

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
CLARKESVILLE, GEORGIA**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF  
APRIL 30, 2016 AND 2015 AND  
INDEPENDENT AUDITOR'S REPORT**

## HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY

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September 19, 2016

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Habersham Electric Membership Corporation

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Habersham Electric Membership Corporation and Subsidiary** (the Corporation), which comprise the consolidated balance sheets as of April 30, 2016 and 2015 and the related consolidated statements of operations and comprehensive income, changes in members' equity 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 consolidated financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Habersham Electric Membership Corporation and Subsidiary as of April 30, 2016 and 2015 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2016 on our consideration of Habersham Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Habersham Electric Membership Corporation's internal control over financial reporting and compliance.

*McNair, McLemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**APRIL 30**

**ASSETS**

	<b>2016</b>	<b>2015</b>
<b>Utility Plant</b>		
Electric Plant in Service	\$ 148,013,178	\$ 144,897,240
Construction Work in Progress	289,145	798,118
	<b>148,302,323</b>	<b>145,695,358</b>
Accumulated Provision for Depreciation	(67,369,036)	(62,935,290)
	<b>80,933,287</b>	<b>82,760,068</b>
<b>Other Property and Investments</b>		
Nonutility Plant	4,228,127	4,191,404
Investments in Associated Organizations	16,877,884	15,693,747
Notes Receivable	1,669,862	2,043,811
Restricted Funds	127,668	154,391
Other	68,807	115,640
	<b>22,972,348</b>	<b>22,198,993</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	1,784,250	1,842,989
Accounts Receivable	2,962,406	3,235,120
Current Portion of Notes Receivable	471,000	589,000
Material and Supplies	1,024,767	955,459
Prepayments	5,660,641	5,665,845
Other	15,685	-
	<b>11,918,749</b>	<b>12,288,413</b>
<b>Deferred Debits</b>	<b>3,601,577</b>	<b>4,068,317</b>
<b>Total Assets</b>	<b>\$ 119,425,961</b>	<b>\$ 121,315,791</b>

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

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
APRIL 30**

**MEMBERS' EQUITY AND LIABILITIES**

	<b>2016</b>	<b>2015</b>
<b>Members' Equity</b>		
Membership Fees	\$ 911,705	\$ 897,954
Patronage Capital	45,802,907	43,963,261
Donated Capital	27,577	21,787
Accumulated Other Comprehensive Income	524,703	877,239
Other Equities	87,908	146,065
	<b>47,354,800</b>	<b>45,906,306</b>
 <b>Long-Term Debt</b>	 <b>55,948,521</b>	 <b>59,039,361</b>
 <b>Postretirement Healthcare Benefits - Noncurrent</b>	 <b>4,506,400</b>	 <b>4,342,000</b>
 <b>Current Liabilities</b>		
Long-Term Debt - Current	2,563,000	2,709,500
Short-Term Borrowings	-	311,325
Postretirement Healthcare Benefits - Current	223,300	219,800
Accounts Payable	3,724,161	3,474,486
Consumer Deposits	1,058,232	1,096,788
Accrued and Withheld Taxes	524,986	521,104
Other	1,865,222	1,698,107
	<b>9,958,901</b>	<b>10,031,110</b>
 <b>Deferred Credits</b>	 <b>1,657,339</b>	 <b>1,997,014</b>
 <b>Total Members' Equity and Liabilities</b>	 <b>\$ 119,425,961</b>	 <b>\$ 121,315,791</b>

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

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED APRIL 30**

	2016	2015
<b>Operating Revenues and Patronage Capital</b>	<b>\$ 65,413,683</b>	<b>\$ 64,547,544</b>
<b>Operating Expenses</b>		
Cost of Power	43,814,424	43,289,009
Distribution Operations	2,659,936	2,657,147
Distribution Maintenance	4,156,269	3,287,606
Consumer Service and Information	610,823	627,126
Consumer Accounts	1,565,451	1,679,082
Administrative and General	3,742,431	3,949,435
Depreciation and Amortization	5,714,813	5,545,101
	<b>62,264,147</b>	<b>61,034,506</b>
<b>Operating Margins Before Interest Expense</b>	<b>3,149,536</b>	<b>3,513,038</b>
<b>Interest Expense</b>	<b>2,919,874</b>	<b>3,031,234</b>
<b>Operating Margins After Interest Expense</b>	<b>229,662</b>	<b>481,804</b>
<b>Nonoperating Margins</b>	<b>1,356,761</b>	<b>1,195,232</b>
<b>Generation and Transmission Cooperative Capital Credits</b>	<b>857,052</b>	<b>692,659</b>
<b>Other Capital Credits and Patronage Capital Allocations</b>	<b>645,935</b>	<b>244,793</b>
<b>Net Margins</b>	<b>3,089,410</b>	<b>2,614,488</b>
<b>Other Comprehensive Income - Postretirement Healthcare Benefits</b>	<b>(352,536)</b>	<b>(438,262)</b>
<b>Comprehensive Income</b>	<b>\$ 2,736,874</b>	<b>\$ 2,176,226</b>

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

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEARS ENDED APRIL 30, 2016 AND 2015**

