Making Life Better

Annual Report 2017

GREYSTONE
POWER CORPORATION
Owned By The People We Serve

Our Mission

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

Who is a Member?

If you 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.

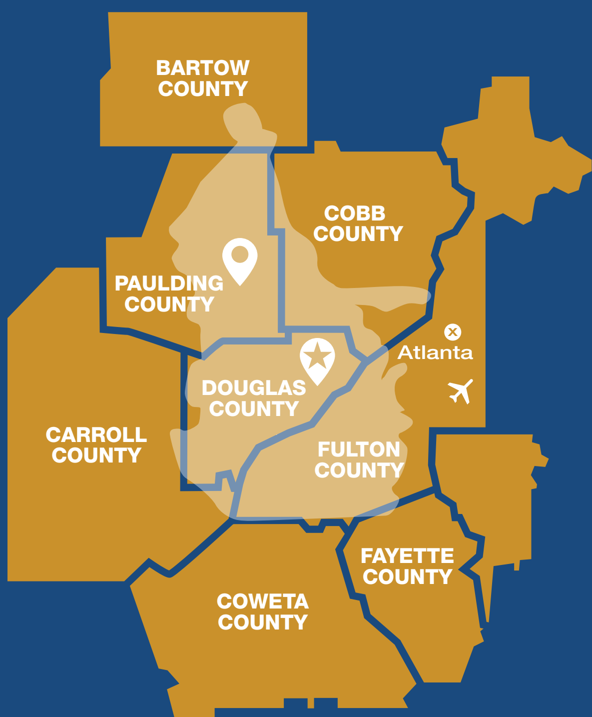
Corporate Profile

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 114,000 homes, businesses, schools and industries through more than 120,000 meters.

At a Glance

Statistics at the end of the year

	NUMBER OF METERS	OPERATING REVENUE	MILES OF LINE	KILOWATT HOURS SOLD
2017	124,130	$259,098,939	6,943	2,647,336,267
2007	112,535	$210,440,864	6,418	2,608,503,312
1997	66,167	$ 81,089,982	3,999	1,103,875,300
1987	44,759	$ 43,216,253	3,008	657,982,362
1977	30,675	$ 14,278,153	2,331	398,185,851



Dallas Office

Douglasville Office & Corporate Headquarters

GREYSTONE POWER CORPORATION
An Electric Membership Corporation

Making Life Better

Table of Contents

(L-R) Gary Miller, president/CEO; MIlton Jones, board chair

EXECUTIVE MESSAGE

Making Life Better

At the very heart of what we do is **Making Life Better** for the people we serve. Because everyone has an opinion on what this means, we use ongoing surveys of GreyStone members to define the priorities.

Members, perhaps even you, have said they want the lowest power bills and the most safe, reliable electricity possible. They need information on how to use energy more efficiently and access to renewable energy sources. Multiple 24/7 convenient service options are also essential in an on-the-go world.

Members want us to be a good neighbor, supporting local education, health care and community organizations that help improve the quality of life for all GreyStone Power members. Helping keep jobs and attracting new ones energizes our area in multiple ways.

In response to these priorities, we've been focused on keeping the price you pay for electricity as low as possible. According to the Georgia Public Service Commission, GreyStone Power members paid the third-lowest rate among the 41 electric membership co-ops in the state during 2017. Georgia Power's rates were more than 12 percent higher than ours in the winter and almost 25 percent higher in the summer.

Through our Wallet Watch credit that continued in 2017, members saw $21 million in savings on bills. We put even more money back into members' pockets — and into the local economy — with capital credits returns of $10 million. That's one of the benefits of being served by an electric cooperative.

We're still working on improved reliability. Even though we have a reliability rating of 99.98 percent, people have come to expect continuous electric service. That's a challenge when nature throws some curveballs, as this past winter reminded us.

Renewable energy is an area where we've made great strides. In 2017, GreyStone Power and Green Power EMC, the renewable energy supplier owned by 38 Georgia Electric Membership Corporations (EMCs) including GreyStone, announced a landmark agreement to offer an additional 200 megawatts (MW) of solar energy by the year 2020.

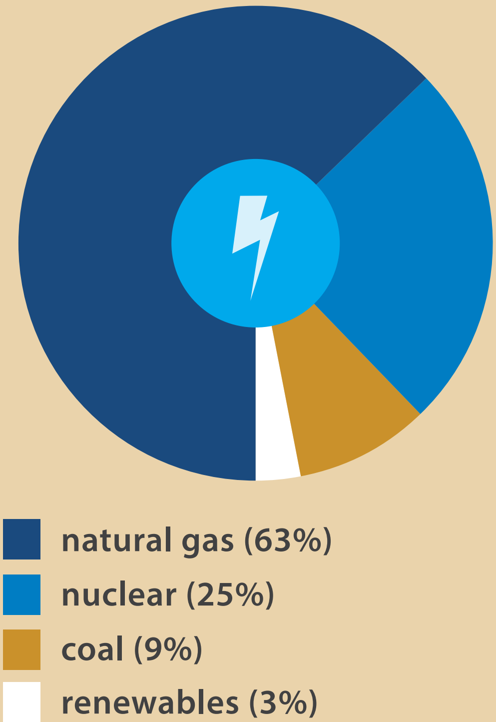
GreyStone is purchasing 40 of the 200 MW. That will supply approximately 5 percent of the power for our members. This step forward followed the success of our Paulding County solar farm, with all blocks sold out in one month in 2016 and members on a waiting list for more blocks throughout 2017.

