new sources of energy.

Sun Power at Hiram High School

In early 2006, a photovoltaic system began to brighten Hiram High School in Paulding County thanks to a unique partnership between GreyStone Power, Green Power EMC and the Paulding County School System. The joint venture provides a powerful hands-on learning experience about solar energy for the school's students, and generates valuable research information needed for creating sustainable, inexpensive solar technology.

The system converts sunlight into energy through silicon alloys called photovoltaic cells. In addition to the meter that records how much electricity is produced, the system includes a data collection program that monitors weather conditions and direct current and alternating current power production. This data is sent to an interactive Web site that can be used to monitor, evaluate, and compare the performance of all photovoltaic systems installed in schools across Georgia.

Green Power EMC offers members of a select group of Georgia electric cooperatives the opportunity to support cleaner, renewable energy from Georgia resources to supply their electric needs. Green Power uses "green" resources such as solar, wind, biomass and water to generate electricity. For the first time in Georgia, members can choose how their electricity is generated. The Web site at *www.greenpoweremc.com* offers more information, including how to sign up.

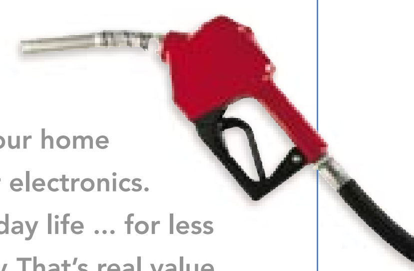
National recognition for GreyStone Power's work

This regional approach to making energy sustainable is much like the national approach to recognizing employees whose skills are at their best. GreyStone's team of Linemen Tony Brown, Matt Williams and Lead Lineman Derek Carruth, coached by Line Foreman Eddie Elrod, won third place overall in the EMC Division last fall at the International Lineman's Rodeo in Kansas City. The men competed with 200 teams from around the world including Ireland, Brazil, Jamaica and Canada.

At the Georgia Lineman's Rodeo the team placed first in the EMC division and finished sixth place overall in competition with Georgia Power, municipal power providers and electric cooperatives. Matt Freeman, apprentice lineman, finished eighth out of 72 apprentices across Georgia.

GreyStone's communications and member relations department, under the direction of Vicki Harshbarger, also took three honors in the 2006 Spotlight on Excellence awards program, sponsored by the Council of Rural Electric Communicators. The co-op's member newsletter, employee intranet and a feature story written by Megan McKoy, assistant director of communications and member relations, were all named among the top-rated communication efforts by electric cooperatives across the nation.

Spend $5 a day on gas for your car?
GreyStone delivers power to your home for less than two gallons of fuel. We provide you with energy to surf the Web, heat and cool your home and charge your electronics. Powering everyday life ... for less than $3.33 a day. That's real value.



Mission Statement

GreyStone Power Corporation will provide high quality electric service and engage in those other activities and services that will continue the cooperative as a viable entity and the utility of choice in a changing and highly competitive environment.

Financial Statements

as of August 31, 2006 and 2005 and
Report of Independent Accountants

GreyStone
Power Corporation
An Electric Membership Corporation

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October 20, 2006

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, 2006 and 2005 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, 2006 and 2005 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 20, 2006 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

BALANCE SHEETS
AUGUST 31

ASSETS

	2006	2005
Utility Plant		
Electric Plant in Service-At Cost	$ 290,584,670	$ 264,182,064
Construction Work in Progress	14,727,294	10,492,957
Gross Utility Plant	305,311,964	274,675,021
Accumulated Provision for Depreciation	(52,120,174)	(47,329,045)
	253,191,790	227,345,976
Other Property and Investments		
Investments in Associated Organizations	13,260,115	12,299,066
Notes Receivable	151,306	211,872
Other Investments	294,232	294,232
	13,705,653	12,805,170
Current Assets		
Cash and Cash Equivalents	37,693,963	24,321,644
Accounts Receivable (Less Accumulated Provision for Uncollectible Accounts of $364,500 in 2006 and $197,500 in 2005)	21,343,327	19,921,894
Current Portion of Notes Receivable	63,086	74,305
Materials and Supplies	2,919,619	2,899,655
Other	1,606,739	14,457,024
	63,626,734	61,674,522
Deferred Debits	491,015	539,224
Total Assets	$ 331,015,192	$ 302,364,892

