HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY
CLARKESVILLE, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
APRIL 30, 2017 AND 2016 AND
INDEPENDENT AUDITOR'S REPORT

HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY

CONTENTS

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August 24, 2017

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, 2017 and 2016 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, 2017 and 2016 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 August 24, 2017 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 solely 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 effectiveness of the Corporation's 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

	2017	2016
Utility Plant		
Electric Plant in Service	**$ 157,405,113**	$ 153,367,358
Construction Work in Progress	**1,889,606**	289,145
	159,294,719	153,656,503
Accumulated Provision for Depreciation	**(72,053,258)**	(68,622,018)
	87,241,461	85,034,485
Other Property and Investments		
Nonutility Plant	**160,716**	126,930
Investments in Associated Organizations	**17,984,909**	16,877,884
Notes Receivable	**1,427,517**	1,669,862
Restricted Funds	**103,132**	127,668
Other	**10,572**	68,807
	19,686,846	18,871,151
Current Assets		
Cash and Cash Equivalents	**377,554**	1,784,250
Accounts Receivable	**3,406,742**	2,962,406
Current Portion of Notes Receivable	**438,000**	471,000
Materials and Supplies	**1,398,483**	1,024,767
Prepayments	**2,367,203**	5,660,641
Other	**-**	15,684
	7,987,982	11,918,748
Deferred Debits	**3,882,142**	3,601,577
Total Assets	**$ 118,798,431**	$ 119,425,961

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

	2017	2016
Members' Equity		
Membership Fees	**$ 923,590**	$ 911,705
Patronage Capital	**46,249,928**	45,802,907
Donated Capital	**30,158**	27,577
Accumulated Other Comprehensive Income	**(85,158)**	524,703
Other Equities	**139,936**	87,908
	47,258,454	47,354,800
Long-Term Debt	**49,462,848**	55,948,521
Postretirement Healthcare Benefits - Noncurrent	**4,865,100**	4,506,400
Current Liabilities		
Long-Term Debt - Current	**2,609,000**	2,563,000
Postretirement Healthcare Benefits - Current	**240,700**	223,300
Accounts Payable	**3,720,787**	3,724,161
Line-of-Credit	**3,050,000**	-
Consumer Deposits	**1,044,532**	1,058,232
Accrued and Withheld Taxes	**534,435**	524,986
Other	**1,840,773**	1,865,222
	13,040,227	9,958,901
Deferred Credits	**4,171,802**	1,657,339
Total Members' Equity and Liabilities	**$ 118,798,431**	$ 119,425,961

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

	2017	2016
Operating Revenues and Patronage Capital	**$ 61,689,936**	$ 65,413,683
Operating Expenses		
Cost of Power	**41,612,009**	43,814,424
Distribution Operations	**2,619,044**	2,659,936
Distribution Maintenance	**3,859,118**	4,156,269
Consumer Service and Information	**544,941**	610,823
Consumer Accounts	**1,673,511**	1,565,451
Administrative and General	**3,912,099**	3,742,431
Depreciation and Amortization	**5,307,487**	5,714,813
	59,528,209	62,264,147
Operating Margins Before Interest Expense	**2,161,727**	3,149,536
Interest Expense	**2,765,784**	2,919,874
Operating Margins After Interest Expense	**(604,057)**	229,662
Nonoperating Margins	**1,090,104**	1,356,761
Generation and Transmission Cooperative Capital Credits	**854,712**	857,052
Other Capital Credits and Patronage Capital Allocations	**329,766**	645,935
Net Margins	**1,670,525**	3,089,410
Other Comprehensive Income - Postretirement Healthcare Benefits	**(609,861)**	(352,536)
Comprehensive Income	**$ 1,060,664**	$ 2,736,874

