THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
MONROE, GEORGIA

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Walton Electric Membership Corporation

We have audited the accompanying consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** (the Corporation), which comprise the consolidated balance sheets as of June 30, 2016 and 2015 and the related consolidated statements of operations, 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 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. 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 The Walton Electric Membership Corporation and Subsidiaries as of June 30, 2016 and 2015 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

ASSETS

	2016	2015
Utility Plant		
Electric Plant in Service - At Cost	**$ 419,752,672**	$ 399,511,377
Construction Work in Progress	**1,870,821**	2,020,966
	421,623,493	401,532,343
Accumulated Provision for Depreciation	**(148,193,490)**	(139,319,423)
	273,430,003	262,212,920
Other Property and Investments		
Nonutility Property (Net of Depreciation, $358,671 in 2016 and $298,665 in 2015)	**6,843,844**	2,138,044
Investments in Associated Organizations	**98,687,552**	93,760,194
Other Investments	**1,603,320**	1,559,867
	107,134,716	97,458,105
Current Assets		
Cash and Cash Equivalents	**5,427,258**	17,924,358
Interest Receivable	**65,424**	68,554
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $220,834 in 2016 and $154,261 in 2015)	**25,053,440**	26,338,869
Current Portion of Capital Lease Receivable	**-**	11,959,754
Current Portion of Note Receivable - Other Investments	**92,893**	136,926
Materials and Supplies	**2,072,425**	1,661,477
Prepayments	**38,988,157**	38,032,788
	71,699,597	96,122,726
Other Assets	**15,558,974**	12,702,068
Total Assets	**$ 467,823,290**	$ 468,495,819

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30

MEMBERS' EQUITY AND LIABILITIES

	2016	2015
Members' Equity		
Membership Fees	**$ 1,034,705**	$ 1,051,205
Patronage Capital	**181,027,413**	190,245,593
Donated Capital	**1,817,071**	1,439,762
Other Equities	**31,025,906**	29,402,806
Accumulated Other Comprehensive Income	**(51,976,933)**	(31,508,279)
	162,928,162	190,631,087
Long-Term Debt	**103,319,092**	107,804,042
Accumulated Provision for Postretirement Benefits		
Pension Plan	**26,898,468**	22,159,976
Healthcare Benefits	**57,506,677**	40,264,397
	84,405,145	62,424,373
Other Long-Term Liabilities	**529,497**	415,497
Current Liabilities		
Current Maturities of Mortgage Notes	**12,055,000**	29,480,000
Line-of-Credit	**15,500,000**	10,100,000
Accounts Payable	**29,631,400**	28,430,264
Consumer Deposits	**9,979,092**	9,951,302
Current Portion of Healthcare Benefits	**1,277,000**	946,000
Accrued and Withheld Taxes	**4,096,419**	3,598,488
Accrued Interest	**774,575**	936,612
Other	**4,221,531**	4,085,620
	77,535,017	87,528,286
Deferred Credits	**39,106,377**	19,692,534
Total Members' Equity and Liabilities	**$467,823,290**	$468,495,819

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30

	2016	2015
Operating Revenues and Patronage Capital	**$319,473,750**	$336,790,353
Cost of Revenues	**259,772,336**	273,717,774
Gross Margins	**59,701,414**	63,072,579
Operating Expenses		
Operations	**10,623,057**	10,177,652
Maintenance	**12,377,141**	9,349,663
Consumer Accounts	**7,116,780**	7,134,396
Consumer Service and Information	**6,495,498**	6,200,275
Sales	**55,342**	63,211
Administrative and General	**11,088,910**	7,894,198
Depreciation and Amortization	**13,443,134**	12,960,763
Other	**133,021**	68,047
	61,332,883	53,848,205
Operating Margins (Loss) Before Interest Expense	**(1,631,469)**	9,224,374
Interest Expense	**4,726,623**	5,271,731
Operating Margins (Loss) After Interest Expense	**(6,358,092)**	3,952,643
Nonoperating Margins	**3,319,109**	3,948,394
Generation and Transmission Cooperative Capital Credits	**4,836,369**	4,745,215
Other Capital Credits and Patronage Capital Allocations	**1,120,024**	978,762
Income Tax Expense (Benefit)	**(780,770)**	78,910
Net Margins	**$ 3,698,180**	$ 13,546,104

