SAVINGS CONVENIENCE CONNECTING

2018 ANNUAL REPORT

Making Life **Better**

COMMUNITY

SAVINGS

CONNECTING

SERVICE

GREYSTONE POWER CORPORATION
An Electric Membership Corporation

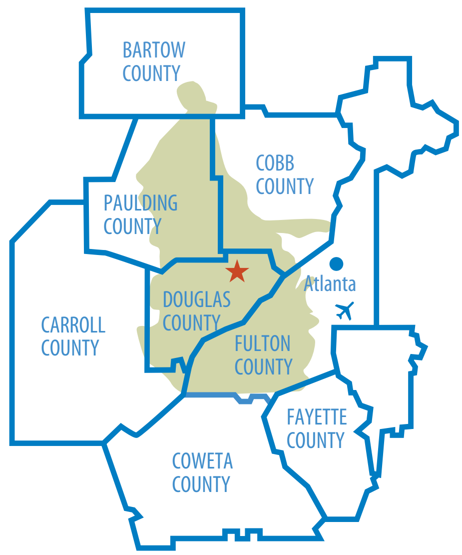
Our **Mission**

Making Life Better in
the communities we serve.

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 118,000 homes, businesses, schools and industries through more than 133,000 meters.

Service **Area**



★ Douglasville Office and Corporate Headquarters

Who is a **Member?**

If you are the member of record who receives 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
2018	126,412	$ 274,036,533	7,018	2,788,037,843
2008	114,753	$ 225,867,596	6,536	2,706,180,528
1998	69,082	$ 93,943,757	4,121	1,283,678,124
1988	47,380	$ 44,923,724	3,164	706,249,648
1978	32,107	$ 15,170,140	2,392	420,009,474

GREYSTONE POWER CORPORATION
Making Life Better

2018 ANNUAL REPORT

Making Life Better

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Making Life **Better**

Your electric cooperative is **making life better in the communities we serve.** That begins with reliable power at the lowest possible price.

GreyStone Power continues to deliver some of the lowest-priced electricity in Georgia. That's due in part to our fiscally conservative practices and favorable wholesale power supply contracts that result in regular Wallet Watch credits on bills.

In 2018, a member household using 1,000 kilowatt-hours a month paid rates from 15 to 21 percent lower than Georgia Power, according to the Georgia Public Service Commission.

That electricity comes from multiple sources, ensuring reliable, affordable power. Currently, more than 65 percent of our electricity is generated from natural gas, and 3 percent of our power comes from renewable energy. As we add more solar projects, that renewable percentage will increase dramatically by 2022. New units at the Vogtle nuclear plant will be coming on-line soon, as well.

If everything is completed on schedule, we will have about 57 megawatts of solar power by the end of 2021. That's enough to power about 9,500 homes per year.

We're building our new headquarters at the location of our solar farm, at the intersection of Highway 92 and Ridge Road in Paulding County. In 2010, the board purchased 194 acres at a time when land prices were favorable.

We'll sell our current building, which we have outgrown over the 56 years we've been there. The proceeds of that sale, as well as our district office property in Dallas, will be added to the funds we've been saving over the years. As a result, the new facility will be paid for without having to borrow any additional funds. That will hopefully be completed as early as the end of 2020.

In addition to reliable, affordable power, members have told us they want their cooperative to be an active community supporter. GreyStone is. For example, when Paulding County School District officials broke ground for the Paulding College & Career Academy (PCCA), GreyStone Power made a special donation of $50,000 that will fund the Jerry & Ellen Tucker Energy Lab. It will offer training to those interested in an energy career.

This is just one example of how we're giving back. Members are stepping up, too.

More than 26,000 GreyStone members currently support Operation Round Up®, which we launched in 1998. That means a generation of GreyStone members have chosen to round up their electric bills to the next dollar to help those in need.

This cooperative is re-energizing the lives of the people we serve, so much so that we made it a part of our mission statement in 2019. From affordable, reliable power to supporting the local community, GreyStone Power is truly **making life better in the communities we serve.**

Gary Miller President/CEO

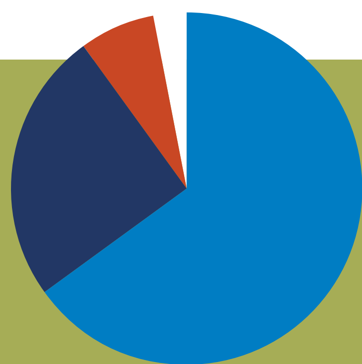
James M. Johns Board Chair

$247

savings on power bills during 2018 for GreyStone members using 1,000 kWh per month, compared with Georgia Power customers

$22

cost of a subscription to Cooperative Solar, per block (dropped $3 last year)



GreyStone's 2018 Fuel Mix

- Gas 65%
- Nuclear 25%
- Coal 7%
- Renewables 3%

Lisa Lonon, residential energy consultant, checks the smart thermostat that members Jeanette and Cecil Perkins installed as part of GreyStone's energy efficiency program.

Saving You Money

Exceeding member expectations energizes GreyStone. This is especially true when it comes to value.