Highlights of other work areas follow. While they vary in the way they help local communities, their common thread is **Making Life Better** for the people we serve. As an electric cooperative owned by the people we serve, that's at the heart of GreyStone Power.

GARY MILLER
President/CEO

MILTON JONES
Board Chair

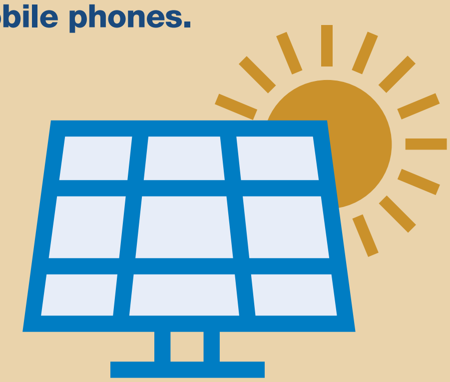
GreyStone Power's purchased power is generated by:



126,000

kilowatt-hours (kWh)

are produced by a GreyStone Power solar farm in one month. The environmental impact = planting more than 700 trees and charging 3 million mobile phones.



Crews worked to repair damage and restore power as quickly and safely as possible in the aftermath of Winter Storm Benji.

Making life better with safe, reliable electricity

Powering 114,000 member homes and businesses over nearly 7,000 miles of line presents an ongoing challenge. While members enjoy continuous electric service the majority of the time, Mother Nature can bring down trees, poles and lines with wind or ice. When this occurs, crews work as quickly and safely as possible to restore electric service.

In addition to several minor storms, both Hurricane Irma and Winter Storm Benji impacted the area in 2017. While Irma's effects were manageable, Benji left a devastating mark. During the worst of Benji, which dumped over a foot of heavy snow, over half the homes and businesses GreyStone serves were without electricity. Linemen responded with help from 12 other cooperatives and two utility contracting companies. Together, they worked tirelessly to restore everyone's power.

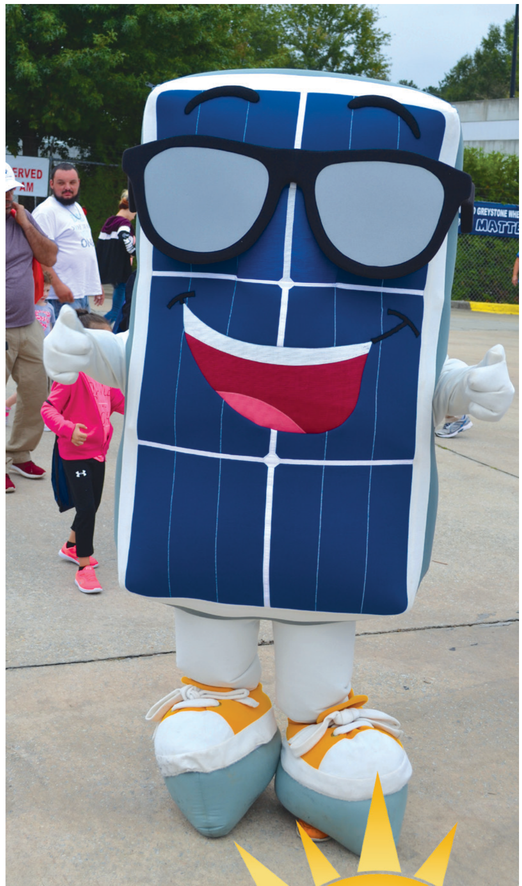
While linemen are often required to repair weather-related damage, automated switching devices help limit the number of people impacted when outages do occur. The automated meter infrastructure also enables the cooperative to read meters remotely and detect outages in most cases. This saves money through efficiency, in addition to alerting the dispatchers when problems occur.

Another way to prevent outages is by trimming vegetation from right-of-way areas around power lines. In 2017, crews maintained 6,943 miles of line.

GreyStone Power is connecting members to a future that includes increasing renewable energy, like solar. After the successful launch of Cooperative Solar in 2016, an additional 1-megawatt solar facility in Hazelhurst came online. Now, even more members can enjoy solar power without having to install and maintain panels at their homes.

