

**GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY**

**CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Grady Electric Membership Corporation
and Subsidiaries
Cairo, Georgia 39828

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Grady Electric Membership Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of revenues and comprehensive margins, changes in equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grady Electric Membership Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of Grady Electric Membership Corporation and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Grady Electric Membership Corporation and Subsidiaries' internal control over financial reporting and compliance.

Richels, Cauley + Associates, LLC

Warner Robins, Georgia
June 30, 2016

**GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY**

Consolidated Balance Sheets

December 31, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
Electric plant:		
In service - at cost	\$ 100,123,255	\$ 93,068,142
Construction work in progress	1,039,206	4,424,134
	101,162,461	97,492,276
Less - Accumulated provisions for depreciation	(23,851,866)	(22,824,706)
	77,310,595	74,667,570
Other assets and investments:		
Investments in associated organizations	15,173,032	13,944,630
Equity investments	894,044	624,240
Notes receivable, net of current portion	2,215,386	2,215,386
Non-utility plant, net of accumulated depreciation of \$26,910 in 2015 and \$20,700 in 2014	1,661,676	1,667,886
	19,944,138	18,452,142
Current assets:		
Cash	1,894,951	1,609,092
Accounts receivable (less allowance for doubtful accounts of \$117,113 in 2015 and \$24,000 in 2014)	2,431,160	2,160,999
Unbilled electric revenue	1,808,975	1,808,975
Current portion of note receivable	--	42,188
Materials and supplies (at average cost)	508,133	448,365
Other	275,555	566,325
	6,918,774	6,635,944
Deferred charges	34,095	26,651
Total assets	\$ 104,207,602	\$ 99,782,307
<u>EQUITIES AND LIABILITIES</u>		
Equities:		
Membership fees	\$ 66,260	\$ 66,225
Patronage capital	42,914,893	41,413,846
Other	3,737,140	3,491,267
	46,718,293	44,971,338
Long-term obligations, net of current maturities:		
Mortgage notes	36,511,780	38,325,872
Accumulated provision for postretirement benefits	3,355,599	3,117,303
	39,867,379	41,443,175
Current liabilities:		
Current maturities of long-term debt	1,637,413	1,649,777
CoBank line of credit	9,189,382	5,275,000
Accounts payable	3,087,054	3,097,184
Consumer deposits	1,496,508	1,485,568
Other	2,211,573	1,860,265
	17,621,930	13,367,794
Total equities and liabilities	\$ 104,207,602	\$ 99,782,307

See accompanying notes and independent auditor's report.

**GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY**

Consolidated Statements of Revenues and Comprehensive Margins

Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues	\$ 40,985,059	\$ 39,347,892
Operating expenses:		
Cost of power	27,877,999	27,168,410
Distribution operations	2,125,334	2,053,041
Distribution maintenance	2,486,775	2,138,935
Consumer accounts	1,337,319	1,304,554
General and administrative	2,833,611	2,538,994
Depreciation	3,056,316	2,858,727
Taxes	9,927	9,774
	39,727,281	38,072,435
Operating margins before interest expense	1,257,778	1,275,457
Interest expense	1,211,460	1,205,414
Operating margins after interest expense	46,318	70,043
G & T and other capital credits	1,432,767	1,275,698
Net operating margins	1,479,085	1,345,741
Nonoperating margins:		
Interest income	134,947	139,503
Equity income	269,804	189,128
Other nonoperating income	42,241	122,549
	446,992	451,180
Net margins	1,926,077	1,796,921
Other comprehensive margins	--	--
Net comprehensive margins	\$ 1,926,077	\$ 1,796,921

See accompanying notes and independent auditor's report.

**GRADY ELECTRIC MEMBERSHIP CORPORATION
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Consolidated Statements of Changes in Equities

Years Ended December 31, 2015 and 2014

	2015	2014
Membership fees:		
Balance at beginning of year:	\$ 66,225	\$ 66,280
Memberships issued (refunded), net	35	(55)
Membership fees at end of year	\$ 66,260	\$ 66,225
Patronage capital:		
Balance at beginning of year	\$ 41,413,846	\$ 40,296,656
Net margins	1,926,077	1,796,921
Patronage capital retirements and gains	(425,030)	(679,731)
Patronage capital at end of year	\$ 42,914,893	\$ 41,413,846
Other equities:		
Balance at beginning of year	\$ 3,491,267	\$ 3,109,803
Patronage capital retirements and gains	245,873	381,464
Other equities at end of year	\$ 3,737,140	\$ 3,491,267
Total equities	\$ 46,718,293	\$ 44,971,338

See accompanying notes and independent auditor's report.

**GRADY ELECTRIC MEMBERSHIP CORPORATION
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Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flow from operating activities:		
Net margins	\$ 1,926,077	\$ 1,796,921
Noncash income and expenses included in net margins:		
Equity income	(269,804)	(189,128)
Depreciation	3,408,504	3,190,487
G&T and other capital credits	(1,432,767)	(1,275,698)
Provision for postretirement benefits	306,000	306,000
Loss (gain) on disposal of plant	9,022	(72,267)
Decrease (increase) in:		
Accounts receivable and unbilled electric revenue	(270,161)	(326,235)
Other current assets	290,770	(290,311)
Deferred charges	(7,444)	21,020
Increase (decrease) in:		
Accounts payable	(10,130)	200,032
Other current liabilities	351,308	162,026
Cash flows provided by operating activities	4,301,375	3,522,847
Cash flows from investing activities:		
Construction and acquisition of plant	(5,584,990)	(4,685,380)
Plant removal costs	(681,970)	(675,889)
Materials salvaged from retirements	105,619	127,761
Decrease in materials and supplies	(59,768)	32,702
Proceeds from notes receivable	42,188	196,896
Proceeds from disposal of plant	107,000	103,913
Proceeds from retirement of associated organizations patronage	204,365	180,245
Cash flows used by investing activities	(5,867,556)	(4,719,752)
Cash flows from financing activities:		
Proceeds (payments) on line-of-credit, net	3,914,382	(4,725,000)
Advances of long-term debt	--	8,000,000
Payments of long-term debt	(1,826,456)	(1,789,801)
Funding of postretirement benefits	(67,704)	(66,216)
Capital credit retirements	(179,157)	(298,267)
Increase (decrease) in:		
Membership fees	35	(55)
Consumer deposits	10,940	21,340
Cash flows provided by financing activities	1,852,040	1,142,001
Net change in cash and cash equivalents	285,859	(54,904)
Cash and cash equivalents - beginning of year	1,609,092	1,663,996
Cash and cash equivalents - end of year	\$ 1,894,951	\$ 1,609,092

See accompanying notes and independent auditor's report.

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Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Supplemental schedule of noncash investing and financing activities:		
Increase in other equities resulting from discounting capital credit retirements	<u>\$ 245,873</u>	<u>\$ 381,464</u>
Supplemental disclosures of cash flow information -		
Cash paid during the year for:		
Interest	<u>\$ 1,204,820</u>	<u>\$ 1,178,485</u>

See accompanying notes and independent auditor's report.