GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated 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, 2017 and 2016, 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 Consolidated 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, 2017 and 2016, 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 May 18, 2018, 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.

Nichols, Cauley + Associates, LLC

Warner Robins, Georgia
May 18, 2018

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidated Balance Sheets

December 31, 2017 and 2016

	2017	2016
ASSETS		
Electric plant:		
In service - at cost	$ 109,155,175	$ 103,971,289
Construction work in progress	383,086	1,533,823
	109,538,261	105,505,112
Less - Accumulated provisions for depreciation	(25,801,264)	(25,194,337)
	83,736,997	80,310,775
Other assets and investments:		
Investments in associated organizations	17,832,989	16,415,083
Equity investments	2,338,091	1,232,558
Notes receivable	2,215,386	2,215,386
Non-utility plant, net of accumulated depreciation of $39,330 in 2017 and $33,120 in 2016	1,649,256	1,655,466
	24,035,722	21,518,493
Current assets:		
Cash	1,549,490	1,225,665
Accounts receivable (less allowance for doubtful accounts of $260,763 in 2017 and $262,465 in 2016)	2,521,893	1,665,255
Unbilled electric revenue	1,808,975	1,808,975
Materials and supplies (at average cost)	551,022	532,777
Other	193,766	239,521
	6,625,146	5,472,193
Deferred charges	12,243	--
Total assets	$ 114,410,108	$ 107,301,461
EQUITIES AND LIABILITIES		
Equities:		
Membership fees	$ 66,365	$ 66,470
Patronage capital	47,022,188	44,569,199
Other	2,664,300	4,013,874
	49,752,853	48,649,543
Long-term obligations, net of current maturities:		
Mortgage notes	42,393,181	44,362,792
Accumulated provision for postretirement benefits	5,574,523	3,588,315
	47,967,704	47,951,107
Current liabilities:		
Current maturities of long-term debt	2,030,641	2,012,873
Lines of credit	7,621,044	2,000,000
Accounts payable	3,023,970	2,915,875
Consumer deposits	1,536,528	1,522,623
Other	2,477,368	2,247,055
	16,689,551	10,698,426
Deferred credits	--	2,385
Total equities and liabilities	$ 114,410,108	$ 107,301,461

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidated Statements of Revenues and Comprehensive Margins

Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues	$ 41,062,270	$ 40,678,428
Operating expenses:		
Cost of power	25,768,943	26,099,578
Distribution operations	2,233,770	2,261,024
Distribution maintenance	3,568,804	3,008,172
Consumer accounts	1,420,824	1,498,009
General and administrative	2,692,274	3,175,685
Depreciation	3,276,845	3,172,407
Taxes	10,027	10,086
	38,971,487	39,224,961
Operating margins before interest expense	2,090,783	1,453,467
Interest expense	1,545,269	1,352,642
Operating margins after interest expense	545,514	100,825
G & T and other capital credits	1,647,130	1,462,896
Net operating margins	2,192,644	1,563,721
Nonoperating margins:		
Interest income	131,621	135,662
Equity income	690,533	338,514
Other nonoperating income	125,296	75,402
	947,450	549,578
Net margins	3,140,094	2,113,299
Other comprehensive margins (loss)	(1,761,300)	--
Net comprehensive margins	$ 1,378,794	$ 2,113,299

GRADY ELECTRIC MEMBERSHIP CORPORATION
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Consolidated Statements of Changes in Equities

Years Ended December 31, 2017 and 2016

	2017	2016
Membership fees:		
Balance at beginning of year:	$ 66,470	$ 66,260
Memberships issued (refunded), net	(105)	210
Membership fees at end of year	66,365	66,470
Patronage capital:		
Balance at beginning of year	44,569,199	42,914,893
Net margins	3,140,094	2,113,299
Patronage capital retirements and gains	(687,105)	(458,993)
Patronage capital at end of year	47,022,188	44,569,199
Other equities:		
Balance at beginning of year	4,013,874	3,737,140
Patronage capital retirements and gains	411,726	276,734
Other comprehensive margins	(1,761,300)	--
Other equities at end of year	2,664,300	4,013,874
Total equities	$ 49,752,853	$ 48,649,543

GRADY ELECTRIC MEMBERSHIP CORPORATION
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Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flow from operating activities:		
Net margins	$ 3,140,094	$ 2,113,299
Noncash income and expenses included in net margins:		
Equity income	(690,533)	(338,514)
Depreciation	3,578,615	3,560,631
G&T and other capital credits	(1,647,130)	(1,462,896)
Provision for postretirement benefits	306,000	306,000
Gain on disposal of plant	(70,346)	(24,741)
Decrease (increase) in:		
Accounts receivable and unbilled electric revenue	(856,638)	765,905
Other current assets	45,755	36,034
Deferred charges	(12,243)	34,095
Increase (decrease) in:		
Accounts payable	108,095	(171,179)
Other current liabilities	230,313	35,482
Deferred credits	(2,385)	2,385
Cash flows provided by operating activities	4,129,597	4,856,501
Cash flows from investing activities:		
Construction and acquisition of plant	(5,850,431)	(5,713,083)
Plant removal costs	(1,260,185)	(935,405)
Materials salvaged from retirements	93,285	42,981
Increase in materials and supplies	(18,245)	(24,644)
Proceeds from disposal of plant	89,050	75,647
Investment in assocated organizations	--	(2,000)
Equity investments	(415,000)	--
Proceeds from retirement of associated organizations patronage	229,224	222,845
Cash flows used by investing activities	(7,132,302)	(6,333,659)
Cash flows from financing activities:		
Proceeds (payments) on lines of credit, net	5,621,044	(7,189,382)
Advances of long-term debt	6,336,476	10,000,000
Payments of long-term debt	(8,288,319)	(1,773,528)
Funding of postretirement benefits	(81,092)	(73,284)
Capital credit retirements	(275,379)	(182,259)
Memberships refunded, net	(105)	210
Increase in consumer deposits	13,905	26,115
Cash flows provided by financing activities	3,326,530	807,872
Net change in cash and cash equivalents	323,825	(669,286)
Cash and cash equivalents - beginning of year	1,225,665	1,894,951
Cash and cash equivalents - end of year	$ 1,549,490	$ 1,225,665

GRADY ELECTRIC MEMBERSHIP CORPORATION
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Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Supplemental schedule of noncash investing and financing activities:		
Increase in other equities resulting from discounting capital credit retirements	$ 411,726	$ 276,734
Supplemental disclosures of cash flow information -		
Cash paid during the year for:		
Interest	$ 1,510,480	$ 1,349,078

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity and Nature of Operations

The accounting and reporting policies of Grady Electric Membership Corporation (the Corporation) and Subsidiaries conform to accounting principles generally accepted in the United States of America and also with the basis of accounting practices prescribed by the Rural Utilities Service (RUS) of the United States Department of Agriculture (USDA.)