Safety is always top priority at GreyStone. Linemen continued to present high-voltage safety demonstrations to students at local schools and at the annual meeting.

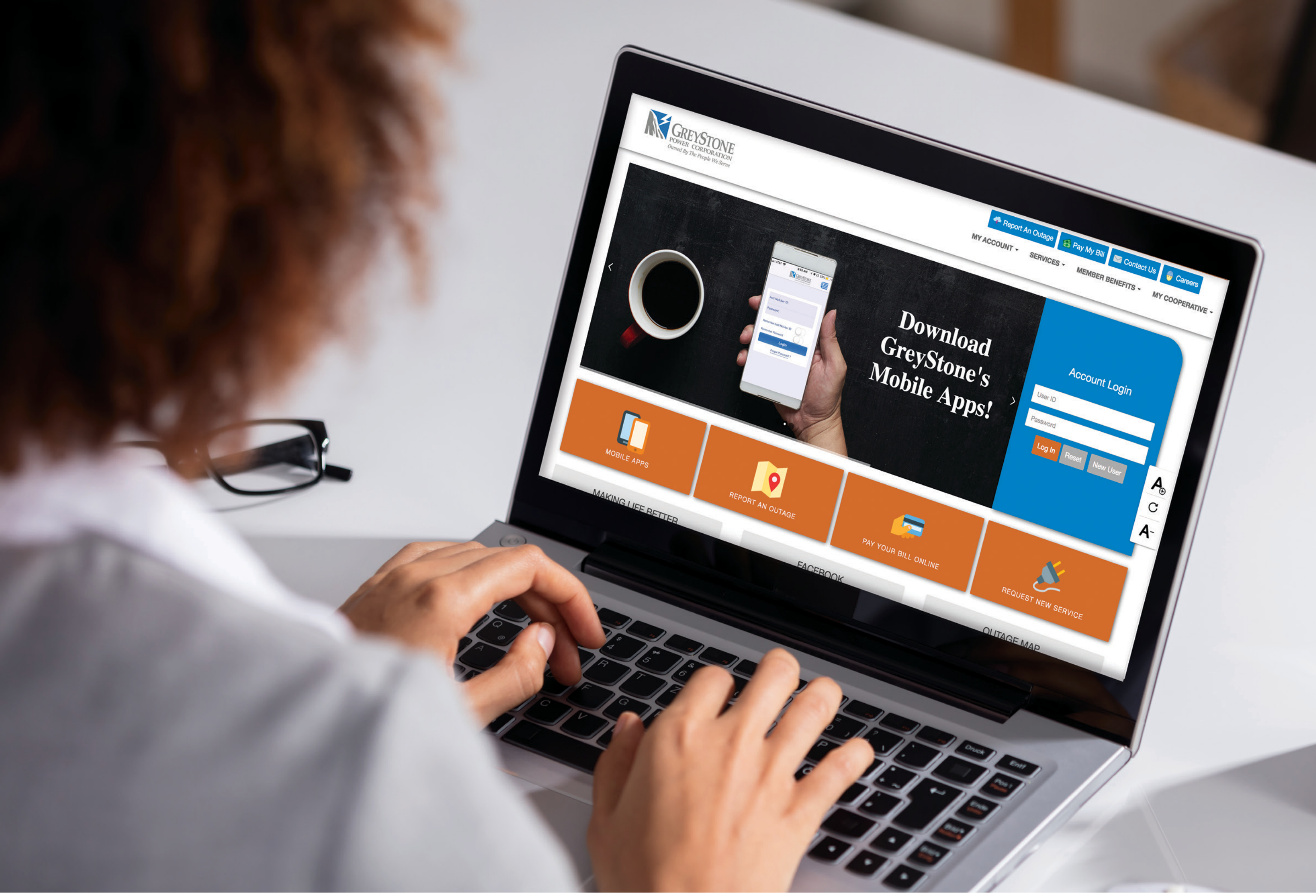
A safety awareness program recognizes employees for identifying and correcting unsafe conditions, both at work and at home. This focus on safety paid off in 2017 with a perfect score of 100 following an intensive safety accreditation review.



LEFT: *Winter Storm Benji's heavy snowfall snapped trees and downed power lines, making restoration efforts challenging and time-consuming for crews. Twelve electric cooperatives from several states assisted in restoring power to 59,000 members.*

RIGHT: *Solar Sam greeted members as they signed up for Cooperative Solar at the 2017 Annual Meeting. Two solar farms are now part of GreyStone's power supply.*

GREYSTONE COOPERATIVE SOLAR



More than 39,500 members use GreyStone's mobile apps to pay bills, manage their account or report an outage.

Making life better with convenience and savings

Today's members need on-the-go services that save time and money. That's why a new, easier-to-navigate website that launched in late 2017 offers easier access to conduct business with GreyStone Power.

Members also can now access self-service options and information with two helpful apps.