	<b>Total Members' Equity</b>	<b>Membership Fees</b>	<b>Patronage Capital</b>	<b>Donated Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Other Equities</b>
<b>Balance, April 30, 2014</b>	\$ 44,489,359	\$ 887,105	\$ 41,944,031	\$ 16,345	\$ 1,315,501	\$ 326,377
Net Margins	2,614,488	-	2,727,442	-	-	(112,954)
Membership Fees	10,849	10,849	-	-	-	-
Patronage Capital Retirements	(770,128)	-	(708,212)	5,442	-	(67,358)
Postretirement Healthcare Benefits	(438,262)	-	-	-	(438,262)	-
<b>Balance, April 30, 2015</b>	45,906,306	897,954	43,963,261	21,787	877,239	146,065
Net Margins	3,089,410	-	3,093,755	-	-	(4,345)
Membership Fees	13,751	13,751	-	-	-	-
Patronage Capital Retirements	(1,302,131)	-	(1,254,109)	5,790	-	(53,812)
Postretirement Healthcare Benefits	(352,536)	-	-	-	(352,536)	-
<b>Balance, April 30, 2016</b>	<b>\$ 47,354,800</b>	<b>\$ 911,705</b>	<b>\$ 45,802,907</b>	<b>\$ 27,577</b>	<b>\$ 524,703</b>	<b>\$ 87,908</b>

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



**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED APRIL 30**

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Net Margins	\$ 3,089,410	\$ 2,614,488
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	5,939,328	5,619,606
Postretirement Healthcare Benefits	(184,636)	(194,562)
Patronage Capital from Associated Organizations	(1,502,987)	(937,451)
Amortization of Voluntary Prepaid Pension Contribution	304,579	304,577
Deferred Revenue	62,663	(207,000)
<b>Change In</b>		
Accounts Receivable	272,714	182,775
Other Current Assets	(10,481)	1,661,269
Accounts Payable	249,675	(146,192)
Accrued and Withheld Taxes	3,882	83,157
Other Accrued Liabilities	167,115	(590,827)
Deferred Credits	(402,338)	301,793
	<b>7,988,924</b>	<b>8,691,633</b>
<b>Cash Flows from Investing Activities</b>		
Extension and Replacement of Utility Plant	(3,635,609)	(3,955,442)
Investment in Capital Term Certificates	-	10,145
Return of Equity from Associated Organizations	318,850	169,314
Deferred Debits	7,229	632,100
Materials and Supplies	(69,308)	(20,804)
Restricted Funds	26,723	1,110,602
Nonutility Plant	(358,729)	(1,059,568)
Notes Receivable	484,949	319,004
Other	53,833	(31,296)
	<b>(3,172,062)</b>	<b>(2,825,945)</b>
<b>Cash Flows from Financing Activities</b>		
Short-Term Borrowing	(311,325)	(1,888,675)
Membership Fees	13,751	10,849
Principal Repayment of Long-Term Debt	(2,809,429)	(3,061,095)
Consumer Deposits	(38,556)	(58,574)
Retirement of Patronage Capital	(1,302,131)	(770,128)
Advance Payments on Long-Term Debt	(427,911)	415,344
	<b>(4,875,601)</b>	<b>(5,352,279)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(58,739)</b>	<b>513,409</b>
<b>Cash and Cash Equivalents - Beginning</b>	<b>1,842,989</b>	<b>1,329,580</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 1,784,250</b>	<b>\$ 1,842,989</b>

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

# HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Summary of Significant Accounting Policies

#### *General*

Accounting policies of Habersham Electric Membership Corporation and Subsidiary (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified and adopted by the Rural Utilities Service (RUS).

#### *Consolidation*

The consolidated financial statements include the accounts and results of operations of Habersham Electric Membership Corporation (Habersham EMC) and its wholly-owned subsidiary, EMC Connections, Inc. Intercompany transactions have been eliminated in the consolidation.

#### *Nature of Operations*

Habersham EMC is a member-owned, not-for-profit corporation organized to provide electric service to its members. EMC Connections is a for-profit corporation organized to provide internet service. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

#### *Long-Lived Assets*

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether 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 the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

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

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Utility Plant***

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

### ***Nonutility Plant***

Nonutility plant is capitalized at cost. In general, nonutility plant is capitalized at the time it becomes available for service. Nonutility plant is reported on the consolidated balance sheets net of accumulated provision for depreciation of \$1,266,084 and \$975,469 as of April 30, 2016 and 2015, respectively.

### ***Depreciation and Maintenance***

Depreciation of the capitalized cost is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

Depreciation of distribution plant is based on the estimated useful lives of the assets. Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.2 percent per annum, with the exception of automated meters which have a straight-line rate of 10.0 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 3.0 to 24.0 percent per annum.

Depreciation of nonutility plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 6.67 to 14.40 percent per annum.

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

### ***Investments in Associated Organizations***

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with *Accounting Standards Codification (ASC) 905-325-30*.

### ***Cash Equivalents***

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Restricted Funds***

Restricted funds consist of cash and cash equivalents, which use is restricted. The funds include economic development funds that have yet to be advanced and deferred compensation to management.

### ***Accounts Receivable and Credit Policies***

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is deemed uncollectible, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of the provision for uncollectible accounts of \$291,740 and \$199,836 as of April 30, 2016 and 2015, respectively.

### ***Materials and Supplies***

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

### ***Regulated Operations***

The Corporation, in its rate-making capacity, has the ability to account for certain revenue and expense deferrals in accordance with ASC 980.

### ***Equities and Margins***

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 39.65 percent and 37.84 percent of total assets as of April 30, 2016 and 2015, respectively.

### ***Cost of Purchased Power***

Cost of power is expensed as consumed.