That's why everyone was delighted in 2018 as GreyStone delivered some of the lowest-priced electricity in the state. Members paid 21 percent less than Georgia Power customers in the summer and nearly 15 percent less in the winter.*

As a not-for-profit electric cooperative, GreyStone puts the people it serves first. That's because GreyStone Power is owned by its members. Many of them received their portion of the cooperative's capital returns of $12 million last September. The largest return to date benefited members and the local economy as people purchased products and services with their capital credits returns.

Thanks to a continued Wallet Watch credit on power bills, members also saw $21.6 million credited on bills throughout the year. The cooperative is working to keep power costs as low as possible.

GreyStone also helps members reduce power bills by offering energy-saving services. More than 850 members have taken advantage of the cooperative's $100 smart thermostat rebate and are saving on heating and cooling costs after upgrading their thermostats.

More than 570 FilterEasy® participants are keeping their HVAC systems working more efficiently by receiving replacement air filters delivered, when needed, at discounted prices. Members are also holding onto more of their hard-earned dollars by taking advantage of online and on-site energy audits, other rebates and energy efficiency loans for home improvements.

The Co-op Connections® Card continues to make members' lives better with more than $46,000 in prescription savings in 2018. The program has saved participants $2.3 million since it began.

The card provides discounts at 269 local businesses. A new partnership gives members additional discounts at more than 400,000 hotels worldwide, concerts and sporting events.

GreyStone realizes members are busier than ever, and time is money. That's why the cooperative continues to provide convenient 24/7 service options. Last year, 3,700 more members downloaded GreyStone's Outage Helper app. It allows them to report an outage, receive live restoration times and view the outage map on their mobile devices.

More than 12,500 members joined others already using GreyStone's convenient payment app, website tools, payment kiosks (additional locations coming soon) and other services.

Recruiting new business to GreyStone's service area fuels a healthier economy and generates new jobs. The cooperative's economic development team works to bring new companies into the service area. That creates jobs, increases power sales and helps keep rates stable.

In 2018, Preferred Freezer Services required 1.4 more megawatts. The 24-hour operation employs 50 workers. GreyStone's economic development team also secured service for the Highway 278 booster pump station, which supports the Richland Creek Reservoir project. Seefried at Fulton County Industrial Park will be added soon.

** According to the 2018 summer and 2018 winter rate surveys by the Georgia Public Service Commission. Based on the residential use of 1,000 kilowatt-hours (kWh) per month.*

$112.6 million returned to members to date

$85,654 smart thermostat rebates in 2018

16,240 combined app downloads

A **Powerful** Network

When major storms hit and other electric membership cooperatives (EMCs) need help restoring power, GreyStone stands ready to assist. They do the same for GreyStone. This demonstrates ***Cooperation Among Cooperatives***, which is one of the seven guiding cooperative principles.

Last October, Hurricane Michael made landfall in Georgia as a Category 3 hurricane. With winds in excess of 100 miles per hour, the storm wreaked havoc to the power delivery system. In middle and south Georgia, approximately 177,000 electric cooperative members were in the dark.

GreyStone responded quickly, initially sending 26 linemen to assist Jefferson Energy Cooperative in Wrens, Georgia, with power restoration efforts. Another six GreyStone linemen later joined the restoration team, and crews went on to help other cooperatives in Georgia, including Sumter EMC in Americus, Grady EMC in Cairo, Irwin EMC in Ocilla and Mitchell EMC in Camilla. An additional 17 GreyStone linemen later traveled to replace crews at Mitchell and Grady EMCs.

The severity of damage made restoring power especially challenging. At the height of the storm, nearly 100 substations serving EMCs were out of service and 53 high-voltage transmission lines were down. Crews had to repair these high-voltage lines and substations before lights could come back on in homes, businesses and other facilities. Some electric cooperatives had to rebuild as much as 100 percent of their distribution system.

In addition to sending crews, GreyStone also delivered much-needed supplies following Hurricane Michael. Mitchell EMC received a truck loaded with donated and purchased items from GreyStone employees, including water and other supplies.

When GreyStone found that cooperatives hit by the hurricane were also short staffed in other areas, the cooperative sent a mechanic and warehouse stock clerk to assist Three Notch EMC, in Donalsonville, Georgia.

Helping sister cooperatives and knowing that GreyStone can depend on the same kind of assistance whenever needed assures the most reliable power possible in the face of Mother Nature.