The Outage Helper app allows users to report an outage, receive live restoration times and view an outage map on their mobile device.

The GreyStone Power payment app allows members to pay bills easily and securely, see account information, view bill history and see their energy use.

Members may also use convenient billing and payment options, including kiosks at seven locations. An upgraded phone system communicates estimated wait times and offers a new call-back feature.

Because saving energy is important, GreyStone members may schedule free on-site energy audits and take advantage of financing programs, like the HomePlus Loan. Through it, participants finance energy efficiency home improvements with the help of a low-interest rate. The upgrades help members save money on energy bills for years to come, improve comfort and may increase the resale value of the house.

FilterEasy® rolled out in 2017, delivering replacement air filters at a discounted price to members' homes. Energy-efficiency seminars offered practical information on saving energy and money.

More savings have come through the Co-op Connections Card® program, which celebrated its 10th anniversary. The card has saved members more than $2 million in prescription costs alone over the past decade!

The card has also given GreyStone Power members discounts at 247 local businesses. Many of these businesses participated in a 2017 social media campaign that gave members a chance to earn prizes, and GreyStone hosted a business appreciation banquet. The special event was celebrated with a 2018 Spotlight on Excellence national award.

GreyStone members have found even more benefits with new security monitoring options through EMC Security; exclusive benefits and attractive natural gas rates from Gas South; and lower interest rates on loans from GEMC Federal Credit Union.

Keeping rates as low as possible, is also essential. Our economic development team works to assist this by recruiting new businesses to the area that provide jobs, as well as power sales. Their efforts helped Google, M&M Mars candy and West Rock paper and packaging manufacturer choose GreyStone as their power supplier in 2017. This increase to annual sales is projected to be 5.3 megawatts.

These additions help keep rates stable for all members, while helping bring new jobs into our area.

LEFT: *Members who participate in the Smart Thermostat program benefit from a $100 rebate, energy savings, convenience and remote temperature control.*
RIGHT: *Through FilterEasy®, participating members are saving money and energy on heating/cooling costs. The program regularly delivers air filters to their homes.*

As Chamber chairpersons for Douglas and Paulding counties, GreyStone's Kara Pearson and James Wright are working to support the local business community.

Making life better by supporting local communities

GreyStone Power remains connected with local communities beyond the power lines that deliver electricity. Whether it's helping those in need, investing in future leaders or supporting economic development, the cooperative is dedicated to making life better for the people it serves.

For 20 years, GreyStone members have generously partnered to help by participating in Operation Round Up®. More than 23,000 members rounded up their electric bills to the next dollar to help support 100 local charities and nonprofit organizations last year alone. GreyStone Power Foundation, Inc. distributed funds to various organizations like Warehouse of Hope, Boys & Girls Clubs and Soldiers' Angels. Members' contributions have positively impacted lives.

These donations made it possible for local students to further their education. Clower scholarship winners in 2017, Marjané Parks and Racheal Nelson, each received $2,500 to attend technical college. Five high school seniors were each awarded a $3,000 college scholarship. They included Madison Seagraves, Ashlyn Mahar, Delphina Djeumeni, Nathanael Martin and Anastasia Dunn.

During 2017, GreyStone continued to invest in future leaders. As part of the Washington Youth

Tour, five local students embarked on the journey of a lifetime last summer, traveling to Washington, D.C. with hundreds of other youth from across the nation. While there, Jake Strickland, Kristin Pirkle, Jordan Busby, Elizabeth Blevins and Joseph Rollins saw how government works, took in historic sites, studied the cooperative business model and met their representatives.

As a Partner in Education (PIE) member, GreyStone sponsored three events for the Douglas County school system in 2017. The cooperative also continued to partner with schools in Cobb, Paulding, Fulton and Douglas counties, providing financial, in-kind and volunteer support that has impacted hundreds of students and educators.

Last year, the cooperative donated $28,000 to endow the GreyStone Power Corporation Corps of Cadets Scholarship at the University of North Georgia (UNG). UNG is one of only six senior military colleges in the nation that trains future officers. This scholarship will provide a minimum of $1,000 each year to help cadets cover the cost of higher education at the school.

GreyStone's own veterans of the armed forces, including employees, retirees and board members, were honored during a special Military Service Recognition event that coincided with Veterans Day.

GreyStone employees waged their own battle against cancer by raising money through Relay for Life. They also supported United Way financially, hosted blood drives for the American Red Cross and volunteered in numerous ways.

Fulton County recognized GreyStone Power's commitment to community at the county's Community Leaders Awards, held Oct. 26. The Diamond Partner honor acknowledges work benefitting citizens and organizations.

At GreyStone Power, connecting people with the power to enhance their lives provides the energy for **Making Life Better.** This is the cooperative's true power source.