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, 2017 AND 2016

	Total Members' Equity	Membership Fees	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Other Equities
Balance, April 30, 2015	$ 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)	-
Balance, April 30, 2016	47,354,800	911,705	45,802,907	27,577	524,703	87,908
Net Margins	1,670,525	-	1,738,139	-	-	(67,614)
Membership Fees	11,885	11,885	-	-	-	-
Patronage Capital Retirements	(1,168,895)	-	(1,291,118)	2,581	-	119,642
Postretirement Healthcare Benefits	(609,861)	-	-	-	(609,861)	-
Balance, April 30, 2017	**$ 47,258,454**	**$ 923,590**	**$ 46,249,928**	**$ 30,158**	**$ (85,158)**	**$ 139,936**

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

	2017	2016
Cash Flows from Operating Activities		
Net Margins	**$ 1,670,525**	$ 3,089,410
Adjustments to Reconcile Net Margins to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	**5,250,674**	5,939,328
Postretirement Healthcare Benefits	**(233,761)**	(184,636)
Patronage Capital from Associated Organizations	**(1,184,478)**	(1,502,987)
Amortization of Voluntary Prepaid Pension Contribution	**304,576**	304,579
Deferred Revenue	**2,450,000**	62,663
Change In		
Accounts Receivable	**(444,336)**	272,714
Other Current Assets	**3,309,122**	(10,481)
Accounts Payable	**(3,374)**	249,675
Accrued and Withheld Taxes	**9,449**	3,882
Other Accrued Liabilities	**(24,449)**	167,115
Deferred Credits	**64,463**	(402,338)
	11,168,411	7,988,924
Cash Flows from Investing Activities		
Extension and Replacement of Utility Plant	**(7,353,781)**	(3,967,803)
Investment in Capital Term Certificates	**5,589**	-
Return of Equity from Associated Organizations	**71,864**	318,850
Deferred Debits	**(678,101)**	7,229
Materials and Supplies	**(373,716)**	(69,308)
Restricted Funds	**24,536**	26,723
Nonutility Plant	**(44,695)**	(26,535)
Notes Receivable	**275,345**	484,949
Other	**58,235**	53,833
	(8,014,724)	(3,172,062)
Cash Flows from Financing Activities		
Membership Fees	**11,885**	13,751
Principal Repayment of Long-Term Debt	**(2,543,747)**	(2,809,429)
Consumer Deposits	**(13,700)**	(38,556)
Line-of-Credit	**3,050,000**	(311,325)
Retirement of Patronage Capital	**(1,168,895)**	(1,302,131)
Advance Payments on Long-Term Debt	**(3,895,926)**	(427,911)
	(4,560,383)	(4,875,601)
Net Decrease in Cash and Cash Equivalents	**(1,406,696)**	(58,739)
Cash and Cash Equivalents - Beginning	**1,784,250**	1,842,989
Cash and Cash Equivalents - Ending	**$ 377,554**	$ 1,784,250

See the accompanying notes which are an integral part of these 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 of America (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, Inc. 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 $22,797 and $13,102 as of April 30, 2017 and 2016, 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 2.56 to 20.0 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 $408,259 and $291,740 as of April 30, 2017 and 2016, 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 39.78 percent and 39.65 percent of total assets as of April 30, 2017 and 2016, 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 $2,335,000 and $2,360,000 as of April 30, 2017 and 2016, 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 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 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, Inc. is a taxable corporation but had no taxable income in the years ended April 30, 2017 and 2016. 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 Corporation that result from transactions and other economic events of the period other than membership fees and patronage capital retirements. Other comprehensive income (OCI) consists of 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 August 24, 2017, 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:

	2017	2016
Distribution Plant	**$ 122,933,349**	$ 119,377,180
General Plant	**34,471,764**	33,990,178
Electric Plant in Service	**157,405,113**	153,367,358
Construction Work in Progress	**1,889,606**	289,145
	$ 159,294,719	$ 153,656,503