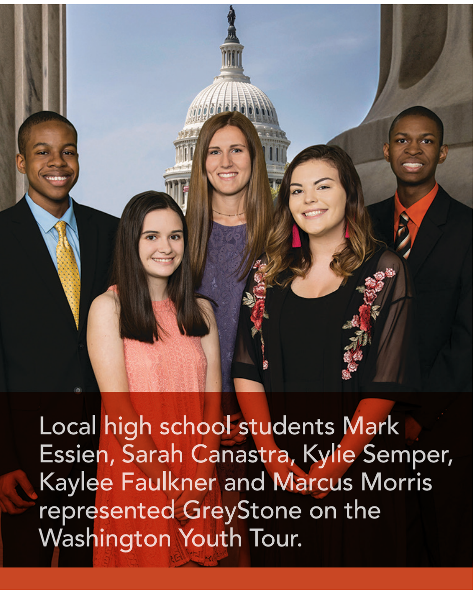
Wind gusts as high as
115 mph

Hurricane Michael made landfall in Florida
Oct. 10, 2018

1st major hurricane to directly impact Georgia since the 1980s

6 cooperatives were assisted by GreyStone crews

49 GreyStone linemen assisted other cooperatives' restoration efforts after Hurricane Michael



Local high school students Mark Essien, Sarah Canastra, Kylie Semper, Kaylee Faulkner and Marcus Morris represented GreyStone on the Washington Youth Tour.

Employees wearing the GreyStone Gives blue shirts can be seen helping throughout the area. Here, they assist with landscaping tasks at a Habitat for Humanity home.

Serving Local Communities

More than 26,300 members have volunteered to let GreyStone Power round up their electric bills to the next dollar through Operation Round Up® (ORU). Since the program began, volunteers have donated more than $5.7 million to help local people and organizations.

The GreyStone Power Foundation, Inc. administers these funds. In celebration of ORU's 20th anniversary, it donated almost $140,500 to help local nonprofit organizations in 2018. Warehouse of Hope and Soldiers' Angels were among 115 groups who received support. Some of the young lives touched included participants in the Douglas County Boys & Girls Club.

GreyStone Power and its employees genuinely care about improving the quality of life locally, too. That's why the cooperative launched GreyStone Gives in 2018. This program empowers employees to volunteer eight working hours annually to 501(c)(3) charitable organizations.

Last November, employees assisted with landscaping for the NW Metro Atlanta Habitat for Humanity home in Douglasville. On Veterans Day, the house was dedicated and keys were given to U.S. Navy veteran and Habitat homeowner Marilyn Clark. Employees, donned in their blue GreyStone Gives shirts, will continue to lend assistance in our communities.

Employees willingly gave their time to serve in other ways throughout the year, too. Continuing their fight against cancer, they raised a total of $40,239 for Relay For Life® and Gabe's Chemo Duck Program.™

GreyStone workers also hosted blood drives for the American Red Cross® and once again honored the cooperative's veterans of the armed forces during a special Military Service Recognition breakfast in November.

Many GreyStone employees serve on charitable or community boards. In early 2018, Residential Energy Consultant Lisa

Lonon was honored as the 2017 Douglas County Boys & Girls Club Board Member of the Year for her service.

Making life better and brighter for our communities also means investing in local students. As a continuing Partner in Education (PIE) member, GreyStone sponsored several Douglas County School System events throughout the year, including a year-end recognition breakfast in May and a kickoff event in July. The cooperative partners with schools throughout its service area, providing scholarship opportunities and teaching students about electrical safety.

Thanks to college scholarships awarded by GreyStone in 2018, five students received some extra financial help to pursue higher educational goals: Emmanuel Eziakor, of Cobb; Jaden Lamar, of Douglasville; Auburn Merritt and Jake Strickland, of Dallas; and Jordan Houle of Hiram.

GreyStone also sponsored five future leaders who traveled to the nation's capital last summer as part of the Washington Youth Tour. They joined more than 1,500 other young people from across the U.S. to see government in action, meet lawmakers, tour historic sites and study the cooperative business model.

The cooperative was honored to receive recognition from the communities it serves throughout 2018. In January (2018), The South Fulton Chamber of Commerce named GreyStone Power as the winner of the 2017 Cornerstone Award. Chamber members and the community presented this honor to GreyStone for being dependable and a community partner they can rely on for support, like the cornerstone of a building.

For the third consecutive year, the Douglas County Sentinel voted GreyStone Best Employer in Douglas County. In addition, the Downtown Development Authority (DDA) and Main Street Douglasville named GreyStone Power the 2018 Community Partner of the Year.

Georgia EMC and GreyStone recognized individual employees with Lifesaving Awards last year. The honorees included Nabil Chabayta, Vicki Harshbarger, Casey Jackson, Eric Taylor and Travis Turner.

Employee Shomari Abdur-Raheem also received the Gatekeeper Award twice in the same year. This award goes to GreyStone employees who go the extra mile to render aid in situations where assistance is needed. In one instance, Abdur-Raheem stepped in to help a woman whose bag was being stolen. He alerted police, who made an arrest. On another occasion, he assisted a woman trapped in her vehicle after she hit a pole. Abdur-Raheem kept her calm and aided an officer in accessing the vehicle.

GreyStone employees go above and beyond in serving members. They take action in **Making Life Better** for the people we serve.

GreyStone employees regularly show local students, like these at Bill Arp Elementary, how to stay safe around electricity.