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED JUNE 30

	2016	2015
Net Margins	**$ 3,698,180**	$13,546,104
Other Comprehensive Income		
Changes in Fair Value of Costs Related to Pension Plans	**(5,087,579)**	(8,977,587)
Changes in Fair Value of Costs Related to Healthcare Benefits	**(15,734,201)**	(4,468,884)
Amortization of Actuarial Changes	**(130,561)**	1,151,491
Amortization of Prior Service Cost	**(180,223)**	(180,223)
Amortization of Net Transition Obligation	**663,910**	663,910
	(20,468,654)	(11,811,293)
Total Comprehensive Income	**$(16,770,474)**	$ 1,734,811

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Membership Fees	Patronage Capital	Donated Capital	Other Equities	Accumulated Other Comprehensive Income	Total Members' Equity
Balance, June 30, 2014	$1,065,995	$185,289,189	$1,059,115	$26,903,975	$(19,696,986)	$194,621,288
Net Margins		10,737,750		2,808,354		13,546,104
Patronage Capital Retirements		(6,090,869)	380,647			(5,710,222)
Membership Fees	(14,790)					(14,790)
Other		309,523		(309,523)		-
Postretirement Benefits					(11,811,293)	(11,811,293)
Balance, June 30, 2015	1,051,205	190,245,593	1,439,762	29,402,806	(31,508,279)	190,631,087
Net Margins		1,738,053		1,960,127		3,698,180
Patronage Capital Retirements		(11,293,260)	377,309			(10,915,951)
Membership Fees	(16,500)					(16,500)
Other		337,027		(337,027)		
Postretirement Benefits					(20,468,654)	(20,468,654)
Balance, June 30, 2016	**$1,034,705**	**$181,027,413**	**$1,817,071**	**$31,025,906**	**$(51,976,933)**	**$162,928,162**

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30

	2016	2015
Cash Flows from Operating Activities		
Net Margins	**$ 3,698,180**	$ 13,546,104
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	**13,967,329**	13,540,221
Patronage Capital from Associated Organizations	**(5,756,704)**	(5,723,976)
Healthcare Benefits Cost	**4,615,155**	3,010,165
Pension Plan Cost	**3,620,000**	3,650,000
Revenue Deferral	**18,600,000**	11,000,000
Funding of Healthcare Benefits	**(1,322,038)**	(1,054,409)
Funding of Pension Plan Costs	**(5,070,000)**	(3,100,000)
Payments Received on Capital Lease	**11,959,754**	11,356,730
Change In		
Accounts Receivable	**1,285,429**	2,445,518
Other Current Assets	**(952,239)**	(2,102,070)
Other Assets	**(2,856,906)**	(841,645)
Accounts Payable	**1,201,136**	(3,018,314)
Consumer Deposits	**27,790**	119,869
Accrued and Withheld Taxes	**497,931**	(19,476)
Other Current and Accrued Liabilities	**(26,126)**	240,427
Deferred Credits	**813,843**	704,709
	44,302,534	43,753,853
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(25,184,411)**	(16,290,388)
Return of Equity from Associated Organizations	**995,592**	939,068
Member Capital Securities	**-**	3,000,000
Membership Fees	**(1,000)**	-
ERC and Other Loans	**114,580**	210,130
Materials and Supplies	**(410,948)**	49,791
Nonutility Property	**(4,705,800)**	(2,101,323)
Other Investments	**(165,246)**	(185,568)
	(29,357,233)	(14,378,290)
Cash Flows from Financing Activities		
Advances from NRUCFC	**11,547,129**	20,000,000
Line-of-Credit	**5,400,000**	(2,075,000)
Membership Fees	**(16,500)**	(14,790)
Principal Payments on Long-Term Debt	**(33,457,079)**	(31,967,071)
Retirement of Patronage Capital	**(10,915,951)**	(5,710,222)
	(27,442,401)	(19,767,083)
Net Increase (Decrease) in Cash and Cash Equivalents	**(12,497,100)**	9,608,480
Cash and Cash Equivalents - Beginning	**17,924,358**	8,315,878
Cash and Cash Equivalents - Ending	**$ 5,427,258**	$ 17,924,358

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

(1) Summary of Significant Accounting Policies

Accounting policies of The Walton Electric Membership Corporation (the Corporation) reflect practices appropriate to the electric utility industry and accounting principles generally accepted 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. The following describes the more significant of those policies.