The consolidated financial statements include the Corporation and its wholly owned subsidiaries, Grady EMC Holding Corporation (Grady Holding) and Sugar Cane Properties, LLC (Sugar Cane). All material intercompany balances and transactions are eliminated in consolidation.

The Corporation is a rural electric utility cooperative headquartered in Cairo, Georgia serving members in several surrounding counties in southwest Georgia. The Corporation derives revenue by purchasing wholesale power from power companies and providing the electric energy on a retail basis to members through its distribution facilities.

Grady Holding primarily owns 50% of the common stock of Sowega Holding Corporation, which is more fully described in Note 5.

Sugar Cane primarily owns real property in Grady County, Georgia.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include assessing the capitalization of overhead costs, the collectability of receivables, the use and recoverability of materials and supplies, the useful lives for depreciation of electric plant, the recoverability of investments, the amount of unbilled electric revenue and the amount of accrued postretirement benefits. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Electric Plant

Electric plant is capitalized at cost less related contributions in aid of construction. In general, electric plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with the related estimated cost of installation.

Depreciation and Maintenance

Depreciation of capitalized cost is provided using the composite straight-line rates with the exception of general plant and non-utility plant. General plant is depreciated on a unit straight-line basis. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation. However, the gain or loss on each item depreciated on a unit basis when retired or otherwise disposed of is credited to income or charged to expense as a gain or loss on disposition of general plant.

Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.20 percent per annum. Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2 to 20 percent per annum. Non-utility plant is depreciated on a straight-line basis. The rates range from 6 to 10 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less selling costs to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair values are reevaluated when circumstances or events change.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Long-Lived Assets

Accounting standards require the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution plant; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution plant.

Materials and Supplies

Materials and supplies are stated at lower of cost or net realizable value. Cost is determined substantially by the weighted moving average method of inventory valuation.

Accounts Receivable

An allowance for doubtful accounts is provided based on the historical bad debt experience, plus periodic evaluations by management of the aging of the accounts receivable. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the balance sheet net of such allowance.

Equities and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons based upon individual consumption of electric energy. Any distributions of patronage capital are subject to the discretion of the Board of Directors, subject to long-term debt agreements. Under provisions of long-term debt agreements, total equities and margins must equal or exceed 30 percent of the total assets of the Corporation or return of patrons' contributed capital is limited to 25 percent of the patronage capital or margins received in the prior year. As of December 31, 2017 and 2016, the total equities and margins approximate 43.5% and 45.3% of total assets, respectively.

Operating Revenues and Patronage Capital

Operating revenues, which include patronage capital, are billed monthly to consumers and are adjusted for estimated unbilled usage through year end. The components of unbilled revenue can fluctuate based on factors such as rate structure, weather, time of use, cost of wholesale power and other factors.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cost of Power

Cost of power is expensed as billed by Oglethorpe Power Corporation, Georgia Transmission Corporation, Georgia System Operations Corporation, Georgia Energy Cooperative, Southeastern Power Administration, and Green Power EMC.

Income Taxes

The Corporation operates under the Internal Revenue Code (IRC), Section 501(c)(12), as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made in the consolidated financial statements. Grady Holding is a taxable corporation with no deferred tax assets or liabilities as of December 31, 2017 and 2016. Sugar Cane is a single member limited liability company (LLC) and is a disregarded entity for income tax purposes.

The Corporation and the Subsidiaries believe appropriate support exists for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements at December 31, 2017 and 2016. The Corporation's Federal Form 990 and Grady Holding's Federal Forms 1120 and Georgia Forms 600 are subject to examination, generally for three years after they are filed.

Advertising Cost

The Corporation's policy is to expense advertising costs as incurred. The total advertising expense for the years ended December 31, 2017 and 2016 was \$10,151 and \$8,331, respectively.

Comprehensive Margins (Loss)

The Corporation accounts for other comprehensive margins (loss) in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standard Codification (ASC) Topic 220-10, *Comprehensive Income*, which requires other comprehensive margins (loss) and its components to be reported when a company has items of other comprehensive margins (loss). The objective of other comprehensive margins (loss) is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners (patrons).

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Capital Credits from Associated Organizations

The Corporation accounts for capital credits in associated organizations in accordance with the guidance of ASC 905-325, *Investments – Other*. Capital credits are the result of member patrons providing substantial capital to the organizations. Capital investments are made primarily to obtain an economical source of product to the member and not with the expectation of typical returns. The investments are accounted for as follows:

> At cost, reduced if the carrying amount cannot be fully recovered.
>
> Refunds are recognized upon notification by the organization or when patronage occurs if it is probable that a patronage refund will be declared, events confirming the receipt of a patronage refund are expected to occur, the amount of the refund can be reasonably determined, and the accrual can be consistently made from year to year.

Based on the above process, management has made the decision to record all capital credits at cost as patronage occurs. This decision was based on management's inability to determine if a refund will be declared and when such a refund could be expected to occur.

In addition, management reviews the balance recorded in previous year as patronage occurred and adjusts the carrying cost if, in their opinion, the carrying value will not be fully recovered. Factors reviewed and considered in this process include financial forecast, debt requirements, market conditions and other factors.

Postretirement Benefits

The Corporation recognizes the overfunded or underfunded status of its postretirement benefit plan as an asset or a liability in its consolidated balance sheets, with an adjustment to equities (reflected as an increase or decrease in accumulated other comprehensive loss).

Presentation

Certain prior year amounts have been reclassified to conform with the current year presentation.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and in August 2015 issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. In 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting,* and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.* These amended existing guidance related to revenue from contracts with customers. This new guidance supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this new guidance specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance of ASU 2014-09. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. Management is currently evaluating the impact of this new accounting standard on the Corporation's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* which amended existing guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans and receivables). ASU 2016-01 eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. ASU 2016-01 is effective for nonpublic business

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

New Accounting Standards

entities for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Nonpublic business entities may early adopt ASU 2016-01 using the public business entity effective dates. ASU 2016-01 permits early adoption of the own credit provision. In addition, ASU 2016-01 permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The adoption of 2016-01 is not expected to have a material effect on the Corporation's operating results or financial condition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessees obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under ASU 2016-02, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. ASU 2016-02 is effective for nonpublic business entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The adoption of ASU 2016-02 is not expected to have a material effect on the Corporation's operating results or financial condition.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. ASU 2016-13 also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and similar instruments) and net investments in leases recognized by

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

New Accounting Standards

a lessor. For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The assets will be grossed up for the allowance of expected credit losses for all PCD assets at the date of adoption and will continues to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. ASU 2016-13 effective for nonpublic entities for fiscal years beginning after December 15, 2020, and interim periods within the fiscal years beginning after December 15, 2021. All entities may early adopt for fiscal years beginning after December 15, 2018, including interim periods in those fiscal years. Management is currently evaluating the impact of ASU 2016-13 on the Corporation's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in ASU 2017-07 also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). ASU 2017-07 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management is currently evaluating the impact of ASU 2017-07 on the Corporation's financial statements.