## **(1) Summary of Significant Accounting Policies (Continued)**

### ***Operating Revenues and Patronage Capital***

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Corporation's results of operations if recorded in the consolidated financial statements. Unbilled electric revenue totaled approximately \$2,360,000 and \$2,192,000 as of April 30, 2016 and 2015, respectively.

Patronage capital represents the Corporation's accumulated retained excess of revenues over expense that has been allocated annually to its members. Distributions to members are made at the discretion of the board of directors in accordance with the bylaws, subject to restrictions contained in the long-term debt agreements.

### ***Generation and Transmission Cooperative Capital Credits***

Generation and transmission cooperative capital credits represent the annual capital furnished to Oglethorpe Power Corporation, Smarr EMC and Georgia Transmission Corporation through payment of power bills. The capital is recorded in the year provided.

### ***New Accounting Pronouncements***

The Corporation has early implemented certain provisions of Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Measurement of Financial Assets and Financial Liabilities*. To simplify reporting, fair value disclosures for financial instruments reported at amortized cost are no longer provided in the notes to these consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) released ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. The standard will require the Corporation to accrue unbilled electric revenue using either a full retrospective or retrospective with cumulative effect transition method and will require a change in accounting principle in the period adopted. The Corporation has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

## (1) Summary of Significant Accounting Policies (Continued)

### *Sales Tax*

Certain portions of the Corporation's sales are subject to sales tax imposed by jurisdictions. When required, the Corporation collects sales tax from customers and remits it to the applicable jurisdiction. The Corporation's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

### *Income Taxes*

Habersham EMC is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. Accordingly, no provision for income taxes has been made in the consolidated financial statements.

EMC Connections is a taxable corporation but had no taxable income in the years ended April 30, 2016 and 2015. Accordingly, no provision for income taxes has been made in the consolidated financial statements

### *Comprehensive Income*

The objective of comprehensive income is to report a measure of all changes in equity of the entity that result from transactions and events of the period other than transactions with members. The Corporation's comprehensive income for 2016 and 2015 consists of net margins and costs not yet recognized as a component of income related to the Corporation's postretirement healthcare plan.

### *Subsequent Events*

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through September 19, 2016, the date the consolidated financial statements were available to be issued.

## (2) Utility Plant

Listed below are the major classes of electric utility plant as of April 30:

	<u>2016</u>	<u>2015</u>
Distribution Plant	\$ 119,377,180	\$ 116,600,150
General Plant	<u>28,635,998</u>	<u>28,297,090</u>
<b>Electric Plant in Service</b>	<b>148,013,178</b>	144,897,240
Construction Work in Progress	<u>289,145</u>	798,118
	<u><u>\$ 148,302,323</u></u>	<u><u>\$ 145,695,358</u></u>

### (3) Investments in Associated Organizations

Investments in associated organizations consisted of the following as of April 30:

	<u>2016</u>	<u>2015</u>
CoBank		
Membership Fee	\$ 1,000	\$ 1,000
Capital Credits	40,089	61,730
Federated Rural Electric Insurance Exchange		
Capital Credits	199,020	198,232
Georgia Electric Membership Corporation		
Capital Surplus	22,934	48,085
Georgia EMC Directors' Association		
Membership Fee	1,000	-
Georgia Energy Cooperative		
Membership Fee	100	100
Capital Credits	30,136	30,136
Contributed Capital	4,910	4,910
Georgia System Operations Corporation		
Capital Credits	3,337	3,285
Georgia Transmission Corporation		
Contributed Capital	703,736	703,736
Capital Credits	2,663,185	2,466,185
Green Power EMC		
Capital Credits	25	25
GRESKO Utility Supply, Inc.		
Capital Credits	615,148	601,600
Oglethorpe Power Corporation		
Capital Credits	10,184,646	9,524,645
National Rural Telecommunications Cooperative		
Capital Credits	186	1,957
National Rural Utilities Cooperative Finance Corporation (CFC)		
Membership Fee	1,000	1,000
Capital Term Certificates	724,089	724,089
Member Capital Securities	325,000	325,000
Capital Credits	378,414	350,042
North Georgia Network Cooperative, Inc.		
Capital Credits	343,918	-
Smarr EMC		
Contributed Capital	58,976	58,976
Capital Credits	350,101	349,785
Southeastern Data Cooperative, Inc.		
Membership Fee	100	100
Capital Credits	226,834	239,129
	<u>\$ 16,877,884</u>	<u>\$ 15,693,747</u>

#### (4) Notes Receivable

Notes receivable consisted of the following as of April 30:

	<b>Interest Rate at April 30, 2016</b>	<b>2016</b>	<b>2015</b>
How\$mart Notes	0 to 5%	\$ 2,170,794	\$ 2,664,794
Provision for Uncollectible Notes		(29,932)	(31,983)
Current Portion of Notes Receivable		(471,000)	(589,000)
		<b>\$ 1,669,862</b>	<b>\$ 2,043,811</b>

The Corporation has notes receivable from members for energy efficiency loans made through the How\$mart program. The program provides 3.95 and 5.00 percent loans for a maximum term of ten years and zero percent loans for a term of five years. The zero percent How\$mart loans are funded by a revolving fund established by Oglethorpe Power Corporation. The Corporation has established a reserve for the loan losses resulting from the How\$mart loans.

