CHANGE

Grand River Dam Authority
A component unit of the state of Oklahoma

Comprehensive Annual Financial Report
for the Year Ended December 31, 2004

GRAND RIVER DAM AUTHORITY

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Comprehensive Annual Financial Report for the Year Ended December 31, 2004

Prepared by Accounting, Market Analysis & Strategic Development and Media Services Departments.

MISSION STATEMENT

Our mission is to provide low-cost, reliable electric power and related services to our customers and to be responsive to the interests and concerns of public power users, the communities we affect, and the people of the state of Oklahoma.

We pledge to assist in area economic development and help our customers adapt to changes in their business environments, as well as making certain that on and around our lakes we will support recreational development, environmental awareness, and good safety practices to ensure the continued improvement of the quality of life for all of those who utilize our resources.

CHANGE

Change is inevitable. Sometimes it happens on its own, and organizations find themselves reacting to it. In such cases, change is not always for the better.

However, when an organization **initiates the change**—though that may mean making hard decisions and shaking up the status quo—it controls the change. In such cases, the end results are worth the effort.

In 2004, GRDA initiated many changes within its organization. In the form of **new management, new departments, new directions** and a **new focus** on old issues, change came often.

Now, as we look back on the year, GRDA believes the **changes of 2004 were well worth the effort.**

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INTRODUCTORY SECTION

GRAND RIVER DAM AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT 2004

GRDA
GRAND RIVER DAM AUTHORITY

May 20, 2005

To GRDA customers and bondholders, and the citizens of Oklahoma:

On behalf of the Grand River Dam Authority, we respectfully submit this comprehensive annual financial report for the year ended December 31, 2004. We believe the information presented is accurate in all material aspects and that all disclosures necessary to enable the reader to gain an adequate understanding of the Authority's financial position and results of operations have been included. The accompanying financial statements included in the comprehensive annual financial report have been prepared in conformity with accounting principles generally accepted in the United States of America. The GRDA Accounting, Market Analysis and Strategic Development and Media Services Departments prepared this comprehensive report. Responsibility for the accuracy, completeness and fairness of the financial statements presentation rests with the management of the Authority.

The 2004 GRDA Comprehensive Annual Financial Report consists of these sections:

- Introductory Section. This includes an overview of our organization and highlights the major changes in 2004 to enable GRDA to meet future needs of our customers and the citizens of the state of Oklahoma.
- Financial Section. This includes a report from the independent auditor, a discussion and analysis of our financial position and results of operations, and basic financial statements and notes. Management's discussion and analysis of 2004 activities and the resulting financial impacts begin on page 20.
- Statistical Section. This includes tables detailing GRDA's cash and investment balances, debt coverage, largest customers, power sales and other revenues and expenditures, as well as other relevant information.

The Grand River Dam Authority is a nonappropriated agency of the state of Oklahoma, capitalizing on it's role as a public power agency to finance it's duties as a conservation and reclamation district. The year 2004 has been a year of change for GRDA, as we move farther into the 21st century providing quality products and services to utility and lake customers.

Respectfully submitted,

Frederick P. Koontz
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changing to meet challenges

For GRDA, 2004 was a year of change. Familiar ways of doing business gave way to new initiatives, familiar faces assumed new roles and new faces joined the team, while all along the way, a new level of openness and access defined the year. In the following pages, GRDA looks back on the year of changes: those made in response to challenges and those which, frankly, created others. And while some of those challenges are not fully resolved, GRDA believes the initiatives, relationships, openness and additions of 2004 have positioned the organization to make the right decisions which will change the future for the better and help our communities grow and prosper.

major initiatives

Management Changes

Great changes came early and often in 2004. In January, the GRDA Board of Directors ended a three-month search when it announced Kevin Easley had been selected to succeed Ron Coker as GRDA's chief executive officer. It marked the first change in GRDA's top executive position since Coker's tenure began in July 1988. With over 20 years of industry experience, Easley came to GRDA from an executive position at one of the state's largest independent energy firms. He was recognized as one of the nation's leading energy experts and authored some of Oklahoma's most progressive energy legislation during his 20 years in the Oklahoma legislature. When he began his GRDA tenure in March, growth and development for a grand future, as well as a new level of GRDA openness and access, were on his agenda. Easley's strong leadership, along with his expectations of what GRDA could do for its customers, combined to bring a new level of business activity to the Authority in 2004.

Also in January, Dale Willis, a 25-year veteran of the GRDA Transmission Department, was promoted to assistant general manager of transmission. Willis' experience and leadership served GRDA well in 2004 as the Transmission Department continued to maintain GRDA's reputation as Oklahoma's reliable electric power supplier.

In March, another Oklahoman with many years of experience in energy issues joined GRDA when Mike Kiefner succeeded Allen Pease as general counsel. A former general counsel for a large Oklahoma-based financial institution, Kiefner had also served as a staff attorney for the Oklahoma State Senate for ten years. He brought a wealth of experience to GRDA, including knowledge gained while staffing Oklahoma Senate committees such as the Energy, Environmental and Natural Resources Committee. Throughout the year, he focused his energies on GRDA's compliance with a myriad of laws and regulations pertaining to everything from public fund issues to energy reliability issues to lake management issues.

Subsequent to year end, Kiefner also brought Gretchen Zumwalt-Smith to the GRDA Legal Department. A former assistant Oklahoma Attorney General, Smith's knowledge in state and electric utility issues will help the Authority continue the ongoing compliance reviews and updating of policies and procedures.

Perhaps the most historic change in GRDA management occurred in November when Carolyn Dougherty, an 18-year GRDA veteran, was promoted from her role as internal auditor to the position of assistant general manager of market analysis and strategic development. The first female to serve as assistant general manager, Dougherty filled a position that is responsible for formulating marketing plans and long-term contracts to secure future revenue streams for the Authority and providing education about changes in market conditions. In announcing Dougherty's promotion, CEO Kevin Easley called her new position paramount to the Authority's development and growth. Having grown up in GRDA public power communities, her goal is to see the Authority more capable and prepared for the future.

Assisting Dougherty in these efforts is Debby Miller. Until 2004, Miller served as GRDA's superintendent of fiscal services where she supervised the accounting and purchasing departments and under the direction of the Chief Financial Officer, administered day-to-day treasury duties. Miller had planned to retire during the year but was convinced to stay on to help the Authority develop rates and contract terms which are fair to customers, beneficial to their communities and adequately protect GRDA. A 25-year GRDA veteran, Miller also helped with implementation of new software for purchasing and warehouse functions.

In December, Mike Herron joined GRDA as chief engineer, replacing the retiring Carl Reichert, a 31-year GRDA veteran. Herron came to the Authority from Stillwater (Oklahoma) Power where he served as electric department superintendent for 14 years. With a total of 25 years of experience in municipal utility operations, Herron is recognized as one of the Midwest's leading experts on electric distribution design. His expertise proved to be a great fit for GRDA, as it made plans in 2004 to help customers with distribution needs while pursuing new long-term contracts.

The blending of GRDA veterans, with years of experience and long-standing business relationships, combined with the new and energetic leadership recognizing GRDA's value to the future became a catalyst for positive changes.

New Lake Focus

Another core GRDA mission is lake management. And in 2004, acting on input from various agencies with an interest in the GRDA lakes area, including the Federal Energy Regulatory Commission (FERC), the United States Army Corps of Engineers, and the United States Fish and Wildlife Service, and in response to heightened awareness of lake issues, CEO Kevin Easley created the Office of Ecosystems Management in May.

OFFICE OF ECOSYSTEMS MANAGEMENT

In the summer, GRDA Ecosystems Management worked with the Oklahoma Water Resources Board and other agencies on a program to introduce new aquatic plants to the shores of Grand Lake.

New plants introduced to the lake shore, like this water lily, will help the habitat by preventing shoreline erosion, enhancing dissolved oxygen, and providing cover for small fish.

GPS COORDINATES

A new focus on lake issues in 2004 was characterized by GRDA's efforts to "clean up" Grand Lake by removing abandoned and dilapidated docks like the one pictured.

Above: Rick Dubois, a contractor who worked on the Grand Lake shoreline survey project, demonstrates the equipment used to gather global positioning satellite (GPS) coordinates and other data on shoreline structures.

Intent on improving lake management efforts, the new department allowed GRDA to change and strengthen its focus on issues involving the natural resources of the Grand River. Dr. Darrell Townsend III, Ph.D., joined GRDA in May to serve as superintendent of the new department. Holding advanced degrees in wildlife and fisheries ecology, Townsend said a top priority was for the department to maximize bio-diversity in and around the river system and planned to achieve that goal by working with other state and federal agencies. By summer, the department had already begun to implement new management techniques designed to improve habitat quality for a large variety of fish and wildlife species in the lake. One of those projects was an aquatic plant transfer, which introduced to the waters of Grand River, a variety of new aquatic plants beneficial to lake habitat.

Another aggressive lake-related project got underway when GRDA began the long task of recording information on all man-made structures along the 1,300-mile shoreline of Grand Lake. Also an ongoing effort, this shoreline survey involves gathering global positioning satellite (GPS) coordinates, photographs, and structural information on all these lakeshore structures. When the work is completed, GRDA will know how many structures are on the lake, their exact location, their condition and their dock/lake permit status. Even before year's end, Dr. Townsend was able to bring much of this information, compiled in a computer data base, into board meetings. That information served to streamline the process for dock and other permits as the Board was able to see firsthand the conditions and locations of the structures in question. In short, the effort proved to be a time and money saver for both GRDA and lake area residents seeking permits.

Closely related to that work was another major lake initiative which got underway in 2004: the removal of abandoned and dilapidated docks from GRDA lakes. In the summer, GRDA Ecosystems Management—using some of the information obtained through the shoreline survey—identified docks that had fallen into disrepair. While more than 20 docks were then removed or repaired at the owner's expense, the burden for some fell on GRDA. During the summer, GRDA had to pay for the removal of three docks from the waters of Grand Lake. While the process was both expensive (costing approximately $3,000 per dock) and time consuming, it was necessary to help ensure the safety of all other lake users. Together, all these initiatives represented GRDA's new focus and commitment to lake management and proper stewardship of the Grand River system.

New Lake-Related Fees

However, new initiatives come with new expenses. So even before much of the work could begin in the summer, the GRDA Board had already addressed funding issues. As a nonappropriated state agency, GRDA collects revenues from power sales and lake fees to fund operating expenses. At its May meeting, the first major rate increase since the 1970s was approved for dock permits, raw water permits, event permits and other lake-related fees. While new money from these fees helped fund new initiatives, it was also viewed as a means of closing the gap between lake management expenses and revenues collected from lake permits. The Board's belief that GRDA electricity customers should not have to shoulder so much of the burden for lake management costs was also a factor. The new fees are a better reflection of the time and expense GRDA staff devote to the lake permitting process. However, lake revenues still do not completely cover lake expenses.

Water Plan with OWRB

Even with these initiatives and more lake-related revenues, GRDA realized that to be a proper steward of the waters of the Grand River basin, it would need to exercise its jurisdiction over those resources in a more assertive manner. The Board addressed this issue in August, when it approved the development of a comprehensive water plan which will encompass all of GRDA's water assets across the 24-county district.

This was important because GRDA must have a "seat at the table" when it comes time to negotiate water issues in Oklahoma. After all, GRDA is second only to the Oklahoma Water Resources Board (OWRB) in terms of state water jurisdictions. However, in past years, GRDA had taken few steps to exercise its jurisdiction. That changed in 2004 as GRDA committed to work with the OWRB, as well as the Oklahoma Secretary of Environment, Oklahoma Department of Environmental Quality, Oklahoma Conservation Commission and Oklahoma Department of Wildlife Conservation, to develop the plan.

As part of the process, a newly created property investigation department began updating the inventory of GRDA water assets and customers in September. However, trying to determine just how much water is being pulled from the Grand River system proved to be a daunting task. In many cases, the department found broken or bypassed water meters and, often, no meters at all. Because of this, the effort to bring water customers into compliance was often a struggle, and one that is ongoing.

During this process, GRDA's property investigators also uncovered several encroachments. Often, the Authority dealt with these by forming new lease arrangements with rates set to recover market value. GRDA continues efforts to resolve lake asset issues, which are important not only from an asset management and fiduciary standpoint, but also for homeland security and compliance with state statutes.

New Homeland Security Department

In a post-9/11 era, homeland security has taken on a new significance. GRDA's new management realized this and responded by establishing the Homeland Security Department in the fall. Staffed by three previous members of GRDA's Lake Patrol who refocused their efforts to make protection of the Authority's assets a priority, the new department quickly established plans to enhance protection of assets all across the GRDA system.

Guided by a vulnerability/security assessment study of GRDA's facilities—performed earlier in the year—the department was able to prioritize potential weak points at each facility. Soon after, the process of going from facility to facility to plan the best approach to implement new security standards was underway, as well as the pursuit of grant dollars which might be available for homeland security purposes. At the same time, the department elevated GRDA's place in local, state and regional homeland security initiatives by getting involved with other organizations working toward greater homeland security. Because of this effort, GRDA established new and beneficial relationships and realized a new level of cooperation and communications with other agencies and organizations as they unite for homeland security purposes.

New IT Department

In August, a new Information Technology Department consolidated the efforts of several other departments, including Data Processing, Communications, Metering and Supervisory Control and Data Acquisition (SCADA). Combining the departments into one helped eliminate the overlap of functions and provided improved efficiencies as well as added security and more timely implementations. Within months of its creation, the department developed a plan and timetables for providing and securing GRDA information needs. New SCADA and metering technologies will also provide information for good decision making and operations in an environment that changed to become much more user friendly.

More Energy Control Focus

Access to timely, accurate real-time information is the key to GRDA's future. Thus, the Authority continued to place much emphasis on this issue in 2004. During the summer, an outside power marketing firm informally assessed GRDA's generation dispatching and next-day and hourly trading efforts over the last few years and provided a positive review of professional competencies. Positive feedback is nothing new since the GRDA Control Area was the first in the Southwest Power Pool (SPP) to receive 100 percent compliance in meeting the operating criteria of the North American Electric Reliability Council (NERC).

At the Energy Control Center, which is the heart of GRDA's entire energy delivery system, the job of system operator grew more complex in 2004. The significant depth of experience, including NERC certification of system operators, continues to be key as the SPP reliability council transitions to a FERC recognized Regional Transmission Organization (RTO). Plans are also being implemented for ongoing operator training as required by the NERC criteria. The Authority has also been actively participating in the SPP exchange of test information in SPP's transition to market design and is currently submitting generation resource plans and load forecasts.

Taking a Seat at the Table

The significance of reliance on the transmission grid and the impact on GRDA's ability to sell excess power to customers outside the Authority's control area or import energy to meet customer loads became more apparent during the year. NERC tagging and approval of transmission is arranged by system operators at the Energy Control Center. Although seldom affecting GRDA in previous years, transmission curtailments are becoming a more normal event affecting sales into and purchases outside of the control area. Recognizing the importance of transmission access and rights, CEO Kevin Easley actively participates in policy decisions of the SPP. His appointment to the SPP Board of Director's Members Committee and the Governance Committee reflects the importance GRDA places on involvement in the transmission regulatory process to ensure public power is treated fairly. Other employees also participate in other SPP committees focusing on more restricted topics. The Authority also continues to actively participate with other utilities in the operating committees of joint integrated transmission assets.

Abundant Hydroelectric Generation

During the year, the economic dispatching modeling and marketing of next-day and next-hour requirements, performed at the Energy Control Center, enabled GRDA to capture the value of the increased hydro generation during the year for the benefit of all its customers. The Authority's improved financial position was directly related to the increased spot sales as the record hydro generation, in conjunction with coal-fired generation, provided excess energy availability throughout most of the summer. The extent to which GRDA's financial results were dependent on this abundant hydro generation is discussed in detail in the MD&A.

Spring Outage at the Coal-Fired Complex

The most significant, comprehensive scheduled maintenance outage in the history of the GRDA Coal-Fired Complex (Unit 1) took place in the spring. For two months, GRDA employees and contractors worked many routine outage projects, as well as major initiatives such as the complete disassembly and inspection of the Unit 1 turbine and the installation of new control equipment.

Though the work required extensive downtime for the facility, each project was completed successfully. Improved efficiencies, better controls and reduced, unscheduled downtimes were the benefits of the spring '04 outage. Combined, those benefits helped boost the facility to another successful year in terms of production and unit availability. The 2004 challenge of funding these additional outage expenses is discussed further in the MD&A.

Employee Pay Raise

The financial position for GRDA employees also improved during the year. In November, following the successful completion of a fall scheduled maintenance outage at the Coal-Fired Complex, the Board approved a three percent pay raise—the first in three years—for all employees. For the work force of approximately 460 employees, the raise represented not only a morale boost and show of appreciation on the part of the Board, but it also represented some reassurance in the midst of a year of much change. Employees willingly changed jobs and responsibilities to ensure the success of many of the new departments created during 2004. GRDA has been able to add vital functions by reallocating resources. During the process, efficiencies were gained without a great deal of expense to the ratepayers. In fact, GRDA had fewer employees at the end of 2004 than it had at the end of 1994.

Emphasis on Access

Of course, all the year's new initiatives centered on the openness, access and accountability Easley spoke of when he was named CEO and probably characterized the Authority's 2004 more than anything else. That new level of access was perhaps most evident at board meetings, which are always open to the public, and proved to be more educational as GRDA staff presented detailed material on initiatives and plans. In an effort to make sure right choices were made, a wealth of information detailing generation, marketing, finances, operations, transmission projects, Federal Energy Regulatory Commission (FERC) projects and lake management initiatives were presented at board meetings. GRDA updated the audio/visual capabilities of its boardroom and added new conference rooms in its Administration Headquarters to facilitate management presentations. As a result of this new emphasis on information availability, GRDA believes its board, employees, and, most importantly, customers were better informed at year's end than they had been when 2004 began.

Heavy inflows into the Grand River system in 2004 translated into a year of abundant hydroelectric generation. Scenes like this one, showing open floodgates on the Pensacola Dam spillway, were common throughout the year.

Changing Relationships

However, customers and employees are not the only constituents with a major stake in the Authority. Regulatory agencies and bond rating agencies are also important to the overall success of GRDA. GRDA Director Mike Cantrell, CEO Kevin Easley and General Counsel Mike Kiefner traveled to Washington, D.C., in March to meet face to face with Federal Energy Regulatory Commission (FERC) commissioners. This independent agency, which regulates interstate transmission of electricity and has oversight of the nation's hydroelectric projects, is an important partner. GRDA's goal was to convey the message that new leadership would also mean a new, more cooperative relationship with FERC. Remaining sensitive to FERC's concerns and suggestions for GRDA's hydroelectric projects is important, and the Authority showed in 2004 it was also ready to implement those recommendations.