2. ASSETS PLEDGED:

Substantially all assets of the Corporation are pledged as security for the long-term mortgage notes payable to Federal Financing Bank (FFB), and CoBank, ACB (CoBank).

Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

3. PLANT:

Listed below are the major classes of electric plant as of December 31, 2017 and 2016:

	2017	2016
Electric plant in service - at cost:		
Distribution plant	$ 91,680,969	$ 87,213,163
General plant	17,474,206	16,758,126
	109,155,175	103,971,289
Construction work in progress	383,086	1,533,823
	$ 109,538,261	$ 105,505,112

Listed below are the major classes of non-utility plant as of December 31, 2017 and 2016:

	2017	2016
Non-utility plant - at cost:		
Land	$ 1,595,436	$ 1,595,436
Buildings and structures	63,750	63,750
Equipment	29,400	29,400
Less accumulated depreciation	(39,330)	(33,120)
	$ 1,649,256	$ 1,655,466

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS:

Investments in associated organizations consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Oglethorpe Power Corporation -		
Capital credits	$ 9,138,230	$ 8,654,172
Georgia Transmission Corporation:		
Capital contribution	568,625	568,625
Capital credits	2,405,499	2,289,657
Georgia System Operations Corporation -		
Capital credits	2,440	2,470
Georgia Rural Electric Service Corporation:		
Capital credits	786,357	745,157
Membership fees	100	100
National Rural Utilities Cooperative Finance Corporation:		
Membership fees	1,000	1,000
Capital term certificates	574,989	574,989
Capital credits	185,098	182,765

4. INVESTMENTS IN ASSOCIATED ORGANIZATIONS:

	2017	2016
Southeastern Data Cooperative, Inc.:		
Stock certificates	100	100
Capital credits	170,666	161,555
CoBank -		
Capital credits	525,320	466,540
Georgia Electric Membership Corporation Workers Compensation Fund:		
Membership fees	1,000	1,000
Green Power Electric Membership Corporation:		
Membership fees	25	25
Capital credits	5,791	5,791
National Rural Telecommunications Cooperative:		
Membership fees	1,000	1,000
Capital credits	1,037	1,037
Georgia Energy Cooperative:		
Capital contribution	4,000	4,000
Membership fees	100	100
Capital credits	3,256,715	2,562,637
Federated Rural Electric Insurance Exchange	204,897	192,363
	$ 17,832,989	$ 16,415,083

5. EQUITY INVESTMENTS – SOWEGA ENERGY RESOURCES, LLC AND SOWEGA HOLDING CORPORATION:

At December 31, 2017 and 2016, the Corporation had a 7.5% equity interest in Sowega Energy Resources, LLC (SER), a Georgia limited liability company, which has a 65% equity interest in Baconton Power LLC (Baconton).

5. EQUITY INVESTMENTS – SOWEGA ENERGY RESOURCES, LLC AND SOWEGA HOLDING CORPORATION:

Baconton, a Georgia limited liability company, was formed on January 26, 2000 to own, operate and maintain a simple cycle combustion turbine power generating plant and related facilities located in Mitchell County, Georgia and to sell the electricity generated thereby and ancillary services. Tejas Power Generation, LLC owns the remaining 35% equity interest. Baconton is an exempt wholesale generator authorized by the Federal Energy Regulatory Commission (FERC) to purchase and sell energy for resale at negotiated market-based rates.

SER's members and their respective ownership percentages as of December 31, 2017 and 2016 are as follows:

Grady Electric Membership Corporation	7.5%
Three Notch Electric Membership Corporation	7.5%
Sowega Holding Corporation	45.0%
Cornerstone Operating Services, Inc.	40.0%

The Corporation accounts for its investment in SER using the equity method of accounting. Following is a summary of investment activity for the years ended December 31, 2017 and 2016:

	Year Ended December 31	
	2017	2016
Carrying value of investment at beginning of year	$ 491,390	$ 373,386
Equity method portion of net income	140,508	118,004
	$ 631,898	$ 491,390

At December 31, 2017 and 2016, Grady Holding owned 50% of the common stock of Sowega Holding Corporation (Sowega Holding). Three Notch Holding Corporation owns the remaining 50%. Grady Holding accounts for its investment in Sowega Holding using the equity method of accounting. Following is a summary of investment activity for the years ended December 31, 2017 and 2016:

	Year Ended December 31	
	2017	2016
Carrying value of investment at beginning of year	$ 741,168	$ 520,658
Equity method portion of net income	550,025	220,510
	$ 1,291,193	$ 741,168

5. EQUITY INVESTMENTS – SSFF HOLDINGS, LLC

In January 2017, the Corporation acquired a 0.67% membership in SSFF Holdings, LLC for \$415,000. SSFF Holdings, LLC owns through an investment company four solar plants. The value of the investment at December 31, 2017 is \$415,000.

6. DEFERRED CHARGES AND CREDITS:

Following is a summary of amounts recorded as deferred charges and credits as of December 31, 2017 and 2016:

	2017	2016
Deferred charges:		
Other clearing accounts	$ 12,243	$ --

	2017	2016
Deferred credits:		
Other clearing accounts	$ --	$ 2,385

7. PATRONAGE CAPITAL AND OTHER EQUITIES:

The following is a summary of patronage capital as of December 31, 2017 and 2016:

	2017	2016
Assignable	$ 3,140,094	$ 2,113,299
Assigned to date	53,554,774	51,441,475
	56,694,868	53,554,774
Less retirements to date	(9,672,680)	(8,985,575)
Total patronage capital	$ 47,022,188	$ 44,569,199

7. PATRONAGE CAPITAL AND OTHER EQUITIES:

The following is a summary of other equities as of December 31, 2017 and 2016:

	2017	2016
Retired capital credits - gain	$ 5,209,831	$ 4,798,105
Accumulated other comprehensive loss	(2,545,531)	(784,231)
	$ 2,664,300	$ 4,013,874

8. LINES OF CREDIT:

The Corporation has an $8,000,000 perpetual line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC). Interest at prime rate as established by the Wall Street Journal plus one percent is due quarterly on all advances. Outstanding advances in any single calendar year may not exceed the sum of the Corporation's prior calendar year's plant additions plus one-twelfth of annual operations and maintenance expenses. All advanced amounts must be paid in full for at least a five day period annually. At December 31, 2017 and 2016, the Corporation had outstanding balances due of $2,000,000.