Consolidation

The consolidated financial statements include the accounts and results of operations of the Corporation and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Nature of Operations

The Corporation is a member-owned, not-for-profit corporation whose purpose is to provide electric service to its members. 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.

Doyle I, LLC, a wholly-owned subsidiary of the Corporation, is a generation facility whose purpose is to provide Oglethorpe Power Corporation with all of the facility output, pursuant to a power purchase and sale agreement (See Note 5).

Walton Energy, Inc. d/b/a Walton EMC Natural Gas, a wholly-owned subsidiary of the Corporation, is a natural gas affiliate whose purpose is to provide natural gas service to its customers.

Walton Discover, LLC and Walton Bainbridge, LLC, wholly-owned subsidiaries of the Corporation, are generation facilities whose purpose is to provide Morgan Stanley Capital Group, Inc. with all of the facility output, pursuant to a tolling agreement.

Use of Estimates

The preparation of the 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies (Continued)

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 the 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 lives of the distribution assets.

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.

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.

Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.2 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.0 to 20.0 percent per annum.

Depreciation of generation plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 5.0 to 6.67 percent per annum.

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

(1) Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount management expects to collect. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. The Corporation writes off electric accounts 180 days after service is cut off. Gas accounts are written off 120 days after service is cut off. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of such accumulated allowance.

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.

Advertising

The Corporation expenses advertising cost as it is incurred.

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 patronage. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited.

Regulated Operations

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

Operating Revenues and Patronage Capital

Electric revenues which include patronage capital 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 factors. 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. This unbilled electric revenue totaled approximately $12,086,000 and $11,597,000 for the years ended June 30, 2016 and 2015, respectively.

Gas revenues related to the marketing of natural gas are also billed monthly on a cycle basis. Revenues consist of charges for natural gas, transportation, Atlanta Gas Light Company (AGLC) base charges and the Corporation's consumer service charge. AGLC is responsible for providing meter readings to the Corporation in order for them to correctly bill their customers. Natural gas revenues are recorded for estimated deliveries of natural gas, not yet billed to these customers, from the meter reading date to the end of the accounting period. Unbilled receivables of $853,029 and $957,323 are included in accounts receivable for the years ended June 30, 2016 and 2015, respectively.

(1) Summary of Significant Accounting Policies (Continued)

Presentation of Sales Tax

A portion of the Corporation's sales are subject to sales taxes. The Corporation collects the sales taxes from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

Cost of Revenues

Cost of revenues for electricity and natural gas is expensed as consumed.

Cost of natural gas included charges to purchase, transport, store and meter gas. The Corporation's contractual relationship with a third-party gas asset manager requires earnings by the unrelated party's operations derived from the Corporation to be shared at a 70 to 30 percent ratio. Payments in the amount of $1,572,753 and $1,932,136 have been included as a component of cost of revenues for the years ended June 30, 2016 and 2015, respectively.

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished generation and transmission cooperatives through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

Cash Equivalents

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

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. Comprehensive income consists of net margins and costs not yet recognized as a component of income related to retirement plans.

(1) Summary of Significant Accounting Policies (Continued)

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 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 is effective for nonpublic companies for reporting periods beginning after December 15, 2018 and interim and annual reporting periods thereafter. The standard will require the Corporation to accrue unbilled electric revenue with retrospective application and will require a change in accounting principle in the period adopted.

On November 20, 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred income taxes. ASU 2015-17 requires deferred tax assets and liabilities to be presented as non-current in a classified balance sheet and is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. As permitted, the Corporation elected to early adopt the guidance as of June 30, 2016 and applied its provisions retrospectively to each prior period presented for comparative purposes. Prior to the adoption of ASU 2015-17, all deferred income tax assets and liabilities were required to be separated into current and non-current amounts. The adoption of ASU 2015-17 did not have an impact on the results of operations, cash flows, or balance sheet for the year ended June 30, 2015.

Income Taxes

The Corporation operates under the Internal Revenue Code Section 501(c)(12) as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made for electric cooperative operations.

Walton Energy, Inc. operates under the Georgia Corporation Code as a for-profit corporation. The Corporation accounts for income taxes under the liability methods prescribed by U.S. GAAP. Additional information pertinent to the valuation of income taxes is provided in Note 11.