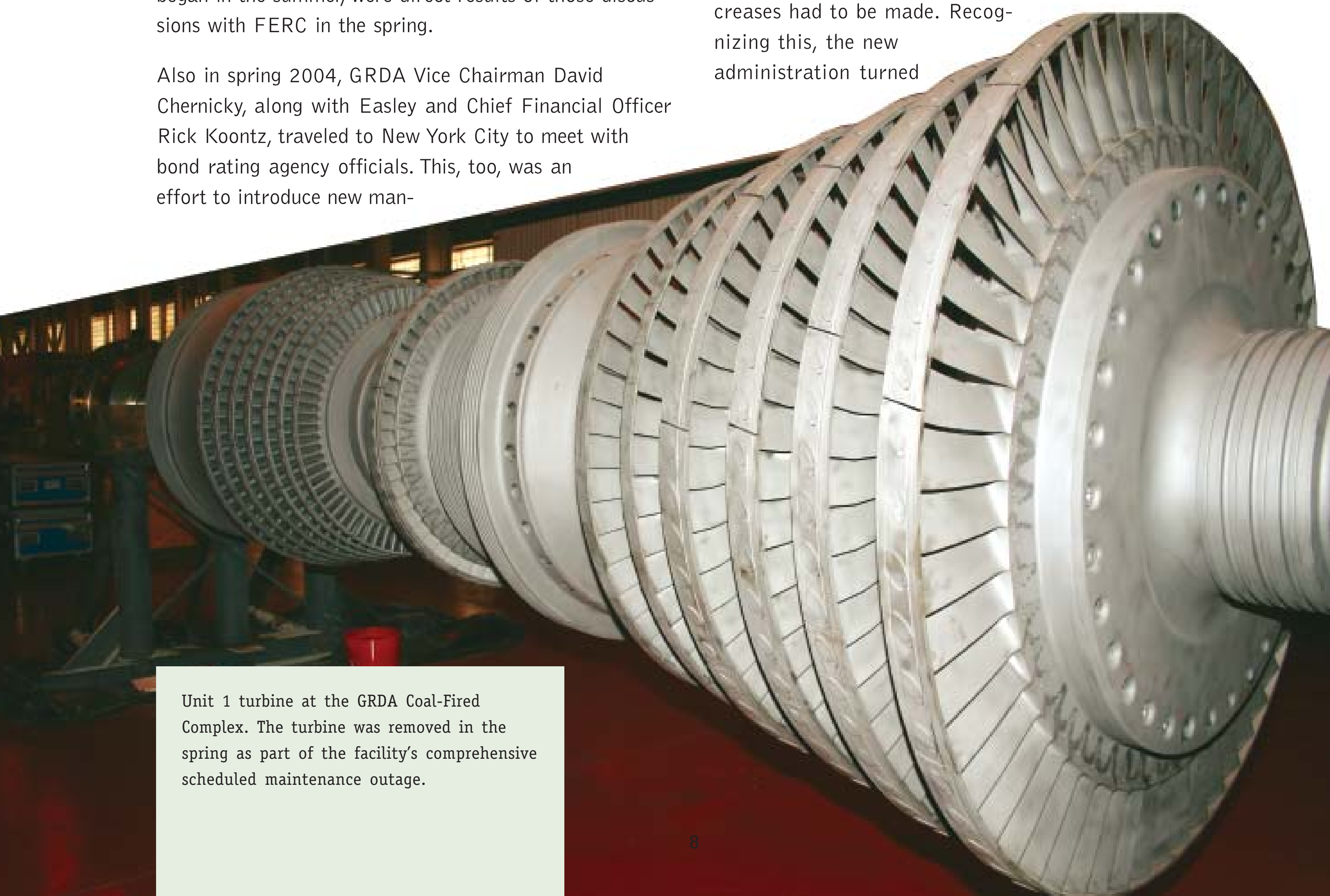
That effort to establish more regular interaction with FERC continued throughout the year. In fact, the establishment of the GRDA Ecosystems Management Department, as well as lake initiatives the new department began in the summer, were direct results of those discussions with FERC in the spring.

Also in spring 2004, GRDA Vice Chairman David Chernicky, along with Easley and Chief Financial Officer Rick Koontz, traveled to New York City to meet with bond rating agency officials. This, too, was an effort to introduce new management to an important constituent. More than just "meet and greet" opportunities, these meetings were a fact-finding trip for GRDA. Easley, Chernicky and Koontz learned what changes the Authority could make to help improve its bond ratings while at the same time communicate GRDA's vision for the future.

financial operations

Explaining the Present, Preparing for the Future

The new level of open accountability presented during board meetings proved helpful and educational to customers and employees alike as hard decisions—though sometimes unpopular decisions—were made during the year. Perhaps the most notable decision involved the electricity rate increase effective in July. Having used cash reserves to subsidize rates over the past decade, and facing the largest planned maintenance outage in the history of the Coal-Fired Complex without reserves set aside to pay for the extra expenses, GRDA reached a point in 2004 when decisions on rate increases had to be made. Recognizing this, the new administration turned



Unit 1 turbine at the GRDA Coal-Fired Complex. The turbine was removed in the spring as part of the facility's comprehensive scheduled maintenance outage.

Shortly after joining Team GRDA, new CEO Kevin Easley (center), along with Rick Koontz (right), traveled to New York City to meet face to face with the bond agencies. The trip was an opportunity for GRDA management to nurture new relationships, while also gathering information on what GRDA could do to improve its bond ratings.

to rate studies performed by two separate consultants. The firm of M.E. Kiburz and Associates continued to recommend the need for additional revenues in a report issued in March. Before recommending the Board pass along increases to customers, CEO Kevin Easley asked for a second opinion by requesting C.H. Guernsey & Company to perform a revenue requirements study in April. After reviewing the recommendations of the rate consultants, and considering its statutory obligations for debt service coverage, the Board approved a 4.5 percent increase—the first since 1993—in April.

In a sense, the increase was a "stop-gap" action to address immediate concerns, to prevent continual financial erosion and to provide some fiscal stability. Many of the investor concerns had centered on GRDA rates, which were considered the lowest in the region. While these low rates were good for the Authority in terms of getting and keeping business over the years, as cash reserves were used to subsidize rates, unrestricted cash reserves dwindled from $76 million in 1994 to approximately $27 million in June 2004. Facing significant outage costs, combined with the fact the rates were significantly below market prices and leaving GRDA with very little room to maneuver financially, the Board took action to prevent further financial erosion.

Though consultants recommended the increase be a total of 6.8 percent, with the 4.5 percent increase being the first phase and representing enough for GRDA to achieve proper debt service coverage, the Board—acting on concerns of customers—elected to defer the remaining increase recommendations until further studies were done. However, even after the increase, GRDA's average cost per megawatt-hour (MWh)—approximately $35—was still below the market prices.

Realizing GRDA must satisfy both customer and investor interests, improved rates will solidify overall financial stability and allow the Authority to provide electrical services to customers while remaining very competitive in the region. GRDA remains focused on providing what it's customers need and want. Most customers agree GRDA's strengths come from consistently providing low-cost, reliable electricity service. While most customers excitedly embrace the changes made to prepare for the future, others appear apprehensive about the changes, especially when part of the changes related to the rate increase.

Soon after the increase, GRDA began work with C.H. Guernsey and other consultants on a cost-of-service study in combination with the development of a new rate schedule. By fall, the process of updating language in customer contracts to seek longer-term contracts from customers and eliminating rate-related termination clauses, in addition to the cost-of-service study, were well underway. In December, a positive power cost adjustment (PCA) for the first half of 2005 was implemented in anticipation of significant power purchases in the coming year to meet load growth as well as potential coal-fired generation curtailments because of coal delivery delays.

Even with energy prices skyrocketing throughout the country, one of the current challenges exists because GRDA's low cost rates remained unchanged for so long. As a result, the Authority is often measured against a historical GRDA and not against GRDA's current competition or against current market prices. The Authority intends to serve it's public power partners in a cost-effective way while still maintaining financial integrity.

As customers with new loads or customers with expiring terms sign contracts, new tariffs and provisions are being implemented. GRDA is finding that, even with new tariffs

In November, the Board approved a three percent pay raise for the GRDA workforce. Everyday, transmission employees (pictured above), along with mechanics, system operators, office personnel and others, ensure that low-cost, reliable GRDA power flows to customers throughout the region.

at higher rates, GRDA pricing remains competitive and new prospects are locating and existing companies are expanding in communities served by GRDA.

local economy

Relationships with customers—many built on partnerships more than half a century old—remained mutually beneficial in 2004. Whether it was municipals, electric cooperatives or industrials, GRDA focused on its strong ties with those whose homes, businesses and manufacturing operations are powered by GRDA electricity.

The Authority's lakes and power resources have transformed the landscape from rugged and rural to highly developed, with a broad tax base for Oklahoma. The 2000 census listed four of the fastest ten growing counties in Oklahoma within GRDA's service control area. Delaware County, which is home to most of the Grand Lake area, was identified as the fastest growing county in the state. The counties have continued to experience significant growth from 2000 through 2004.

Municipal Customers

GRDA sells wholesale electricity directly to 16 municipalities in Oklahoma as well as two cities along the state border, which accounts for almost half of the total power sales. GRDA has provided generation, transmission, distribution and ancillary services to many municipal customers for approximately 60 years. Municipal loads are metered as part of the "control area," and load factors range from 30 percent to 85 percent with an average of approximately 55 percent. Municipals established new sales records during 2004. Load growth for the municipal category has averaged 8 to 10 percent over the last decade with the addition of municipal loads in Coffeyville, Mannford, Lindsay, Broken Bow and the return of Collinsville.

Located just across the state line in Southeast Kansas, the municipal customer community of Coffeyville remained at the top of the list of GRDA's largest customers in 2004. With a population of just over 11,000, Coffeyville is home to a large industrial park which employs Oklahomans and accounts for over two-thirds of power sales to Coffeyville. The most significant industrial load is consumed by a nitrogen fertilizer facility while other major employers are Amazon.com and a division of John Deere. Coffeyville Community College, the city of Coffeyville and Coffeyville Regional Medical Center also provide numerous jobs and contribute to the economies of both Kansas and Oklahoma.

Other large municipals

Demographics Daily Online magazine has called Stillwater, Oklahoma—GRDA's second-largest municipal customer—the sixth best small city in America. With a population over 40,000, Stillwater is the seat of Payne County. Education is the primary employer for the city, which is home to Oklahoma State University, Meridian Technology Center and a large public school system. The community also boasts a large industrial park served by Stillwater Power (the city's public power utility). Mercury MerCruiser, an engine manufacturer as well as an industrial printing operation are among the largest employers in the industrial park.

Claremore, Oklahoma, county seat of Rogers County, is one of the fastest-growing communities in Oklahoma. Situated near Tulsa, Claremore has a population over 16,000 and has rapidly growing housing and retail markets, large industrial loads and is home to Rogers State University. The Claremore Industrial Park is served by the city-owned Claremore Electric and is home to large manufacturers such as CentriLift, Terra Nitrogen and Nupar.

The majority of municipals served by GRDA are located in Northeast Oklahoma, the fastest-growing region in the state.

Other Power Sales

GRDA also provides capacity and energy to approximately 35 additional Oklahoma cities through the Oklahoma Municipal Power Authority (OMPA). Sales to OMPA represent approximately three percent of GRDA's total power sales. While many of the OMPA cities are located in the western part of the state and not experiencing the same high level of growth as GRDA's other municipals, sales to OMPA remain fairly consistent from year to year. Deliveries are based on a unit contingent output contract instead of the OMPA member cities' load requirements.

The Power of Cooperation

GRDA's second-largest customer, Northeast Oklahoma Electric Cooperative (NEO), is also the second-largest rural electric cooperative in the state of Oklahoma. Headquartered in Vinita, NEO has been a partner with GRDA since 1946 and represents almost a tenth of GRDA's total power sales. NEO's service area includes Delaware County, the fastest growing county in the state. Over the last decade, NEO's load growth has averaged approximately two to three percent annually. GRDA projects supplying more load during 2005 as a result of the sustained load growth and the addition of five meters previously served by Public Service Company of Oklahoma. Primarily residential and commercial, NEO's load continues to grow significantly as the area around Grand Lake grows.

MidAmerica Industrial Park and OOWA

Located near Pryor, Oklahoma, the MidAmerica Industrial Park (MAIP) is home to the majority of GRDA's industrial customers. The park is owned and operated by the Oklahoma Ordnance Works Authority (OOWA—a public trust of the state of Oklahoma) and is the nation's largest rural industrial park (by acreage). MAIP is considered to be one of the leading centers for manufacturing, processing and distributing in the central United States. Park industries served by GRDA range from Fortune 500 companies to local operations. The Authority's Transmission & Engineering Headquarters and Coal-Fired Complex are located on the park's perimeter. MAIP is home to GRDA's largest industrial customers.

The Benefits of GRDA's public power partnership with its municipal customers was quite evident in 2004. In December, a GRDA line crew helped the city of Cushing install emergency warning sirens around the community.

Solae, which manufactures isolated soy protein as a food supplement, and AirProducts, which manufactures liquid gases, are GRDA's two largest industrial customers. While both companies consume more energy than some small cities, each represents only approximately two percent of the Authority's revenues. Sales to industrial customers represent less than ten percent of GRDA's total power sales.

After a decade of declining industrial sales, 2004 sales returned to levels not seen since 1994. Many of GRDA's existing customers have indicated plans to expand their Oklahoma facilities.

American Castings, a foundry located in MAIP, has worked with GRDA in developing a time-of-use rate, so they and other customers who are willing to shift loads from peak demand periods can obtain a financial incentive. Other customers have worked with the Authority in incorporating a start-up period as well as continuing to work on an interruptible tariff. GRDA is encouraged by the positive feedback it continues to receive about its competitive rates from the home offices of industrials served by GRDA. At the end of the year, the Authority also began serving a huge Wal-Mart distribution center near Ramona.

Sales to GRDA's municipal, cooperative and industrial customers solidify the native customer base. In July of 1992, GRDA began off-system sales to municipal public power communities in the states of Missouri and Arkansas under contracts with 15-year original terms. Since then, other off-system sales were added within those states and the state of Kansas. In addition, GRDA sells power to the Byng Public Works Authority and the Chickasaw Tribal Authority, both located within Oklahoma. Scheduled sales to off-system firm customers represented approximately a quarter of GRDA's total sales during 2004. Sales to these off-system customers defined GRDA's role as a regional public power supplier, and the off-system customers' contribution to fixed costs enabled the Authority to maintain base rates lower than they would have otherwise been. Many of these customers have expressed a desire to participate as public power partners as GRDA develops future generation plans.

internal control framework and budgetary controls

GRDA is governed by a seven-member board of directors which reviews policies at least annually to assure they provide proper protection and controls. During the many changes of 2004, the Board's understanding of its fiduciary responsibilities, the importance it placed on compliance, and its attention to policy helped ensure the Authority's new initiatives and new direction were properly focused. Although public power utilities are not

subject to the requirements of the Sarbanes-Oxley Act of 2002, GRDA's board has created an environment reflecting clear expectations that GRDA conduct business in a professional and responsible manner.

Management bears primary responsibility for the establishment and maintenance of GRDA's internal controls. The Authority's internal control structure includes numerous policies and procedures to provide reasonable assurance the internal control objectives will be achieved and GRDA's resources are protected.

As an agency of the State of Oklahoma, the first level of control comes directly from Oklahoma state statutes. Title 82, section 866, requires GRDA to establish corporate offices and financial accounts and requires the Authority's directors hire independent certified public accountants to complete an audit within 90 days after the close of the calendar year. The audit report must be placed and kept on file with the Governor, State Treasurer, Oklahoma Department of Libraries, State Auditor and Inspector, and Director of State Finance.

While GRDA and other nonappropriated agencies receive no money from the state's revenues and budgeting process, the Authority responds to numerous requests by legislators and other state officials monitoring to see all state dollars are spent efficiently, whether directly under their control or not. GRDA has introduced legislation during the current session which will enable the Authority to work with the Oklahoma Office of State Finance and Department of Central Services to streamline internal policies and procedures to ensure compliance with applicable state requirements and gain operational efficiencies and cost savings. While GRDA does not know whether or not this legislation will be adopted, the Authority is making significant efforts to evaluate existing policies and procedures for both effectiveness and compliance with external mandates and to participate in the regulatory process to protect the best interest of GRDA stakeholders.

Terry Cox, a member of the coal yard maintenance crew at the Coal-Fired Complex, was just one of several new employees to join Team GRDA in 2004. New employees and veterans worked together in the conference rooms, maintenance shops, and the coal train dumper building (behind Cox) to ensure, in a year of much change, those changes were for the better.

GRDA Field Construction Superintendent Steve Stough stands in front of the new service truck his department received in 2004. Upgrading equipment, so employees are better equipped to do their jobs, was a priority for GRDA in 2004.

control through covenants

A second level of control comes from covenants made by the Authority to the Bond Fund Trustee and the bondholders. Among other requirements, the Authority has covenanted to keep accounts in accordance with generally accepted accounting principles and to file annual financial statements, which have been audited by an accounting firm with a nationally recognized presence, with the Bond Fund Trustee within 120 days after the close of each calendar year.

GRDA has also covenanted to adopt a preliminary budget in December and to finalize and adopt a budget by, or before, April of each year. GRDA has covenanted to review the budget quarterly and, if necessary, review the rates and charges. General Bond Resolution No. 4800 also requires triennial engineering reports that basically ensure the Authority has charged adequate rates, maintained facilities, and made any necessary repairs, renewals, replacements and improvements. Both the state statutes and the general bond resolution address other protections for the citizens and bondholders. The Treasurer directs the day-to-day efforts to fulfill requirements established by revenue bond resolutions. Significant covenants are discussed in the bonds payable note to the financial statements.

cash, debt, and risk management

As a means of complying with financial requirements and to provide oversight, the Authority's board reviews its own policies each year. The Authority's cash management, debt administration, and risk management policies are discussed in the MD&A and, more specifically, in the notes to the financial statements found in the financial section of this report.

In an attempt to be proactive with regard to finances, GRDA began setting aside monies for future environmental expenses and other risks. At the December board meeting, the Board approved setting aside money for possible future maintenance and environmental expenses, as well as money for any risks of purchasing power at abnormally high prices or other unidentified risks. The actions reflect conservative long-range financial planning, better positioning GRDA for any future expenses.

Lawsuit Contingency

One risk disclosed in more detail as a contingency in the notes to the financial statements in the finance section of this report relates to a decade-long flooding lawsuit. GRDA was disappointed in early December when the Oklahoma Supreme Court ruled it would not accept jurisdiction in the ongoing flooding litigation between GRDA and Miami, Oklahoma-area residents.

Because it is a matter of great public significance, the Authority vowed to continue to vigorously pursue all defenses permitted under the law. In fact, another court decision last year—this one handed down by the Oklahoma Court of Appeals—served to aid GRDA's defense. That court ruled the flood claims against the Authority were within the Governmental Tort Claims Act, which limits GRDA's exposure per flooding event. Because of that, the Authority has an opportunity to present additional defenses in any future flooding cases, something it was precluded from doing in 2004.

future economic outlook

The old adage "the more things change, the more they stay the same" could apply to GRDA's 2004. While it proved to be a year of much change, the fundamental strengths that define GRDA as a low-cost, reliable power provider, economic development partner and proud agency of the state of Oklahoma remained the same. In fact, many changes in 2004 helped ensure stability of the Authority.

Going forward, there are still many issues to deal with and decisions to make, most notably, issues involving contracts with customers. GRDA continues to evaluate the optimum ways to supply customers' long-term requirements.