LEFT: *Veterans can now find reserved parking spaces at each GreyStone office.*
RIGHT: *GreyStone personnel use demonstrations to educate students about staying safe around electricity.*

Lucy Andres
District 9

Gary Miller
President/CEO

David Hagenow
District 3

Jennifer DeNyse
District 5

Milton Jones
Board Chair
District 7

Board of directors

Genevieve Cole
District 1

John Walton
District 2

Jim Johns
Secretary-Treasurer
District 8

Neal Dettmering
District 4

Maribeth Wansley
Vice Chair
District 6

16,840

combined downloads of GreyStone's mobile apps last year

$5.6 million

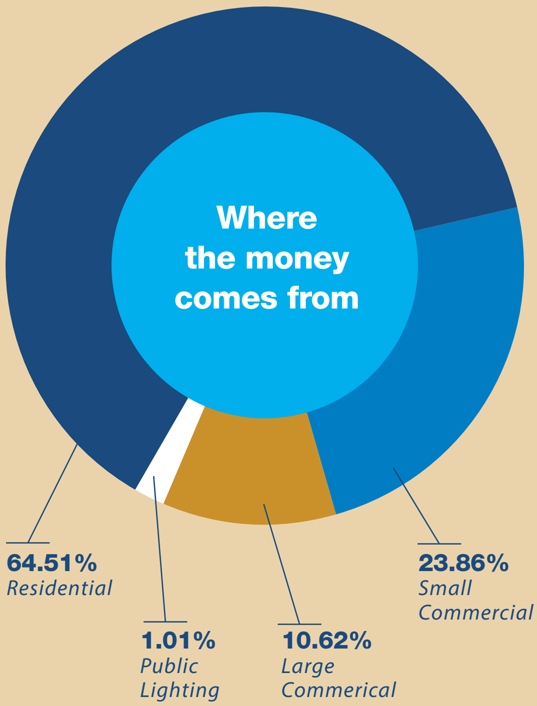
contributed by members to Operation Round Up® since the program began in 1998

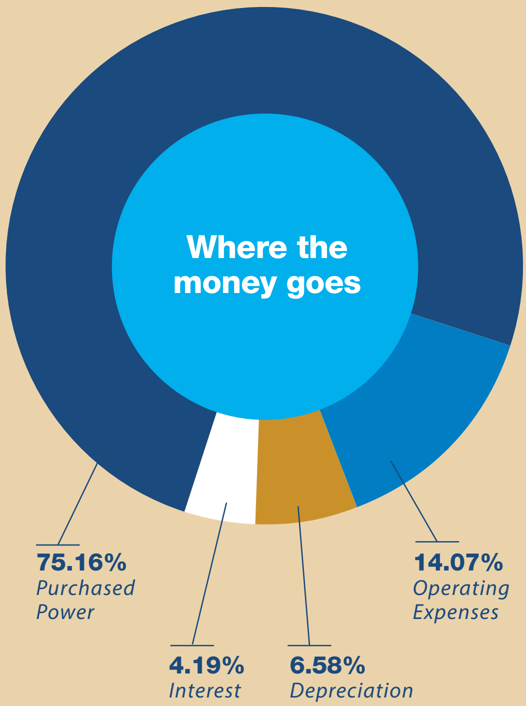
$32,562

Relay for Life funds raised by GreyStone employees in 2017

490

online and in-home energy audits in 2017 to help members save energy and money





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Telephone (478)746-6277 • Facsimile (478) 741-1129
mmmcpa.com

October 20, 2017

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, 2017 and 2016, 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, 2017 and 2016, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2017 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

GREYSTONE POWER CORPORATION
Balance Sheets
August 31

Assets

	2017	2016
Utility Plant		
Electric Plant in Service — At Cost	**$ 477,071,319**	$ 479,988,801
Construction Work in Progress	**7,390,668**	6,339,322
Gross Utility Plant	**484,461,987**	486,328,123
Accumulated Provision for Depreciation	**(115,468,415)**	(122,622,219)
	368,993,572	363,705,904
Other Property and Investments		
Investments in Associated Organizations	**25,658,413**	24,565,956
Other Investments	**17,096,986**	10,224,378
Restricted Funds	**229,530**	105,094
	42,984,929	34,895,428
Current Assets		
Cash and Cash Equivalents	**54,557,018**	89,907,702
Short-Term Investments	**17,500,000**	14,400,000
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $317,542 in 2017 and $747,191 in 2016)	**26,991,244**	28,725,329
Materials and Supplies	**3,639,245**	3,316,118
Prepayments	**23,187,429**	6,639,925
Other	**2,027,062**	1,720,699
	127,901,998	144,709,773
Deferred Debits	**5,911,133**	2,993,748
Total Assets	**$ 545,791,632**	$ 546,304,853