Board of **Directors**

Maribeth Wansley
District 6

David Hagenow
Secretary-Treasurer
District 3

Genevieve Cole
Vice Chair
District 1

Gary Miller
President/CEO

Milton Jones
District 7


Lucy Andres
District 9
Neal Dettmering
District 4
Billy Mayhew
District 5
John Walton
District 2
Jim Johns
Board Chair
District 8

$2.3 million
in prescription savings since the Co-op Connections® Card began

261
employees

828
replacement air filters shipped through the FilterEasy® program

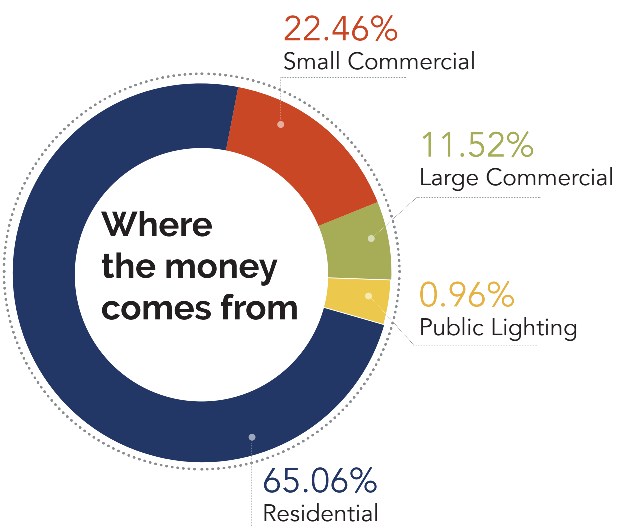
99.98%
Reliability rating

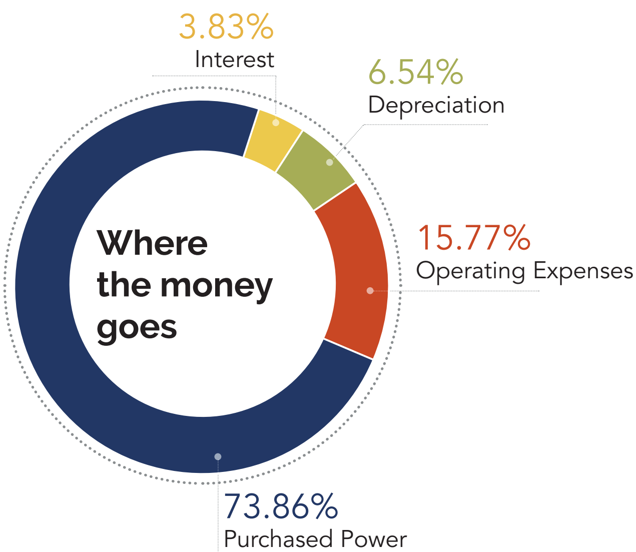
501
miles of right-of-way maintained last year to decrease tree-related outages. (That's about the same distance as traveling from Atlanta to Norfolk, Va.)

2nd
place GreyStone lineman team of Sam Albright, Tony Brown and Matt Williams at the Georgia Lineman's Rodeo

707
on-site energy audits performed in 2018

57,330
meters added in the last 20 years





McNair McLemore Middlebrooks & Co
Certified Public Accountants

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October 18, 2018

Independent Auditor's Report

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, 2018 and 2017, and the related statements of operations, 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.

Auditor's 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to change its policy for accruing unbilled utility revenues. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2018 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 solely 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 effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GreyStone Power Corporation's internal control over financial reporting and compliance.

McNair, McLemore, Middlebrooks & Co., LLC

MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC

Balance Sheets **August 31**

Assets

	2018	2017
Utility Plant		
Electric Plant in Service - At Cost	$ 490,785,372	$ 477,071,319
Construction Work in Progress	9,816,896	7,390,668
Gross Utility Plant	500,602,268	484,461,987
Accumulated Provision for Depreciation	(125,065,157)	(115,468,415)
	375,537,111	368,993,572
Other Property and Investments		
Investments in Associated Organizations	26,552,748	25,658,413
Other Investments	13,295,632	17,096,986
Restricted Funds	361,765	229,530
	40,210,145	42,984,929
Current Assets		
Cash and Cash Equivalents	53,508,747	54,557,018
Short-Term Investments	11,900,000	17,500,000
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $129,957 in 2018 and $317,542 in 2017)	28,075,981	26,991,244
Accrued Utility Revenues	14,108,283	14,379,591
Materials and Supplies	4,507,283	3,639,245
Prepayments	37,838,101	23,187,429
Other	2,447,524	2,027,062
	152,385,919	142,281,589
Deferred Debits	7,662,866	5,911,133
Total Assets	$ 575,796,041	$ 560,171,223

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

Members’ Equity and Liabilities

		2018		2017
Members’ Equity				
Membership Fees	$	1,165,000	$	1,141,900
Patronage Capital		258,709,526		250,164,897
Other		24,761,337		24,159,275
		284,635,863		275,466,072
Long-Term Debt		228,474,343		226,014,896
Current Liabilities				
Current Portion of Long-Term Debt		13,807,898		13,154,293
Accounts Payable		19,884,491		13,293,738
Consumer Deposits		17,404,251		17,200,035
Other		10,550,720		14,356,284
		61,647,360		58,004,350
Deferred Credits		1,038,475		685,905
Total Members’ Equity and Liabilities	$	575,796,041	$	560,171,223