The Authority believes its current debt structure provides numerous economically viable alternatives. Whenever future resources are needed, GRDA has the ability to stagger in new debt for new generating and transmission and avoid any significant negative impact to rates. As a result, GRDA should be able to sustain its reputation of providing reliable service under low rates in the future.

The changes made during 2004 have curtailed the financial erosion of the Authority's unrestricted cash and investments, and no major outages are scheduled for 2005. With the 2004 rate increase and phasing in of new contracts and tariffs, GRDA anticipates the financial position should continue to improve.

independent audit

The financial statements are the responsibility of management. As required by state statute and bond covenants, independent public accountants are required to express an opinion on the Authority's financial statements based on an audit. The annual audit of the financial statements of the Authority has been completed by Deloitte & Touche LLP, for the calendar year ended December 31, 2004, and their opinion is included in the financial section of this report along with the accompanying financial statements and notes.

certificate of achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the calendar year ended December 31, 2003. This was the fourth consecutive year the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

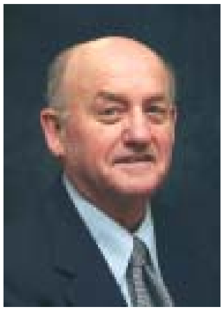
acknowledgments

First and foremost, GRDA would like to thank board members for their leadership during a year of many changes. They were called on time and time again to make the tough but necessary decisions regarding customer rates, lake-related fees and other issues involving the Authority's operational and financial health. Their genuine concern for the organization, its employees, its customers and its future as a grand asset for Oklahoma made GRDA a better place in 2004.

The Authority would also like to thank our independent auditors, Deloitte & Touche LLP, for the highest standards of professionalism which allows us to present a report at the highest standards of financial reporting. Finally, this report would not have been possible without the dedication and efforts of GRDA's Accounting, Market Analysis and Strategic Development, and Media Services Departments.

GRDA LEADERSHIP

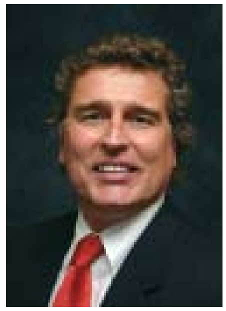
BOARD OF DIRECTORS



Chairman
James W. Perry
Cleveland

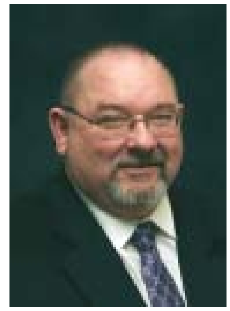
Oklahoma Association of Electric Cooperatives General Manager designee

Ex-officio director



Chairman-elect
David J. Chernicky
Tulsa

Director representing industrial and commercial customers



S. Michael Cantrell
Ada

Appointed by President Pro Tempore of the Senate

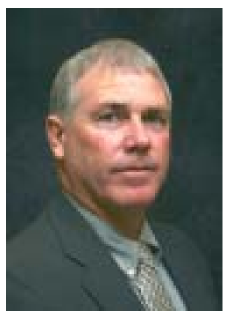
At-large director

James E. Frasier
Afton

Director representing economic development interests, lake enthusiasts and property owners

Terry G. Frost
Afton

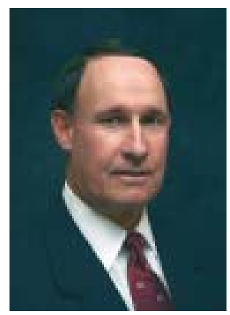
At-large director



Stephen R. Spears
Cushing

Municipal Electric Systems of Oklahoma Executive Director designee

Ex-officio director



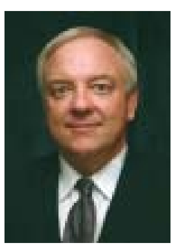
W. Brent LaGere
Chandler

Appointed by Speaker of the House of Representatives

At-large director

MANAGEMENT

Kevin A. Easley
Chief Executive Officer



Michael S. Kiefner
General Counsel
Deputy Director

Charles J. Barney
Assistant General Manager of Thermal Generation

Carolyn Dougherty
Assistant General Manager of Market Analysis & Strategic Development

Anthony Due
Assistant General Manager of Operations

Frederick P. Koontz
Assistant General Manager of Administration, Treasurer, CFO

Robert W. Sullivan, Jr.
Assistant General Manager of Risk Management, Regulatory Compliance

Dale Willis
Assistant General Manager of Transmission

Donna M. Jones
Corporate Secretary

ORGANIZATIONAL CHART

GRDA Board of Directors

- Oklahoma Governor Appointees: **David J. Chernicky**, **James E. Frasier**, **Terry G. Frost**
- President Pro Tempore of the Senate Appointee: **S. Michael Cantrell**
- Speaker of the House of Representatives Appointee: **W. Brent LaGere**
- Oklahoma Association of Electric Cooperatives General Manager designee: **James W. Perry**
- Municipal Electric Systems of Oklahoma Executive Director designee: **Stephen R. Spears**

Chief Executive Officer
Kevin A. Easley

- General Counsel, Deputy Director: **Michael S. Kiefner**
  - Legal, Assistant General Counsels
- Corporate Secretary: **Donna M. Jones**

Assistant General Managers

Assistant General Manager Thermal Generation — **Charles J. Barney**
- Assistant Superintendent Coal-Fired Complex
- Assistant Superintendent Coal-Fired Complex
- Superintendent Coal-Fired Complex Operations, Environmental

Assistant General Manager, Market Analysis & Strategic Development — **Carolyn Dougherty**
- Superintendent Financial Analysis
- Superintendent Marketing

Assistant General Manager Operations & Hydro Generation — **Anthony Due**
- Superintendent Transmission Operations
- Superintendent Operations, Off-System Marketing
- Superintendent Energy Management and Settlement
- Superintendent Hydro, FERC, EPA Required Projects
- Assistant Superintendent Hydro Projects

Assistant General Manager Administration, Treasurer, Chief Financial Officer — **Frederick P. Koontz**
- Superintendent Fiscal Services
- Purchasing
- Media Services

Assistant General Manager Risk Management, Regulatory Compliance — **Robert W. Sullivan, Jr.**
- Superintendent Environmental Alternate Designated Representative
- Superintendent Occupational Safety/Health
- Chief GRDA Lake Patrol
- Administrative Programs Officer
- Safety Coordinator
- FERC Requirements
- Risk Management

Assistant General Manager Transmission — **Dale Willis**
- Superintendent Transmission Lines
- Superintendent Substations
- Superintendent Facilities Management
- Relay & Protection
- Fleet Management

Directors

Director Human Resources
- Assistant Superintendent Human Resources
- Superintendent Homeland Security
- Payroll

Director Ecological Operations
- Lake Compliance

Director Information Technology
- Assistant Director Information Technology
- Information Systems Administrator
- Information Systems Branch Manager
- Superintendent SCADA
- Superintendent Communications
- Superintendent Metering

Chief Engineer
- Transmission Engineering & Drafting

Director Community Relations
- Administrative Building Facilitation

Flight Operations Transmission Line Inspection & Lake Surveillance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Grand River Dam Authority, Oklahoma

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

FINANCIAL SECTION

Deloitte.

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Two Warren Place
6120 South Yale, Suite 1700
Tulsa, OK 74136
USA

Tel: +1 918 477 8800
Fax: +1 918 477 4904
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Grand River Dam Authority

We have audited the accompanying basic financial statements of Grand River Dam Authority (the "Authority") as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Grand River Dam Authority at December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on Pages 20 through 31 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The other information listed in the table of contents as Introductory Section and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on this other information.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

March 31, 2005

Member of
Deloitte Touche Tohmatsu

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Grand River Dam Authority's ("GRDA" or the "Authority") financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2004, in comparison with the prior year financial results. Please read it in conjunction with the financial statements, which follow this section.

Using This Financial Report

This comprehensive annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the Authority funded primarily by the sale of electrical power and energy.

The State of Oklahoma reports the business-type activities of the Authority as a discretely presented major component unit.

The basic financial statements presented in this report consist of the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, the Statements of Cash Flows, and Notes to Financial Statements.

Statements of Net Assets and Statements of Revenues, Expenses, Changes in Net Assets, and Statements of Cash Flows

The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets provide an indication of the Authority's financial health.

The Statements of Net Assets include all of the Authority's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other purposes.

The Statements of Revenues, Expenses, and Changes in Net Assets report all of the revenues and expenses during the time periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income or bond proceeds and cash payments for repayment of bonds and capital additions.

Net Assets

The Authority's Net Assets increased during 2004 by $16.3 million or 31%, compared with an increase in Net Assets during 2003 of $4.4 million or 9%. Total Assets decreased by $32.5 million, versus a decrease of $40.2 million during 2003. However, Total Liabilities decreased by $48.8 million, more than Total Assets decreased in 2004. The primary reason for the increase in total net assets (in relation to the prior year) was the weather. The summer and fall of 2004 were extremely cool and wet. As such, due to the higher than normal rainfall, the Authority was able to generate record amounts of power from its hydro (Pensacola, Markham Ferry/Kerr, Salina) facilities, approximately $17 million in sales greater than the previous ten year average. Additionally, the cooler summer temperatures reduced demand from contracted customers, allowing the Authority to sell more on the lucrative spot market - which was even more lucrative in 2004 due to high natural gas prices. In short, the Authority was the beneficiary of favorable (yet uncontrollable) weather and natural gas pricing conditions.

Another factor behind GRDA performance was the 4.5% base rate increase implemented in July 2004. The Board-approved increase was the first increase in over a decade and part of the Board's ongoing efforts to improve GRDA's finances.

The Authority's rate structure allows recovery of any corresponding increases in fuel or purchased power through the Power Cost Adjustment (PCA), and the base rate component primarily recovers debt service, maintenance, operating, and administrative costs, which remained relatively constant the past few years. Any over or under recovery of these types of debt and operating expenses is absorbed through the change in Net Assets.

FINANCIAL HIGHLIGHTS

DECEMBER 31, 2004, 2003 AND 2002

Net Assets

	2004	2003	2002
Assets:			
Current Assets	**$ 154,144,877**	$ 142,764,595	$ 134,796,867
Net Utility Plant	**419,973,721**	437,415,532	456,718,653
Restricted Investments	**150,478,282**	152,710,431	160,575,016
Other Noncurrent Assets	**29,026,800**	53,248,454	74,227,433
Total Assets	**753,623,680**	786,139,012	826,317,969
Liabilities:			
Current Liabilities	**77,221,653**	76,074,491	73,171,800
Noncurrent Liabilities	**608,348,181**	658,279,467	705,801,659
Total Liabilities	**685,569,834**	734,353,958	778,973,459
Net Assets:			
Invested in Capital Assets - net	**(90,856,753)**	(88,505,272)	(87,318,481)
Restricted for:			
Debt Service	**37,066,254**	35,705,638	34,540,492
Construction	**27,500,000**	27,500,000	27,500,000
Other Special Purposes	**278,130**	260,000	-
Unrestricted	**94,066,215**	76,824,688	72,622,499
Total Net Assets	**$ 68,053,846**	$ 51,785,054	$ 47,344,510

Change in Net Assets

	2004	2003	2002
Operating Revenues:			
Sales of Power	**211,421,154**	$ 196,011,036	$ 179,108,803
Other Operating Revenues	**15,581,629**	8,210,373	8,439,237
Total Operating Revenues	**227,002,783**	204,221,409	187,548,040
Operating Expenses:			
Fuel	**(56,396,019)**	(60,691,493)	(54,969,577)
Depreciation	**(25,575,452)**	(25,248,587)	(25,830,207)
Maintenance	**(21,254,173)**	(15,095,451)	(17,131,920)
Operation	**(15,249,434)**	(13,783,260)	(13,487,497)
Administrative and general	**(13,853,224)**	(12,506,648)	(12,240,789)
Purchased power - net	**(14,646,299)**	(7,773,383)	(7,114,511)
Total Operating Expenses	**(146,974,601)**	(135,098,822)	(130,774,501)
Operating Income	**80,028,182**	69,122,587	56,773,539
Non-Operating Revenues and Expenses:			
Interest Income	**10,225,033**	10,665,460	11,533,978
Net increase (decrease) in fair value of investments	**(1,690,872)**	(2,900,682)	3,574,312
Income from non-utility operations	**104,381**	1,137,548	363,744
Interest Expense	**(46,303,595)**	(49,459,271)	(52,774,719)
Amortization of Cost to be Recovered from Future Revenues	**(24,539,965)**	(22,416,746)	(18,677,701)
Amortization of Debt Discount and Expense	**(2,339,123)**	(2,493,103)	(2,535,183)
Amortization of Bond Premium	**784,751**	784,751	598,376
Total Non-Operating Revenues and Expenses	**(63,759,390)**	(64,682,043)	(57,917,193)
Net Increase (Decrease) in Net Assets	**$ 16,268,792**	$ 4,440,544	$ (1,143,654)

As discussed more in Significant Capital Assets, the Net Utility Plant portion of the Noncurrent Assets also decreased by $17.4 million as depreciation expense of $25.6 million exceeded capital additions. More detailed information about changes in utility plant is also presented in the Notes to Financial Statements.

Other Noncurrent Assets decreased $24.2 million, or 45%, as the most significant component, Costs to Be Recovered from Future Revenues, which are discussed later in *Costs to Be Recovered*, decreased $24.5 million, or 54%.

Current Assets increased by $11.4 million during 2004, or by 8% compared to a 6% increase during 2003. The increase was driven by stronger sales which increased cash investments and receivables. Additionally, the coal inventory increased year over year.

Total Liabilities decreased by $48.8 million, driven by a decrease in noncurrent bonds payable of $50.4 million. This was attributable to scheduled required bond payments in 2004, resulting in one less year towards final payoff of debt in 2014.

Operating Income

Operating Income increased by $10.9 million, or by 16% between 2003 and 2004, after increasing $12.3 million, or 22% between 2003 and 2002. Operating Revenues increased $22.8 million while Operating Expenses increased $11.9 million in 2004. In 2003, Operating Expenses increased $4.3 million versus 2002 while Operating Revenues increased $16.7 million. Reasons for the operating income improvement are driven by favorable yet uncontrollable weather and natural gas conditions, as discussed earlier.

Total Operating Revenues set a new record high during 2004 at $227.0 million, about 11% or $22.8 million greater than 2003. Sales of power, which is the largest component of operating revenues, increased for all customer categories during 2004 except for the cooperatives.

Pertaining to cooperative sales, while Northeast Oklahoma Electric Cooperative continued to experience load growth, the Authority ceased supplying KAMO Power's load on July 1, 2003, and as a result, power sales to the cooperative category were 6% lower in 2004 than in 2003. Industrial sales increased about 10% on more usage at Mid-American Industrial Park. Off-system firm and spot sales also increased 11% as the higher market prices for electricity (driven by higher natural gas prices) translated to off-system customers, both under contract and in the spot market, purchasing record amounts of energy from GRDA. Municipal revenues increased 5%, as the Authority began serving the cities of Mannford and Collinsville in 2003 and Broken Bow in 2004. Finally, due to our awareness of favorable market conditions on the value of emissions credits, Other Operating Revenues also increased year-over-year by approximately $7.4 million, of which $5.7 million relates to sales of emissions allowances.

Operating Expenses increased $11.9 million in 2004 and $4.3 million in 2003. Maintenance expenses increased approximately $6.2 million in comparison to 2003 as expected because of the 2004 spring overhaul of Unit 1. Fuel and purchased power costs increased $2.6 million on a higher percentage of power being purchased (versus coal burned) due to the outage.

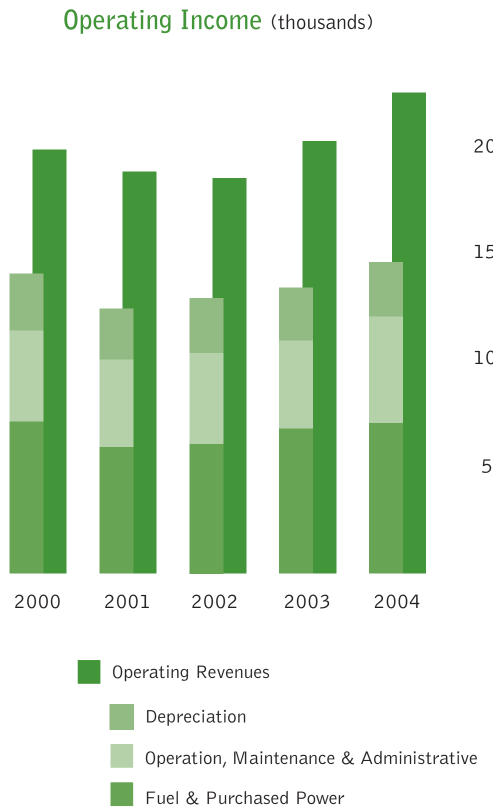
Overall Financial Position

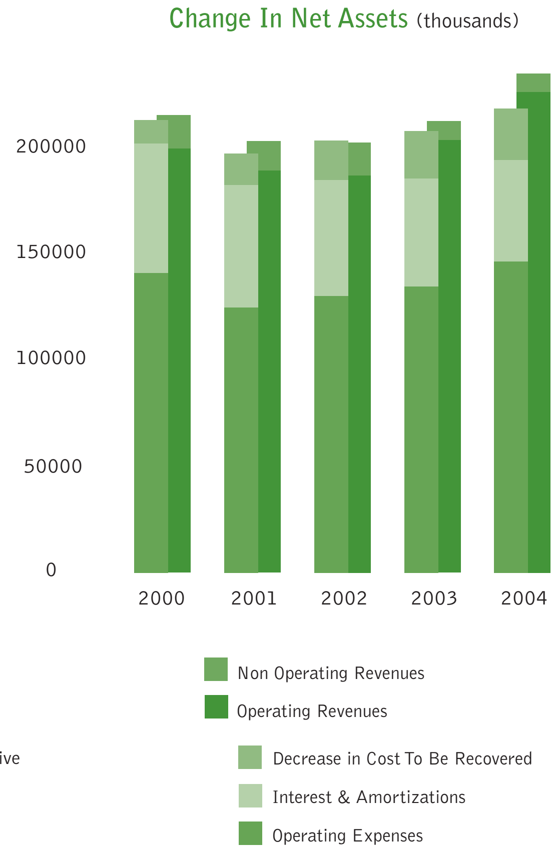
The Authority's current financial position can be better understood in the context of the Authority's overall rate structure and objectives.

Authority's Rates

The Authority's rate structure is based on a cost-of-service approach of which debt service payments, fuel and other operating expenses are the principal components.

The graph on the next page indicates both operating revenues and operating expenses, and the difference in the column height reflects operating income. That operating income, with other non-operating revenues, primarily interest, investment income, and sales of emissions allowances, is combined to pay the Authority's interest and other debt related expenses. As can be seen in the change in net assets graph to the right of the operating income graph, revenues of the Authority are only slightly greater than expenses.





While GRDA established rates on a cost-of-service basis, the financial information supports that while GRDA has been collecting adequate revenue to continue to cover debt and operating costs, the Authority has little excess revenue for future capital additions and inventories.

The Operating Income and Change in Net Assets Graphs reflect financial results prepared in accordance with generally accepted accounting principles in the United States of America, following an accrual basis of accounting, and agree to the financial information reflected in the accompanying financial statements. The Authority's rate structure methodology recovers expenses calculated using a more cash-based approach. Essentially, the base rates recover debt service payments, including both the principal and interest for bond sinking fund payments. Included in the statistical section of the Authority's annual report each year is a table calculating Debt Service Coverage.