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

GREYSTONE POWER CORPORATION
Balance Sheets
August 31

Members' Equity and Liabilities

	2017	2016
Members' Equity		
Membership Fees	$ 1,141,895	$ 1,120,145
Patronage Capital	250,164,897	237,778,374
Other	9,779,684	8,316,037
	261,086,476	247,214,556
Long Term Debt	226,014,896	241,561,376
Current Liabilities		
Current Portion of Long-Term Debt	13,154,293	11,730,175
Accounts Payable	13,293,743	14,971,191
Consumer Deposits	17,200,035	19,711,717
Other	14,356,284	10,392,422
	58,004,355	56,805,505
Deferred Credits	685,905	723,416
Total Members' Equity and Liabilities	$ 545,791,632	$ 546,304,853

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

GREYSTONE POWER CORPORATION

Statements of Operations for the Years Ended August 31

	2017	2016
Operating Revenues	$ 259,098,939	$ 270,001,670
Operating Expenses		
Cost of Power	182,520,738	184,928,739
Distribution Operations	7,743,125	9,440,292
Distribution Maintenance	8,048,164	9,430,580
Consumer Accounts	6,052,850	7,418,894
Consumer Information and Sales	1,927,317	2,404,582
Administrative and General	10,393,731	10,964,391
Depreciation	15,988,602	15,913,659
Total Operating Expenses	232,674,527	240,501,137
Operating Margins Before Interest Expense	26,424,412	29,500,533
Interest Expense	10,180,823	10,408,890
Operating Margins After Interest Expense	16,243,589	19,091,643
Nonoperating Margins	4,694,187	3,008,609
Generation and Transmission Cooperative Capital Credits	866,005	945,545
Other Capital Credits and Patronage Capital Allocations	1,110,180	295,623
Net Margins	$ 22,913,961	$ 23,341,420

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

GREYSTONE POWER CORPORATION

Statements of Changes in Members' Equity for the Years Ended August 31, 2017 and 2016

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, August 31, 2015	$ 228,794,890	$ 1,101,075	$ 220,003,873	$ 7,689,942
Net Margins	23,341,420	–	23,341,420	–
Membership Fees	19,070	19,070	–	–
Retirement of Patronage Capital	(5,566,919)	–	(5,566,919)	–
Retired Capital Credit Gains	626,095	–	–	626,095
Balance, August 31, 2016	247,214,556	1,120,145	237,778,374	8,316,037
Net Margins	22,913,961	–	22,913,961	–
Membership Fees	21,750	21,750	–	–
Retirement of Patronage Capital	(10,527,438)	–	(10,527,438)	–
Retired Capital Credit Gains	1,463,647	–	–	1,463,647
Balance, August 31, 2017	**$ 261,086,476**	**$ 1,141,895**	**$ 250,164,897**	**$ 9,779,684**

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

GREYSTONE POWER CORPORATION

Statements of Cash Flows for the Years Ended August 31

	2017	2016
Cash Flows from Operating Activities		
Net Margins	$ 22,913,961	$ 23,341,420
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	16,496,978	16,472,892
Bad Debt Provision	135,349	299,329
Patronage Capital from Associated Organizations	(1,976,185)	(1,241,168)
Equity in Earnings from Partnership Interests	(730,322)	(790,135)
Net Postretirement Benefit Cost	(2,588,890)	3,583,543
Prepaid Power Applied	9,610,044	18,728,866
Interest Earned on RUS Cushion-of-Credit	(1,674,391)	(1,738,886)
Postretirement Healthcare Plan Premiums	–	(301,084)
Change In		
Accounts Receivable	1,598,736	1,187,307
Prepaid Power	(26,157,548)	(19,162,427)
Other Current Assets	(306,363)	1,382,448
Deferred Debits	(454,831)	948,340
Accounts Payable	(1,677,448)	(1,759,586)
Other Current Liabilities	1,452,180	1,463,252
Deferred Credits	(35,611)	(142,990)
	16,605,659	42,271,121
Cash Flows from Investing Activities		
Extension and Replacement of Plant	(21,784,646)	(25,299,057)
Materials and Supplies	(323,127)	(263,628)
Change in Temporary and Other Investments	(10,000,000)	–
Return of Equity	1,641,442	1,093,754
	(30,466,331)	(24,468,931)
Cash Flows from Financing Activities		
Advances from Long-Term Debt	–	36,854,303
Advances to RUS Cushion-of-Credit	–	(587,304)
Principal Repayment of Long-Term Debt	(12,447,971)	(10,941,685)
Retirement of Patronage Capital	(10,527,438)	(5,566,919)
Other	1,485,397	645,165
	(21,490,012)	20,403,560
Net Increase (Decrease) in Cash and Cash Equivalents	(35,350,684)	38,205,750
Cash and Cash Equivalents - Beginning	89,907,702	51,701,952
Cash and Cash Equivalents - Ending	$ 54,557,018	$ 89,907,702
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest	$ 10,194,688	$ 10,260,766

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 3.43 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 5.81 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 14* 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 revenue 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 48 percent and 45 percent of total assets as of August 31, 2017 and 2016, 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 was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Corporation's results of operations if recorded in the financial statements. Unbilled electric revenue was estimated to be approximately $11,597,000 and $12,019,000 as of August 31, 2017 and 2016, respectively.