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

Statements of Operations
for the Years Ended August 31

	2018	2017
Operating Revenues	$ 274,036,533	$ 261,459,530
Operating Expenses		
Cost of Power	194,256,300	182,520,738
Distribution Operations	9,716,835	7,743,125
Distribution Maintenance	10,967,897	8,048,164
Consumer Accounts	6,717,816	6,052,850
Consumer Information and Sales	2,291,960	1,927,317
Administrative and General	11,773,778	10,393,731
Depreciation	17,205,699	15,988,602
Total Operating Expenses	252,930,285	232,674,527
Operating Margins Before Interest Expense	21,106,248	28,785,003
Interest Expense	10,091,482	10,180,823
Operating Margins After Interest Expense	11,014,766	18,604,180
Nonoperating Margins	5,984,237	4,694,187
Generation and Transmission Cooperative Capital Credits	1,005,881	866,005
Other Capital Credits and Patronage Capital Allocations	1,120,527	1,110,180
Net Margins	$ 19,125,411	$ 25,274,552

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

Statements of Changes in Members' Equity
for the Years Ended August 31, 2018 and 2017

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, August 31, 2016	$ 259,233,556	$ 1,120,145	$ 237,778,374	$ 20,335,037
Net Margins	25,274,552	–	22,913,961	2,360,591
Membership Fees	21,755	21,755	–	–
Retirement of Patronage Capital	(10,527,438)	–	(10,527,438)	–
Retired Capital Credit Gains	1,463,647	–	–	1,463,647
Balance, August 31, 2017	275,466,072	1,141,900	250,164,897	24,159,275
Net Margins	19,125,411	–	19,125,411	–
Membership Fees	23,100	23,100	–	–
Retirement of Patronage Capital	(10,580,782)	–	(10,580,782)	–
Retired Capital Credit Gains	602,062	–	–	602,062
Balance, August 31, 2018	**$ 284,635,863**	**$ 1,165,000**	**$ 258,709,526**	**$ 24,761,337**

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

Statements of Cash Flows
for the Years Ended August 31

	2018	2017
Cash Flows from Operating Activities		
Net Margins	$ 19,125,411	$ 25,274,552
Adjustments to Reconcile Net Margins to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	18,317,686	17,608,965
Bad Debt Provision	100,015	135,349
Patronage Capital from Associated Organizations	(2,136,408)	(1,976,185)
Equity in Earnings from Partnership Interest	(861,291)	(730,322)
Net Postretirement Benefit Cost	(2,556,129)	(2,588,890)
Prepaid Power Applied	6,278,814	9,610,044
Interest Earned on RUS Cushion-of-Credit	(1,920,647)	(1,674,391)
Postretirement Healthcare Plan Premiums	(302,716)	(290,022)
Change In		
Accounts Receivable	(913,444)	(761,855)
Prepaid Power	(20,958,240)	(26,157,548)
Other Current Assets	(523,943)	(306,363)
Deferred Debits	(4,875)	(1,276,796)
Accounts Payable	6,590,753	(1,677,448)
Other Current Liabilities	(3,601,348)	1,452,180
Deferred Credits	352,570	(35,611)
	16,986,208	16,605,659
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(23,749,238)	(21,784,646)
Materials and Supplies	(868,038)	(323,127)
Change in Temporary and Other Investments	9,472,000	(10,000,000)
Return of Equity from Investments	2,032,718	1,641,442
	(13,112,558)	(30,466,331)
Cash Flows from Financing Activities		
Advances from Long-Term Debt	18,163,000	-
Principal Repayment of Long-Term Debt	(13,129,301)	(12,447,971)
Retirement of Patronage Capital	(10,580,782)	(10,527,438)
Other	625,162	1,485,397
	(4,921,921)	(21,490,012)
Net Decrease in Cash and Cash Equivalents	(1,048,271)	(35,350,684)
Cash and Cash Equivalents - Beginning	54,557,018	89,907,702
Cash and Cash Equivalents - Ending	$ 53,508,747	$ 54,557,018
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest	$ 10,124,573	$ 10,194,688

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Accounting policies of GreyStone Power Corporation (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 reevaluated 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 3.31 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 8.01 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.

Fair Value Option

The Corporation has elected the fair value option for its allocated equities from Oglethorpe Power Corporation (OPC). The election to account for this financial instrument under the fair value option was made based on management's assessment of the regulation surrounding the industry in which OPC operates, OPC's financial condition and its potential effect on future returns of capital. The decision to elect the fair value option is determined on an instrument by instrument basis, must be applied to an entire instrument, and is irrevocable once elected. At this time, the Corporation has not elected to apply the fair value option to any of its other financial instruments.