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

BALANCE SHEETS
AUGUST 31

EQUITIES AND LIABILITIES

	2006	2005
Equities		
Membership Fees	$ 945,733	$ 886,302
Patronage Capital	119,410,210	105,325,711
Other	3,134,590	3,194,007
	123,490,533	109,406,020
Long-Term Debt	163,509,842	156,844,877
Other Long-Term Liabilities		
Accumulated Provision for Postretirement Benefits Other Than Pensions	940,416	1,228,869
Current Liabilities		
Lines-of-Credit	5,000,000	4,000,000
Current Maturities of Mortgage Notes	4,936,000	3,732,700
Accounts Payable	18,257,651	15,115,146
Consumer Deposits	10,097,073	7,068,717
Other	4,783,677	4,968,563
	43,074,401	34,885,126
Total Equities and Liabilities	$ 331,015,192	$ 302,364,892

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

STATEMENTS OF REVENUE

AUGUST 31

	2006	2005
Operating Revenue and Patronage Capital	$ 199,148,040	$ 163,779,301
Operating Expenses		
Cost of Power	143,037,956	118,224,137
Distribution Operations	5,425,471	4,314,709
Distribution Maintenance	5,653,359	5,171,128
Consumer Accounts	6,805,409	5,756,610
Consumer Service and Information	1,384,930	1,535,912
Administrative and General	5,864,713	5,332,714
Depreciation	8,795,944	8,066,020
	176,967,782	148,401,230
Operating Margins Before Interest Expense	22,180,258	15,378,071
Interest Expense	8,823,574	7,842,148
Operating Margins After Interest Expense	13,356,684	7,535,923
Nonoperating Margins	1,712,745	655,343
Generation and Transmission Cooperative Capital Credits	762,327	743,319
Other Capital Credits and Patronage Capital Allocations	358,926	494,229
Net Margins	$ 16,190,682	$ 9,428,814

The accompanying notes are an integral part of these statements.

STATEMENTS OF MEMBERS' EQUITY

AUGUST 31

	Total Equities	Membership Fees	Patronage Capital	Other Equities
Balance, August 31, 2004	$ 101,915,097	$ 832,596	$ 98,096,455	$ 2,986,046
Net Margins	9,428,814		9,428,814	
Membership Fees	53,706	53,706		
Donated Capital	12,189			12,189
Retirement of Patronage Capital	(2,199,558)		(2,199,558)	
Retired Capital Credit Gains	195,772			195,772
Balance, August 31, 2005	109,406,020	886,302	105,325,711	3,194,007
Net Margins	16,190,682		16,190,682	
Membership Fees	59,431	59,431		
Donated Capital	15,857			15,857
Retirement of Patronage Capital	(2,106,183)		(2,106,183)	
Retired Capital Credit Gains	(75,274)			(75,274)
Balance, August 31, 2006	$ 123,490,533	$ 945,733	$ 119,410,210	$ 3,134,590

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

AUGUST 31

	2006	2005
Cash Flows From Operating Activities		
Net Margins	$ 16,190,682	$ 9,428,814
Adjustments to Reconcile Net Margins to Net		
Cash Provided by Operating Activities		
Depreciation	9,497,045	8,713,400
Amortization	34,449	23,708
Patronage Capital from Associated Organizations	(1,207,704)	(1,241,534)
Postretirement Benefits	1,112,628	711,319
Change In		
Accounts Receivable	(1,405,583)	(2,190,330)
Other Current Assets	12,850,285	(13,674,895)
Accounts Payable	3,126,655	1,347,406
Other Current Liabilities	(184,886)	320,697
	40,013,571	3,438,585
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(34,247,183)	(26,838,851)
Plant Removal Costs	(1,421,674)	(1,020,232)
Material Salvaged	325,998	220,481
Deferred Debits	48,209	(326,212)
Materials and Supplies	(19,964)	(434,234)
Return of Equity from Associated Organizations	212,196	303,812
Notes Receivable	71,785	98,807
Decrease in Investments	10	-
	(35,030,623)	(27,996,429)
Cash Flows from Financing Activities		
Advances of Long-Term Debt	14,159,370	20,583,000
Memberships	59,431	53,706
Principal Repayment of Long-Term Debt	(5,915,824)	(3,712,087)
Retirement of Patronage Capital	(2,106,183)	(2,199,558)