The Authority's board of directors is empowered to set rates as necessary, and as an agency of the State of Oklahoma, the rates do not come under the jurisdiction of the Oklahoma Corporation Commission and are not currently regulated directly by the Federal Energy Regulatory Commission or by any other state or federal authority, although GRDA participates in the Southwest Power Pool regional transmission tariffs.

This means GRDA's board of directors has the ability to balance the Authority's objectives to be responsive to the public power customers by providing low-cost, reliable electric power and to fulfill covenants made to the bondholders to establish and collect rates adequate to meet the operating and debt requirements as well as to plan for future expense requirements. That rate flexibility allows the Authority to maintain the lowest rates possible and still maintain financial integrity.

As previously noted, the Authority's board of directors approved a 4.5% increase to base rates, which was implemented on July 1, 2004. The Authority had not raised base electric rates since January 1, 1993, though GRDA operating expenses and investor-owned utility rates have increased over that time.

The Authority's new board members have also instructed management to continue to evaluate various rate structures, which might assist in the economic development of Oklahoma while providing financial resources and assurances for improved financial stability.

Generation Resources and Customer Mix

As can be seen in the charts comparing GRDA's customer sales mix and generation resources, the Authority's contractual commitments (municipal, cooperative, industrial, off-system firm, OMPA) have grown to utilize all of the Authority's generation resources. Although the high load usage allows for the lowest average rates to recover the capital cost of GRDA's generation resources, it also means during seasons of temperature extremes, GRDA's generation may have to be supplemented by additional purchased power. Additionally, during times of scheduled outages (as in Spring 2004), GRDA may need to purchase more power. In short, when weather conditions (especially rainfall) are favorable to strong hydro generation (as in 2004), GRDA can satisfy customer demand and perhaps sell extra generation on the spot market. If weather conditions are unfavorable (as in many of the previous years), GRDA may need to purchase additional energy to satisfy demand.

Hydro generation was above average for most of 2004, offsetting the reduced generation at the Coal-Fired Complex. The dispatchers at the Energy Control Center were able to utilize the increased generation, in combination with other off-peak purchases, to generate more energy at the Salina facility, and sell on-peak energy, capturing additional monetary value because of the market differences between on and off-peak pricing. In contrast, over the previous three years, the Authority required most generation, along with some additional purchased energy, to meet customer requirements. The 2004 generation at the Coal-Fired Complex was lower than normal due to the completion of planned extensive Unit 1 maintenance in Spring 2004.

The Authority responded to customer requests for more rate stability by implementing a power cost adjustment in 1981. The PCA allows customers to more accurately forecast power costs without being subject to monthly fuel cost variations in their electric rates. For more discussion, see Notes to Financial Statements, *Under/ Over Recovered Fuel Costs*.

Sales and Resources (thousand MWh)

Average Customer Rates

As can be seen in the chart comparing average base rates for contract customers and average rates, net of the PCA credit, the customers have historically benefited by a credit offsetting base rates, although the PCA was "positive" during part of the year in 2001. The Authority's power cost adjustment mechanism with customers is calculated on a rolling basis and is normally revised twice a year.

GRDA returned to contract customers $9.5 million and $6.8 million in the form of credits on electricity bills during 2004 and 2003, respectively. The Authority began the year with $2.8 million in over-collected fuel costs and ended 2004 with $1.0 million in over-collected fuel costs.

The Authority continues to have an economical generation mix, and the graph also indicates the historical impact on customer's average rates as a result of fuel savings credited to customer's energy charges. However, since customer loads have grown to a point where (from a planning basis) the Authority anticipates significant power purchases in 2005, to meet contractual requirements, GRDA's Board adopted a "positive" PCA effective January 1, 2005 to pay for these anticipated power purchases.

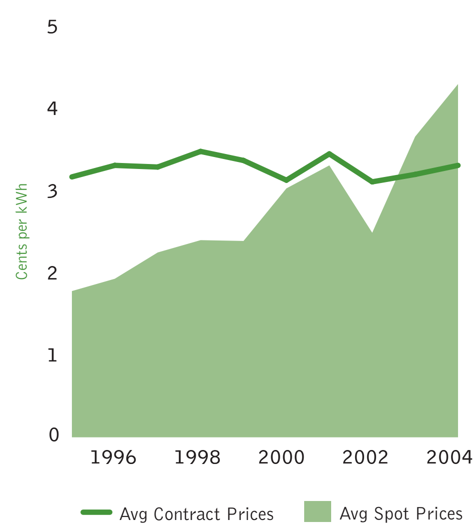
Competitive Resources

GRDA's customers benefit overall from economic generation costs from the capital assets discussed in more detail later. As the chart indicates, the average rates collected from the Authority's contract customers, both before and after netting the PCA credit, is less than 3.5 cents per kWh. The Authority has continued to generate with hydroelectricity and thermal generation, supplemented with purchased power.

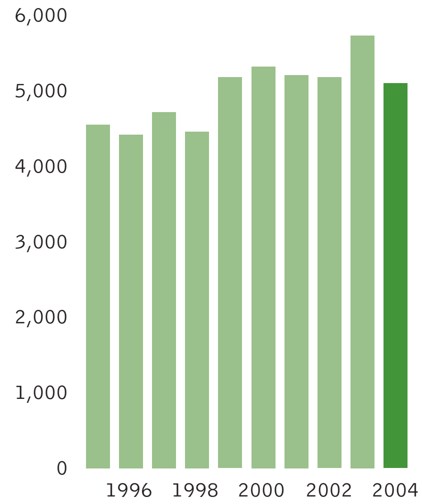
In general, electric utilities establish power sale contract rates sufficient to recover all costs and pay all expenses. Spot prices historically were lower, priced to recover any incremental costs of the additional generation or supply costs balanced against market prices. In 2004, spot prices were generally high, allowing GRDA to sell any excess generation beyond contracted needs at favorable rates.

The graph comparing GRDA's historic average contract prices to GRDA's average spot prices for any excess energy sold as replacement energy, provides an indication of how competitive the Authority's contract rates are. In 2003 and 2004, the average price GRDA received for spot sales was actually higher than the contract averages, net of the PCA. This allowed GRDA to sell on the spot market at more favorable revenue rates than sales to contracted customers.

Comparison of Average Contract and Spot Prices



Steam Generation (thousand MWh)



The hydroelectric resources provide very economical generation, provide a great deal of dispatching flexibility and add to the Authority's system reliability, with virtually no incremental cost for fuel.

In addition, GRDA has the ability to "store" energy to an extent with the Salina Pumped Storage Project which allows for water to be pumped into a reservoir during periods when energy costs less, and then the water is released to generate additional energy during periods when the energy is worth significantly more in both market value and system reliability. The total generation from the pumped storage project in 2004 was a record.

Additionally, in each year, banking arrangements with the Southwestern Power Administration and Western Farmers Electric Cooperative provide resources and mitigate unscheduled outage risks to an extent by allowing the Authority to call on energy from the entities during outages and then return the "banked" energy whenever the other entity has a need.

Significant Capital Assets

Net plant assets decreased from $437.4 million to $420.0 million, or by $17.4 million. The decrease relates to the $25.6 million depreciation of the Authority's assets offset by $8.2 million in capital additions in excess of plant retirements. The Authority's generation facilities and a description of each are as follows:

Coal-Fired Complex

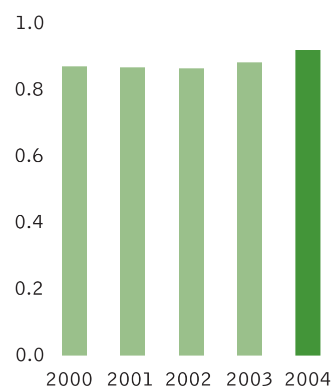
The primary project for 2004 was the major overhaul of Unit 1, which was successfully completed in Spring 2004. This outage reduced power generation (and coal consumption) in 2004 versus 2003. No major outage is planned in 2005 and generation is projected to return to more normal levels in 2005. As can be seen in the chart, generation at the complex has remained consistently higher during the last six years than prior to 1999.

In general, the Authority's generation costs are some of the lowest in the region, so GRDA is able to sell most excess generation not required for contractual customers into the spot market. Therefore, the Coal-Fired Complex is generally operated at high capacity regardless of the time of year.

Coal and transportation of coal are the largest operating expenses at the Coal-Fired Complex. Somewhat related to the spring 2004 outage, coal inventories increased in 2004 and at year-end were approximately twice the levels of coal at end of 2003. Looking forward, GRDA feels coal levels will be tighter in 2005, due to increased demand and tighter supply due to constrained delivery. To address these issues, GRDA entered into leases for additional rail cars subsequent to year end 2004 and has continued to pursue enhanced coal deliveries in 2005.

The Complex consists of a 490-MW unit, completed in 1981 and wholly owned by GRDA, and another 520-MW unit, completed in 1986, of which GRDA owns

Cost of Fuel Burned (dollars per million Btu)



62% and KAMO Power owns 38%. The graph indicates the Authority's share of generation, excluding KAMO Power's entitlement from Unit 2, for the last 10 years.

Each unit is usually removed from service once per year for a minor overhaul, and major outages are scheduled on approximately six-year intervals. As noted, the major Unit 1 outage occurred in 2004, and the major Unit 2 outage is scheduled for fall 2006.

When the electricity market prices are higher as they were during 2004, pricing differences for various fuel sources become more obvious. Under current market conditions, electricity generated at the Coal-Fired Complex is much less expensive than competitive generators using natural gas.

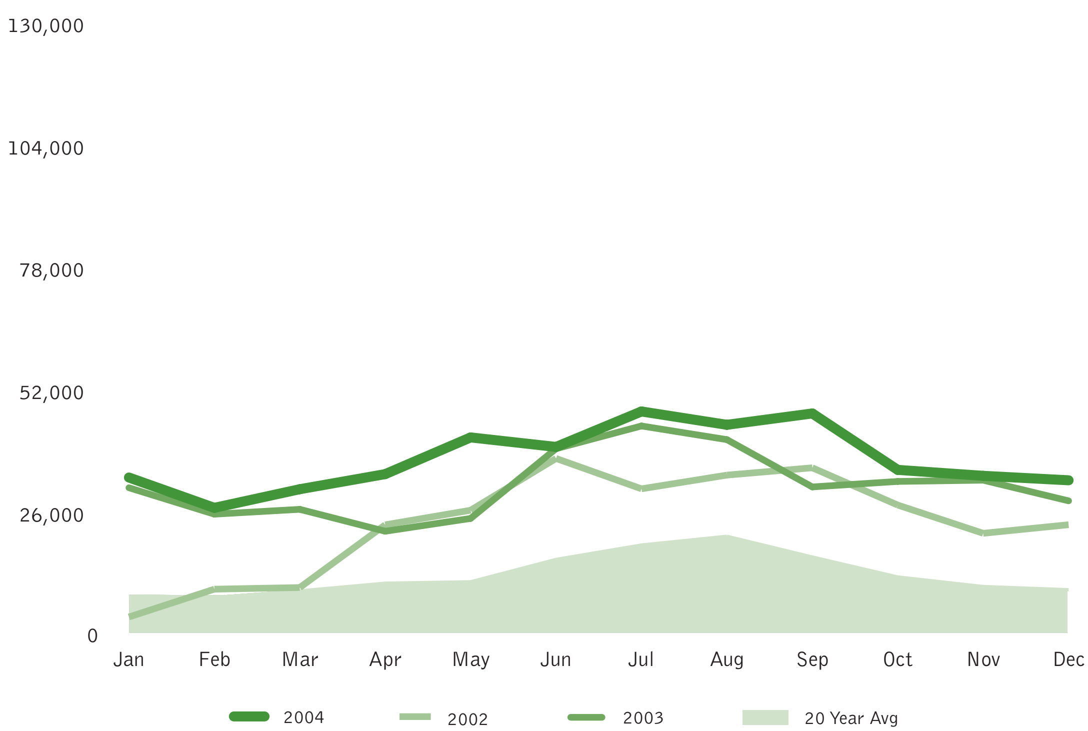
The graph demonstrates GRDA's consistently low and stable cost of energy from coal. Long term contracts are in place that will help reduce any dramatic price volatility.

Salina Pumped Storage Project

GRDA also relied heavily on the unique capabilities of the Salina Pumped Storage Project and put water to work for Oklahoma. The Salina Pumped Storage Project was completed in two stages, the first in 1968 and the second in 1971, and consists of six reversible pump/generators each capable of generating 43 MW. The Authority generated more power at Salina than in the previous year, almost double the generation of just three years ago, due to the favorable yet uncontrollable weather conditions previously noted.

In the past, the facility provided a reliable source of short-term emergency power and spinning reserves. As discussed earlier, the facility now provides an economic peaking source, and as a result, the Authority concentrated on maintenance at the facility during the previous two years, so the units will consistently generate throughout the summer periods.

Salina Pumped Storage Project Generation (MWh)



The incremental costs of operating the pumped storage facility increase when no hydro resources are available and the pumping energy comes from thermal generation or from off-peak purchases. The ability to generate at peak times has become even more important at times when transmission constraints within the region could affect the price of energy purchases, or even the ability of our system operators to make necessary purchases.

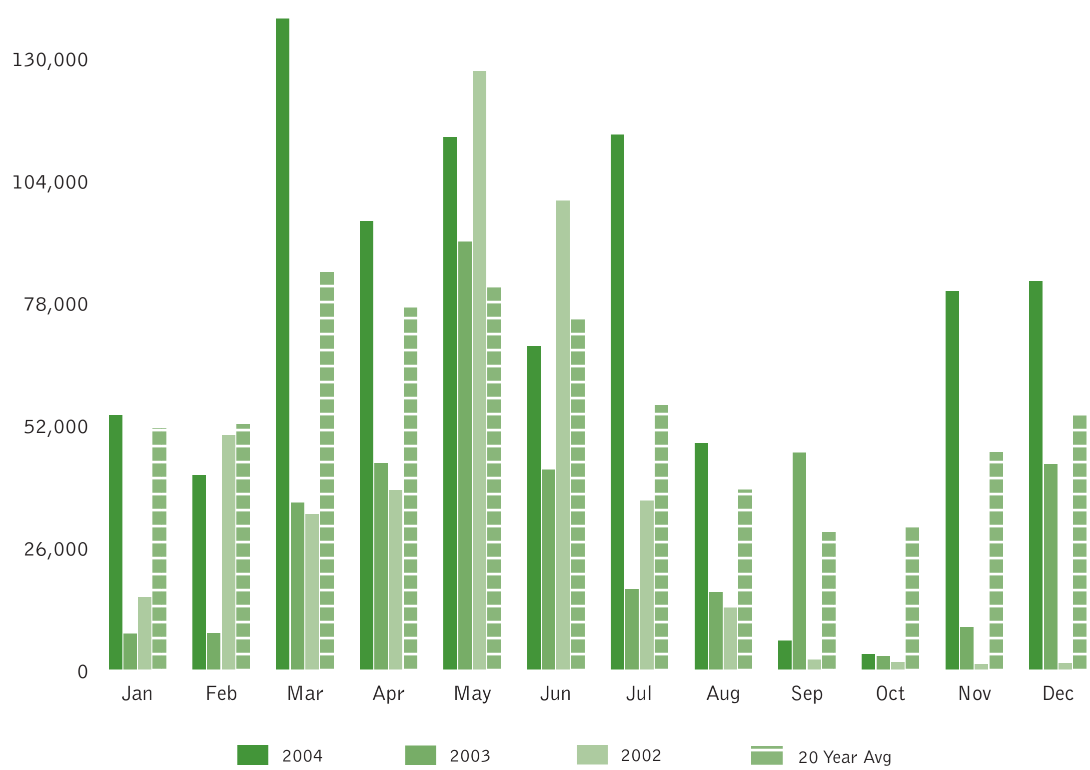
The ability to increase on-peak generation in a year when market prices are relatively high is the main reason the Authority's average spot prices exceeded average contract rates during 2004.

Pensacola Project

Completed in 1940, the Pensacola Dam was the Authority's first hydroelectric project. In May 2003, a project to upgrade the sixth and final generating unit was completed bringing to close a project which spanned eight years. During this comprehensive project, one of the six units was taken out of service each fall during the rehabilitation so upgrade work could be completed during the winter months when the energy had less value. The units were then returned to service the following spring, in time for the summer peak season. The work included the installation of new turbine shafts, runners and other components, as well as new electronic control devices and generator components.

As a result, Pensacola Dam has the capacity to generate more than 20 percent more electricity today than it did during its first six decades. Not only are the rehabilitated units more efficient, but new stainless steel turbine components have reduced possible risks of blade failure or other events which could require extended periods of downtime. Most of the costs of upgrading the turbine generators were capitalized.

Pensacola/Robert S. Kerr Dam Generation (MWh)



The result of the improved productivity at Pensacola (plus the higher-than normal inflow) was a record year of generation at Pensacola, more than double the power produced there in 2003.

Pensacola Dam may be the oldest, and provide the least generating capacity, of the Authority's facilities, but its responsibility of impounding the waters of the Grand Lake O' the Cherokees—one of Oklahoma's premiere recreational locations—ensures the project is always a focus of political and media attention.

The Authority's efforts to manage Pensacola Dam and Grand Lake often encompass legal and other administrative expenditures in complying with FERC licensing requirements, and other public land, safety or various other water-related issues. During 2003, the Authority established a Fish and Wildlife Mitigation account restricted as discussed further in the Restricted for Other Special Purposes paragraph in the Deposits and Investments note to the financial statements. Additionally, in 2004, the Authority increased lake dock fees and improved efforts for boating safety and enforcement.

Markham Ferry Project

The Markham Ferry Project consists of the Robert S. Kerr Dam, which impounds Lake Hudson and houses the Energy Control Center, which serves as the control hub for all of GRDA's generation resources, interconnection points and transmission system operations.

2004 efforts at Kerr centered around planning a rehabilitation project to ensure the units can generate for the next several decades. Similar to the Pensacola work, although design constraints will likely prevent any increase in generation output, the total projected cost to rehabilitate the units is approximately $40 million.

Inside the Energy Control Center, the hub of generation and dispatch on the bluff above Kerr Dam, technicians continued to install a new Supervisory Control and Data Acquisition (SCADA) system. Around the clock, SCADA equipment gathers data from points all across the system, measuring electrical usage, demand, load levels and other information critical to the overall reliability of energy delivery to GRDA customers. System configuration and factory acceptance testing occurred in 2004, with plans for the systems to be fully activated in April 2005.

The Authority has also begun the legal efforts to relicense the Markham Ferry Project with the Federal Energy Regulatory Commission (FERC).

Constructed in the early 1960s and located south of Grand Lake, Lake Hudson is a popular bass fishing location, created by the Robert S. Kerr Dam, and managed by the Authority.

Transmission and Delivery

The Authority operates and maintains an integrated transmission system with KAMO Power. The Authority's system includes over 2,000 miles of line and related switching and transformation substations of which approximately 1,200 miles are owned by the Authority and approximately 800 miles are owned by KAMO.