(1) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

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

Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 consolidated financial statement presentation. These reclassifications had no effect on net income for the year ended June 30, 2015.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 2, 2016, the date the consolidated financial statements were available to be issued.

(2) Utility Plant

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

	2016	2015
Distribution Plant	**$374,803,824**	$363,381,072
General Plant	**37,786,300**	36,130,305
Generation Plant	**7,162,548**	-
Electric Plant in Service	**419,752,672**	399,511,377
Construction Work in Progress	**1,870,821**	2,020,966
	$421,623,493	$401,532,343

(3) Investments in Associated Organizations

	2016	2015
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**8,340,163**	8,686,687
Capital Credits	**6,692,490**	6,427,710
Capital Stock	**100**	100
Oglethorpe Power Corporation		
Capital Credits	**63,808,766**	59,755,766
Georgia Transmission Corporation		
Contributed Capital	**3,743,638**	3,743,638
Capital Credits	**12,739,051**	11,956,051
Georgia System Operations Corporation		
Capital Credits	**17,956**	17,587
GRESCO Utility Supply, Inc.		
Capital Credits	**521,616**	543,275
Southeastern Data Cooperative, Inc.		
Capital Credits	**461,173**	486,724
Georgia Electric Membership Corporation		
Workers' Compensation Fund		
Capital Credits	**141,230**	152,777
Smarr EMC		
Contributed Capital	**423,079**	423,079
Capital Credits	**916,797**	916,797
Federated Rural Electric Insurance Exchange		
Capital Credits	**450,820**	385,803
National Rural Telecommunications Cooperative		
Membership Fee	**1,000**	1,000
Capital Credits	**13,596**	13,369
Green Power EMC		
Membership Fee	**25**	25
Capital Credits	**21,874**	21,874
Georgia Right-of-Way Company, Inc.		
Membership Fee	**1,000**	1,000
Capital Credits	**390,168**	224,922
CoBank	**1,000**	1,000
Other	**1,010**	10
	$98,687,552	$93,760,194

(4) Other Investments

	2016	2015
Investment in Cooperative Choice, LLC	**$1,053,451**	$1,053,451
Deferred Compensation	**529,497**	415,497
Other	**20,372**	90,919
	$1,603,320	$1,559,867

The Corporation accounts for its investments in Cooperative Choice, LLC utilizing the equity method. For the years ended June 30, 2016 and 2015, the Corporation recorded income of $1,184,105 and $943,143, respectively, as a component of nonoperating margins, related to these investments.

The Corporation has deposited funds, representing deferred compensation, on behalf of qualified employees who have elected to defer certain amounts of compensation. The Corporation is subject to assessment for any amounts by which the market valuation of the funds might fall short of contracted and guaranteed amounts due the employees. It is believed that any ultimate liability will not be material in relation to the total assets of the Corporation. The annual deferral of the compensation plans is calculated in accordance with Internal Revenue Code Section (IRC) 457, subject to changes under IRC Section 457(b). The plan assets and liabilities are measured at fair value using quoted prices in active markets for identical assets and considered level 1 investments valued using the market approach. The amounts are invested in mutual funds and totaled $529,497 and $415,497 for the years ended June 30, 2016 and 2015, respectively.

(5) Capital Lease Receivable

In 2000, Doyle I, LLC entered into a power purchase and sale agreement with Oglethorpe Power Corporation. Oglethorpe Power Corporation committed to purchase all of the output of the generation facility for a period covering 15 years. At the end of the 15-year term, Oglethorpe Power Corporation had the option to purchase Doyle I, LLC for $10,000,000, which is considered to be the bargain purchase price. Therefore, the power purchase and sale agreement is shown as a capital lease receivable on the consolidated financial statements. OPC elected to exercise the bargain purchase price option during the year ended June 30, 2016.

(6) Prepayments

	2016	2015
Prepaid Power Costs	**$25,369,240**	$24,460,972
Prepaid Natural Gas	**13,000,000**	13,000,000
Other	**618,917**	571,816
	$38,988,157	$38,032,788

During the years ended June 30, 2016 and 2015, the Corporation elected to participate in a prepayment of power bills program initiated by one of its wholesale power providers. Under the terms of the program, the Corporation prepaid its wholesale power costs and earned a prepayment discount on its power bills during the years ended June 30, 2016 and 2015.