#### (5) Prepayments

Prepayments consisted of the following as of April 30:

	<b>2016</b>	<b>2015</b>
Prepaid Power Costs	\$ 5,394,913	\$ 5,440,093
Prepaid Retiree Benefits	92,602	85,598
Prepaid Insurance	74,962	46,070
Other	98,164	94,084
	<b>\$ 5,660,641</b>	<b>\$ 5,665,845</b>

#### (6) Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through RUS, CFC and Federal Financing Bank (FFB). The notes are secured by a mortgage agreement among the Corporation, RUS, CFC and FFB. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At April 30, 2016 and 2015, the Corporation was in compliance with the covenants.

For the year ended April 30, 2015, long-term debt also includes interest-free rural development notes with Rural Business and Cooperative Service (RBS) for economic development in the Corporation's service area.



**(6) Debt (Continued)**

Long-term debt consisted of the following as of April 30:

Holder of Note	Weighted Average Interest Rate at April 30, 2016	2016	2015
RUS	4.63%	\$ 13,783,452	\$ 14,141,871
FFB	3.73%	41,864,150	42,981,186
CFC	5.18%	11,021,666	12,131,273
How\$mart Program	0%	1,318,607	1,318,607
RBS	0%	-	224,367
		<b>67,987,875</b>	70,797,304
RUS Cushion-of-Credit		<b>(9,476,354)</b>	(9,048,443)
Maturities Due Within One Year		<b>(2,563,000)</b>	(2,709,500)
		<b>\$ 55,948,521</b>	<b>\$ 59,039,361</b>

Principal maturities of long-term debt are as follows:

Year	Amount
2017	\$ 2,563,000
2018	2,691,000
2019	2,826,000
2020	2,967,000
2021	3,115,000
Thereafter	53,825,875

Cash payments of interest totaled \$2,905,235 and \$2,990,452 for the years ended April 30, 2016 and 2015, respectively.

The Corporation has \$15,724,000 in unadvanced loan funds on commitment from FFB. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the mortgage agreements.

The Corporation has a \$7,500,000 line-of-credit at 2.9 percent with CFC which had no outstanding balance as of April 30, 2016 and 2015. The Corporation also has a \$5,000,000 line-of-credit at 2.54 percent with CoBank which had \$-0- and \$311,325 outstanding balances as of April 30, 2016 and 2015, respectively.

## (6) Debt (Continued)

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

The Corporation has received \$1,318,607 from Oglethorpe Power Corporation in loans to fund zero percent How\$mart energy efficiency loans to its members. Upon termination of the How\$mart program, the loan funds will be repaid to Oglethorpe Power Corporation.

## (7) Deferred Debits

Deferred debits are comprised of the following as of April 30:

	<u>2016</u>	<u>2015</u>
Voluntary Prepaid Pension Contribution	\$ 2,132,037	\$ 2,436,615
Fiber Indefeasible Right of Use (IRU)	1,456,365	1,611,297
Various Clearing Accounts	13,175	20,405
	<u>\$ 3,601,577</u>	<u>\$ 4,068,317</u>

In 2013, the Corporation made a voluntarily prepaid contribution of \$3,045,769 to the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan). In accordance with the guidance provided by RUS to its borrowers, the Corporation is amortizing the prepayment over 10 years.

In 2012, the Corporation entered into an IRU Agreement with a third party with fair market value of \$1,859,189. Under the terms of the IRU, the Corporation has exclusive, unrestricted and indefeasible right to use fiber in the Corporation's service territory for a period of 20 years. The IRU is being amortized on a straight-line basis over the life of the agreement.

## (8) Deferred Credits

Deferred credits consisted of the following as of April 30:

	<u>2016</u>	<u>2015</u>
Deferred Revenue - Regulatory Liability	\$ 1,270,000	\$ 1,207,337
Other	<b>387,339</b>	789,677
	<u>\$ 1,657,339</u>	<u>\$ 1,997,014</u>

The Corporation's revenue deferral represents revenues which have been deferred to offset future power cost increases. The Corporation's board of directors specified the deferred funds be deposited in a special fund until such time as a like amount is subsequently amortized into revenue. Accordingly, the funds have been set aside as a RUS cushion-of-credit on the consolidated balance sheets.

The revenue deferrals are in compliance with U.S. GAAP for regulated operations and have been approved by RUS.

	<u>2016</u>	<u>2015</u>
Beginning Balance	\$ 1,207,337	\$ 1,414,337
Revenue Deferred	<b>650,000</b>	620,000
Revenue Recognized	<b>(587,337)</b>	(827,000)
Ending Balance	<u>\$ 1,270,000</u>	<u>\$ 1,207,337</u>

## (9) Nonoperating Margins

Nonoperating margins consisted of the following for the years ended April 30:

	<u>2016</u>	<u>2015</u>
Interest	\$ 828,605	\$ 790,066
Loss from Subsidiary	<b>(4,345)</b>	(112,954)
Other	<b>532,501</b>	518,120
	<u>\$ 1,356,761</u>	<u>\$ 1,195,232</u>

## **(10) Retiree Benefits**

### ***Pension Plan (Defined Benefit)***

Pension benefits for substantially all employees of the Corporation are provided through participation in the NRECA RS Plan, a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

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

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were \$731,784 and \$803,198 for the years ended April 30, 2016 and 2015, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was greater than 80 percent funded at January 1, 2016 and 2015 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

### ***Pension Plan (Defined Contribution Plan)***

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled \$150,327 and \$130,609 for the years ended April 30, 2016 and 2015, respectively.

### ***Deferred Compensation Plan***

The Corporation has deposited funds, representing deferred compensation, on behalf of qualified employees who have elected to defer certain amounts of compensation. Deferred compensation and related funds set aside to fulfill the obligation are recorded as components of restricted funds and other current liabilities. The total deferral was \$127,668 and \$154,391 as of April 30, 2016 and 2015, respectively.