GRDA also jointly owns a 345-kV transmission line with American Electric Power (previously Southwestern Electric Power Co.), Empire District Electric Company, Associated Electric Cooperative, and City Utilities of Springfield, Missouri. The Authority participates in a regional transmission tariff, as a member of the Southwest Power Pool ("SPP"), a reliability council.

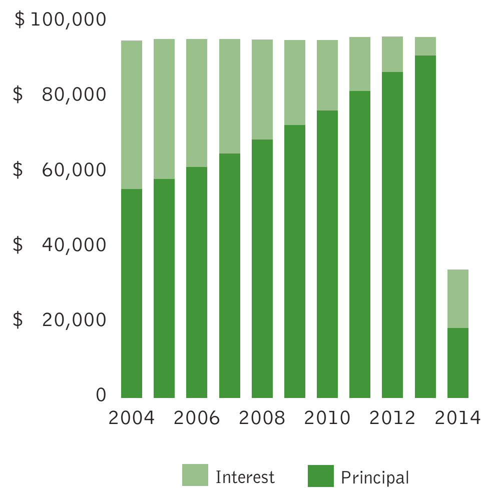
The Authority has realized an increase in transmission revenues year-over-year. GRDA had shared revenues from SPP tariffs with KAMO Power until October 1, 2003 when KAMO, the Authority's partner in the integrated transmission system, decided to no longer participate in SPP membership dues.

The metering department has been installing new meters. This new metering system will allow GRDA to perform extensive analysis on our load and quality of power being delivered to our customers as well as power coming into and going out of GRDA's control area. Installation is scheduled to be completed by the end of 2005.

Capital Additions

The Authority capitalized additions to property during 2004 and 2003 of approximately $10 million and $19 million, respectively. The majority of the additions continue to relate to the upgrade of the Pensacola hydroelectric project, the construction of new lines and upgrades for growth in the northeast part of the state, and line and substation upgrades. During 2004, significant capital spending included work on reheater panels at Unit 1 (Coal-Fired Complex) and at the Wal-Mart (Ramona) substation.

Future Debt Service Depicting Principal & Interest (thousands)



Long-Term Debt

The majority of the resources discussed previously were financed by revenue bonds. The Authority's trustee paid to the bondholders principal payments of $55,565,000 and $53,150,000 on June 1, 2004 and 2003, respectively.

As indicated in the Bonds Payable note to the financial statements, the Authority makes monthly sinking fund payments to the bond trustee, which are reflected as current investments "restricted for bond service." The bondholders are then paid annual principal payments on June 1 and semiannual interest payments on December 1 and June 1 of each year.

The Authority's debt service payments were structured to remain fairly constant at approximately $96 million per year through 2013. The principal and interest totaling approximately $34 million on the 2002B capital appreciation bonds will be repaid on June 1, 2014. The graph provides an indication of how much principal and interest are due each year until the bonds mature in 2014.

The 1993, 1995, and 2002 bonds outstanding are not subject to redemption prior to the maturity of the bonds. In conjunction with the bonds, the Authority has made certain covenants and must file continuing disclosures with bond repositories. Moody's Investors Service, Inc., Standard & Poor's Ratings Group and Fitch Investors Service, Inc., gave the 1995, 2002, and a portion of the 1993 issues ratings of Aaa, AAA and AAA, respectively since municipal bond insurance policies were purchased as the bonds were issued.

The rating agencies continue to monitor the Authority's underlying credit ratings; two agencies updated and reaffirmed their current ratings applicable to any uninsured bonds during 2004. The Authority's most recent ratings from Moody's Investors Service, Inc., Standard & Poor's Ratings Group and Fitch Investors Service, Inc are A2, BBB+, and A-, respectively. Within these ratings, Standard & Poor's placed GRDA on credit watch in July 2004, and Moody's lowered the outlook to negative in August 2004. However, Standard & Poor's removed the credit watch in November 2004. Cash and investment positions improved during the second half of 2004. Subsequent to year end 2004, Fitch raised the outlook to positive.

Restricted Assets

The Authority's bond resolutions require reserve funds be set aside. The General Bond Resolution requires the Bond Service Reserve Account be equal to the "Maximum Aggregate Bond Service" and the Reserve and Contingency Fund be equal to 25% of that same amount. The restricted amounts of $96,121,388 shown as bond service reserve and the $24,030,347 shown as reserve and contingency are the required amounts to be set aside to comply with the bond covenants.

Additional amounts are restricted for the bond service sinking fund payments made to the trustee for annual principal and semiannual interest payments. The amounts reflected as restricted for construction relate to two different construction accounts discussed in more detail in the notes to financial statements, *Deposits and Investments.* Additionally, two Board designated (though not restricted) reserves were formally approved in December 2004: one pertaining to unforeseen risk management and the other pertaining to extraordinary maintenance and environmental costs.

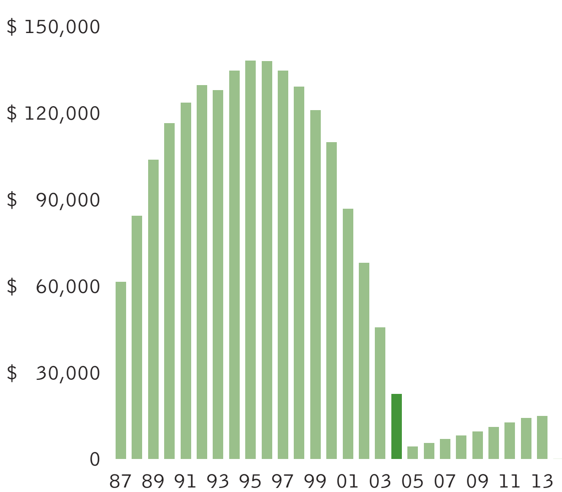
Costs to Be Recovered

The Authority follows Statement of Financial Accounting Standards (SFAS) No. 71 in regulatory reporting which requires utilities to match costs with the same time period the revenues are collected. GRDA recovers the costs of depreciation and amortization of bond expenses as it collects revenues to pay the principal portion of debt service costs.

For that reason, from 1985 until 1997, those non-cash expenses exceeded the amount of principal payments creating a deferred cost, which is reflected on the balance sheet as "Costs to Be Recovered from Future Revenues." The recovery of deferred costs increases, as the principal portion of the debt increases, and totaled $25.7 million in 2004, or $3.2 million more than 2003.

Separately and additionally, in 2004, the Authority determined that it should defer interest cost related to the 2002B bond issue and expense this cost in 2014, at time of 2002B bond maturity. In 2004 the cumulative deferral of such interest expense (net of interest income) was $1.1 million.

Estimate of Deferred Expense
Actual Numbers thru 12/04 (thousands)



Change in Financial Position

The Authority's rate structure is designed to collect sufficient revenues to pay debt service and recover operating and maintenance expenses. Uncontrollable yet favorable weather and market pricing conditions allowed the Authority to generate and sell more power than ever before, improving GRDA's financial position. Additionally, the Board of Directors (as part of regular efforts to review and improve GRDA finances) approved a 4.5% increase of utility rates, effective July, 2004.

Operationally, 2004 was somewhat challenging due to the planned maintenance outage in Unit 1. However, record inflow allowed some offset operationally, and strong spot sales allowed for record operating revenues.

The Authority paid the required debt sinking fund payments and operating costs and financed a portion of the capital additions from operating revenues. Net assets increased by approximately $16 million and importantly, the Authority also paid down debt of $55,565,000 during the year, with only ten remaining years until the debt is retired.

MD&A Report

This report is intended to provide our customers, bondholders, citizens of the State of Oklahoma, and other interested parties with a general overview of the Authority's financial position and to indicate accountability for the revenues GRDA receives.

Questions about this report or requests for additional financial information should be directed to the Authority at 918-256-5545 or to our offices located at 226 W. Dwain Willis Ave., Vinita, Oklahoma 74301.

STATEMENTS OF NET ASSETS

DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents—general operating account	$ 29,040,711	$ 22,647,731
Investments	69,591,419	70,534,135
Accounts receivable—net	25,374,530	21,128,977
Accrued interest receivable	1,439,716	1,428,240
Fuel stock	5,805,191	2,513,085
Materials and supplies	22,077,381	22,992,248
Prepaid assets	815,929	1,520,179
Total current assets	154,144,877	142,764,595
NONCURRENT ASSETS:		
Restricted investments	150,478,282	152,710,431
Other receivables	3,520,452	2,409,077
Net utility plant, at original cost less depreciation	419,973,721	437,415,532
Other noncurrent assets:		
Costs to be recovered from future revenues	21,064,882	45,604,847
Unamortized debt expense	4,408,452	5,201,516
Non-utility property—at original cost	33,014	33,014
Total other noncurrent assets	25,506,348	50,839,377
Total noncurrent assets	599,478,803	643,374,417
Total assets	753,623,680	786,139,012
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	14,897,552	14,455,808
Accrued interest payable	3,107,504	3,292,721
Bonds payable—current portion	58,215,000	55,565,000
Over recovered fuel costs	1,001,597	2,760,962
Total current liabilities	77,221,653	76,074,491
NONCURRENT LIABILITIES:		
Bonds payable—net	592,916,747	643,326,111
Unamortized proceeds on debt service forward purchase agreements	10,090,021	11,291,761
Other noncurrent liabilities	2,742,466	2,105,602
Accrued interest payable	2,598,947	1,555,993
Total noncurrent liabilities	608,348,181	658,279,467
Total liabilities	685,569,834	734,353,958
NET ASSETS:		
Invested in capital assets, including costs to be recovered from future revenues—net of related debt	(90,856,753)	(88,505,272)
Restricted for:		
Debt service	37,066,254	35,705,638
Construction	27,500,000	27,500,000
Other special purposes	278,130	260,000
Unrestricted	94,066,215	76,824,688
Total net assets	$ 68,053,846	$ 51,785,054

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
OPERATING REVENUES:		
Sales of power	$ 211,421,154	$ 196,011,036
Other operating revenues	15,581,629	8,210,373
Total operating revenues	227,002,783	204,221,409
OPERATING EXPENSES:		
Fuel	(56,396,019)	(60,691,493)
Depreciation	(25,575,452)	(25,248,587)
Maintenance	(21,254,173)	(15,095,451)
Operation	(15,249,434)	(13,783,260)
Administrative and general	(13,853,224)	(12,506,648)
Purchased power—net	(14,646,299)	(7,773,383)
Total operating expenses	(146,974,601)	(135,098,822)
OPERATING INCOME	80,028,182	69,122,587
NONOPERATING REVENUES AND (EXPENSES):		
Interest income	10,225,033	10,665,460
Net decrease in the fair value of investments	(1,690,872)	(2,900,682)
Income from non-utility operations	104,381	1,137,548
Interest expense	(46,303,595)	(49,459,271)
Amortization of costs to be recovered from future revenues	(24,539,965)	(22,416,746)
Amortization of debt discount and expense	(2,339,123)	(2,493,103)
Amortization of bond premium	784,751	784,751
Total nonoperating revenues and (expenses)	(63,759,390)	(64,682,043)
NET INCREASE IN NET ASSETS	16,268,792	4,440,544
NET ASSETS—BEGINNING OF YEAR	51,785,054	47,344,510
NET ASSETS—END OF YEAR	$ 68,053,846	$ 51,785,054

See notes to financial statements.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from user charges	$ 242,225,326	$ 228,720,115
Payments to employees for services	(21,235,586)	(19,761,643)
Payments to suppliers for goods and services	(122,992,401)	(114,986,489)
Net cash provided by operating activities	97,997,339	93,971,983
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant—net of retirement	(8,133,642)	(5,945,466)
Repayment of principal	(55,565,000)	(53,150,000)
Interest paid	(38,401,529)	(40,974,394)
Net cash used in capital and related financing activities	(102,100,171)	(100,069,860)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	10,116,017	9,554,859
Purchases of securities	(63,065,933)	(56,624,717)
Proceeds from sales and maturities of securities	63,445,728	67,783,217
Net cash provided by investing activities	10,495,812	20,713,359
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,392,980	14,615,482
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	22,647,731	8,032,249
CASH AND CASH EQUIVALENTS—END OF YEAR	$ 29,040,711	$ 22,647,731
NONCASH ITEMS FROM INVESTING ACTIVITIES:		
Unrealized loss on investments	$ (1,690,872)	$ (2,900,682)
Amortization of premiums and discounts	$ 1,128,460	$ 106,699
Amortization of debt service forward purchase agreements	$ 1,201,740	$ 1,305,841
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 80,028,182	$ 69,122,587
Noncash items included in net operating income:		
Income from non-utility operations	104,381	1,137,548
Depreciation	25,575,452	25,248,587
Changes in assets and liabilities:		
Receivables:		
Customers	(3,035,131)	(1,736,390)
Other	(2,321,797)	(656,737)
Fuel stock	(3,292,106)	2,387,512
Materials and supplies	914,867	(1,923,452)
Other	530,469	(604,643)
Accounts payable and accrued liabilities	441,743	(2,029,667)
Over (under) recovered fuel costs	(1,759,366)	3,026,638
Other noncurrent liabilities	810,645	-
Net cash provided by operating activities	$ 97,997,339	$ 93,971,983

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—The Grand River Dam Authority (the "Authority") was created as a nonappropriated agency by the State of Oklahoma in 1935 as a conservation and reclamation district. The Authority has the power to control, store, preserve and distribute the waters of the Grand River and its tributaries for any useful purpose and to develop and generate water power, electric power and electric energy within the boundaries of the Authority and to buy, sell, resell, interchange and distribute electric power and energy. The Grand River lies entirely within Oklahoma, but its drainage basin also extends over the states of Arkansas, Kansas, and Missouri. As part of the Authority's licensing agreements, the Authority also has lake area responsibilities, and one of those is the operation of a lake patrol for both Grand and Hudson lakes. The costs of those activities are funded primarily through electricity sales to rural cooperative, municipal, industrial and off-system customers located in Oklahoma, Kansas, Missouri and Arkansas. The Authority's financial statements are included in State of Oklahoma Comprehensive Annual Financial Report as a proprietary component unit.

Joint Participant—Among the Authority's assets is Coal-Fired Complex Unit 2 (which is 62% owned by the Authority and 38% owned by KAMO Power ("KAMO")). Additionally, the Authority and KAMO share an integrated transmission system. These financial statements and notes to financial statements include the transactions for the Authority's ownership of these assets.

Basis of Accounting—The Authority is licensed to operate under the Federal Power Act, which requires the use of the uniform system of accounts, prescribed for public utilities and licensees. The Authority files an annual report of financial information with the Federal Energy Regulatory Commission ("FERC"). The Authority is a cost of service organization and establishes its rates to provide revenues sufficient to pay all expenses necessary for the operation and maintenance of the system, all payments, transfers and deposits related to outstanding debt, and all other charges or obligations imposed by law or contract.

Basis of Presentation—The Authority's basic financial statements conform to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34 ("Statement 34"), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related pronouncements. Statement 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- **Restricted**—This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets**—This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The financial statements of the Authority are prepared under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Authority has elected to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions, unless those pronouncements conflict with GASB pronouncements.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include unrestricted cash in banks, unrestricted money market funds and unrestricted certificates of deposit with original maturities of three months or less. Balances are presented on a net basis to the extent such balances are subject to the right of offset.

Investments—Investments are principally comprised of U.S. government securities, Guaranteed Investment Agreements, money market funds and certificates of deposit. The Authority reports investments, except for certain money market investments and non-participating investment contracts, at fair value. Fair value is determined using quoted market prices.

Fuel Stock—Fuel stock is carried at average cost and includes the costs of coal, freight and labor. These amounts are charged to expense as the fuel is consumed.

Materials and Supplies—Materials and supplies are valued using the average cost and specific identification methods.

Under/Over Recovered Fuel Costs—The Authority's rate structure as approved by the Board of Directors provides for the Authority to make adjustments in revenue collections from municipal, industrial, cooperative and off-system firm customers to recover variations between estimated and actual fuel costs incurred by the Authority. This adjustment, referred to as the Power Cost Adjustment ("PCA"), is generally calculated twice each year. The Authority's base rate is calculated using 13 mills as an estimated PCA. The cumulative difference between the actual fuel costs and the 13 mill base PCA rate is reflected as either an asset (under recovery) or liability (over recovery) in the Authority's accompanying Statements of Net Assets, because such amounts will either be collected from, or refunded to, customers of the Authority in subsequent periods.

Utility Plant and Depreciation—The cost of utility plant includes direct material, direct labor and indirect costs such as engineering, supervision, transportation, insurance and interest expense (net of applicable interest income) capitalized during construction. The Authority follows the FERC electric plant instruction guidelines in defining capital assets. Generally, assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of one year or more, and are not consumable, are capitalized. The cost of maintenance and repairs to property is expensed. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service. Gain or loss is recognized on retirements and dispositions that management believes to be unusual in nature.

Depreciation is computed on the cost of utility plant by the composite method over the following estimated useful lives and percentages:

Coal-fired plants, 35 years	2.90%
Hydraulic production plants, 87 years	1.15%
Transmission system, 30 years	3.33%
Other properties and production plant, 5 to 30 years	3.33% to 20%

Long-Lived Assets—The Authority reviews longlived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Management of the Authority has determined that no impairment adjustments needed to be recognized in 2004 or 2003.

Asset Retirement Obligations—The Authority periodically reviews the need to provide for asset retirement obligations (in accordance with SFAS No. 143) and has concluded that at present the Authority does not have any such asset retirement obligations.

Emissions Allowances—GRDA is granted annual allotments of numbered emission allowances for sulfur dioxide emissions by the United States Environmental Protection Agency ("EPA") which are carried at cost, which at December 31, 2004 and 2003 was zero. These allowances are held in reserve by the Authority, and used as needed or sold for cash to other utilities.

Costs to Be Recovered from Future Revenues—Certain items included in operating costs are recovered by the Authority through rates set by the Board of Directors. GRDA, as a selfregulated utility, is subject to the requirements of Statement of Financial Accounting Standard ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. SFAS No. 71 provides that certain costs that would otherwise be charged to expense can be deferred as regulatory assets, based on the expected recovery from customers in future rates. Recognition of these costs, primarily depreciation on debt-funded plant, amortization of debt discount and expense, and amortization of losses on advance refunding of long-term debt, is deferred to the extent that such costs will be included in rates charged by the Authority in future years. The Authority is currently amortizing previously deferred costs (from as far back as 1985) as the revenues are collected, and the Authority expects these costs to be fully recovered during 2005.

Separately and additionally, in 2004, the Authority determined that it should defer interest costs related to the 2002B bond issue and expense these costs in 2014, at time of 2002B bond maturity.

Management continuously monitors the future recoverability of regulatory assets, and when, in management's judgment, any future recovery becomes impaired, the amount of the regulatory asset will be reduced or written off, as appropriate. At December 31, 2004, the Authority has approximately $21.1 million of costs to be recovered from future revenues.

Derivative Instruments—The Authority follows SFAS No. 133, *Accounting for Derivative Instruments*, and its amendments, which establish accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives be recognized as assets or liabilities in the statement of net assets and be measured at fair value. This recognition is referred to as "marketomarket" accounting. SFAS No. 133 provides an exception, under certain circumstances, to this accounting if a derivative instrument is deemed to represent a transaction in the normal course of business. The Authority has an energy exchange contract with another electric utility that is accounted for as a normal purchase in accordance with SFAS No. 133. See Note 11.