Investments in Associated Organizations

Investments in associated organizations consist of the following:

- Investments in Other Cooperative Organizations - These investments represent capital investments made primarily to obtain an economical source of financing, product or service. These investments are carried at cost plus allocated equities based on guidance issued in *ASC 905-325-30*.
- OPC Capital Credits - The Corporation has elected the fair value option for valuing OPC capital credits. See *Note 16* for additional details on the Corporation's fair value assessment of OPC capital credits. Unrealized gains and losses on OPC capital credits are reported in earnings as a component of generation and transmission cooperative capital credits.

Capital credit allocations from associated organizations are included on the statements of operations as generation and transmission cooperative capital credits and other capital credits and patronage capital allocations.

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.

Restricted Funds

Restricted funds represent funds designated for specific purposes under the control of third parties or funds for which a specific purpose has been designated, and are therefore segregated from cash and cash equivalents, short-term or other investments.

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. In addition, the Corporation has a financial loan covenant which specifies the Corporation's equities exceed 27 percent of total assets at the end of each fiscal quarter. The Corporation's equities were approximately 50 percent and 48 percent of total assets as of August 31, 2018 and 2017, respectively.

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 is recorded as accrued utility revenues on the balance sheets. Unbilled electric revenue totaled $14,108,283 and $14,379,591 as of August 31, 2018 and 2017, respectively.

Presentation of 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.

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 (IRC) which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. Although the Corporation has extended its December 31, 2017 information return through November 15, 2018, the Corporation has met the 85 percent requirement for the year then ended.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, 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. ASU 2015-14 deferred the effective dates for nonpublic companies to reporting periods beginning after December 15, 2018, and for interim periods within annual reporting periods beginning after December 15, 2019. The Corporation is currently evaluating any additional impact of the adoption of this guidance on its financial statements. The adoption of ASU 2014-09 is not expected to have a material impact on the financial statements.

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard will become effective for private companies for fiscal years beginning after December 15, 2019. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective for private companies for annual periods beginning after December 15, 2018, and the interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-07 will be effective for the Corporation beginning on January 1, 2019. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit cost in assets. The Corporation is currently evaluating the impact of the adoption of this guidance on its financial statements. The adoption of ASU 2017-07 is expected to have a material impact on the financial statements.

Reclassifications

Certain reclassifications have been made within the August 31, 2017 financial statements to conform to the August 31, 2018 presentation. The reclassifications had no effect on net margins for the year ended August 31, 2017.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, the date the financial statements were available to be issued.

(2) Change in Accounting Principle

The following financial statement line items were affected by the change in accounting principle:

On August 31, 2017, the Corporation changed its accounting principle with respect to the recognition of unbilled revenue. The Corporation believes that the recognition of unbilled revenue more accurately reflects results of operations by better matching operating revenue and cost of power. Comparative financial statements have been adjusted to apply the new method retrospectively. Since a substantial portion of the accrual is attributable to prior years and the patronage for those years has already been assigned, accrued unbilled utility revenues as of August 31, 2017, which totaled $14,379,591, will remain a component of other equities until the Corporation is liquidated or dissolved, at which time it will be allocated and assigned as patronage capital to the members that contributed the patronage.

The change in accounting principle also resulted in an increase of prior year beginning unbilled revenue and other equities of $12,019,000.

	Prior to Change	After Change	Effect of Change
Balance Sheet 2018			
Assets			
Accrued Utility Revenues	**$ –**	**$ 14,108,283**	**$ 14,108,283**
Members' Equity and Liabilities			
Other Equities	**$ 270,256,272**	**$ 284,635,863**	**$ 14,379,591**
Statement of Operations 2018			
Operating Revenues	**$ 274,307,841**	**$ 274,036,533**	**$ (271,308)**
Net Margins	**$ 19,396,719**	**$ 19,125,411**	**$ (271,308)**

	As Previously Reported	As Adjusted	Effect of Change
Balance Sheet 2017			
Assets			
Accrued Utility Revenues	$ –	$ 14,379,591	$ 14,379,591
Members' Equity and Liabilities			
Other Equities	$ 261,086,481	$ 275,466,072	$ 14,379,591
Statement of Operations 2017			
Operating Revenues	$ 259,098,939	$ 261,459,530	$ 2,360,591
Net Margins	$ 22,913,961	$ 25,274,552	$ 2,360,591

(3) Utility Plant

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

	2018	2017
Distribution Plant	**$ 448,307,990**	$ 432,275,450
General Plant	**42,477,382**	44,795,869
Electric Plant in Service	**490,785,372**	477,071,319
Construction Work in Progress	**9,816,896**	7,390,668
	$ 500,602,268	$ 484,461,987

(4) Investments in Associated Organizations

Investments in associated organizations are comprised of the following as of August 31:

	2018	2017
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 1,339,561**	$ 1,715,319
Capital Credits	**944,222**	944,222
Georgia Rural Electric Service Corporation		
Capital Credits	**1,668,370**	1,595,398
Georgia Transmission Corporation		
Contributed Capital	**2,860,384**	2,860,384
Capital Credits	**15,732,059**	14,726,177
Smarr EMC		
Contributed Capital	**318,393**	318,393
Capital Credits	**1,736,108**	1,736,108
Other	**1,953,651**	1,762,412
	$ 26,552,748	$ 25,658,413

(5) Other Investments

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

		2018		2017
NRUCFC Commercial Paper Maturing in Excess of One Year	$	**12,500,000**	$	16,400,000
Investment in Cooperative Choice, LLC		**781,093**		682,447
Other		**14,539**		14,539
	$	**13,295,632**	$	17,096,986

The Corporation accounts for its investments in Cooperative Choice, LLC utilizing the equity method. For the years ended August 31, 2018 and 2017, the Corporation recorded income of $889,291 and $730,322, respectively, as a component of nonoperating margins, related to these investments.