The Corporation has a $10,000,000 line of credit with CoBank. The Corporation may choose between a fixed rate and variable rate at the time of the first advance on the line of credit; the Corporation has chosen a variable rate. The variable interest rate in effect at December 31, 2017 was 3.32%. The maturity date of the line of credit is September 10, 2018. The line of credit automatically renews for an additional one-year period unless either party gives written notice to the contrary. At December 31, 2017 and 2016, the Corporation had outstanding balances due of $5,621,044 and $-0-, respectively.

9. LONG-TERM DEBT:

Long-term debt consists primarily of mortgage notes payable to the United States of America acting through the RUS, mortgage notes payable to CoBank, and mortgage notes payable to the FFB. In 2017, the Corporation converted all RUS debt to CoBank notes. The notes are secured by a mortgage agreement among the Corporation, RUS, CoBank and FFB. Substantially all assets of the Corporation are pledged as security for the mortgage loans. Most of the mortgage notes are for 35-year periods each and are payable in quarterly or monthly installments. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the mortgage agreement.

Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

9. LONG-TERM DEBT:

Listed below are the notes payable by holder, interest rate, and amount as of December 31, 2017:

Holder of Note	Interest Rates	Total	Long-Term	Current
CoBank	5.090%	$ 52,420	$ 22,779	$ 29,641
CoBank	5.310%	229,998	174,884	55,114
CoBank	5.510%	283,004	242,735	40,269
CoBank	5.740%	601,558	548,671	52,887
CoBank	5.830%	409,676	384,335	25,341
CoBank	4.710%	2,926,406	2,495,983	430,423
CoBank	5.240%	550,187	521,899	28,288
CoBank	1.820%	7,186,576	6,969,379	217,197
CoBank	3.340%	9,782,187	9,578,370	203,817
CoBank	3.670%	6,267,823	5,974,563	293,260
FFB	4.710%	1,990,942	1,887,917	103,025
FFB	4.770%	2,300,706	2,217,838	82,868
FFB	0.274%	5,810,921	5,580,121	230,800
FFB	0.274%	3,171,097	3,045,147	125,950
FFB	0.274%	2,860,321	2,748,560	111,761
		$ 44,423,822	$ 42,393,181	$ 2,030,641

Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

9. LONG-TERM DEBT:

Listed below are the notes payable by holder, interest rate, and amount as of December 31, 2016:

Holder of Note	Interest Rates	Total	Long-Term	Current
RUS	4.375%	$ 526,632	$ 502,461	$ 24,171
RUS	4.386%	3,689,024	3,536,374	152,650
RUS	4.726%	2,301,171	2,212,549	88,622
CoBank	4.830%	11,627	-	11,627
CoBank	5.090%	81,245	52,420	28,825
CoBank	5.310%	283,596	229,998	53,598
CoBank	5.510%	322,165	283,004	39,161
CoBank	5.740%	652,991	601,558	51,433
CoBank	5.830%	434,319	409,676	24,643
CoBank	4.710%	3,361,112	2,926,406	434,706
CoBank	5.240%	576,932	550,187	26,745
CoBank	1.820%	7,399,848	7,186,576	213,272
CoBank	2.520%	10,000,000	9,782,187	217,813
FFB	4.710%	2,089,535	1,991,223	98,312
FFB	4.770%	2,380,055	2,301,025	79,030
FFB	0.274%	6,018,520	5,787,750	230,770
FFB	0.274%	3,284,386	3,158,452	125,934
FFB	0.274%	2,962,507	2,850,946	111,561
		$ 46,375,665	$ 44,362,792	$ 2,012,873

9. LONG-TERM DEBT:

The approximate maturities of notes payable for each of the ensuing five years and thereafter are:

Years Ending December 31	Amount
2018	$ 2,030,641
2019	2,051,923
2020	2,040,854
2021	2,066,296
2022	1,937,497
2023 and thereafter	34,296,611
	$ 44,423,822

The Corporation had no unadvanced loan funds on commitment with FFB, RUS, CoBank or NRUCFC as of December 31, 2017 and 2016.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value. The carrying amount for cash, accounts receivable, notes receivable, accounts payable, accrued and other current liabilities, and short-term borrowings approximates their fair value because of the short maturity of these instruments. The fair value of most of the Corporation's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Corporation for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The investments in associated organizations consists of investments in nonmarketable securities as disclosed in Note 4. It is impracticable to measure the fair value of these instruments.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair values of the Corporation's financial instruments at December 31, 2017 are as follows:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 1,549,490	$ 1,549,490
Accounts receivable	2,521,893	2,521,893
Unbilled electric revenue	1,808,975	1,808,975
Notes receivable	2,215,386	2,215,386
Financial liabilities:		
Accounts payable	3,023,970	3,023,970
Lines of credit	7,621,044	7,621,044
Long-term debt	44,423,822	43,360,000

The estimated fair values of the Corporation's financial instruments at December 31, 2016 are:

	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 1,225,665	$ 1,225,665
Accounts receivable	1,665,255	1,665,255
Unbilled electric revenue	1,808,975	1,808,975
Notes receivable	2,215,386	2,215,386
Financial liabilities:		
Accounts payable	2,915,875	2,915,875
Lines of credit	2,000,000	2,000,000
Long-term debt	46,375,665	44,303,000

11. PENSION PLANS:

Defined Benefit Plan

All eligible employees of the Corporation participate in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the IRC. The RS Plan is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's contributions to the RS Plan in 2017 and in 2016 represented less than 5% of the total contributions made to the RS Plan by all participating employers. The Corporation made contributions to the RS Plan of $921,663 and $906,092 in 2017 and 2016, respectively. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act of 2006 (the PPA). In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total the RS Plan was over 80% on January 1, 2017 and January 1, 2016, based on the PPA funding target and the PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and change as a result of plan experience.

Defined Contribution Plan

Effective January 1, 2006, the Corporation adopted a 401(k) savings plan administered through John Hancock which covers all employees who are 21 years of age and who have completed one year of service. Participating employees' deferred contributions are matched 100% up to 3% of compensation, plus 50% of deferred contributions which exceed 3% but do not exceed 5% of compensation. The total cost to the Corporation under this plan was $160,270 and $145,713 for 2017 and 2016, respectively.

12. POSTRETIREMENT BENEFITS:

The Corporation provides certain health care benefits to current and retired employees and directors. As currently structured, substantially all employees become eligible for benefits upon full-time employment and may continue them if they reach retirement age while working for the Corporation and have completed 25 years of service. Directors become eligible for benefits upon election to the Board and upon serving 20 years on the Board and upon reaching normal retirement age or becoming disabled.

The Plan is non-contributory with respect to the retired employees or directors; for eligible dependents, the full amount of the premiums is paid by the retired employee or director.