Unamortized Debt Discount or Premium and Expense—Debt discount or premium and expense are amortized using the bonds outstanding method over the periods of the applicable issues.

Unamortized Gains and Losses on Advance Refunding of Long-Term Debt—Recognition of gains and losses realized on advance refunding of long-term debt is deferred and amortized over the life of the related refunding issues using the bonds outstanding method.

Operating and Nonoperating Revenues and Expenses—Operating revenues include the sales of power and other operating revenues such as sulfur dioxide emissions credits conversions, sales of water and rents from electric property, consisting primarily of revenues from transmission and ancillary services. Operating expenses include costs to operate and maintain the Authority's generation and transmission assets including fuel, purchased power, depreciation and related administrative and general expenses. Nonoperating revenues include interest income, amortization of forward purchase agreements, net increase in the fair value of investments, and income from nonutility operations. Nonoperating expenses include interest expense, amortization of costs to be recovered from future revenues and amortization of bond related expenses.

Purchased Power—Purchased power includes the cost of electricity purchased for resale and settlements for exchange of electricity.

Income Taxes—The Authority is a governmental agency organized under the laws of the State of Oklahoma and is not subject to federal or state income taxes.

Recently Issued Accounting Standards—The following accounting standards have been recently issued and will be adopted as applicable by the Authority in future years:

Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit concentrations of credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. This statement applies to all state and local governments. The provisions of this statement are effective for financial statements of the Authority for the fiscal year ending December 31, 2005.

Statement No. 42, *Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries*. This statement requires governments to report the effects of capital assets impairment in their financial statements when they occur rather than as a part of ongoing depreciation expense. The guidance also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner. This statement will become effective for the Authority in the fiscal year ending December 31, 2005.

Statement No. 44, *Economic Condition Reporting: The Statistical Section* – an amendment of NCGA Statement 1. This statement establishes and modifies requirements related to the supplementary information presented in a statistical section. This statement will become effective for the Authority in the fiscal year ending December 31, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards of accounting and financial reporting for postemployment health care and other benefits if provided separately from a pension plan. This statement will become effective for the Authority in the fiscal year ending December 31, 2007.

Management has not yet determined the impact of these statements on the Authority's financial statements.

Reclassifications—Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

2. DEPOSITS AND INVESTMENTS

The Authority's General Bond Resolution No. 4800, which provides for the issuance of revenue bonds, generally defines eligible investment securities as (1) bonds or other obligations which are direct obligations of the United States of America, (2) bonds or other specifically named obligations which are indirectly guaranteed by the United States of America, (3) direct and general obligations of any state which are rated in the two highest major categories of Moody's or Standard & Poor's ("S&P"), (4) certificates of deposit issued by a savings and loan association or a bank and trust company which are collateralized by the securities described in (1) and (2) or which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), (5) repurchase agreements with banks or government bond dealers which are secured by securities described in (1) and (2), (6) investment agreements with companies or banks whose senior debt obligations are rated no lower than the second highest category of Moody's or S&P, (7) shortterm obligations of any state or political subdivision which are rated in the highest short-term category by Moody's or S&P, and (8) any cash swap or similar arrangement of the Bond Fund Trustee, the investments of which are limited to securities described in (1) and (2).

The Authority carries its investments at fair value except for certain nonparticipating investment contracts, such as its Guaranteed Investment Agreements, which are carried at amortized cost. The Guaranteed Investment Agreements are not classified as to collateral risk because they are not evidenced by securities that exist in physical or book entry form. The Authority and trustees monitor collateral pledged to secure deposits in financial institutions for compliance with rules and regulations promulgated by the Oklahoma State Treasurer.

The Authority's deposits and investments are categorized as indicated below to indicate the level of risk assumed by the Authority as of December 31, 2004.

Deposit Categories of Credit Risk (see following schedules)

A Insured or collateralized with securities held by the Authority or by its agent in the Authority's name

B Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name

C Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name

Investment Categories of Credit Risk (see following schedules)

1 Insured or registered, or securities held by the Authority or its agent in the Authority's name

2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name

3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name

The Authority's deposits and investments categorized to give an indication of the level of risk assumed by the Authority at December 31, 2004, follows:

	2004				
Deposits	**A**	**B**	**C**	**Bank Balance**	**Carrying Amount**
Insured cash deposits (FDIC)	$ 200,000	$ -	$ -	$ 200,000	$ 200,000
Uninsured:					
Cash deposits	245,095	5,318,186		5,563,281	4,641,576
Non-negotiable certificates of deposit	1,676,807	9,195,000	-	10,871,807	10,871,807
Total deposits per GASB No. 3	$ 2,121,902	$ 14,513,186	$ -	$ 16,635,088	$ 15,713,383

	2004			
Investments	**1**	**2**	**3**	**Carrying Amount**
U.S. government securities	$ -	$ 120,231,380	$ -	$ 120,231,380
Investments not subject to categorization:				
Money market funds				37,572,435
Guaranteed investment contracts				75,593,214
Total investments per GASB No. 3				$ 233,397,029

Cash and cash equivalents and current and noncurrent investments at December 31, 2004 and December 31, 2003, follows:

	2004		
	Current	**Noncurrent**	**Total**
Cash and cash equivalents - general operating	**$ 29,040,711**	**$ -**	**$ 29,040,711**
Investments:			
General operating account	**27,879,620**	**-**	**27,879,620**
Restricted for bond service	**37,066,254**	**-**	**37,066,254**
Restricted for construction	**4,367,415**	**30,326,547**	**34,693,962**
Restricted for bond service reserve	**-**	**96,121,388**	**96,121,388**
Restricted for reserve and contingency	**-**	**24,030,347**	**24,030,347**
Restricted for other special purposes	**278,130**	**-**	**278,130**
Total investments	**69,591,419**	**150,478,282**	**220,069,701**
Total cash and investments	**$ 98,632,130**	**$ 150,478,282**	**$ 249,110,412**

	2003		
	Current	**Noncurrent**	**Total**
Cash and cash equivalents - general operating	$ 22,647,731	$ -	$ 22,647,731
Investments:			
General operating account	25,112,663	-	25,112,663
Restricted for bond service	35,705,638	-	35,705,638
Restricted for construction	9,455,834	32,558,696	42,014,530
Restricted for bond service reserve	-	96,121,388	96,121,388
Restricted for reserve and contingency	-	24,030,347	24,030,347
Restricted for other special purposes	260,000	-	260,000
Total investments	70,534,135	152,710,431	223,244,566
Total cash and investments	$ 93,181,866	$ 152,710,431	$ 245,892,297

Restricted cash deposits and restricted money market funds are included in investments on the Statement of Net Assets as these amounts are not available for the operations of the entity.

Cash and investments at December 31, 2004 include the following:

	2004							
	General Operations	**Board Designated**	**Bond Service**	**Construction**	**Bond Service Reserve**	**Reserve and Contingency**	**Other Special Purposes**	**Total**
Cash deposits, net	**$ 4,563,446**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 278,130**	**$ 4,841,576**
Money market funds	**24,477,265**	**-**	**5,313,346**	**7,760,436**	**21,388**	**-**	**-**	**37,572,435**
U.S. government securities	**12,702,813**	**13,500,000**	**31,752,908**	**10,545,312**	**27,700,000**	**24,030,347**	**-**	**120,231,380**
Non-negotiable certificates of deposit	**1,676,807**	**-**	**-**	**9,195,000**	**-**	**-**	**-**	**10,871,807**
Guaranteed investment agreements	**-**	**-**	**-**	**7,193,214**	**68,400,000**	**-**	**-**	**75,593,214**
Total cash and investments	**$ 43,420,331**	**$ 13,500,000**	**$ 37,066,254**	**$ 34,693,962**	**$ 96,121,388**	**$ 24,030,347**	**$ 278,130**	**$ 249,110,412**

Cash and investments at December 31, 2003 are as follows:

	2003							
	General Operations	**Board Designated**	**Bond Service**	**Construction**	**Bond Service Reserve**	**Reserve and Contingency**	**Other Special Purposes**	**Total**
Cash deposits, net	$ 2,973,095	$ -	$ -	$ -	$ -	$ -	$ 260,000	$ 3,233,095
Money market funds	19,674,636	-	210,966	7,600,640	21,388	-	-	27,507,630
U.S. government securities	23,780,405	-	35,494,672	10,704,687	27,700,000	24,030,347	-	121,710,111
Non-negotiable certificates of deposit	1,332,258	-	-	9,195,000	-	-	-	10,527,258
Guaranteed investment agreements	-	-	-	14,514,203	68,400,000	-	-	82,914,203
Total cash and investments	$ 47,760,394	$ -	$ 35,705,638	$ 42,014,530	$ 96,121,388	$ 24,030,347	$ 260,000	$ 245,892,297

The balances in the investment accounts include Guaranteed Investment Agreements ("GIA") entered into by the Authority to receive interest payments at a fixed rate for a designated time period based upon receipt of an agreed-upon investment amount deposited by the Authority. The restricted balances are the minimum amounts required to be maintained. Additional information concerning these GIAs and additional information relating to restrictions follows:

Bond Service—Through most of 2003, the balance in the bond service account included a GIA, with an interest rate of 7%. On April 19, 1994, the Authority sold its rights under this GIA to Lehman Brothers Special Financing, Inc. ("Lehman"). Under this debt service forward purchase agreement with Lehman, the Authority received an advance payment of $22,925,000 in an exchange that granted Lehman the right to receive interest income earned on the GIA until it matured on December 1, 2003 and the right to invest remaining sinking fund payments required by the applicable bond indenture through June 1, 2013. The Authority recorded the $22,925,000 advance payment received in 1994 as a deferred credit and is amortizing the amount to income over the life of the agreement. The Authority deposits sinking fund payments pursuant to the bond repayment schedules in effect at the time of the agreement to avoid various prepayment penalties.

Construction—The designated construction accounts include restricted money market funds and investments for two different purposes. (i) The 2002B construction accounts are for the acquisition, construction and equipment of Authority projects specified, primarily generation or metering and SCADA projects at the existing coal-fired complex and the three hydro facilities. The projects are intended to restore or improve design capabilities, operational reliability, reduce power costs, prevent loss of revenues or for safety or environmental purposes. Remittances during 2004 and 2003 were utilized primarily for upgrades at the Pensacola Dam facility. (ii) The Fort Gibson construction account includes $27.5 million, which has been legally restricted for capital projects at Fort Gibson Dam. In November 1989, the Authority and Corps of Engineers entered into a construction agreement for construction of additional generation units at Fort Gibson Dam. At that time, the Authority was required to put into an escrow account approximately $28 million for use in such construction. (These funds came from bond funds at that time.) No construction has occurred and in November 2004, the Authority advised the Army Corps of Engineers of its desire to terminate Authority's sponsorship of the project and to unrestrict the funds from this escrow account for other appropriate projects or purposes of the Authority. As of December 31, 2004, both parties were in the process of terminating the agreement, though formal termination had not yet occurred. The balance in the construction account includes a GIA providing for an interest rate of 3.92% with an expiration date of February 1, 2006. The agreement provides for remittances to GRDA for permitted purposes from the construction account through 2006. The Authority has classified as current investments the specified remittances for the upcoming year.

Bond Service Reserve—The balance in the bond service reserve account includes a GIA, which essentially pays an interest rate of 5.78% through June 1, 2010 on $68,400,000 debt service reserve requirements relating to the 1993 bonds.

Restricted for Other Special Purposes—The fish and wildlife mitigation fund was established in June 2003 as required by FERC. The Authority funded an initial deposit of $260,000 in 2003, and is required to make $100,000 annual contributions (adjusted for inflation) each year the Pensacola Dam license is in effect. Generally, the purpose of this fund is to support projects to protect and enhance fish and wildlife resources at the direction of various groups external to the Authority. An expenditure of approximately $86,000 was made from the fund in 2004.

In addition to these restricted funds are two special funds (designated by the Authority's Board of Directors in December 2004) which are unrestricted:

The Special Reserve and Contingency Fund I – This designated though unrestricted fund was established in December 2004 to reserve such moneys for future use, if needed, for extraordinary maintenance, operational, and environmental expense. Initial funding of $2.5 million from available unrestricted funds occurred.

The Special Reserve and Contingency Fund II – This designated though unrestricted fund was established in December 2004 to reserve such money for future use, if needed, related to unforeseen risk, including but not limited to unscheduled outages, unexpected purchased power expense, and other extraordinary expense not covered by insurance proceeds. Initial funding of $11.0 million from available funds occurred.

The maturity distribution of the Authority's investments in U.S. government securities at December 31, 2004 is as follows:

2004							
			Restricted for				
	General Operations	Board Designated	Bond Service	Construction	Bond Service Reserve	Reserve and Contingency	Total
Due within one year	$ 818,000	$ -	$ 31,752,908	$ 10,545,312	$ -	$ -	$ 43,116,220
Due after one year	11,884,813	13,500,000	-	-	27,700,000	24,030,347	77,115,160
Total	$ 12,702,813	$ 13,500,000	$ 31,752,908	$ 10,545,312	$ 27,700,000	$ 24,030,347	$ 120,231,380

2003							
			Restricted for				
	General Operations	Board Designated	Bond Service	Construction	Bond Service Reserve	Reserve and Contingency	Total
Due within one year	$ 317,250	$ -	$ 35,494,672	$ 10,704,687	$ -	$ -	$ 46,516,609
Due after one year	23,463,155	-	-	-	27,700,000	24,030,347	75,193,502
Total	$ 23,780,405	$ -	$ 35,494,672	$ 10,704,687	$ 27,700,000	$ 24,030,347	$ 121,710,111

Unrealized holding gains and losses on U.S. government securities included in the reserve and contingency account are included in the general operating account as the balance in the reserve and contingency account is established at a stated amount through an allocation of general operating account investment balances.

For purposes of computing gross realized gains and gross realized losses, cost is determined by specific identification. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on any investments that had been held for more than the current year may have been recognized as an increase or decrease in the fair value of investments reported in prior years.

Proceeds, gross realized gains and gross realized losses on sales of investment securities for the years ended December 31, 2004 and 2003 were as follows:

	2004	2003
Proceeds	$ 12,413,066	$ 15,186,333
Gross realized gains	$ 233,929	$ 854,431
Gross realized losses	$ (482,675)	$ (21,629)

Gross realized gains and losses are included in income from non utility operations in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

3. RECEIVABLES

Accounts receivable is comprised of the following amounts at December 31, 2004 and 2003:

	2004	2003
Customers (less allowance for doubtful accounts of $50,000)	$ 21,893,579	$ 18,858,448
Other	3,480,951	2,270,529
Total	$ 25,374,530	$ 21,128,977

In general, other accounts receivable include KAMO Power's participation as a co-owner of GRDA Unit No. 2, reimbursable work for other entities, the current portion of receivables for aid of construction, and dock billings.

At December 31, 2004 and 2003, the Authority had other noncurrent receivables for aid of construction of $3,520,452 and $2,409,077, respectively, which are scheduled for collection through 2014.

4. UTILITY PLANT

A summary of changes in utility plant follows:

	Year Ended December 31, 2004			
	Balance December 31, 2003	Additions	Retirements	Balance December 31, 2004
Capital assets, non-depreciable:				
Land	$ 26,503,260	$ 53,577	$ (54)	$ 26,556,783
Construction work in progress	7,812,862	-	(2,386,724)	5,426,138
Total capital assets, non-depreciable	34,316,122	53,577	(2,386,778)	31,982,921
Capital assets, depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 (see Note 7))	310,938,307	4,906,579	(3,407,197)	312,437,689
Coal-fired plant Unit No. 2 (see Note 7)	316,560,314	28,753	(14,102)	316,574,965
Hydraulic production plants	79,650,040	2,425,223	(13,952)	82,061,311
Transmission system	168,168,314	802,097	(2,816,685)	166,153,726
Other properties and production plant	43,651,791	2,313,241	(324,287)	45,640,745
	918,968,766	10,475,893	(6,576,223)	922,868,436
Less accumulated depreciation	(515,869,356)	(25,575,452)	6,567,172	(534,877,636)
Total capital assets, depreciable	403,099,410	(15,099,559)	(9,051)	387,990,800
Net utility plant	$ 437,415,532	$ (15,045,982)	$ (2,395,829)	$ 419,973,721

	Year Ended December 31, 2003			
	Balance December 31, 2002	Additions	Retirements	Balance December 31, 2003
Capital assets, non-depreciable:				
Land	$ 26,053,256	$ 450,004	$ -	$ 26,503,260
Construction work in progress	20,834,333	-	(13,021,471)	7,812,862
Total capital assets, non-depreciable	46,887,589	450,004	(13,021,471)	34,316,122
Capital assets, depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 see Note 7)	311,117,193	78,097	(256,983)	310,938,307
Coal-fired plant Unit No. 2 (see Note 7)	316,759,552	762	(200,000)	316,560,314
Hydraulic production plants	77,008,227	2,653,449	(11,636)	79,650,040
Transmission system	154,964,122	14,355,832	(1,151,640)	168,168,314
Other properties and production plant	42,314,713	1,619,436	(282,358)	43,651,791
	902,163,807	18,707,576	(1,902,617)	918,968,766
Less accumulated depreciation	(492,332,743)	(25,248,587)	1,711,974	(515,869,356)
Total capital assets, depreciable	409,831,064	(6,541,011)	(190,643)	403,099,410
Net utility plant	$ 456,718,653	$ (6,091,007)	$ (13,212,114)	$ 437,415,532

The change in construction work in progress during 2004 and 2003 is presented on a net basis to avoid a duplication of additions and retirements in the above tables.