(continued on next page)

STATEMENTS OF CASH FLOWS (CONTINUED)
AUGUST 31

	2006	2005
Consumer Deposits	3,028,356	1,522,232
Other Equities	(59,417)	207,961
Lines-of-Credit	1,000,000	(2,294,893)
Advance Payments on Long-Term Debt Unapplied	(375,281)	(356,680)
Funding of Postretirement Medical Benefits	(1,401,081)	(8,231,782)
	8,389,371	5,571.899
Net Increase (Decrease) in Cash and Cash Equivalents	13,372,319	(18,985,945)
Cash and Cash Equivalents-Beginning	24,321,644	43,307,589
Cash and Cash Equivalents-Ending	$ 37,693,963	$ 24,321,644
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest	$ 8,641,513	$ 7,544,427

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 4.4 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2 to 25 percent per annum.

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

Accounts Receivable

An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the balance sheets net of such accumulated allowance.

Materials and Supplies

Materials and supplies are stated at lower of cost or market. Cost is determined by the moving average method of inventory valuation.

Cash Equivalents

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

Equities and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 37.3 and 36.2 percent of total assets as of August 31, 2006 and 2005, 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 $10,094,000 and $7,991,000 for the years ended August 31, 2006 and 2005, 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 $28,672,192 and $27,459,192 for the years ended August 31,2006 and 2005, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

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

Income Taxes

The Corporation operates under the Internal Revenue Code Section 501 (c)(12) as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made in the financial statements.

2. Utility Plant

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

	2006	2005
Distribution Plant	$ 258,714,826	$ 235,449,793
General Plant	31,869,844	28,732,271
Electric Plant in Service	290,584,670	264,182,064
Construction Work In Progress	14,727,294	10,492,957
	$ 305,311,964	$ 274,675,021

3. Investments in Associated Organizations

	2006	2005
National Rural Utilities Cooperative		
Finance Corporation		
Membership Fee	$ 1,000	$ 1,000
Capital Term Certificates	2,212,074	2,246,523
Capital Credits	913,862	764,577
Georgia Rural Electric		
Service Corporation		
Capital Credits	924,271	817,888
GEMC Workers' Compensation Fund		
Capital Credits	94,821	75,122
Southeastern Data Cooperative, Inc.		
Capital Credits	70,781	52,160
Georgia Transmission Corporation		
Membership Fee	5	5
Contributed Capital	2,860,384	2,860,384
Capital Credits	4,001,656	3,415,698
CoBank		
Membership Fee	1,000	1,000
Capital Credits	600,357	588,370
Georgia Systems Operations Corporation		
Capital Credits	$ 8,886	$ 7,923
Smarr EMC		
Membership Fee	5	5
Contributed Capital	474,582	573,610
Capital Credits	1,007,207	831,801
Federated Rural Electric		
Membership Exchange		
Subscriber Equity	89,199	62,965
Green Power EMC		
Membership Fee	25	25
Chattahoochee EMC		
Membership Fee	-	5
Talbot EMC		
Membership Fee	-	5
	$ 13,260,115	$ 12,299,066

4. Other Current Assets

Other current assets as of August 31, 2005 included $13,150,450 that had been paid to OPC as a prepayment for electric energy.

5. Deferred Debits

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

	2006	2005
Transportation Costs	$ 94,753	$ 233,069
Alarm Security Accounts	55,588	63,587
Other	340,674	242,568
	$ 491,015	$ 539,224

6. Patronage Capital

	2006	2005
Assignable	$ 10,716,699	$ 7,042,511
Assigned	141,781,431	129,154,049
	152,498,130	136,196,560
Retired	(33,087 ,920)	(30,870,849)
	$ 119,410,210	$ 105,325,711

7. Other Equities

	2006	2005
Nonoperating Margins	$ 50,517	$ 50,517
Operating Margins	56,108	56,108
Donated Capital	134,464	118,607
Retired Capital Credits-Gain	2,894,393	2,969,667
Capital Losses	(892)	(892)
	$ 3,134,590	$ 3,194,007

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.