The following is a reconciliation of the beginning and ending balances for the aggregate benefit obligations and the Plan assets for the Corporation's Plan as of December 31, 2017 and 2016:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 3,588,315	$ 3,355,599
Service cost	177,904	177,904
Interest cost	128,096	128,096
Actuarial loss	1,761,300	--
Benefit payments	(81,092)	(73,284)
Benefit obligation at end of year	$ 5,574,523	$ 3,588,315

	2017	2016
Change in Plan assets		
Fair value of Plan assets at beginning of year	$ --	$ --
Funding of postretirement benefits	81,092	73,284
Benefit payments	(81,092)	(73,284)
Fair value of Plan assets at end of year	$ --	$ --

12. POSTRETIREMENT BENEFITS:

Net periodic postretirement benefit cost for the years ended December 31, 2017 and 2016 included the following components:

	2017	2016
Service cost	$ 177,904	$ 177,904
Interest cost	128,096	128,096
Net periodic postretirement benefit cost	$ 306,000	$ 306,000

The following table sets for the amounts recognized as liabilities for postretirement benefits as of December 31, 2017 and 2016:

	2017	2016
Benefit obligation	$ (5,574,523)	$ (3,588,315)
Fair value of Plan assets	--	--
Accrued postretirement benefits	$ (5,574,523)	$ (3,588,315)

The unrecognized net actuarial losses of $2,545,531 as of December 31, 2017 have been reflected as an accumulated other comprehensive loss within equities. The estimated amount of amortization of the above unrecognized item that will be amortized from other comprehensive loss and reflected as a component of net period postretirement benefit cost during 2018 is approximately $-0-.

Assumptions used in accounting for the Plan as of December 31, 2017 and 2016 were:

	2017	2016
Discount rate	4.05%	4.00%
Medical inflation rate for following year	7.50%	7.00%
Rate to which the cost trend is assumed to decline (the ultime cost trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate cost trend rate	2027	2020

The discount rate used is as directed by the Corporation’s consulting actuary.

12. POSTRETIREMENT BENEFITS:

The amount of 2018 contribution, if any, will be determined based on a number of factors. At this time, the amount of the 2018 contribution is not known.

The Corporation's estimated projected benefit payments under the Plan are as follows: 2018 - $77,805; 2019 - $88,729; 2020 - $108,605; 2021 - $118,474; 2022 - $142,266; 2023-2027 - $1,039,838.

13. CONSOLIDATED STATEMENTS OF CASH FLOWS:

The consolidated statements of cash flows ending cash balances consist of the following cash and cash equivalent items:

	2017	2016
Cash:		
General funds	$ 1,549,389	$ 1,225,564
Construction fund	101	101
	$ 1,549,490	$ 1,225,665

14. LITIGATION:

The Corporation's nature of business is such that it ordinarily results in a certain amount of litigation. The Corporation currently is in litigation with a board member and has been notified of potential litigation related to employment issues. The impact on the consolidated financial statements of this litigation and/or potential litigation is not determinable at this time. As a result no provision has been provided for in these consolidated financial statements.

15. UNBILLED REVENUE:

The Corporation has elected to accrue unbilled electric revenue based on the estimated consumption of electricity by its members through December 31, 2017 and 2016. The unbilled electric revenue accrued is $1,808,975 at December 31, 2017 and 2016.

16. CONCENTRATIONS OF CREDIT RISK:

The Corporation's headquarters is located in Cairo, Georgia. Its service area includes portions of several counties surrounding the city. The Corporation can require a deposit from its members, which may be applied to unpaid bills in the event of default. Deposits on hand at December 31, 2017 and 2016 were $1,536,528 and $1,522,623, respectively.

The Corporation routinely has cash deposits with a financial institution in excess of the insured limitation of the Federal Deposit Insurance Corporation (FDIC). If the financial institution were not to honor its contractual liability, the Corporation could incur losses. Management is of the opinion that there is no material risk because of the financial strength of the institution.

17. COMMITMENTS:

Health Insurance Program

The Corporation has a health insurance program where the Corporation is self-insured with a stop loss clause both on individual and aggregate claims. The contract is a "24/12" contract which provides that for all claims incurred during the plan year to be eligible for stop loss coverage they must be submitted by the plan year end. Claims submitted after the contract period are paid out of the next contract year. The claims must be submitted within three months of the contract period year end. In the opinion of management there is no material liability that needs to be recorded for possible additional claims as of December 31, 2017.

Wholesale Power Contract – Oglethorpe Power Corporation

The Corporation is a member of Oglethorpe Power Corporation (OPC). OPC is a Georgia electric membership corporation owned by 39 retail electric distribution cooperative members. OPC provides wholesale electric service to its members from a combination of its generation assets and power purchased from power marketers and other suppliers.

17. COMMITMENTS:

Wholesale Power Contract – Oglethorpe Power Corporation

In 1997 the Corporation entered into an Amended and Restated Wholesale Power Contract with OPC. Effective January 1, 2003, the Corporation entered into an additional Amended and Restated Wholesale Power Contract (the Wholesale Power Contract) with OPC and a new Business Model Member Agreement (the OPC Member Agreement) by and among OPC and the members of OPC.

Under the Wholesale Power Contract, the Corporation is unconditionally obligated on an express "take-or-pay" basis, for a fixed percentage of the capacity costs of each of OPC's generation and purchased power resources. The Wholesale Power Contract specifically provides that the Corporation must make payments whether or not power is delivered and whether or not a plant has been sold or is otherwise unavailable. OPC is obligated to use its reasonable best efforts to operate, maintain and manage its resources in accordance with prudent utility practices. The Corporation's capacity allocation is approximately 1.0% of OPC's total capacity. The capacity commitment is based on the capacity available by OPC on July 8, 1996, and will remain effective through December 31, 2025. The Corporation also has the right to choose sources of future power supply requirements for the capacity requirements above the amount assigned above.

The Wholesale Power Contract provides that each OPC member is jointly and severally responsible for all costs and expenses of all existing generation and purchased power resources, as well as for any approved future resources, whether or not such OPC member has elected to participate in such future resource. For resources so approved in which less than all OPC members participate, costs will be shared first among the participating OPC members, and if all participating members default, each non-participating OPC member is expressly obligated to pay a proportionate share of such default.

To acquire future resources, OPC is required to obtain the approval of 75% of OPC's Board of Directors, 75% of OPC's members and OPC members representing 75% of the patronage capital of OPC. Certain resource modifications can be made by OPC if approved by more than 50% of its Board of Directors and 50% of its members.

The OPC Member Agreement requires OPC members' approval for OPC to undertake certain activities but does not limit OPC's ability to own, manage, control and operate its resources or perform its functions under the Amended Wholesale Power Contract. OPC is not to provide services unrelated to its resources or its functions under the Wholesale Power Contract if such services require OPC to incur indebtedness, provide a guarantee or make any loan or investment, unless approved by 75% of OPC's Board of Directors, 75% of OPC's members and OPC

17. COMMITMENTS:

Wholesale Power Contract – Oglethorpe Power Corporation

members representing 75% of the patronage capital of OPC. OPC may provide any other such service to an OPC member so long as (1) doing so does not create a conflict of interest with respect to other OPC members, (2) such service is being provided to all OPC members or (3) such service receives the three-part 75% approval described above.