5. COST TO BE RECOVERED FROM FUTURE REVENUES

A rollforward of costs to be recovered from future revenues follows:

	2004	2003
Beginning balance	$ 45,604,847	$ 68,021,593
Amortization of costs to be recovered during year	(25,650,658)	(22,416,746)
Deferred 2002B bond issue costs	1,110,693	-
Total amortized and deferred costs during year	(24,539,965)	(22,416,746)
Ending balance	$ 21,064,882	$ 45,604,847

6. BONDS PAYABLE

A summary of changes in bonds payable follows:

	Year Ended December 31, 2004		
	December 31, 2003	Retirements	December 31, 2004
Revenue Bonds, Refunding Series 1993—			
5-1/2% to 5-7/8%	**$ 458,220,000**	**$ (55,565,000)**	**$ 402,655,000**
Revenue Bonds, Refunding Series 1995:			
6.25% maturing in 2011	**81,690,000**	**-**	**81,690,000**
5.5% maturing in 2013	**91,715,000**	**-**	**91,715,000**
Total	**173,405,000**	**-**	**173,405,000**
Revenue Bonds, 2002 A & B Series:			
5% Refunding Series 2002A—maturing in 2012	**86,160,000**	**-**	**86,160,000**
5.1% Capital Appreciation Bonds—maturing in 2014	**18,636,340**	**-**	**18,636,340**
Total	**104,796,340**	**-**	**104,796,340**
Total bonds payable	**736,421,340**	**$ (55,565,000)**	**680,856,340**
Less current portion	**(55,565,000)**		**(58,215,000)**
Long-term portion	**680,856,340**		**622,641,340**
Add (deduct):			
Unamortized debt premium	**6,621,873**		**5,837,121**
Unamortized debt discount	**(9,169,698)**		**(7,623,638)**
Unamortized loss on advance refunding	**(34,982,404)**		**(27,938,076)**
Long-term bonds payable	**$ 643,326,111**		**$ 592,916,747**

	Year Ended December 31, 2003		
	December 31, 2002	Retirements	December 31, 2003
Revenue Bonds, Refunding Series 1993—			
4% to 5-7/8%	$ 511,370,000	$ (53,150,000)	$ 458,220,000
Revenue Bonds, Refunding Series 1995:			
6.25% maturing in 2011	81,690,000	-	81,690,000
5.5% maturing in 2013	91,715,000	-	91,715,000
Total	173,405,000	-	173,405,000
Revenue Bonds, 2002 A & B Series:			
5% Refunding Series 2002A—maturing in 2012	86,160,000	-	86,160,000
5.1% Capital Appreciation Bonds—maturing in 2014	18,636,340	-	18,636,340
Total	104,796,340	-	104,796,340
Total bonds payable	789,571,340	$ (53,150,000)	736,421,340
Less current portion	(53,150,000)		(55,565,000)
Long-term portion	736,421,340		680,856,340
Add (deduct):			
Unamortized debt premium	7,406,624		6,621,873
Unamortized debt discount	(10,826,013)		(9,169,698)
Unamortized loss on advance refunding	(42,719,156)		(34,982,404)
Long-term bonds payable	$ 690,282,795		$ 643,326,111

Oklahoma state statutes have authorized the Authority to issue revenue bonds from time to time not to exceed $1,410,000,000.

On May 30, 2002, the Authority issued $104,966,340 Revenue Bonds for the acquisition, construction and equipment of Authority Projects and to refund the remaining outstanding 1987 revenue bonds. The Authority issued $86,330,000 Revenue Bonds, Refunding Series 2002A (the "2002A Bonds") to refund $86,160,000 of the 1987 Bonds. The 2002A refunding bonds were issued at a $4.5 million premium. The Authority recorded an initial accounting loss of approximately $371,000 in connection with this advance refunding, which was recorded as a deferred asset and is being amortized to expense over the life of the new bonds. The difference between the present values of the old and new debt service payments is $2.0 million. The Authority realized all of the aggregate bond savings during the year by decreasing the June 1, 2002 debt service payment. Additionally, the Authority also issued $18,636,340 Capital Appreciation Bonds, Revenue Bonds 2002B (the "2002B Bonds") for the acquisition, construction and equipment of Authority projects. As previously noted under Costs to be Recovered from Future Revenue, the Authority will defer interest on the 2002B capital appreciation bonds until the bonds mature on June 1, 2014, at which time the interest will be expensed.

In 1995, the Authority issued $173,405,000 Revenue Bonds, Refunding Series 1995 (the "1995 Bonds") to advance refund $171,755,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $17.0 million in connection with this advance refunding, which was recorded as a deferred asset and is being amortized to expense over the life of the new bonds. The difference between the present values of the old and new debt service payments is $3.8 million. The Authority will realize $5.7 million in decreased aggregate debt service payments.

In 1993, the Authority issued $764,585,000 Revenue Bonds, Refunding Series 1993 (the "1993 Bonds") to advance refund $681,190,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $113.7 million in connection with this advance refunding, which was recorded as a deferred asset and is being amortized to expense over the life of the new bonds. The difference between the present values of the old and new debt service payments is $18.2 million, including $6.1 million from an investment contract premium on the bond reserve funds, and the Authority will realize $20.1 million in decreased aggregate debt service payments.

Monies from the 2002A, 1995 and 1993 refunding bonds were placed in escrow for the payment of principal and interest on all the defeased bonds and were invested in obligations of the United States, which were deposited in irrevocable trusts with recourse against the trustee if funds are not available to pay principal, interest and any redemption premium on a timely basis. Since the revenue bonds that are defeased are no longer direct liabilities of the Authority, they are not reflected on the accompanying Statements of Net Assets.

Defeased bonds of $58,300,000 and $62,235,000 were outstanding at December 31, 2004 and 2003, respectively. At December 31, 2004, the defeased term bonds were a portion of the 1985 Refunding Series, the 1983B and 1982 Series, the 1977 Refunding Series, and the 1976 and 1969 Series.

The scheduled maturities of bonds payable at December 31, 2004 are as follows and reflect the scheduled payments to be remitted by the trustee to the bondholders:

Year Ending December 31,	Annual Principal	Semiannual Interest	Calendar Year Total
2005	$ 58,215,000	$ 18,645,025	
		16,985,897	$ 93,845,922
2006	61,510,000	16,985,897	
		15,217,485	93,713,382
2007	65,045,000	15,217,485	
		13,306,788	93,569,273
2008	68,780,000	13,306,788	
		11,329,363	93,416,151
2009	72,590,000	11,329,363	
		9,333,138	93,252,501
2010—2014	354,716,340	53,626,562	408,342,902
	$ 680,856,340	$ 195,283,791	$ 876,140,131

The Authority makes equal monthly sinking fund installments to the trustee from June through May of each year to meet the June 1 annual principal payment and June 1 and December 1 semiannual interest payments.

The following is a schedule of the minimum debt service sinking fund requirements for each year ending December 31:

2005	$ 95,491,484
2006	95,480,729
2007	95,429,573
2008	95,309,079
2009	95,223,963
2010—2014	362,139,045
	$ 839,073,873

To secure the bonds, the Authority has pledged revenues of the Authority. General Bond Resolution No. 4800 and supplemental bond resolutions specify multiple covenants made by the Authority to the Bond Fund Trustee and bondholders. Among the more significant requirements, the Authority has covenanted to charge adequate rates, operate and maintain the facilities and make any necessary repairs, renewals, replacements and improvements. System properties are not to be encumbered or sold or disposed of and additional parity bonds are not to be issued unless certain conditions are met. As of December 31, 2004, the Authority is in compliance with bond covenants.

In general, federal tax laws require the Authority to rebate to the U.S. Treasury any profit from investments that yield a higher rate than the tax exempt revenue bond proceeds. The Authority has accrued a liability for arbitrage rebate of approximately $505,000 and $610,000 at December 31, 2004 and 2003, respectively, which is included in accounts payable in the accompanying Statements of Net Assets. Increases in this obligation are recorded against interest income.

7. RETIREMENT PLANS, POSTRETIREMENT, AND OTHER EMPLOYEE BENEFITS

The Authority participated in five retirement plans during 2004 and 2003. The plans currently available to Authority personnel include two defined benefit plans and two defined contribution plans. A supplemental deferred compensation plan was terminated during 2003. A summary of significant data for each of the retirement plans and discussion of postemployment and other employee benefits follows:

Oklahoma Public Employees Retirement Plan

Plan Description—The Authority contributes to the Oklahoma Public Employees Retirement Plan (the "OPERS Plan"), a cost-sharing multiple-employer public employee defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System ("OPERS"), a component unit of the State of Oklahoma (the "State"). The OPERS Plan, a defined benefit plan, provides retirement, disability and death benefits to its members and beneficiaries, primarily state, county and local agency employees. The benefits provided are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of the OPERS Plan to the Board of Trustees of the OPERS.

OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to OPERS, PO Box 53007, Oklahoma City, OK 73152-3007, or by calling 1-800-733-9008.

Funding Policy—OPERS members and the Authority are required to contribute to the OPERS Plan at a rate set by statute. Contribution rates are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). As state employees, GRDA employees contribute 3.0% on the first $25,000 of base salary and 3.5% on base salary above $25,000. The Authority contributes 10% of total base salary.

Effective January 1, 2004, members participating in OPERS can make an irrevocable election to increase their retirement factor by 25%, from 2.0 to 2.5 for each year of participating service earned after the effective date by contributing an additional 2.91% of the first $25,000 of base salary and 3.41% on base salary above $25,000. This is referred to as the "step-up" program. The election can be made at enrollment or at any time while an active participating member, but once an irrevocable, "step-up" election is made it is binding on all future OPERS participation even if the member changes jobs or has a break in service. The Authority makes no additional contributions if an election to "step-up" is made, and the agency rate remains at 10%.

The Authority made the required contributions of approximately $2,300,000, $2,242,000 and $2,202,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Oklahoma Law Enforcement Retirement Plan

Plan Description—Legislation passed during 2003 mandates that any lake patrolmen and dispatchers hired after August 29, 2003, shall participate as members of the Oklahoma Law Enforcement Retirement Plan (the "OLERS Plan"), a single-employer public employee defined benefit retirement plan administered by the Oklahoma Law Enforcement Retirement System ("OLERS"), a component unit of the State. The OLERS Plan provides retirement, disability and death benefits to its members and beneficiaries, primarily state employees providing law enforcement. The benefits provided are established and may be amended by the legislature of the State. Three GRDA patrolmen elected to transfer from the OPERS Plan to the OLERS plan under Title 47 Section 2315 which provided that Authority lake patrolmen and dispatchers as of June 30, 2003 could make an irrevocable written election by January 1, 2004 to either pay the difference between the amount transferred between the plans or receive eligible prorated service credit as defined in statute. Title 47 of the Oklahoma Statutes, Sections 2300 through 2303, as amended, assigns the authority for management and operation of the OLERS Plan to the OLERS Board.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OLERS. That annual report may be obtained by writing to OLERS, 4545 N. Lincoln Blvd, Suite 257, Oklahoma City, OK 731053414 or by calling 18772130856.

Funding Policy—System members and the Authority are required to contribute to the OLERS Plan at a rate set by statute. These are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). GRDA patrolmen and dispatchers participating in the OLERS Plan contribute 8.0%, and the Authority contributes 10% of total base salary.

Participation in the OLERS plan was effective January 1, 2004. The required contribution by the Authority totaled $11,987 for the year ended December 31, 2004.

Oklahoma State Employees Deferred Compensation Plan

Plan Description—Employees of the Authority may also participate in the Oklahoma State Employees Deferred Compensation Plan (the "State Plan"), a voluntary deferred compensation plan administered by OPERS. The State Plan is a defined contribution plan available to all Authority employees, which permits participants to defer receipt of a portion of their salary until future years under Section 457 of the Internal Revenue Code. The minimum amount allowable to be deferred under the State Plan is $25 per month. Under state law, each employee is eligible to receive monthly a $25 matching contribution from GRDA to be deposited in a 401(a) retirement account. Employee contributions to the Plan totaled approximately $335,000, $307,000 and $296,000 for the years ended December 31, 2004, 2003 and 2002, respectively. The Authority paid matching contributions and administrative fees of approximately $126,000, $123,000 and $122,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

GRDA Employees Retirement Plan

Plan Description—Employees of the Authority are also eligible to participate in the GRDA Employees Retirement Plan (the "GRDA Plan"), a voluntary deferred compensation plan administered by Nationwide Retirement Solutions and provided for under Section 457 of the Internal Revenue Code. The GRDA Plan is a defined contribution plan available to all Authority employees, which permits participants to defer receipt of a portion of their salary until future years. The Authority does not make any matching contributions to this plan. Employee contributions to the GRDA Plan totaled approximately $551,000, $565,000 and $599,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Contributions to either or both the State Plan and GRDA Plan in aggregate may not exceed 25% of adjusted gross salary or $13,000 for the year 2004, whichever is less, except under a "catchup" provision that allows certain eligible employees to contribute up to a certain amount annually, which was $26,000 for the year 2004, during the three years preceding normal retirement age. An additional provision allows for employees over the age of 50 to defer an additional $2,000 during the plan year. Employees are not allowed to participate in both the "over 50" provision and the "catchup" provision during the same plan year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Supplemental Deferred Compensation Plan

Prior to 2004, certain members of management of the Authority also participated in a 457(f) supplemental deferred compensation retirement plan (the "Supplemental Plan") owned by the Authority until the plan was dissolved and settlements reached with the participants effective August 1, 2003. At that time, the Authority paid to the participants approximately seventy-five percent of the cash value of assets held for each participant as of June 6, 2002, together with approximately seventy-five percent of any investment income accrued to August 1, 2003. The total value of plan assets was $946,317. GRDA distributed $708,338 to plan participants, and the remaining balance of $237,979 was credited to administrative and general expense in the accompanying statement of revenue, expenses and changes in net assets in the year ended December 31, 2003.

Contributions to the Supplemental Plan totaled $0 and $0 for 2004 and 2003 and disbursements, other than the settlement referred to above, totaled $0 and $0 for 2004 and 2003, respectively. The cumulative assets and related liabilities under the Supplemental Plan of $918,296 at December 31, 2002 were included in General Operating account investments in marketable securities and accounts payable and accrued liabilities in the accompanying financial statements.

Postemployment Benefits

Beginning in 2003, revisions to Title 82 of the Oklahoma Statutes, Section 864.1 authorized the Authority to pay up to $60 per month of eligible employee only health insurance premiums for each GRDA retiree. Expenses for postretirement health care benefits are recognized as premiums are due. At December 31, 2004, there were 130 retirees eligible for such benefits. Under this new program, the Authority paid $92,285 for retiree's health insurance premiums in 2004.

Other Employee Benefits

The Authority has accrued a liability for annual and compensated leave and related payroll taxes earned of approximately $3,058,000 and $2,691,000 at December 31, 2004 and 2003, respectively, which is included in accounts payable and accrued liabilities in the accompanying financial statements.

8. EMISSIONS ALLOWANCES

During 2004, GRDA sold emissions allowances with a net income to GRDA of approximately $5.7 million. These sales were reported as Other Operating Revenue. There are no assurances that the Authority will have any future emissions allowance sales, or what revenue, if any will be generated from such sales.

At December 31, 2004, the Authority held 7,813 emissions allowances (with a fair market value at that time of approximately $5.5 million.) The value of these reserve allowances is not included in the Authority's financial statements.

9. OTHER RELATED PARTY TRANSACTIONS

The primary organizations considered related parties are those municipal, industrial, electric cooperative and other governmental organizations or lake area organizations that have representatives serving on the Authority's Board of Directors. The primary transactions in the ordinary course of business with these related parties, except for various transactions with KAMO which are described elsewhere in the notes to financial statements, include sales of electrical power and transmission and memberships in related trade associations, or organizations or tourism and economic development activities associated with the management of the lakes, including commercial and private dock permit fees.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Authority makes and receives commitments for purchases of coal and other materials and supplies inventory. In addition, in the normal course of business the Authority enters into agreements, which commit the Authority to provide varying amounts of electric power to its customers. Management of the Authority does not believe the honoring of these commitments will have any material adverse effect on the Authority.

At December 31, 2004, the Authority was a defendant in approximately 100 cases related to alleged flooding of property upstream from Grand Lake in the early 1990s. Plaintiffs in general seek damages in excess of $22,000,000 as a result of flooding which was allegedly caused by the operation of the Authority's Pensacola Dam or for which the operation of the Pensacola Dam contributed to the extent or duration of the flooding.

The issues of liability to individual defendants and damages have been tried in two of these cases. The first case resulted in a judgment for the plaintiffs in the amount of $58,377 for real and personal property damage and $4,900 for inverse condemnation, and the second case resulted in judgments for the plaintiffs in the amount of $75,000. GRDA appealed both judgments, which were affirmed on appeal. GRDA's application to the Oklahoma Supreme Court was denied in December 2004 and the judgments in both cases are now final.

Prior to March 2005, it was expected that GRDA's primary liability insurer would cover all damages incurred by GRDA from these flooding cases. However, in March, 2005 the insurance company filed action seeking to limit its obligations under the insurance policies they issued to GRDA. This action was filed by the insurance company in response to GRDA's demand for coverage and indemnity with regard to cases discussed in the preceding paragraph. Currently, no summons has been served in this action to formally initiate litigation. The insurance company has tendered into court approximately sixty percent (60%) of the total amounts due on the cases noted above with GRDA paying remaining damages.

The Authority is presently evaluating its course of action against the insurance company for its failure to satisfy the total amounts of the damages on the cases noted above.

Regarding each of the remaining 98 plaintiff's cases for alleged flooding damages, the amount of any damages to be awarded will be determined individually subsequent to trial of each claim.

Based upon facts and information presently available, management of the Authority believes that it is reasonably possible, but not probable, that GRDA will incur a material future financial loss in the settlement or other resolution of these flood related cases. As a result, no liability has been recorded relating to this contingency.

In 1997, the Oklahoma legislature enacted the Oklahoma Electric Restructuring Act, which set forth principles for restructuring the electric industry in the state of Oklahoma. However, in 2001, the Oklahoma legislature delayed implementation of restructuring until additional studies can be conducted. No significant utility restructuring legislation has been enacted since 2001, and it is the Authority's understanding that no restructuring legislation is currently planned. However, the Authority cannot predict what, if any, impact future restructuring or energy-related legislation might have on the Authority.

Management of the Authority has initiated a legal review of the Authority's compliance with applicable federal and state laws, regulations and contracts to determine if the Authority has complied with such laws, regulations and contracts. The results of this legal review were not complete as of the issuance of this report, however, management does not believe noncompliance, if any, with such laws, regulations and contracts will have a material effect on the Authority's financial statements or other material adverse effects on the Authority.

The Authority is also engaged in various other litigation matters incidental to the conduct of its business, the ultimate outcome of which cannot be predicted by management of the Authority and the Authority's legal counsel.

11. RISK MANAGEMENT

The Authority is exposed to a variety of losses and has purchased commercial insurance to cover these risks, subject to various coverage limits and exclusions. GRDA's General Bond Resolution No. 4800 requires that, in each case where it is obtainable and at a reasonable rate and terms, facilities be insured, liability insurance be maintained, and officers and employees be bonded.

In general, property coverage, such as aircraft, auto, equipment, watercraft, boiler and machinery, flooding, earthquake, hazardous material cleanup, expediting, etc. is purchased through the State of Oklahoma. Workers' compensation insurance is also purchased from Comp Source Oklahoma, the state's insurance fund. The Authority has also insured for director and officer liability through the State of Oklahoma. Additional coverage is purchased from private carriers for general, excess public, and umbrella liability, bonding, and contractors' equipment. GRDA added endorsements for certified "acts of terrorism" as defined in the Federal Terrorism Risk Insurance Act of 2002 to the general liability and excess public liability policies. Settled claims resulting from the identified risks have not exceeded commercial insurance coverage in any of the past three years.

The Authority enters into contracts to buy, sell and exchange electric power with other energy companies. At December 31, 2004 and 2003, the Authority's liability related to these contracts approximated $2,566,000 and $1,717,000, respectively, and is included in accounts payable and accrued expenses in the accompanying Statements of Net Assets. One of these contracts is a derivative instrument, which is accounted for as a normal purchase in accordance with SFAS No. 133.

In addition, the Authority is subject to generation supply and market price risks, which are continually evaluated as to level of risk and how to best mitigate exposure to loss. Concentration of revenues from a single external customer also increases credit and market concentration risks. In 2004, GRDA had one municipal customer that accounted for slightly more than 10% of the Authority's operating revenues for the year. Sales to the City of Coffeyville totaled $22.7 million and $21.1 million for the years 2004 and 2003, respectively.

12. FAIR VALUE INFORMATION

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments.* The estimated fair value amounts have been determined by the Authority, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable and Accrued Liabilities—The carrying amounts of these items are a reasonable estimate of their fair value.

