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



NICHOLS, CAULEY & ASSOCIATES, LLC

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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.

Board of Directors Grady Electric Membership Corporation and Subsidiaries Page 2

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.

Aichals, Cauley + associates, LLC

Warner Robins, Georgia June 30, 2016

Consolidated Balance Sheets

December 31, 2015 and 2014

	2015	2014	
ASSETS			
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		1 ((= 00)	
in 2015 and \$20,700 in 2014	1,661,676	1,667,886	
	19,944,138	18,452,142	
Current assets:	1 00 1 0 51	4 (00 000	
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	
EQUITIES AND LIABILITIES			
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	

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

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

Cash flow from operating activities:\$ 1,926,077\$ 1,796,921Noncash income and expenses included in net margins: $(269,804)$ $(189,128)$ 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 $9,022$ $(7,2,267)$ Decrease (increase) in: $290,770$ $(290,311)$ Defered enarges $(7,444)$ $21,020$ Increase (decrease) in: $(7,444)$ $21,020$ Accounts payable $(10,130)$ $200,032$ Other current labilities $351,308$ $162,026$ Cash flows from investing activities: $(59,768)$ $32,702$ Construction and acquisition of plant $(5,584,990)$ $(4,685,380)$ Plant removal costs $(881,970)$ $(675,889)$ Materials salvaged from retirements $107,000$ $103,913$ Proceeds from notes receivable $42,188$ $196,896$ Proceeds from notes receivable $42,188$ $196,896$ Proceeds from notes receivable $-8,000,000$ $204,365$ $180,245$ Cash flows used by investing activities: $-8,000,000$ $193,913$ Proceeds from functiment of associated $-8,000,000$ $-8,000,000$ Payments of long-term debt			2015		2014	
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Cash flows from investing activities: Construction and acquisition of plant $(5,584,990)$ $(4,685,380)$ Plant removal costsMaterials 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 retirement of associated 000000 $103,913$ Proceeds from retirement of associated 0000000000 $103,913$ Orceeds from financing activities: $000000000000000000000000000000000000$	Other current liabilities		351,308		162,026	
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 retirement of associated $000000000000000000000000000000000000$	Cash flows provided by operating activities		4,301,375		3,522,847	
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 retirement of associated $107,000$ $103,913$ Proceeds from retirement of associated 0 rganizations patronage $204,365$ $180,245$ Cash flows used by investing activities $(5,867,556)$ $(4,719,752)$ Cash flows from financing activities: $ 8,000,000$ Payments 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: $10,940$ $21,340$ 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 eash equivalents - beginning of year $1,609,092$ $1,663,996$	Cash flows from investing activities:					
Plant removal costs(681,970)(675,889)Materials salvaged from retirements105,619127,761Decrease in materials and supplies(59,768)32,702Proceeds from notes receivable42,188196,896Proceeds from disposal of plant107,000103,913Proceeds from retirement of associated $204,365$ 180,245Cash flows used by investing activities(5,867,556)(4,719,752)Cash flows from financing activities: 7 8,000,000Proceeds (payments) on line-of-credit, net3,914,382(4,725,000)Advances 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: $10,940$ 21,340Cash flows provided by financing activities $1,852,040$ 1,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996	-		(5.584.990)		(4.685.380)	
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 $0rganizations patronage$ $204,365$ $180,245$ Cash flows used by investing activities $(5,867,556)$ $(4,719,752)$ Cash flows from financing activities: $ 8,000,000$ 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: $10,940$ $21,340$ 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 $1,609,092$ $1,663,996$						
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 $0rganizations patronage$ $204,365$ $180,245$ 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 $1,609,092$ $1,663,996$,			
Proceeds from notes receivable $42,188$ $196,896$ Proceeds from disposal of plant $107,000$ $103,913$ Proceeds from retirement of associated $000000000000000000000000000000000000$	-					
Proceeds from disposal of plant $107,000$ $103,913$ Proceeds from retirement of associated $204,365$ $180,245$ 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: 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 $1,609,092$ $1,663,996$	**		,			
Proceeds from retirement of associatedorganizations patronage204,365180,245Cash flows used by investing activities(5,867,556)(4,719,752)Cash flows from financing activities:Proceeds (payments) on line-of-credit, net3,914,382(4,725,000)Advances of long-term debt-8,000,000Payments 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:10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996						
organizations patronage $204,365$ $180,245$ Cash flows used by investing activities $(5,867,556)$ $(4,719,752)$ Cash flows from financing activities: 700000 700000000000 Proceeds (payments) on line-of-credit, net $3,914,382$ $(4,725,000)$ Advances of long-term debt $$ $8,000,0000$ 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: 355 (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 $1,609,092$ $1,663,996$			107,000		105,915	
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 $1,609,092$ $1,663,996$			204 365		180 245	
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 $1,609,092$ $1,663,996$						
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: 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 $1,609,092$ $1,663,996$			(5,007,550)		(4,71),752)	
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: 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 $1,609,092$ $1,663,996$	-		2 014 292		(4.725.000)	
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: $(10,940)$ $21,340$ 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 $1,609,092$ $1,663,996$			3,914,382			
Funding of postretirement benefits(67,704)(66,216)Capital credit retirements(179,157)(298,267)Increase (decrease) in:35(55)Membership fees35(55)Consumer deposits10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996	•		(1.92(.45()			
Capital credit retirements(179,157)(298,267)Increase (decrease) in:35(55)Membership fees35(55)Consumer deposits10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996						
Increase (decrease) in: Membership fees35(55)Consumer deposits10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996						
Membership fees35(55)Consumer deposits10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996	*		(1/9,15/)		(298,267)	
Consumer deposits10,94021,340Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996			25		(5.5)	
Cash flows provided by financing activities1,852,0401,142,001Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996					. ,	
Net change in cash and cash equivalents285,859(54,904)Cash and cash equivalents - beginning of year1,609,0921,663,996						
Cash and cash equivalents - beginning of year 1,609,092 1,663,996	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	

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

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