(3) Investments in Associated Organizations

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

	2017	2016
CoBank		
Membership Fee	**$ 1,000**	$ 1,000
Capital Credits	**38,186**	40,089
Federated Rural Electric Insurance Exchange		
Capital Credits	**220,569**	199,020
Georgia Electric Membership Corporation		
Capital Surplus	**22,934**	22,934
Georgia EMC Directors' Association		
Membership Fee	**1,000**	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	**3,351**	3,337
Georgia Transmission Corporation		
Contributed Capital	**703,736**	703,736
Capital Credits	**2,875,358**	2,663,185
Green Power EMC		
Capital Credits	**25**	25
GRESCO Utility Supply, Inc.		
Capital Credits	**621,373**	615,148
Oglethorpe Power Corporation		
Capital Credits	**10,827,170**	10,184,646
National Rural Telecommunications Cooperative		
Capital Credits	**139**	186
National Rural Utilities Cooperative Finance Corporation (CFC)		
Membership Fee	**1,000**	1,000
Capital Term Certificates	**718,500**	724,089
Member Capital Securities	**325,000**	325,000
Capital Credits	**405,010**	378,414
North Georgia Network Cooperative, Inc.		
Capital Credits	**535,306**	343,918
Smarr EMC		
Contributed Capital	**58,976**	58,976
Capital Credits	**350,101**	350,101
Southeastern Data Cooperative, Inc.		
Membership Fee	**100**	100
Capital Credits	**240,929**	226,834
	$ 17,984,909	$ 16,877,884

(4) Notes Receivable

Notes receivable consisted of the following as of April 30:

	Interest Rate at April 30, 2017	2017	2016
How$mart Notes	0 to 5%	**$ 1,897,374**	$ 2,170,794
Provision for Uncollectible Notes		**(31,857)**	(29,932)
Current Portion of Notes Receivable		**(438,000)**	(471,000)
		$ 1,427,517	$ 1,669,862

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:

	2017	2016
Prepaid Power Costs	**$ 2,071,419**	$ 5,394,913
Prepaid Retiree Benefits	**119,276**	92,602
Prepaid Insurance	**79,196**	74,962
Other	**97,312**	98,164
	$ 2,367,203	$ 5,660,641

(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, 2017 and 2016, the Corporation was in compliance with the covenants.

(6) Debt (Continued)

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

Holder of Note	**Weighted Average Interest Rate at April 30, 2017**		**2017**		2016
RUS	4.63%	**$**	**13,376,518**	$	13,783,452
FFB	3.79%		**40,704,615**		41,864,150
CFC	5.24%		**10,044,388**		11,021,666
How$mart Program	0%		**1,318,607**		1,318,607
			65,444,128		67,987,875
RUS Cushion-of-Credit			**(13,372,280)**		(9,476,354)
Maturities Due Within One Year			**(2,609,000)**		(2,563,000)
		$	**49,462,848**	$	55,948,521

Principal maturities of long-term debt are as follows:

Year		**Amount**
2018	$	2,609,000
2019		2,687,000
2020		2,768,000
2021		2,851,000
2022		2,937,000
Thereafter		51,592,128

Cash payments of interest totaled $2,767,789 and $2,905,235 for the years ended April 30, 2017 and 2016, 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 2.5 and 2.9 percent as of April 30, 2017 and 2016, respectively. The Corporation had no outstanding balance on the Line-of-Credit with CFC as of April 30, 2017 and 2016. The Corporation also has a $5,000,000 line-of-credit at 2.54 percent with CoBank which had $3,050,000 and $-0- outstanding balances as of April 30, 2017 and 2016, 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:

	2017	2016
Voluntary Prepaid Pension Contribution	**$ 1,827,461**	$ 2,132,037
Fiber Indefeasible Right of Use (IRU)	**1,363,405**	1,456,365
Various Clearing Accounts	**19,553**	13,175
Other	**671,723**	-
	$ 3,882,142	$ 3,601,577

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:

		2017		2016
Deferred Revenue - Regulatory Liability	**$**	**3,720,000**	$	1,270,000
Other		**451,802**		387,339
	$	**4,171,802**	$	1,657,339

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.