Effective June 1, 2005, the Corporation entered into a First Amendment to Amended and Restated Wholesale Power Contract with OPC. This First Amendment to Amended and Restated Wholesale Power Contract extends the term of the Wholesale Power Contract through December 31, 2050 and from year to year thereafter unless terminated on December 31, 2050, or any succeeding December 31, by either OPC or the Corporation after giving not less than three years' prior written notice of intent to terminate.

In addition, the Corporation, from time to time, enters into additional contracts and subscription agreements with OPC whereby the Corporation participates in certain new resources. These contracts and subscription agreements outline the terms and conditions for participating in these new resources.

Power Purchase Agreement – Georgia Energy Cooperative

The Corporation and Georgia energy Cooperative (GEC) have entered into an Amended and Restated Member Services Agreement (the GEC Member Agreement) effective April 8, 2014. The GEC Member Agreement updates previously executed agreements between the two parties. GEC was formed because the Corporation and other GEC members determined that it was in their best interest to form GEC to provide services for power supply planning, power supply procurement, power supply related contract administration and coordination, and to represent them in certain related activities. GEC is owned by 15 retail electric distribution cooperative members and owns a 100 megawatt gas turbine facility. The GEC Member Agreement generally remains in effect until December 31, 2024.

Effective April 8, 2014, GEC entered into a new Power Purchase and Scheduling Agent Services Agreement with Exelon Generation Company, LLC (the ExGen Agreement), which expires December 31, 2022. The ExGen Agreement commenced on January I, 2016, upon the termination of a previous agreement with Constellation Energy Commodities Group, Inc. The ExGen Agreement outlines the terms and conditions under which GEC purchases and ExGen procures resources to supply additional amounts of energy, capacity and operating reserves required by GEC's members. The ExGen Agreement also outlines the terms and conditions under which ExGen provides scheduling agent services to GEC's members.

17. COMMITMENTS:

Power Purchase Agreement – Georgia Energy Cooperative

The Corporation, effective April 8, 2014, entered into a Power Supply and Scheduling Agreement with GEC (the GEC Member Supply Agreement). The GEC Member Supply Agreement serves as an overall link between ExGen and the Corporation. The GEC Member Supply Agreement outlines the terms and conditions under which GEC provides the Corporation capacity, energy and ancillary services and scheduling agent services. The general intent of the GEC Member Supply Agreement is that GEC is responsible for providing the Corporation with ExGen's total supply obligation, as defined in the ExGen Agreement, plus any other capacity, energy and ancillary services required by the Corporation for any other purpose. As part of the GEC Member Supply Agreement, the Corporation transferred its dispatch rights and entitlement of energy, capacity and ancillary services from all electric generating units owned, controlled by, or contracted to the Corporation, and other power purchase agreements to GEC to enable ExGen to schedule and dispatch these resources when such resources are more economical than other supply alternatives.

Additionally, ExGen supplies the remainder of its total supply obligation from the open market or from its own resources and sells for its own account excess energy delivered by GEC from the Corporation's resources. The GEC Member Supply Agreement commenced January 1, 2016, and is generally scheduled to continue in effect until December 31, 2024.

SOWEGA Power, LLC (SOWEGA) is a wholly owned subsidiary of GEC. As part of the GEC Member Supply Agreement, the Corporation agrees to pay for 25% of the electric capacity and energy of SOWEGA.

In addition, GEC has entered into additional power supply contracts with other third parties, and these additional power supply contracts have been approved by the Corporation.

Wholesale Power Agreement – Southeastern Power Administration

The Corporation purchases approximately five percent of its electric energy and capacity from the Southeastern Power Administration (SEPA) under a contract that extends indefinitely unless cancelled with proper notice by either party. Further, the Corporation may be required, if certain conditions are met, to contribute funds for capital improvements for Corps of Engineers projects from which its SEPA allocation is derived in order to retain the allocation.

17. COMMITMENTS:

Member Transmission Service Agreement – Georgia Transmission Corporation

The Corporation is a member of Georgia Transmission Corporation (GTC). GTC is an electric membership corporation that provides transmission services to its members for delivery of its members' power purchases from OPC and other power suppliers.

The Corporation has entered into a Member Transmission Service Agreement with GTC (the GTC Agreement) under which GTC will provide transmission service to the Corporation. This transmission service includes both network integration transmission service and point-to-point transmission service. During the initial term of the GTC Agreement, which expired December 31, 2006, GTC was the sole provider of transmission service to deliver the capacity and energy required to serve the Corporation's native load customers.

At the end of the initial term, the GTC Agreement was automatically extended for two additional terms, the first ended December 31, 2016, and the second ending December 31, 2025. After the initial term, load growth above current requirements may, with notice to GTC, be served by others. However, if the Corporation elects to purchase a part of its network service elsewhere, it must pay appropriate stranded costs to protect the other members of GTC from any rate increase that would otherwise occur. After the initial term, the Corporation will have no obligation to purchase point-to-point transmission service.

Effective March 31, 2009, the Corporation and GTC entered into an Agreement to Extend the Term of the Member Transmission Service Agreement (the Amended GTC Agreement). Under the Amended GTC Agreement, upon the expiration of the initial term of the GTC Agreement on December 31, 2006, the GTC Agreement was automatically extended for additional terms ending on December 31, 2016, December 31, 2020, December 31, 2025, December 31, 2030, December 31, 2035, December 31, 2040, December 31, 2045, December 31, 2050, December 31, 2055, and December 31, 2060. Thereafter, the GTC Agreement and Amended GTC Agreement shall continue from year to year unless terminated by either GTC or the Corporation after giving not less than two years' prior written notice of intent to terminate. The Amended GTC Agreement also outlines the terms and conditions for certain potential reductions in services at the end of each additional term.

17. COMMITMENTS:

Green Power EMC

The Corporation has entered into a Member Services Agreement with Green Power EMC (the Green Power Agreement) effective August 1, 2005. Green Power EMC is a Georgia electric membership corporation formed for the development of sources of environmentally friendly electric energy, known as green power, and for the joint administration of green power related contracts.

The initial term of the Green Power Agreement terminated on September 30, 2006. The Green Power Agreement shall be automatically renewed for successive one year periods unless terminated by either party after giving not less than 90 days prior written notice of intent to terminate prior to the end of the initial term or any renewal period.

Credit Cards

At December 31, 2017 and 2016, the Corporation had approximately $55,000 in total credit card lines-of-credit available.