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, 2016 information return through November 15, 2017, the Corporation has met the 85 percent requirement for the year then ended.

New Accounting Pronouncements

The Corporation has adopted certain provisions of Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. To simplify reporting, fair value disclosures for financial instruments reported at amortized cost are no longer provided in the notes to these financial statements.
In May 2014, the Financial Accounting Standards Board released ASU 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-04 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 standard will require the Corporation to accrue unbilled electric revenue with retrospective application and will require a change in accounting principle in the period adopted.

Reclassifications

Certain reclassifications have been made within the August 31, 2016 financial statements to conform to the August 31, 2017 presentation. The reclassifications had no effect on net margins for the year ended August 31, 2016.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 20, 2017, the date the financial statements were available to be issued.

(2) Utility Plant

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

	2017	2016
Distribution Plant	$ 432,275,450	$ 436,032,316
General Plant	44,795,869	43,956,485
Electric Plant in Service	477,071,319	479,988,801
Construction Work in Progress	7,390,668	6,339,322
	$ 484,461,987	$ 486,328,123

(3) Investments in Associated Organizations

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

	2017	2016
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	$ 1,715,319	$ 1,743,887
Capital Credits	944,222	944,222
Georgia Rural Electric Service Corporation		
Capital Credits	1,595,398	1,630,172
Georgia Transmission Corporation		
Contributed Capital	2,860,384	2,860,384
Capital Credits	14,726,177	13,859,937
Smarr EMC		
Contributed Capital	318,393	318,393
Capital Credits	1,736,108	1,736,108
Other	1,762,412	1,472,853
	$ 25,658,413	$ 24,565,956

(4) Other Investments

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

	2017	2016
Investment in GEMC 220, LLC	$ 14,539	$ 14,539
NRUCFC Commercial Paper Maturing in Excess of One Year	16,400,000	9,500,000
Investment in Cooperative Choice, LLC	682,447	709,839
	$ 17,096,986	$ 10,224,378

The Corporation accounts for its investments in GEMC 220, LLC and Cooperative Choice, LLC utilizing the equity method. For the years ended August 31, 2017 and 2016, the Corporation recorded income of $730,322 and $790,135, respectively, as a component of nonoperating margins, related to these investments.

(5) 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 $22,894,814 and $6,265,341 as of August 31, 2017 and 2016, respectively. Those amounts are classified as prepayments on the balance sheets.

(6) Deferred Debits

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

	2017	2016
Benefits Clearing	$ 2,798,064	$ 2,746,012
Postretirement Healthcare Plan - Overfunded Status (See Note 11)	2,752,576	–
General Plant Projects in Process	265,838	–
Long-Range Work Plans	85,697	111,391
Transportation Clearing	6,047	41,695
Other	2,911	94,650
	$ 5,911,133	$ 2,993,748

(7) Deferred Credits

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

	2017	2016
Unearned Pole Rental Income	$ 279,074	$ 265,702
Post-retirement Healthcare Plan – Underfunded		
Status (See Note 11)	–	126,336
Marketing Incentives	162,900	192,900
Deferred Compensation Plan Liabilities	229,530	105,094
Other	14,401	33,384
	$ 685,905	$ 723,416

(8) Patronage Capital

	2017	2016
Assignable	$ 18,925,498	$ 17,293,852
Assigned	321,173,785	299,891,470
	340,099,283	317,185,322
Retired	(89,934,386)	(79,406,948)
	$ 250,164,897	$ 237,778,374

(9) Other Equities

	2017	2016
Retired Capital Credits – Gains	$ 9,191,764	$ 7,735,495
Donated Capital	480,961	473,583
Other	106,959	106,959
	$ 9,779,684	$ 8,316,037

(10) 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	2017	2016
FFB	3.35%	$ **194,437,950**	$ 200,449,673
CoBank	3.71%	**82,431,414**	88,867,663
		276,869,364	289,317,336
Maturities Due Within One Year		**(13,154,293)**	(11,730,175)
		263,715,071	277,587,161
RUS Advance Payments Unapplied		**(37,700,175)**	(36,025,785)
		$ **226,014,896**	$ 241,561,376

The Corporation's mortgage agreement requires the maintenance of certain financial ratios. The Corporation achieved all the required ratios at December 31, 2016 and August 31, 2017, the most recent measurement dates.

The Corporation had $91,802,000 in unadvanced loan funds on commitment from FFB as of August 31, 2017. 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 NRUCFC which had no outstanding balance as of August 31, 2017 and 2016. The Corporation also has a $10,000,000 line-of-credit with CoBank which had no outstanding balance as of August 31, 2017 and 2016.