**(10) Retiree Benefits (Continued)*****Postretirement Healthcare Benefits***

The Corporation provides medical benefits and life insurance to qualified retirees, directors and attorneys. U.S. GAAP requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The status of the Corporation's postretirement healthcare plan as of April 30 is detailed as follows:

	<u>2016</u>	<u>2015</u>
<b>Changes in Accumulated Benefit Obligation</b>		
Accumulated Benefit Obligation, Beginning of Year	\$ 4,561,800	\$ 4,318,100
Service Cost	86,900	81,800
Interest Cost	180,200	184,000
Changes in Actuarial Assumptions	120,600	199,300
Estimated Pay-As-You-Go	<u>(219,800)</u>	<u>(221,400)</u>
Accumulated Benefit Obligation, End of Year	<u>4,729,700</u>	<u>4,561,800</u>
<b>Changes in Plan Assets</b>		
Fair Value of Plan Assets, Beginning of Year	-	-
Benefits Paid	(244,636)	(265,658)
Employer Contributions	244,636	230,784
Plan Participant Contributions	<u>-</u>	<u>34,874</u>
Fair Value of Plan Assets, End of Year	<u>-</u>	<u>-</u>
Funded Status, End of Year	<u>\$ 4,729,700</u>	<u>\$ 4,561,800</u>

Amounts recognized on the consolidated balance sheets consisted of:

	<u>2016</u>	<u>2015</u>
Noncurrent Liabilities	\$ 4,506,400	\$ 4,342,000
Current Liabilities	<u>223,300</u>	<u>219,800</u>
	<u>\$ 4,729,700</u>	<u>\$ 4,561,800</u>

**(10) Retiree Benefits (Continued)*****Postretirement Healthcare Benefits (Continued)***

Amounts recognized in accumulated other comprehensive income:

	<u>2016</u>	<u>2015</u>
Actuarial Loss	\$ (1,408,397)	\$ (1,743,261)
Prior Service Credit	<u>1,933,100</u>	<u>2,620,500</u>
	<u>\$ 524,703</u>	<u>\$ 877,239</u>

Components of net periodic benefit cost and other amounts recognized in other comprehensive income:

	<u>2016</u>	<u>2015</u>
Net Periodic Postretirement Benefit Cost		
Service Cost	\$ 86,900	\$ 81,800
Interest Cost	180,200	184,000
Amortization of Actuarial Loss	360,300	448,438
Amortization of Prior Service Credit	<u>(687,400)</u>	<u>(687,400)</u>
Net Periodic Benefit Cost	<u>(60,000)</u>	<u>26,838</u>
Other Changes in Benefit Obligation Recognized in OCI		
Change in Actuarial Assumptions	120,600	199,300
Amortization of Actuarial Loss	(360,300)	(448,438)
Amortization of Prior Service Credit	<u>687,400</u>	<u>687,400</u>
Net Recognized in Other Comprehensive Income	<u>447,700</u>	<u>438,262</u>
Total Recognized in Net Periodic Benefit Cost and OCI	<u>\$ 387,700</u>	<u>\$ 465,100</u>

The following table shows key assumptions used for the measurement of obligations for the plan:

<u>Description</u>	<u>April 30</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Discount Rate for Next Year	3.95%	4.50%	4.50%
Healthcare Cost Trend Rate Assumed for Next Year	6.50%	7.00%	8.00%
Ultimate Healthcare Cost Trend Rate	5.00%	5.00%	5.00%
Year Rate Reaches Ultimate Trend Rate	2020	2020	2020

## **(10) Retiree Benefits (Continued)**

### ***Postretirement Healthcare Benefits (Continued)***

The following benefits are expected to be paid:

<u>Year</u>	<u>Amount</u>
2017	\$ 223,300
2018	225,100
2019	224,200
2020	230,400
2021	237,900
2022-2026	1,286,700

## **(11) Commitments**

The Corporation has entered into various long-term contracts to meet the power supply demands of its consumers. The Corporation has a commitment to pay for its allocation of fixed costs through the term of these contracts, as well as any variable cost incurred. The Corporation is a member of generation cooperative known as Oglethorpe Power Corporation (OPC) and has contracted with OPC based on a percentage of fixed or designated costs to purchase power supply from various resources owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were \$9,945,000 for the year ended April 30, 2016.

The Corporation has an agreement with Georgia Energy Cooperative (GEC) whereby GEC agrees to provide all power requirement needs and scheduling agent services. As part of the agreement, the Corporation has:

- Agreed to be jointly and severally liable for all GEC's obligations, including cost and expenses incurred under the supplier agreement.
- Provided a guaranty as part of GEC's Power Purchased and Scheduling Agent Services Agreement. The Corporation's obligation is limited to an amount not to exceed \$6,287,500.
- Provided a guaranty of a line-of-credit. The Corporation's maximum exposure is \$276,000.
- To meet certain financial covenants or provide credit enhancement in accordance with the terms of the agreement. The Corporation currently meets the required covenants.

The Corporation has a transmission service agreement dated August 1, 1996 with Georgia Transmission Corporation (GTC). The agreement was amended and extended through December 31, 2060. Under the terms of the amended agreement, GTC will own, operate and provide transmission services to the Corporation. The costs for these transmission services totaled approximately \$4,010,000 for the year ended April 30, 2016 and are expected to remain constant through the end of the service agreement.