		2017		2016
Beginning Balance	**$**	**1,270,000**	$	1,207,337
Revenue Deferred		**3,070,000**		650,000
Revenue Recognized		**(620,000)**		(587,337)
Ending Balance	**$**	**3,720,000**	$	1,270,000

(9) Nonoperating Margins

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

		2017		2016
Interest	**$**	**797,075**	$	828,605
Loss from Subsidiary		**(67,614)**		(4,345)
Other		**360,643**		532,501
	$	**1,090,104**	$	1,356,761

(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 $745,306 and $731,784 for the years ended April 30, 2017 and 2016, 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, 2017 and 2016 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 $174,813 and $150,327 for the years ended April 30, 2017 and 2016, 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 $103,132 and $127,668 as of April 30, 2017 and 2016, 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:

	2017	2016
Changes in Accumulated Benefit Obligation		
Accumulated Benefit Obligation, Beginning of Year	**$ 4,729,700**	$ 4,561,800
Service Cost	**90,600**	86,900
Interest Cost	**174,900**	180,200
Changes in Actuarial Assumptions	**344,361**	120,600
Estimated Pay-As-You-Go	**(233,761)**	(219,800)
Accumulated Benefit Obligation, End of Year	**5,105,800**	4,729,700
Changes in Plan Assets		
Fair Value of Plan Assets, Beginning of Year	**-**	-
Benefits Paid	**(233,761)**	(244,636)
Employer Contributions	**233,761**	244,636
Plan Participant Contributions	**-**	-
Fair Value of Plan Assets, End of Year	**-**	-
Funded Status, End of Year	**$ 5,105,800**	$ 4,729,700

Amounts recognized on the consolidated balance sheets consisted of:

	2017	2016
Noncurrent Liabilities	**$ 4,865,100**	$ 4,506,400
Current Liabilities	**240,700**	223,300
	$ 5,105,800	$ 4,729,700

(10) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Amounts recognized in accumulated other comprehensive income:

		2017		2016
Actuarial Loss	**$**	**(1,330,858)**	$	(1,408,397)
Prior Service Credit		**1,245,700**		1,933,100
	$	**(85,158)**	$	524,703

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

		2017		2016
Net Periodic Benefit Cost				
Service Cost	**$**	**90,600**	$	86,900
Interest Cost		**174,900**		180,200
Amortization of Actuarial Loss		**421,900**		360,300
Amortization of Prior Service Credit		**(687,400)**		(687,400)
Net Periodic Benefit Cost		**-**		(60,000)
Other Changes in Benefit Obligation Recognized in OCI				
Change in Actuarial Assumptions		**344,361**		120,600
Amortization of Actuarial Loss		**(421,900)**		(360,300)
Amortization of Prior Service Credit		**687,400**		687,400
Net Recognized in Other Comprehensive Income		**609,861**		447,700
Total Recognized in Net Periodic Benefit Cost and OCI	**$**	**609,861**	$	387,700

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

		April 30	
Description	**2017**	2016	2015
Discount Rate for Next Year	**4.10%**	3.95%	4.50%
Healthcare Cost Trend Rate Assumed for Next Year	**N/A**	6.50%	7.00%
Ultimate Healthcare Cost Trend Rate	**N/A**	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:

Year	Amount
2018	$ 240,700
2019	241,300
2020	249,100
2021	260,700
2022	275,300
2023-2027	1,414,800

(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 $11,427,545 for the year ended April 30, 2017.

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 $3,567,500 for the year ended April 30, 2017 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) Concentrations 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, 2017, the Corporation had no deposits in excess of federal deposit insurance coverage.

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) Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. The reclassification had no effect on the reported net margins or comprehensive income. The Corporation concluded that plant previously reported as nonutility plant should be reclassified as a component of utility plant due to changes in the utilization of the reclassified assets.

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August 24, 2017

**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, 2017 and 2016 and our report thereon dated August 24, 2017, 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, 2017