Investments—Investments are carried at fair value in the accompanying Statements of Net Assets based on quoted market prices for the investments, except for guaranteed investment agreements which are carried at cost as it is not practicable to estimate the fair value of these instruments since they are contracts between specific parties and similar instruments are not traded.

Long-Term Debt—The fair value of long-term debt is approximately $896 million and $983 million at December 31, 2004 and 2003, respectively, based on interest rates that are currently available to the Authority for issuance of debt with similar terms and remaining maturities. All bonds currently held by the Authority are not redeemable prior to their stated maturities.

Emissions Allowances—See note 8.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2004 and 2003. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

STATISTICAL SECTION

GRAND RIVER DAM AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT 2004

LARGEST 20 CUSTOMERS BY NET REVENUES - 2004

Customer Name	Customer Classification	Net Revenue Percentage
City of Coffeyville, Kansas	Municipal	11 %
Northeast Oklahoma Electric Cooperative	Cooperative	8 %
Stillwater Utilities Authority	Municipal	8 %
Paragould, Arkansas, Light and Water Commission	Off-System Firm	6 %
Board of Public Utilities, Springfield, Missouri	Off-System Firm	6 %
Claremore Public Works Authority	Municipal	5 %
City of Siloam Springs, Arkansas	Municipal	4 %
Rolla, Missouri, Municipal Utilities	Off-System Firm	4 %
Poplar Bluff, Missouri, City Light and Water	Off-System Firm	4 %
Kansas Municipal Energy Agency	Off-System Firm	4 %
City of Miami	Municipal	3 %
Tahlequah Public Works Authority	Municipal	3 %
Oklahoma Municipal Power Authority	Other Contractual Agreement	2 %
Western Farmers Electric Cooperative	Off-System Spot	2 %
Sallisaw Municipal Authority	Municipal	2 %
Solae, LLC	Industrial	2 %
Wagoner Public Works Authority	Municipal	2 %
City of Pryor Creek Municipal Utility Board	Municipal	2 %
Empire District Electric Company	Off-System Spot	2 %
Air Products of Oklahoma, Inc.	Industrial	2 %
Net Revenues as a Percentage of Sales of Power		82 %

LARGEST 20 CUSTOMERS BY NET REVENUES
10 YEARS AGO (1994)

Customer Name	Customer Classification	Net Revenue Percentage
KAMO Power	Cooperative	31%
Northeast Oklahoma Electric Cooperative	Cooperative	8%
Stillwater Utilities Authority	Municipal	7%
Board of Public Utilities, Springfield, Missouri	Off-System Firm	6%
Claremore Public Works Authority	Municipal	4%
City of Siloam Springs, Arkansas	Municipal	4%
Oklahoma Municipal Power Authority	Other Contractual Agreement	3%
City of Miami	Municipal	3%
Paragould, Arkansas, Light and Water Commission	Off-System Firm	3%
Tahlequah Public Works Authority	Municipal	3%
Grede Foundries, plant currently owned by American Castings, LLC	Industrial	2%
Poplar Bluff, Missouri, City Light and Water	Off-System Firm	2%
Sallisaw Municipal Authority	Municipal	2%
WilGro Fertilizer, plant currently owned by Pryor Plant Chemical Co.	Industrial	2%
Wagoner Public Works Authority	Municipal	2%
Air Products of Oklahoma, Inc.	Industrial	2%
City of Pryor Creek Municipal Utility Board	Municipal	2%
Protein Technologies, Inc., currently Solae, LLC	Industrial	1%
McDonnell Douglas Corporation	Industrial	1%
City of Cushing	Municipal	1%
Net Revenues as a Percentage of Sales of Power		89%

FINANCIAL HIGHLIGHTS

	2004	2003	2002	2001	2000
Net Assets					
Assets:					
Current Assets	**$ 154,144,877**	$ 142,764,595	$ 134,796,867	$ 141,849,200	$ 136,396,962
Net Utility Plant	**419,973,721**	437,415,532	456,718,653	469,665,964	474,517,150
Noncurrent Assets	**179,505,082**	205,958,885	234,802,449	239,091,007	262,918,330
Total Assets	**753,623,680**	786,139,012	826,317,969	850,606,171	873,832,442
Liabilities:					
Current Liabilities	**77,221,653**	76,074,491	73,171,800	73,984,306	63,133,777
Noncurrent Liabilities	**608,348,181**	658,279,467	705,801,659	728,133,701	768,107,465
Total Liabilities	**685,569,834**	734,353,958	778,973,459	802,118,007	831,241,242
Total Net Assets	**$ 68,053,846**	$ 51,785,054	$ 47,344,510	$ 48,488,164	$ 42,591,200

	2004	2003	2002	2001	2000
Change in Net Assets					
Operating Revenues:					
Sales of power	**$ 211,421,154**	$ 196,011,036	$ 179,108,803	$ 182,387,439	$ 194,006,521
Other operating revenues	**15,581,629**	8,210,373	8,439,237	7,364,152	6,121,587
Total Operating Revenues	**227,002,783**	204,221,409	187,548,040	189,751,591	200,128,108
Operating Expenses:					
Fuel	**(56,396,019)**	(60,691,493)	(54,969,577)	(53,900,186)	(53,535,921)
Depreciation	**(25,575,452)**	(25,248,587)	(25,830,207)	(24,189,979)	(26,927,654)
Maintenance	**(21,254,173)**	(15,095,451)	(17,131,920)	(16,990,522)	(18,499,671)
Operation	**(15,249,434)**	(13,783,260)	(13,487,497)	(13,686,337)	(14,114,473)
Administrative and general	**(13,853,224)**	(12,506,648)	(12,240,789)	(10,606,699)	(10,529,271)
Purchased power - net	**(14,646,299)**	(7,773,383)	(7,114,511)	(5,834,193)	(18,045,724)
Total Operating Expenses	**(146,974,601)**	(135,098,822)	(130,774,501)	(125,207,916)	(141,652,714)
Operating Income	**80,028,182**	69,122,587	56,773,539	64,543,675	58,475,394
Other Non-Operating Revenues	**8,638,542**	8,902,326	15,472,034	14,109,280	15,917,755
Interest and Bond-Related Amortizations	**(47,857,967)**	(51,167,623)	(54,711,526)	(57,939,496)	(61,019,385)
Increase (Decrease) in Costs to Be Recovered	**(24,539,965)**	(22,416,746)	(18,677,701)	(14,816,495)	(11,118,837)
Net Increase (Decrease) in Net Assets	**$ 16,268,792**	$ 4,440,544	$ (1,143,654)	$ 5,896,964	$ 2,254,927

1999	1998	1997	1996	1995
$ 148,575,128	$ 107,042,859	$ 110,187,895	$ 109,210,812	$ 108,951,137
490,328,312	508,494,347	524,870,103	544,379,023	565,781,970
274,785,201	322,931,645	327,242,963	335,274,980	336,977,636
913,688,641	938,468,851	962,300,961	988,864,815	1,011,710,743
69,206,078	59,309,746	58,431,929	56,627,655	50,100,022
804,146,290	838,783,558	870,650,057	904,275,325	930,364,297
873,352,368	898,093,304	929,081,986	960,902,980	980,464,319
$ 40,336,273	$ 40,375,547	$ 33,218,975	$ 27,961,835	$ 31,246,424

1999	1998	1997	1996	1995
$ 175,168,149	$ 199,087,669	$ 176,725,044	$ 172,345,306	$ 164,454,870
2,385,173	1,528,124	831,277	874,812	866,002
177,553,322	200,615,793	177,556,321	173,220,118	165,320,872
(49,979,431)	(45,341,514)	(48,452,545)	(46,109,236)	(46,992,350)
(26,762,702)	(26,654,818)	(26,019,299)	(25,480,095)	(26,085,232)
(12,867,576)	(16,470,337)	(11,302,270)	(12,489,850)	(11,570,186)
(13,358,537)	(11,736,706)	(9,636,420)	(9,688,543)	(8,850,575)
(11,423,200)	(10,780,144)	(10,796,448)	(10,882,706)	(10,115,050)
(2,485,880)	(25,466,963)	(8,858,512)	(13,883,522)	(6,087,323)
(116,877,326)	(136,450,482)	(115,065,494)	(118,533,952)	(109,700,716)
60,675,996	64,165,311	62,490,827	54,686,166	55,620,156
11,351,102	15,262,947	15,639,923	15,620,509	15,945,057
(63,968,138)	(66,739,364)	(69,471,484)	(72,123,800)	(74,313,267)
(8,098,234)	(5,532,322)	(3,402,126)	(215,336)	3,470,543
$ (39,274)	$ 7,156,572	$ 5,257,140	$ (2,032,461)	$ 722,489

CASH AND INVESTMENT BALANCES

	2004	2003	2002	2001	2000
General Operating	**$ 43,420,331**	$ 47,760,394	$ 45,882,188	$ 61,811,533	$ 48,692,897
Board Designated	**13,500,000**	-	-	-	-
Restricted for:					
Bond Service	**37,066,254**	35,705,638	34,540,492	33,051,850	31,639,183
Construction	**34,693,962**	42,014,530	44,868,281	27,500,000	27,500,000
Bond Service Reserve	**96,121,388**	96,121,388	96,121,388	96,121,388	96,121,388
Reserve and Contingency	**24,030,347**	24,030,347	24,030,347	24,030,347	24,030,347
Other Special Purposes	**278,130**	260,000	-	-	-
Total Cash and Investments	**$ 249,110,412**	$ 245,892,297	$ 245,442,696	$ 242,515,118	$ 227,983,815

DEBT SERVICE COVERAGE

	2004	2003	2002	2001	2000
Operating Revenues	**$ 227,002,783**	$ 204,221,409	$ 187,548,040	$ 189,751,591	$ 200,128,108
Power Cost Credit	**9,507,983**	6,800,291	14,761,977	-	15,153,764
Over/Under Recovered Fuel Cost	**(1,759,366)**	3,026,638	(6,098,153)	12,467,820	(13,469,162)
Revenues Available for Debt Service	**234,751,400**	214,048,338	196,211,864	202,219,411	201,812,710
Operating Expenses, excluding depreciation	**(121,399,149)**	(109,850,235)	(104,944,294)	(101,017,937)	(114,725,060)
Other Income, excluding noncash amortizations, market adjustments, and other excluded interest	**8,665,074**	9,888,845	10,159,145	11,923,741	11,952,780
Other Available Funds	**-**	-	2,154,000	-	-
Net Revenue Available for Debt Service	**$ 122,017,325**	$ 114,086,948	$ 103,580,715	$ 113,125,215	$ 99,040,430
Debt Service Requirements	**$ 95,326,966**	$ 95,289,541	$ 95,888,048	$ 95,738,872	$ 95,553,131
Debt Service Coverage, Base Revenues	**1.28**	1.20	1.08	1.18	1.04
Debt Service Coverage, Net of PCA	**1.18**	1.13	.93	1.18	.88
Net Revenues after Debt Service	**26,690,359**	18,797,407	7,692,667	17,386,343	3,487,300
Refund of Power Cost Adjustment	**(9,507,983)**	(6,800,291)	(14,761,977)	-	(15,153,764)
Capital Lease Payments	**-**	-	-	-	-
Net Revenues Available for Capital Improvements and Other Purposes	**$ 17,182,376**	$ 11,997,116	$ (7,069,310)	$ 17,386,343	$ (11,666,464)

1999	1998	1997	1996	1995
$ 70,609,917	$ 67,250,446	$ 67,923,202	$ 68,105,501	$ 78,714,124
-	-	-	-	-
30,525,098	29,870,307	28,756,241	27,350,626	25,237,662
27,500,000	27,500,000	27,500,000	27,500,000	27,500,000
96,121,388	96,121,388	96,121,388	96,121,388	96,121,388
24,030,347	24,030,347	24,030,347	24,030,347	24,030,347
-	-	-	-	-
$ 248,786,750	$ 244,772,488	$ 244,331,178	$ 243,107,862	$ 251,603,521

1999	1998	1997	1996	1995
$ 177,553,322	$ 200,615,793	$ 177,556,321	$ 173,220,118	$ 165,320,872
8,057,813	7,732,381	11,539,723	10,566,163	15,057,057
6,833,819	-	-	-	-
192,444,954	208,348,174	189,096,044	183,786,281	180,377,929
(90,114,624)	(109,795,664)	(89,046,195)	(93,053,857)	(83,615,484)
13,236,801	13,820,312	13,900,404	14,336,132	12,553,331
-	-	-	-	-
$ 115,567,131	$ 112,372,822	$ 113,950,253	$ 105,068,556	$ 109,315,776
$ 95,610,468	$ 95,621,206	$ 95,743,788	$ 95,035,265	$ 93,600,749
1.21	1.18	1.19	1.11	1.17
1.12	1.09	1.07	.99	1.01
19,956,663	16,751,616	18,206,465	10,033,292	15,715,027
(8,057,813)	(7,732,381)	(11,539,723)	(10,566,163)	(15,057,057)
-	(1,363,598)	(152,949)	(186,799)	(221,373)
$ 11,898,850	$ 7,655,637	$ 6,513,793	$ (719,670)	$ 436,597

Per Bond Resolution 4800 the Authority shall establish and collect rates sufficient to make all payments pertaining to bond payments, maintenance and operations costs, and any other charges against the Authority. Prior to the 2003 Annual Report, Debt Service Coverage calculations excluded the PCA. Beginning with the 2003 Annual Report, the PCA was (and continues to be) included in this calculation, as this adjustment includes any monies returned to the customers.

HISTORICAL ENERGY RESOURCES (MWh)

Year	Hydro Generation	Steam Generation	Purchased Power	Total
1995	765,016	4,551,075	303,135	5,619,226
1996	571,587	4,417,699	673,266	5,662,552
1997	772,166	4,717,494	398,770	5,888,430
1998	1,048,649	4,460,562	815,801	6,325,012
1999	975,512	5,178,051	(60,580)	6,092,983
2000	644,332	5,323,619	342,445	6,310,396
2001	721,484	5,209,614	142,570	6,073,668
2002	697,400	5,178,284	229,391	6,105,075
2003	739,549	5,734,196	203,072	6,676,817
2004	**1,288,013**	**5,099,124**	**547,293**	**6,934,430**

HISTORICAL SALES BY CUSTOMER GROUP (MWh)

Year	Municipal	Cooperative	Industrial	Other	Off-System Firm	Total Contract Sales	Off-System Spot	Total Sales
1995	1,590,234	1,821,321	646,137	191,460	892,444	5,141,595	130,584	5,272,179
1996	1,723,530	1,807,299	691,082	173,787	787,013	5,133,202	168,690	5,301,892
1997	1,723,530	1,868,122	804,942	161,292	728,479	5,286,364	132,098	5,418,462
1998	1,865,498	1,671,982	848,245	189,847	650,990	5,226,562	781,759	6,008,321
1999	1,870,840	1,230,679	808,129	190,731	759,963	4,860,342	741,169	5,601,511
2000	2,218,679	954,321	675,897	161,490	1,275,929	5,266,314	403,614	5,689,928
2001	2,434,449	657,999	600,223	168,304	1,426,534	5,287,510	327,908	5,615,418
2002	2,522,446	510,416	520,369	169,838	1,440,934	5,164,003	412,178	5,576,181
2003	2,747,333	484,946	531,136	171,755	1,593,488	5,528,658	476,615	6,005,273
2004	**2,850,359**	**443,742**	**593,349**	**170,278**	**1,622,823**	**5,680,551**	**484,467**	**6,165,018**

GENERATING AND OTHER FACILITIES

Generating Facilities	Location	Rated Generating Capability	Fuel	Date of Commercial Operations
Pensacola Project, Grand Lake O' the Cherokees:				
Pensacola Dam Units 1, 2, 3, 4, 5 and 6	Langley, Okla.	120 MW	Hydro	1941
Markham Ferry Project, Lake Hudson:				
Robert S. Kerr Dam Units 1, 2, 3 and 4	Locust Grove, Okla.	114 MW	Hydro	1964
Salina Pumped Storage Project, W. R. Holway Reservoir:				
Salina Units 1, 2 and 3	Salina, Okla.	130 MW	Hydro	1968
Salina Units 4, 5 and 6	Salina, Okla.	130 MW	Hydro	1971
Coal-Fired Complex:				
GRDA Unit 1	Chouteau, Okla.	490 MW	Thermal	1982
GRDA Unit 2 (GRDA's 62%)	Chouteau, Okla.	322 MW	Thermal	1985

Other Facilities	
Administration Headquarters	Vinita, Okla.
Energy Control Center	Locust Grove, Okla.
Lake Patrol Headquarters	Langley, Okla.
Transmission Distribution and Engineering	Pryor, Okla.

STATE OF OKLAHOMA DEMOGRAPHICS

Year	Population	Unemployment Rate	Per Capita Income
1995	3,265,500	4.7 %	$ 19,394
1996	3,289,600	4.1 %	$ 20,151
1997	3,314,300	4.1 %	$ 21,106
1998	3,339,500	4.5 %	$ 22,199
1999	3,358,000	3.4 %	$ 22,953
2000	3,450,654	3.0 %	$ 23,517
2001	3,460,100	3.8 %	$ 24,787
2002	3,493,700	4.3 %	$ 25,575
2003	3,511,500	6.0 %	$ 26,656
2004	3,523,553	4.2 %	*

Source: www.okcommerce.gov - Oklahoma Department of Commerce Web site. *Data unavailable as of 4-2-05.

POPULATION CHANGE: 1990 - 2000

County	Growth Rate	Population 2000	Population 1990	Percentage Growth
24 Counties in GRDA Service Area:				
Delaware County	1	37,077	28,070	32.09 %
Rogers County	2	70,641	55,170	28.04 %
Cherokee County	3	42,521	34,049	24.88 %
Wagoner County	7	57,491	47,883	20.07 %
Logan County	10	33,924	29,011	16.93 %
McIntosh County	11	19,456	16,779	15.95 %
Sequoyah County	12	38,972	33,828	15.21 %
Mayes County	13	38,369	33,366	14.99 %
Adair County	14	21,038	18,421	14.21 %
Tulsa County	16	563,299	503,341	11.91 %
Payne County	19	68,190	61,507	10.87 %
Creek County	20	67,367	60,915	10.59 %
Lincoln County	22	32,080	29,216	9.80 %
Okmulgee County	24	39,685	36,490	8.76 %
Ottawa County	27	33,194	30,561	8.62 %
Pittsburg County	28	43,953	40,581	8.31 %
Haskell County	30	11,792	10,940	7.79 %
Osage County	31	44,437	41,645	6.70 %
Pawnee County	32	16,612	15,575	6.66 %
Craig County	35	14,950	14,104	6.00 %
Nowata County	36	10,569	9,992	5.77 %
Latimer County	43	10,692	10,333	3.47 %
Muskogee County	52	69,451	68,078	2.02 %
Washington County	53	48,996	48,066	1.93 %
Total for GRDA Service Area		**1,434,756**	**1,277,921**	**12.27 %**
Total for State of Oklahoma's 77 Counties		**3,450,654**	**3,145,585**	**9.70 %**

Sources: Public Law 94-171 - U.S. Bureau of the Census, Oklahoma State Data Center, Oklahoma Department of Commerce

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