Under current law, the Corporation has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

## **(12) Concentration of Credit Risk**

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in several financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of \$250,000. As of April 30, 2016, deposits exceeded deposit insurance coverage by approximately \$1,124,600.

The Corporation serves consumers in the state of Georgia. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

## **(13) Litigation**

The Corporation is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results from operations.



McNAIR, McLEMORE, MIDDLEBROOKS & Co., LLC

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September 19, 2016

**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION**

The Board of Directors  
Habersham Electric Membership Corporation

We have audited the consolidated financial statements of **Habersham Electric Membership Corporation and Subsidiary** as of and for the years ended April 30, 2016 and 2015 and our report thereon dated September 19, 2016, which expressed an unmodified opinion on the consolidated financial statements, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information on pages 24 through 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic 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 information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

*McNair, McLemore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**APRIL 30, 2016**

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
<b>ASSETS</b>					
<b>Utility Plant</b>					
Electric Plant in Service	\$ 148,013,178	\$ -	\$ 148,013,178	\$ -	\$ 148,013,178
Construction Work in Progress	289,145	-	289,145	-	289,145
	148,302,323	-	148,302,323	-	148,302,323
Accumulated Provision for Depreciation	(67,369,036)	-	(67,369,036)	-	(67,369,036)
	80,933,287	-	80,933,287	-	80,933,287
<b>Other Property and Investments</b>					
Nonutility Plant (Net)	4,101,197	126,930	4,228,127	-	4,228,127
Investments in Associated Organizations	16,877,884	-	16,877,884	-	16,877,884
Notes Receivable (Net)	1,738,565	-	1,738,565	(68,703)	1,669,862
Restricted Funds	127,668	-	127,668	-	127,668
Other	68,807	-	68,807	-	68,807
	22,914,121	126,930	23,041,051	(68,703)	22,972,348
<b>Current Assets</b>					
Cash and Cash Equivalents	1,745,189	39,061	1,784,250	-	1,784,250
Accounts Receivable (Net)	3,302,867	18,903	3,321,770	(359,364)	2,962,406
Current Portion of Notes Receivable	471,000	-	471,000	-	471,000
Materials and Supplies	1,024,767	-	1,024,767	-	1,024,767
Prepayments	5,658,933	1,708	5,660,641	-	5,660,641
Other	15,685	-	15,685	-	15,685
	12,218,441	59,672	12,278,113	(359,364)	11,918,749
<b>Deferred Debits</b>	3,601,577	-	3,601,577	-	3,601,577
<b>Total Assets</b>	\$ 119,667,426	\$ 186,602	\$ 119,854,028	\$ (428,067)	\$ 119,425,961
<b>MEMBERS' EQUITY AND LIABILITIES</b>					
<b>Members' Equity</b>					
Membership Fees	\$ 911,705	\$ -	\$ 911,705	\$ -	\$ 911,705
Patronage Capital	45,802,907	-	45,802,907	-	45,802,907
Donated Capital	27,577	-	27,577	-	27,577
Accumulated Other Comprehensive Income	524,703	-	524,703	-	524,703
Other Equities	331,496	-	331,496	(243,588)	87,908
Common Stock/Paid-In Capital	-	349,746	349,746	(349,746)	-
Retained Earnings - EMC Connections, Inc.	-	(593,334)	(593,334)	593,334	-
	47,598,388	(243,588)	47,354,800	-	47,354,800
<b>Long-Term Debt</b>	55,948,521	87,403	56,035,924	(87,403)	55,948,521
<b>Other Long-Term Liabilities</b>					
Postretirement Healthcare Benefits - Noncurrent	4,506,400	-	4,506,400	-	4,506,400
<b>Current Liabilities</b>					
Long-Term Debt - Current	2,563,000	-	2,563,000	-	2,563,000
Postretirement Healthcare Benefits - Current	223,300	-	223,300	-	223,300
Accounts Payable	3,722,322	342,503	4,064,825	(340,664)	3,724,161
Consumer Deposits	1,058,232	-	1,058,232	-	1,058,232
Accrued and Withheld Taxes	524,702	284	524,986	-	524,986
Other	1,865,222	-	1,865,222	-	1,865,222
	9,956,778	342,787	10,299,565	(340,664)	9,958,901
<b>Deferred Credits</b>	1,657,339	-	1,657,339	-	1,657,339
<b>Total Members' Equity and Liabilities</b>	\$ 119,667,426	\$ 186,602	\$ 119,854,028	\$ (428,067)	\$ 119,425,961