Principal maturities of long-term debt are as follows:

Year	Amount
2018	$ 13,154,293
2019	13,695,563
2020	13,831,891
2021	12,276,530
2022	12,722,865
Thereafter	211,188,222
	$ 276,869,364

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

(11) Retirement Benefits

Defined Benefit Pension Plan

Pension benefits for substantially all employees of the Corporation are provided through participation in the RS Plan, a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the 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 $3,547,000 and $3,367,000 for the years ended August 31, 2017 and 2016, 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, 2017 and 2016 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 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 $228,400 and $208,700 for the years ended August 31, 2017 and 2016, respectively.

Post-retirement 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:

	2017	2016
Accumulated Post-retirement Benefit Obligation, Beginning	**$ 27,989,555**	$ 23,567,277
Service Cost	**588,687**	691,630
Interest Cost	**981,032**	1,017,976
Change in Actuarial Assumption	**(2,677,258)**	3,013,756
Actual Benefits Paid	**(290,022)**	(301,084)
Accumulated Postretirement Benefit Obligation, Ending	**26,591,994**	27,989,555
Fair Value of Plan Assets, Beginning	**27,863,219**	26,723,400
Contributions	**290,022**	301,084
Actual Benefits Paid	**(290,022)**	(301,084)
Actual Return on Plan Assets	**1,481,351**	1,139,819
Fair Value of Plan Assets, Ending	**29,344,570**	27,863,219
Funded Status – Over (Under)	**$ 2,752,576**	$ (126,336)

The plan's funded status is included in the following assets (liabilities) on the balance sheets as of August 31:

	2017	2016
Deferred Debits	$ 2,752,576	$ –
Deferred Credits	–	(126,336)
	$ 2,752,576	$ (126,336)

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:

	2017	2016
Service Cost	$ 588,687	$ 691,630
Interest Cost	981,032	1,017,976
Actual Return on Plan Assets	(1,481,351)	(1,139,819)
Amortization of Actuarial (Gain) Loss	(2,677,258)	1,604,656
	$ (2,588,890)	$ 2,174,443

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	2017	2016	2015
Discount Rate on Net Postretirement Benefit Cost	3.92%	4.40%	4.55%
Discount Rate on Projected Benefit Obligation	3.82%	3.92%	4.40%
Healthcare Cost Trend Rate			
Initial	8.00%	7.00%	7.00%
Ultimate	5.00%	5.00%	5.00%
Fiscal Year Reached	2026	2020	2021

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	$ (4,396,423)	$ 5,719,164
Change in Sum of Service and Interest Costs	$ (293,487)	$ 140,662

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
2018	$ 498,822
2019	587,901
2020	661,016
2021	784,627
2022	963,621
2023-2027	6,046,440

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	Domestic Equities	Foreign Equities	Total
2017	**1.00%**	**59.18%**	**26.63%**	**13.19%**	**100.00%**
2016	0.92%	77.43%	14.17%	7.48%	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, 2018, other than the current year amount paid for retirees.

Deferred Compensation Plans

The Corporation has a nonqualified deferred compensation (NQDC) 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 $229,530 as of August 31, 2017. 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 $95,797 and $268,723 were distributed for the years ended August 31, 2017 and 2016, respectively.

(12) Commitments

The Corporation has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its assignment of fixed costs through the term of these contracts, as well as any variable cost incurred above the allocated fixed cost amounts. The 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 $72,793,000 for the year ended August 31, 2017 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 $18,357,000 for the year ended August 31, 2017 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 $20,662,000 for the year ended August 31, 2017.

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 fifteen years. The cost under the agreement was approximately $6,194,000 for the year ended August 31, 2017.

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 $591,000 for the year ended August 31, 2017.

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 $2,460,000 for the year ended August 31, 2017. 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 $1,774,000 capacity and energy payments for these generation assets in the year ended August 31, 2017.

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.

(13) Concentrations

As of August 31, 2017, commercial paper and medium-term notes of NRUCFC in the amount of $78,350,000 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 $4,438,500 as of August 31, 2017. 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.

(14) 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 $57,110,343 and $52,914,216 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, 2017 and 2016, respectively.

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)
2017					
Recurring Fair Value Measurement					
Investments in Associated Organizations					
OPC Capital Credits	$ –			$ –	$ –
2016					
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:

	2017	2016
Beginning Balance	$ –	$ –
Transfers Into Level 3	–	–
Total Gains or Losses for the Period		
Included in Margins		
Patronage Notifications	**4,196,127**	3,887,036
Fair Value Adjustment(s)	**(4,196,127)**	(3,887,036)
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 revenue.

For Level 3 fair value measurements, the Corporation's management determines the fair value measurement valuation policies and procedures. In accordance with board policy, the board of directors 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, 2017 and 2016 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.

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