(6) Prepaid Power Program

The Corporation participates 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 interest on the prepaid amounts. Interest earned is credited to its power bills on a monthly basis. The Corporation had prepaid power costs of $37,573,240 and $22,894,814 as of August 31, 2018 and 2017, respectively. Those amounts are classified as prepayments on the balance sheets.

(7) Deferred Debits

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

		2018		2017
Postretirement Healthcare Plan - Overfunded Status (See Note 12)	$	**5,611,421**	$	2,752,576
Benefits Clearing		**1,788,376**		2,798,065
Other		**263,069**		360,492
	$	**7,662,866**	$	5,911,133

(8) Deferred Credits

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

		2018		2017
Unearned Pole Rental Income	$	**261,114**	$	279,074
Marketing Incentives		**355,300**		162,900
Deferred Compensation Plan Liabilities		**361,765**		229,530
Other		**60,296**		14,401
	$	**1,038,475**	$	685,905

(9) Patronage Capital

	2018	2017
Assignable	$ 20,008,136	$ 18,925,498
Assigned	339,216,558	321,173,785
	359,224,694	340,099,283
Retired	(100,515,168)	(89,934,386)
	$ 258,709,526	$ 250,164,897

(10) Other Equities

	2018	2017
Unbilled Revenue Prior to August 31, 2017	$ 14,379,591	$ 14,379,591
Retired Capital Credits - Gains	9,735,540	9,191,764
Donated Capital	539,249	480,961
Other	106,957	106,959
	$ 24,761,337	$ 24,159,275

(11) Debt

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

Holder of Note	Weighted Average Interest Rate	2018	2017
FFB	3.07%	$ 206,170,946	$ 194,437,950
CoBank	3.69%	75,732,117	82,431,414
		281,903,063	276,869,364
Maturities Due Within One Year		(13,807,898)	(13,154,293)
		268,095,165	263,715,071
RUS Advance Payments Unapplied		(39,620,822)	(37,700,175)
		$ 228,474,343	$ 226,014,896

The Corporation's mortgage agreements require the maintenance of certain financial ratios. The Corporation achieved all the required ratios at December 31, 2017 and August 31, 2018, the most recent measurement dates.

The Corporation had $72,639,000 in unadvanced loan funds on commitment from FFB as of August 31, 2018. 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 a $26,700,000 line-of-credit with the National Rural Utilities Cooperative Finance Commission (NRUCFC) which had no outstanding balance as of August 31, 2018 and 2017.

Principal maturities of long-term debt are as follows:

Year	Amount	
2019	$	13,807,898
2020		14,285,921
2021		12,744,542
2022		13,202,514
2023		13,684,705
Thereafter		214,177,483
	$	281,903,063

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 FFB.

(12) 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 IRC. 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 approximately $3,611,000 and $3,547,000 for the years ended August 31, 2018 and 2017, 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, 2018 and 2017 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.

Defined Contribution Plan

The Corporation also provides additional employee benefits to substantially all employees through the National Rural Electric Cooperative Association (NRECA) sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled approximately $289,000 and $228,400 for the years ended August 31, 2018 and 2017, 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:

	2018	2017
Accumulated Postretirement Benefit Obligation, Beginning	$ 26,591,994	$ 27,989,555
Service Cost	429,189	588,687
Interest Cost	1,038,218	981,032
Change in Actuarial Assumptions	(2,331,770)	(2,677,258)
Actual Benefits Paid	(302,716)	(290,022)
Accumulated Postretirement Benefit Obligation, Ending	25,424,915	26,591,994
Fair Value of Plan Assets, Beginning	29,344,570	27,863,219
Contributions	302,716	290,022
Actual Benefits Paid	(302,716)	(290,022)
Actual Return on Plan Assets	1,691,766	1,481,351
Fair Value of Plan Assets, Ending	31,036,336	29,344,570
Funded Status - Over	$ 5,611,421	$ 2,752,576

The plan's funded status is included in deferred debits on the balance sheets as of August 31, 2018 and 2017.

Since the fair value of plan assets exceed the actuarial present value of expected benefit payments due in the ensuing twelve months, no current obligation is presented.