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED APRIL 30, 2016**

	<b>Habersham EMC</b>	<b>EMC Connections, Inc.</b>	<b>Totals</b>	<b>Elimination Entries</b>	<b>Consolidated Balances</b>
<b>Operating Revenues and Patronage Capital</b>	\$ 65,413,683	\$ (4,345)	\$ 65,409,338	\$ 4,345	\$ 65,413,683
<b>Operating Expenses</b>					
Cost of Power	43,814,424	-	43,814,424	-	43,814,424
Distribution Operations	2,659,936	-	2,659,936	-	2,659,936
Distribution Maintenance	4,156,269	-	4,156,269	-	4,156,269
Consumer Service and Information	610,823	-	610,823	-	610,823
Consumer Accounts	1,565,451	-	1,565,451	-	1,565,451
Administrative and General	3,742,431	-	3,742,431	-	3,742,431
Depreciation and Amortization	5,714,813	-	5,714,813	-	5,714,813
	<u>62,264,147</u>	<u>-</u>	<u>62,264,147</u>	<u>-</u>	<u>62,264,147</u>
<b>Operating Margins Before Interest Expense</b>	3,149,536	(4,345)	3,145,191	4,345	3,149,536
<b>Interest Expense</b>	<u>2,919,874</u>	<u>-</u>	<u>2,919,874</u>	<u>-</u>	<u>2,919,874</u>
<b>Operating Margins After Interest Expense</b>	229,662	(4,345)	225,317	4,345	229,662
<b>Nonoperating Margins</b>	1,361,106	-	1,361,106	(4,345)	1,356,761
<b>Generation and Transmission Cooperative Capital Credits</b>	857,052	-	857,052	-	857,052
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>645,935</u>	<u>-</u>	<u>645,935</u>	<u>-</u>	<u>645,935</u>
<b>Net Margins</b>	3,093,755	(4,345)	3,089,410	-	3,089,410
<b>Other Comprehensive Income - Postretirement Healthcare Benefits</b>	<u>(352,536)</u>	<u>-</u>	<u>(352,536)</u>	<u>-</u>	<u>(352,536)</u>
<b>Comprehensive Income</b>	<u>\$ 2,741,219</u>	<u>\$ (4,345)</u>	<u>\$ 2,736,874</u>	<u>\$ -</u>	<u>\$ 2,736,874</u>

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATING BALANCE SHEET**  
**APRIL 30, 2015**

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
<b>ASSETS</b>					
<b>Utility Plant</b>					
Electric Plant in Service	\$ 144,897,240	\$ -	\$ 144,897,240	\$ -	\$ 144,897,240
Construction Work in Progress	798,118	-	798,118	-	798,118
	145,695,358	-	145,695,358	-	145,695,358
Accumulated Provision for Depreciation	(62,935,290)	-	(62,935,290)	-	(62,935,290)
	82,760,068	-	82,760,068	-	82,760,068
<b>Other Property and Investments</b>					
Nonutility Plant (Net)	4,085,870	105,534	4,191,404	-	4,191,404
Investments in Associated Organizations	15,693,747	-	15,693,747	-	15,693,747
Notes Receivable (Net)	2,163,518	-	2,163,518	(119,707)	2,043,811
Restricted Funds	154,391	-	154,391	-	154,391
Other	103,587	12,053	115,640	-	115,640
	22,201,113	117,587	22,318,700	(119,707)	22,198,993
<b>Current Assets</b>					
Cash and Cash Equivalents	1,348,003	494,986	1,842,989	-	1,842,989
Accounts Receivable (Net)	3,961,481	49,295	4,010,776	(775,656)	3,235,120
Current Portion of Notes Receivable	589,000	-	589,000	-	589,000
Materials and Supplies	955,459	-	955,459	-	955,459
Prepayments	5,664,569	1,276	5,665,845	-	5,665,845
	12,518,512	545,557	13,064,069	(775,656)	12,288,413
<b>Deferred Debits</b>					
	4,068,317	-	4,068,317	-	4,068,317
<b>Total Assets</b>	<b>\$ 121,548,010</b>	<b>\$ 663,144</b>	<b>\$ 122,211,154</b>	<b>\$ (895,363)</b>	<b>\$ 121,315,791</b>
<b>MEMBERS' EQUITY AND LIABILITIES</b>					
<b>Members' Equity</b>					
Membership Fees	\$ 897,954	\$ -	\$ 897,954	\$ -	\$ 897,954
Patronage Capital	43,963,261	-	43,963,261	-	43,963,261
Donated Capital	21,787	-	21,787	-	21,787
Accumulated Other Comprehensive Income	877,239	-	877,239	-	877,239
Other Equities	385,909	-	385,909	(239,844)	146,065
Common Stock/Paid-In Capital	-	349,746	349,746	(349,746)	-
Retained Earnings - EMC Connections, Inc.	-	(589,590)	(589,590)	589,590	-
	46,146,150	(239,844)	45,906,306	-	45,906,306
<b>Long-Term Debt</b>					
	59,039,361	119,707	59,159,068	(119,707)	59,039,361
<b>Other Long-Term Liabilities</b>					
Postretirement Healthcare Benefits - Noncurrent	4,342,000	-	4,342,000	-	4,342,000
<b>Current Liabilities</b>					
Long-Term Debt - Current	2,709,500	-	2,709,500	-	2,709,500
Short-Term Borrowings	311,325	-	311,325	-	311,325
Postretirement Healthcare Benefits - Current	219,800	-	219,800	-	219,800
Accounts Payable	3,467,367	782,775	4,250,142	(775,656)	3,474,486
Consumer Deposits	1,096,788	-	1,096,788	-	1,096,788
Accrued and Withheld Taxes	520,598	506	521,104	-	521,104
Other	1,698,107	-	1,698,107	-	1,698,107
	10,023,485	783,281	10,806,766	(775,656)	10,031,110
<b>Deferred Credits</b>					
	1,997,014	-	1,997,014	-	1,997,014
<b>Total Members' Equity and Liabilities</b>	<b>\$ 121,548,010</b>	<b>\$ 663,144</b>	<b>\$ 122,211,154</b>	<b>\$ (895,363)</b>	<b>\$ 121,315,791</b>