Notes to Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

18. RELATED PARTY TRANSACTIONS:

Details of certain significant related party transactions are as follows:

	2017	2016
Power purchased from OPC, GTC, GSOC & Green Power during the year ended December 31	$ 13,298,318	$ 13,669,698
Payable to OPC, GTC, GSOC & Green Power for purchased power at December 31	$ 1,127,918	$ 1,169,591
G & T capital credits assigned by OPC during the year ended December 31	$ 484,058	$ 457,905
G & T capital credits assigned by GTC during the year ended December 31	$ 115,842	$ 141,040
Capital credits assigned by GSOC during year ended December 31	$ (30)	$ 36
Total accumulated OPC capital credits at December 31	$ 9,138,230	$ 8,654,172
Total capital contribution and accumulated GTC capital credits at December 31	$ 2,974,124	$ 2,858,282
Total accumulated GSOC capital credits at December 31	$ 2,440	$ 2,470
Power purchased from GEC during the year ended December 31	$ 11,684,701	$ 11,580,566
Payable to GEC for purchased power at December 31	$ 960,392	$ 749,849
G & T capital credits assigned by GEC during the year ended December 31	$ 694,078	$ 533,908
Total capital contribution and accumulated GEC capital	$ 3,260,715	$ 2,566,637

18. RELATED PARTY TRANSACTIONS:

The Corporation provides accounting services for Baconton. The Corporation billed Baconton a total of $35,052 for accounting services for each of the years ended December 31, 2017 and 2016, respectively. Baconton owed the Corporation $2,921 at December 31, 2017 and 2016, respectively, for accounting services. The Corporation and Baconton have agreed to terminate the contract for accounting services in 2018.

The Corporation provides SOWEGA and Baconton the energy necessary for their plant operations. The Corporation billed SOWEGA and Baconton a total of $418,810 and $787,852 for energy for the years ended December 31, 2017 and 2016, respectively. SOWEGA and Baconton owed the Corporation $64,503 and $49,353 at December 31, 2017 and 2016, respectively, for energy.

The amount owed by SOWEGA under a note receivable was $2,215,386 at December 31, 2017 and 2016. SOWEGA owed the Corporation interest on the note receivable of $23,694 and $23,687 for the years ended December 31, 2017 and 2016, respectively.

19. SUBSEQUENT EVENTS:

The Corporation assessed events that have occurred subsequent to December 31, 2017 through May 18, 2018, for potential recognition and disclosure in the consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

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

We have audited the consolidated financial statements of Grady Electric Membership Corporation and Subsidiaries as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated May 18, 2018, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Nichols, Cauley & Associates, LLC

Warner Robins, Georgia
May 18, 2018

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Balance Sheet

December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
ASSETS					
Electric plant:					
In service - at cost	$ 109,155,175	$ -	$ -	$ -	$ 109,155,175
Construction work in progress	383,086	-	-	-	383,086
	109,538,261	-	-	-	109,538,261
Less - Accumulated provisions for depreciation	(25,801,264)	-	-	-	(25,801,264)
	83,736,997	-	-	-	83,736,997
Other assets and investments:					
Investments in associated organizations	17,832,989	-	-	-	17,832,989
Equity investment - Sowega Energy Resources, LLC	631,898	-	-	-	631,898
Equity investment - SSFF Holdings, LLC	415,000	-	-	-	415,000
Equity investment - Grady EMC Holding Corporation	1,291,193	-	-	(1,291,193)	-
Equity investment - Sowega Holding Corporation	-	1,291,193	-	-	1,291,193
Equity investment - Sugar Cane Properties, LLC	1,658,727	-	-	(1,658,727)	-
Note receivable - SOWEGA Power LLC	2,215,386	-	-	-	2,215,386
Non-utility plant, net of accumulated depreciation of $39,330	-	-	1,649,256	-	1,649,256
	24,045,193	1,291,193	1,649,256	(2,949,920)	24,035,722
Current assets:					
Cash:					
General funds	1,539,918	-	9,471	-	1,549,389
Construction fund	101	-	-	-	101
Accounts receivable (less allowance for doubtful accounts of $260,763)	2,521,893	-	-	-	2,521,893
Unbilled electric revenue	1,808,975	-	-	-	1,808,975
Materials and supplies (at average cost)	551,022	-	-	-	551,022
Other	193,766	-	-	-	193,766
	6,615,675	-	9,471	-	6,625,146
Deferred charges	12,243	-	-	-	12,243
Total assets	$ 114,410,108	$ 1,291,193	$ 1,658,727	$ (2,949,920)	$ 114,410,108

See independent auditor’s report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Balance Sheet

December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
EQUITIES AND LIABILITIES					
Equities:					
Membership fees	$ 66,365	$ --	$ --	$ --	$ 66,365
Patronage capital	47,022,188	--	--	--	47,022,188
Other equities	2,664,300	--	1,658,727	(1,658,727)	2,664,300
Common stock, $.01 par value, 10,000 shares authorized, 500 shares issued and outstanding	--	5	--	(5)	--
Additional paid-in capital	--	2,066,280	--	(2,066,280)	--
Retained earnings	--	(775,092)	--	775,092	--
	49,752,853	1,291,193	1,658,727	(2,949,920)	49,752,853
Long-term debt, net of current maturities:					
CoBank mortgage notes	26,913,597	--	--	--	26,913,597
FFB mortgage notes	15,479,584	--	--	--	15,479,584
Accumulated provision for postretirement benefits	5,574,523	--	--	--	5,574,523
	47,967,704	--	--	--	47,967,704
Current liabilities:					
Current maturities of long-term debt	2,030,641	--	--	--	2,030,641
Lines of credit	7,621,044	--	--	--	7,621,044
Accounts payable - purchased power	1,914,830	--	--	--	1,914,830
Accounts payable - other	1,109,140	--	--	--	1,109,140
Consumer deposits	1,536,528	--	--	--	1,536,528
Other	2,477,368	--	--	--	2,477,368
	16,689,551	--	--	--	16,689,551
Deferred credits	-	--	--	--	--
Total equities and liabilities	$ 114,410,108	$ 1,291,193	$ 1,658,727	$ (2,949,920)	$ 114,410,108

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Revenues and Comprehensive Margins

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Operating revenues	$ 41,062,270	$ --	$ --	$ --	$ 41,062,270
Operating expenses:					
Cost of power	25,768,943	--	--	--	25,768,943
Distribution operations	2,233,770	--	--	--	2,233,770
Distribution maintenance	3,568,804	--	--	--	3,568,804
Consumer accounts	1,420,824	--	--	--	1,420,824
General and administrative	2,692,274	--	--	--	2,692,274
Depreciation	3,270,635	--	6,210	--	3,276,845
Taxes	--	--	10,027	--	10,027
	38,955,250	--	16,237	--	38,971,487
Operating margins (loss) before interest expense	2,107,020	--	(16,237)	--	2,090,783
Interest expense	1,545,269	--	--	--	1,545,269
Operating margins (loss) after interest expense	561,751	--	(16,237)	--	545,514
G & T and other capital credits	1,647,130	--	--	--	1,647,130
Net operating margins (loss)	2,208,881	--	(16,237)	--	2,192,644