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

	2018	2017
Service Cost	$ 429,189	$ 588,687
Interest Cost	1,038,218	981,032
Actual Return on Plan Assets	(1,691,766)	(1,481,351)
Amortization of Actuarial Gain	(2,331,770)	(2,677,258)
	$ (2,556,129)	$ (2,588,890)

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	2018	2017	2016
Discount Rate on Net Postretirement Benefit Cost	**3.82%**	3.92%	4.40%
Discount Rate on Projected Benefit Obligation	**4.04%**	3.82%	3.92%
Healthcare Cost Trend Rate			
Initial	**8.00%**	8.00%	7.00%
Ultimate	**5.00%**	5.00%	5.00%
Fiscal Year Reached	**2028**	2026	2020

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

	1% Decrease in Rates	1% Increase in Rates
Change in End of Year APBO	$ (5,937,121)	$ 7,780,613
Change in Sum of Service and Interest Costs	$ (391,190)	$ 528,957

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
2019	$ 494,000
2020	606,000
2021	705,000
2022	804,000
2023	952,000
2024–2028	5,628,000

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	Equities Securities	Alternative Investments	Total
2018	**2.03%**	**42.74%**	**39.77%**	**15.46%**	**100.00%**
2017	1.00%	59.18%	39.82%	0.00%	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 does not anticipate contributing funds to the plan during the year ended August 31, 2019, other than the current year amount paid for retirees.

Deferred Compensation Plans

The Corporation has a nonqualified deferred compensation arrangement with a select group of management and highly compensated employees. The assets of this nonqualified executive deferred compensation plan are assets of the Corporation and are included on the balance sheets as restricted funds. The Corporation does not match employee elective deferrals. Deferred compensation assets set aside for these plans totaled $361,765 as of August 31, 2018. These assets are subject to the claims of the Corporation's general creditors. A corresponding long-term liability is included in deferred credits on the balance sheets.

The Corporation also has a pension restoration plan (PRP), which is a nonqualified deferred compensation plan that benefits certain designated employees who are within a select group of key management or highly compensated employees. The purpose of the PRP is to retain and reward long service personnel, attract and retain management employees and to rectify the effect of limitations imposed by IRC Sections 415 and 401(a)(17). The PRP contains certain vesting provisions which the employee must meet in order to receive the benefits provided under the PRP. The PRP is a defined benefit plan, but since all participants have vested and received lump sum distributions under the plan, disclosures are considered immaterial to the financial statements. At this point, the participants receive an annual benefit and payout. Payouts of $202,661 and $167,948 were distributed to participants as compensation during the years ended August 31, 2018 and 2017, respectively. Payouts are made out of the Corporation's general funds and NRECA reimburses the Corporation though bill credits from the RS Plan.

(13) Nonoperating Margins

Nonoperating margins consisted of the following as of August 31:

	2018	2017
Investment Income	$ 4,894,545	$ 4,228,401
Equity Earnings in Cooperative Choice, LLC	889,291	730,322
Royalties	512,203	409,159
Other, Net	(311,802)	(673,695)
	$ 5,984,237	$ 4,694,187

(14) 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 Corporation is a member of a generation cooperative known as OPC and has contracted with OPC based on a percentage of fixed or designated costs to purchase power supply from various facilities owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were approximately $79,214,000 for the year ended August 31, 2018 and are expected to remain relatively constant in the immediate future.

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 $19,295,000 for the year ended August 31, 2018 and are expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

The Corporation has an agreement with a third party to provide power requirement needs through December 31, 2022. 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 $28,793,000 for the year ended August 31, 2018.

The Corporation entered into an agreement in November 2012 with an independent third party to purchase a specific amount of physical energy beginning January 1, 2016 and continuing for a period of 15 years. The cost under the agreement was approximately $7,137,000 for the year ended August 31, 2018.

The Corporation has an agreement with a third party to provide power requirement needs through December 31, 2025. 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 $133,000 for the year ended August 31, 2018.

The Corporation is party to a Purchase Power Agreement with the Southeastern Power

Administration, acting through the United States Department of Energy, for electric power generated by federal reservoir projects. The cost incurred under the agreement was approximately $2,244,000 for the year ended August 31, 2018. 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 $1,649,000 capacity and energy payments for these generation assets in the year ended August 31, 2018.

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.

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.

(15) Concentrations

As of August 31, 2018, commercial paper, medium-term notes and select notes of NRUCFC in the amount of $69,900,000 which were held by the Corporation were included in cash and cash equivalents, short-term investments 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 $4,498,973 as of August 31, 2018. 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.

(16) 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 or 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 had cumulative capital credit notifications from OPC totaling $61,404,198 and $57,110,343 as of December 31, 2017 and 2016, 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, 2018 and 2017.

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

		Fair Value Measurements Using			
	Carrying Value as of August 31	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)
2018					
Recurring Fair Value Measurement					
Investments in Associated Organizations					
OPC Capital Credits	**$ –**			**$ –**	**$ –**
2017					
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 based on the best information available in the circumstances.

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

	2018	2017
Beginning Balance	**$ -**	$ -
Transfers into Level 3	**-**	-
Total Gains or Losses for the Period Included in Margins		
Patronage Notifications	**4,293,054**	4,196,127
Fair Value Adjustment(s)	**(4,293,054)**	(4,196,127)
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 the statements of operations.

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 assesses and approves 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, 2018 and 2017 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.