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED APRIL 30, 2015**

	<b>Habersham EMC</b>	<b>EMC Connections, Inc.</b>	<b>Totals</b>	<b>Elimination Entries</b>	<b>Consolidated Balances</b>
<b>Operating Revenues and Patronage Capital</b>	\$ 64,547,544	\$ (112,954)	\$ 64,434,590	\$ 112,954	\$ 64,547,544
<b>Operating Expenses</b>					
Cost of Power	43,289,009	-	43,289,009	-	43,289,009
Distribution Operations	2,657,147	-	2,657,147	-	2,657,147
Distribution Maintenance	3,287,606	-	3,287,606	-	3,287,606
Consumer Service and Information	627,126	-	627,126	-	627,126
Consumer Accounts	1,679,082	-	1,679,082	-	1,679,082
Administrative and General	3,949,435	-	3,949,435	-	3,949,435
Depreciation	5,545,101	-	5,545,101	-	5,545,101
	<u>61,034,506</u>	<u>-</u>	<u>61,034,506</u>	<u>-</u>	<u>61,034,506</u>
<b>Operating Margins Before Interest Expense</b>	3,513,038	(112,954)	3,400,084	112,954	3,513,038
<b>Interest Expense</b>	<u>3,031,234</u>	<u>-</u>	<u>3,031,234</u>	<u>-</u>	<u>3,031,234</u>
<b>Operating Margins After Interest Expense</b>	481,804	(112,954)	368,850	112,954	481,804
<b>Nonoperating Margins</b>	1,308,186	-	1,308,186	(112,954)	1,195,232
<b>Generation and Transmission Cooperative Capital Credits</b>	692,659	-	692,659	-	692,659
<b>Other Capital Credits and Patronage Capital Allocations</b>	<u>244,793</u>	<u>-</u>	<u>244,793</u>	<u>-</u>	<u>244,793</u>
<b>Net Margins</b>	2,727,442	(112,954)	2,614,488	-	2,614,488
<b>Other Comprehensive Income - Postretirement Healthcare Benefits</b>	<u>(438,262)</u>	<u>-</u>	<u>(438,262)</u>	<u>-</u>	<u>(438,262)</u>
<b>Comprehensive Income</b>	<u>\$ 2,289,180</u>	<u>\$ (112,954)</u>	<u>\$ 2,176,226</u>	<u>\$ -</u>	<u>\$ 2,176,226</u>

McNAIR, McLEMORE, MIDDLEBROOKS & Co., LLC

CERTIFIED PUBLIC ACCOUNTANTS

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September 19, 2016

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Habersham Electric Membership Corporation

We have audited, in accordance with the 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, the financial statements of **Habersham Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of April 30, 2016 and the related statements of operations and comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by the board of directors.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McNair, McLeMore, Middlebrooks & Co., LLC*  
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

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September 19, 2016

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS  
AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

The Board of Directors  
Habersham Electric Membership Corporation

We have audited, 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, the financial statements of **Habersham Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of April 30, 2016 and the related statements of operations and comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Corporation's accounting and records to indicate that the Corporation did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;



- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures), except for automated metering equipment which is being depreciated in compliance with guidance provided in 7 CFR Part 1767;
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits which is included in the notes to the financial statements; and
- Comply with the requirements for the detailed schedule of investments which consists of investments in associated organizations and is disclosed in the notes to the financial statements. A detailed schedule of other investments is included as Exhibit A.

This report is intended solely for the information and use of the board of directors, management and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*McNair, McLemore, Middlebrooks & Co., LLC*  
 McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION  
SCHEDULE OF INVESTMENTS  
APRIL 30, 2016**

**OTHER INVESTMENTS**

<u>Name</u>	<u>Type of Organization</u>	<u>Principal Business</u>	<u>Ownership</u>	<u>Investment</u>	<u>Total Return on Investment for the Year</u>	<u>Total Return Life of Investment</u>
EMC Connections, Inc.	Corporation	Services	100%	<u>\$349,746</u>	<u>\$(4,345)</u>	<u>\$(593,334)</u>

EMC Connections, Inc. is a wholly-owned subsidiary of the Corporation and is accounted for on a consolidated basis.

**HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY**  
**MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS**  
**APRIL 30, 2016**

**Auditor’s Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the consolidated financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

**Planned Scope and Timing of the Audit**

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

**Significant Accounting Policies**

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Habersham Electric Membership Corporation and Subsidiary (the Corporation) are outlined in Note 1 to the consolidated financial statements.

The Corporation has early implemented certain provisions of Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Measurement of Financial Assets and Financial Liabilities*. To simplify reporting, fair value disclosures for financial instruments reported at amortized cost are no longer provided in the notes to these consolidated financial statements

We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a period other than when the transaction occurred.

**Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the consolidated financial statements and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions used for employee benefit plans

We evaluated the key factors and assumptions used to develop management’s estimates in determining that they are reasonable in relation to the financial statements as a whole.

## **Significant Audit Adjustments and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended April 30, 2016. In addition, there were no significant uncorrected misstatements, material or immaterial.

## **Disagreements with Management**

Professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 19, 2016.

## **Consultation with Other Accountants**

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

## **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Difficulties Encountered in Performing the Audit**

There were no difficulties encountered in dealing with management related to the performance of the audit.

## **Other Matters**

With respect to the supplementary information accompanying the consolidated financial statements, except that portion marked unaudited, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. GAAP, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information, except that portion marked unaudited, to the underlying accounting records used to prepare the financial statements or to the consolidated financial statements themselves.

This information is intended solely for the information and use of the board of directors and management and is not intended to be used by anyone other than these specified parties.