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
ASSETS					
Utility Plant					
Electric Plant in Service	$ 157,405,113	$ -	$ 157,405,113	$ -	$ 157,405,113
Construction Work in Progress	1,889,606	-	1,889,606	-	1,889,606
	159,294,719	-	159,294,719	-	159,294,719
Accumulated Provision for Depreciation	(72,053,258)	-	(72,053,258)	-	(72,053,258)
	87,241,461	-	87,241,461	-	87,241,461
Other Property and Investments					
Nonutility Plant (Net)	-	160,716	160,716	-	160,716
Investments in Associated Organizations	17,984,909	-	17,984,909	-	17,984,909
Notes Receivable (Net)	1,481,132	-	1,481,132	(53,615)	1,427,517
Restricted Funds	103,132	-	103,132	-	103,132
Investment in Subsidiary	(311,202)	-	(311,202)	311,202	-
Other	10,572	-	10,572	-	10,572
	19,268,543	160,716	19,429,259	257,587	19,686,846
Current Assets					
Cash and Cash Equivalents	371,685	5,869	377,554	-	377,554
Accounts Receivable (Net)	3,838,404	6,200	3,844,604	(437,862)	3,406,742
Current Portion of Notes Receivable	438,000	-	438,000	-	438,000
Materials and Supplies	1,361,363	37,120	1,398,483	-	1,398,483
Prepayments	2,368,144	(941)	2,367,203	-	2,367,203
	8,377,596	48,248	8,425,844	(437,862)	7,987,982
Deferred Debits	3,882,142	-	3,882,142	-	3,882,142
Total Assets	$ 118,769,742	$ 208,964	$ 118,978,706	$ (180,275)	$ 118,798,431
MEMBERS' EQUITY AND LIABILITIES					
Members' Equity					
Membership Fees	$ 923,590	$ -	$ 923,590	$ -	$ 923,590
Patronage Capital	46,249,928	-	46,249,928	-	46,249,928
Donated Capital	30,158	-	30,158	-	30,158
Accumulated Other Comprehensive Income	(85,158)	-	(85,158)	-	(85,158)
Other Equities	139,936	-	139,936	-	139,936
Common Stock/Paid-In Capital	-	349,746	349,746	(349,746)	-
Retained Earnings - EMC Connections, Inc.	-	(660,948)	(660,948)	660,948	-
	47,258,454	(311,202)	46,947,252	311,202	47,258,454
Long-Term Debt	49,462,848	53,615	49,516,463	(53,615)	49,462,848
Postretirement Healthcare Benefits - Noncurrent	4,865,100	-	4,865,100	-	4,865,100
Current Liabilities					
Long-Term Debt - Current	2,609,000	-	2,609,000	-	2,609,000
Postretirement Healthcare Benefits - Current	240,700	-	240,700	-	240,700
Accounts Payable	3,692,550	466,099	4,158,649	(437,862)	3,720,787
Line-of-Credit	3,050,000	-	3,050,000	-	3,050,000
Consumer Deposits	1,044,532	-	1,044,532	-	1,044,532
Accrued and Withheld Taxes	533,983	452	534,435	-	534,435
Other	1,840,773	-	1,840,773	-	1,840,773
	13,011,538	466,551	13,478,089	(437,862)	13,040,227
Deferred Credits	4,171,802	-	4,171,802	-	4,171,802
Total Members' Equity and Liabilities	$ 118,769,742	$ 208,964	$ 118,978,706	$ (180,275)	$ 118,798,431

HABERSHAM ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED APRIL 30, 2017

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
Operating Revenues and Patronage Capital	$ 61,689,936	$ (67,614)	$ 61,622,322	$ 67,614	$ 61,689,936
Operating Expenses					
Cost of Power	41,612,009	-	41,612,009	-	41,612,009
Distribution Operations	2,619,044	-	2,619,044	-	2,619,044
Distribution Maintenance	3,859,118	-	3,859,118	-	3,859,118
Consumer Service and Information	544,941	-	544,941	-	544,941
Consumer Accounts	1,673,511	-	1,673,511	-	1,673,511
Administrative and General	3,912,099	-	3,912,099	-	3,912,099
Depreciation and Amortization	5,307,487	-	5,307,487	-	5,307,487
	59,528,209	-	59,528,209	-	59,528,209
Operating Margins Before Interest Expense	2,161,727	(67,614)	2,094,113	67,614	2,161,727
Interest Expense	2,765,784	-	2,765,784	-	2,765,784
Operating Margins After Interest Expense	(604,057)	(67,614)	(671,671)	67,614	(604,057)
Nonoperating Margins	1,090,104	-	1,090,104	-	1,090,104
Generation and Transmission Cooperative Capital Credits	854,712	-	854,712	-	854,712
Other Capital Credits and Patronage Capital Allocations	329,766	-	329,766	-	329,766
Net Margins	1,670,525	(67,614)	1,602,911	67,614	1,670,525
Other Comprehensive Income - Postretirement Healthcare Benefits	(609,861)	-	(609,861)	-	(609,861)
Comprehensive Income	$ 1,060,664	$ (67,614)	$ 993,050	$ 67,614	$ 1,060,664