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Revenues and Comprehensive Margins

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Net operating margins (loss)	2,208,881	--	(16,237)	--	2,192,644
Nonoperating margins:					
Interest income	131,607	--	14	--	131,621
Equity income - Sowega Energy Resources, LLC	140,508	--	--	--	140,508
Equity income - Grady EMC Holding Corporation	550,025	--	--	(550,025)	--
Equity income - Sowega Holding Corporation	--	550,025	--	--	550,025
Equity loss - Sugar Cane Properties, LLC	(7,263)	--	--	7,263	--
Other nonoperating income	116,336	--	8,960	--	125,296
	931,213	550,025	8,974	(542,762)	947,450
Net margins (loss)	3,140,094	550,025	(7,263)	(542,762)	3,140,094
Other comprehensive margins -					
Change in unrecognized net actuarial losses	(1,761,300)	--	--	--	(1,761,300)
Other comprehensive margins (loss)	(1,761,300)	--	--	--	(1,761,300)
Net comprehensive margins (loss)	$ 1,378,794	$ 550,025	$ (7,263)	$ (542,762)	$ 1,378,794

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Changes in Equities

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Membership fees:					
Balance at beginning of year:	$ 66,470	$ --	$ --	$ --	$ 66,470
Membership refunded, net	(105)	--	--	--	(105)
Membership fees at end of year	66,365	--	--	--	66,365
Patronage capital:					
Balance at beginning of year	44,569,199	--	--	--	44,569,199
Net margins	3,140,094	--	--	--	3,140,094
Retirements and gains	(687,105)	--	--	--	(687,105)
Patronage capital at end of year	47,022,188	--	--	--	47,022,188
Other equities:					
Balance at beginning of year	4,013,874	--	1,665,990	(1,665,990)	4,013,874
Patronage capital retirements and gains	411,726	--	--	--	411,726
Change in other comprehensive margins	(1,761,300)	--	--	--	(1,761,300)
Current year net loss	--	--	(7,263)	7,263	--
Other equities at end of year	2,664,300	--	1,658,727	(1,658,727)	2,664,300

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Changes in Equities

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Capital stock -					
Balance at beginning of year	--	5	--	(5)	--
Capital stock at end of year	--	5	--	(5)	--
Additional paid-in-capital -					
Balance at beginning of year	--	2,066,280	--	(2,066,280)	--
Additional paid-in-capital at end of year	--	2,066,280	--	(2,066,280)	--
Retained earnings:					
Balance at beginning of year	--	(1,325,117)	--	1,325,117	--
Current year net income	--	550,025	--	(550,025)	--
Retained earnings at end of year	--	(775,092)	--	775,092	--
Total equities	$ 49,752,853	$ 1,291,193	$ 1,658,727	$ (2,949,920)	$ 49,752,853

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Cash Flows

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Cash flow from operating activities:					
Net margins (loss)	$ 3,140,094	$ 550,025	$ (7,263)	$ (542,762)	$ 3,140,094
Noncash income and expenses included in net margins (loss):					
Equity income -Sowega Energy Resources, LLC	(140,508)	--	--	--	(140,508)
Equity income - Grady EMC Holding Corporation	(550,025)	--	--	550,025	--
Equity income - Sowega Holding Corporation	--	(550,025)	--	--	(550,025)
Equity loss - Sugar Cane Properties, LLC	7,263	--	--	(7,263)	--
Depreciation	3,572,405	--	6,210	--	3,578,615
G&T and other capital credits	(1,647,130)	--	--	--	(1,647,130)
Provision for postretirement benefits	306,000	--	--	--	306,000
Gain on disposal of plant	(70,346)	--	--	--	(70,346)
Decrease (increase) in:					
Accounts receivable and unbilled electric revenue	(856,638)	--	--	--	(856,638)
Other assets	45,755	--	--	--	45,755
Deferred charges	(12,243)	--	--	--	(12,243)
Increase in:					
Accounts payable	108,095	--	--	--	108,095
Other current liabilities	230,313	--	--	--	230,313
Deferred credits	(2,385)	--	--	--	(2,385)
Cash flows provided (used) by operating activities	4,130,650	--	(1,053)	--	4,129,597

See independent auditor’s report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Cash Flows

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Cash flows provided (used) by operating activities	4,130,650	-	(1,053)	-	4,129,597
Cash flows from investing activities:					
Construction and acquisition of plant	(5,850,431)	--	--	--	(5,850,431)
Plant removal costs	(1,260,185)	--	--	--	(1,260,185)
Materials salvaged from retirements	93,285	--	--	--	93,285
Increase in materials and supplies	(18,245)	--	--	--	(18,245)
Proceeds from disposal of plant	89,050	--	--	--	89,050
Equity investments	(415,000)	--	--	--	(415,000)
Proceeds from retirement of associated organizations patronage	229,224	--	--	--	229,224
Cash flows used by investing activities	(7,132,302)	--	--	--	(7,132,302)
Cash flows from financing activities:					
Proceeds from lines of credit, net	5,621,044	--	--	--	5,621,044
Advances of long-term debt	6,336,476	--	--	--	6,336,476
Payments of long-term debt	(8,288,319)	--	--	--	(8,288,319)
Funding of postretirement benefits	(81,092)	--	--	--	(81,092)
Capital credit retirements	(275,379)	--	--	--	(275,379)
Memberships refunded, net	(105)	--	--	--	(105)
Increase in consumer deposits	13,905	--	--	--	13,905
Cash flows provided by financing activities	3,326,530	--	--	--	3,326,530
Net change in cash and cash equivalents	324,878	--	(1,053)	--	323,825
Cash and cash equivalents - beginning of year	1,215,141	--	10,524	--	1,225,665
Cash and cash equivalents - end of year	$ 1,540,019	$ --	$ 9,471	$ --	$ 1,549,490

See independent auditor's report on consolidating information.

GRADY ELECTRIC MEMBERSHIP CORPORATION
AND SUBSIDIARIES
GEORGIA 68 GRADY

Consolidating Statement of Cash Flows

Year Ended December 31, 2017

	Grady Electric Membership Corporation (Parent)	Grady EMC Holding Corporation (Subsidiary)	Sugar Cane Properties, LLC (Subsidiary)	Consolidating Entries	Consolidated Total
Supplemental schedule of noncash investing and financing activities:					
Increase in other equities resulting from discontinuing capital credit retirements	$ 411,726	$ --	$ --	$ --	$ 411,726
Supplemental disclosures of cash flow information -					
Cash paid during the year for:					
Interest	$ 1,510,480	$ --	$ --	$ --	$ 1,510,480

See independent auditor's report on consolidating information.