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

Holder of Note	Interest Rate	2006	2005
RUS	2% to 5.5%	$ 93,441,533	$ 82,274,703
RUS Cushion-of-Credit	5.00%	(7,740,636)	(7,365,355)
NRUCFC	3.5% to 5.9%	21,927,684	25,016,867
FFB	4.46% to 4.92 %	59,486,078	60,633,662
CoBank	6.08%	1,331,183	-
Other	8%	-	17,700
		168,445,842	160,577,577
Maturities Due Within One Year		(4,936,000)	(3,732,700)
		$ 163,509,842	$156,844,877

The Corporation has a $26,700,000 line-of-credit at 7.15 and 6.30 percent with NRUCFC which had no outstanding balance as of August 31, 2006 and 2005. The Corporation also has a $20,000,000 line-of-credit at 6.08 percent with CoBank which had outstanding balances of $5,000,000 and $4,000,000 as of August 31, 2006 and 2005, respectively.

Principal maturities of long-term debt approximate $4,936,000 for the ensuing five years.

The Corporation has unadvanced loan funds totaling $367,000 on commitment from NRUCFC and unadvanced loan funds totaling $32,213,000 on commitment from RUS. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

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

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

9. Pension Plan

The employees of the Corporation participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. The Corporation makes annual contributions to the plan equal to the amounts accrued for pension expense. In this master multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Pension costs were $1,907,473 in 2006 and $1,764,045 in 2005.

The Corporation participates in the NRECA SelectRE 401K Plan for all eligible employees. The costs related to this plan were $5,532 and $-0- in 2006 and 2005, respectively.

10. Postretirement Benefits Other Than Pensions

The Corporation provides medical benefits and life insurance for qualified retired employees and directors. The plan's funded status is comprised of the following:

	2006	2005
Accumulated Postretirement		
Benefit Obligation (APBO)		
Retirees and Dependents	$ 2,446,000	$ 2,446,000
Fully Eligible Active		
Plan Participants	1,713,100	1,713,100
Other Active Plan Participants	4,378,400	4,378,400
Expense Less Benefits		
Paid Since January 1, 2003	2,945,298	2,311,551
	11,482,798	10,849,051
Unrecognized Loss	(488,674)	(1,388,400)
Plan Assets at Fair Value (Voluntary		
Employee Benefit Association Trust)	(10,053,708)	(8,231,782)
Accumulated Postretirement Benefit		
Obligation in Excess of Plan Assets	$ 940,416	$ 1,228,869

Net periodic postretirement benefit cost includes the following components:

	2006	2005
Service Cost	$ 321,100	$ 321,100
Interest Cost on Accumulated		
Postretirement Benefit Obligation	545,300	545,300
	866,400	866,400
Amortization of Actuarial Loss	46,000	46,000
	$ 912,400	$ 912,400

For measurement purposes, a 7.0 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006. The rate was assumed to decrease gradually to 5.5 percent by the year 2009 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of August 31, 2006 by $1,576,400 and the aggregate of the service and interest cost components of postretirement expense for the year then ended by $182,100.

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

11. 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 $29,432,000 for the year ended August 31, 2006, 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, 2005 was approximately $129,138,000.

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 $2,351,000 for the Chattahoochee Energy Facility and $5,528,000 for the Talbot Energy Facility for the year ended August 31, 2006, are expected to be at the same level for future years. The agreements are in effect through December 31, 2025.

The Corporation has an agreement with Progress Ventures, Inc. 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.

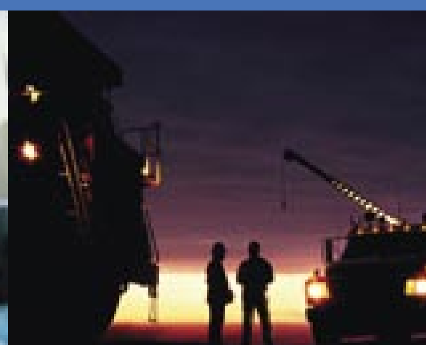
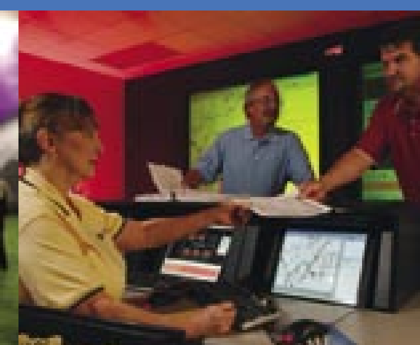
Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

12. Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically.

At August 31, 2006, commercial paper of NRUCFC in the amount of $34,900,000, 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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