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

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
ASSETS					
Utility Plant					
Electric Plant in Service	$ 153,367,358	$ -	$ 153,367,358	$ -	$ 153,367,358
Construction Work in Progress	289,145	-	289,145	-	289,145
	153,656,503	-	153,656,503	-	153,656,503
Accumulated Provision for Depreciation	(68,622,018)	-	(68,622,018)	-	(68,622,018)
	85,034,485	-	85,034,485	-	85,034,485
Other Property and Investments					
Nonutility Plant (Net)	-	126,930	126,930	-	126,930
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
	18,812,924	126,930	18,939,854	(68,703)	18,871,151
Current Assets					
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	15,684	-	15,684	-	15,684
	12,218,440	59,672	12,278,112	(359,364)	11,918,748
Deferred Debits	3,601,577	-	3,601,577	-	3,601,577
Total Assets	$ 119,667,426	$ 186,602	$ 119,854,028	$ (428,067)	$ 119,425,961
MEMBERS' EQUITY AND LIABILITIES					
Members' Equity					
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
Long-Term Debt	55,948,521	87,403	56,035,924	(87,403)	55,948,521
Postretirement Healthcare Benefits - Noncurrent	4,506,400	-	4,506,400	-	4,506,400
Current Liabilities					
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
Deferred Credits	1,657,339	-	1,657,339	-	1,657,339
Total Members' Equity and Liabilities	$ 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

	Habersham EMC	EMC Connections, Inc.	Totals	Elimination Entries	Consolidated Balances
Operating Revenues and Patronage Capital	$ 65,413,683	$ (4,345)	$ 65,409,338	$ 4,345	$ 65,413,683
Operating Expenses					
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	5,714,813	-	5,714,813	-	5,714,813
	62,264,147	-	62,264,147	-	62,264,147
Operating Margins Before Interest Expense	3,149,536	(4,345)	3,145,191	4,345	3,149,536
Interest Expense	2,919,874	-	2,919,874	-	2,919,874
Operating Margins After Interest Expense	229,662	(4,345)	225,317	4,345	229,662
Nonoperating Margins	1,361,106	-	1,361,106	(4,345)	1,356,761
Generation and Transmission Cooperative Capital Credits	857,052	-	857,052	-	857,052
Other Capital Credits and Patronage Capital Allocations	645,935	-	645,935	-	645,935
Net Margins	3,093,755	(4,345)	3,089,410	-	3,089,410
Other Comprehensive Income - Postretirement Healthcare Benefits	(352,536)	-	(352,536)	-	(352,536)
Comprehensive Income	$ 2,741,219	$ (4,345)	$ 2,736,874	$ -	$ 2,736,874

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August 24, 2017

**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 and Subsidiary** (the Corporation), which comprise the balance sheet as of April 30, 2017 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 August 24, 2017.

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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August 24, 2017

**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, 2017 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 August 24, 2017. In accordance with *Government Auditing Standards,* we have also issued our report dated August 24, 2017 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

EXHIBIT A

HABERSHAM ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF INVESTMENTS
APRIL 30, 2017

OTHER INVESTMENTS

Name	Type of Organization	Principal Business	Ownership	Investment	Total Return on Investment for the Year	Total Return Life of Investment
EMC Connections, Inc.	Corporation	Services	100%	$349,746	$(67,614)	$(660,948)

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

Auditor's Responsibility Under Generally Accepted Auditing Standards and Government 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 consolidated 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 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 consolidated 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, 2017. 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 August 24, 2017.

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, 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 to the underlying accounting records used to prepare the consolidated 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.