Prepaid natural gas consists of prepayments for customers from the Corporation to Texican Industrial Energy Marketing of $10.000,000 for the years ended June 30, 2016 and 2015. Of these prepayments, $3,000,000 represents a noninterest-bearing deposit with the remaining balance accruing interest at a rate of 5.55 percent along with principal. The prepayments have a maturity date of May 31, 2017. Interest receivable on the prepayments totaled $1,411 and $1,521 as of June 30, 2016 and 2015, respectively.

(7) Patronage Capital

	2016	2015
Assignable	**$ (42,675,004)**	$ (15,440,798)
Assigned	**306,435,408**	277,126,125
	263,760,404	261,685,327
Cumulative Retirements	**(82,732,991)**	(71,439,734)
	$181,027,413	$190,245,593

(8) Debt

Long-term debt consists of mortgage notes payable to NRUCFC. The notes are secured by a mortgage agreement between the Corporation and NRUCFC. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes have maturity periods varying from August 1, 2015 to July 31, 2045 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 June 30, 2016 and 2015, the Corporation was in compliance with the covenants.

On December 29, 1999, a loan agreement was established between the Corporation and Doyle I, LLC. The terms of this agreement state that a generating facility is to be designed, constructed, operated, maintained and owned by Doyle I, LLC. Doyle I, LLC was required to make quarterly principal and interest payments for a term of 15 years from the last day of construction. The interest payable shall bear a stated interest rate equal to the current rate payable under the Corporation's loans from NRUCFC.

(8) Debt (Continued)

Holder of Note	Interest Rate at June 30, 2016	2016	2015
NRUCFC	2.80% to 7.05%	**$115,374,092**	**$127,942,220**
NRUCFC (Related to Doyle I, LLC)	2.95% to 6.25%	**-**	**9,341,822**
		115,374,092	**137,284,042**
Maturities Due Within One Year		**(12,055,000)**	**(29,480,000)**
		$103,319,092	**$107,804,042**

The Corporation has a $24,000,000 line-of-credit at 2.32 percent with NRUCFC which had an outstanding balance of $7,000,000 and $ -0- for the years ended June 30, 2016 and 2015, respectively.

Walton Energy, Inc. has a $30,000,000 line-of-credit with the National Cooperative Services Corporation (NCSC) with an interest rate of 3.55 percent. The line-of-credit is secured by substantially all of the general assets of the Corporation. The line-of-credit has an outstanding balance of $8,500,000 and $10,100,000 as of June 30, 2016 and 2015, respectively.

Approximate principal maturities of long-term debt for each of the next five years are as follows:

Year	Amount
2017	$ 12,055,000
2018	10,221,000
2019	10,334,000
2020	9,878,000
2021	9,256,000
Thereafter	63,630,092
	$115,374,092

Total interest cost was $4,909,067 and 6,114,308, of which $182,444 and $842,577, the amounts related to Doyle I, LLC, are reflected as a reduction in interest expense for 2016 and 2015, respectively. Interest income which is a component of nonoperating margins is reduced by a like amount.

Cash payments of interest totaled $4,917,632 and $6,061,712 for 2016 and 2015, respectively.

(9) Postretirement Benefits

Defined Contribution Plan

The Corporation provides employee benefits to substantially all employees through a sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation’s contributory portion of the costs totaled $1,010,404 and $950,093 for the years ended June 30, 2016 and 2015, respectively.

(9) Postretirement Benefits (Continued)

Pension Plan (Defined Benefit)

The status of the Corporation's pension plan as of June 30 is detailed as follows:

	2016	2015
Accumulated Benefit Obligation, Beginning of Year	**$50,650,613**	$44,391,097
Service Cost	**2,703,994**	2,365,093
Interest Cost	**1,759,828**	1,403,931
Change in Actuarial Assumptions	**5,087,579**	8,977,587
Benefits Paid	**(2,800,801)**	(6,487,095)
Accumulated Benefit Obligation, End of Year	**57,401,213**	50,650,613
Fair Value of Plan Assets, Beginning of Year	**28,490,637**	30,900,869
Actual Return (Loss) on Plan Assets	**(257,091)**	976,863
Contributions	**5,070,000**	3,100,000
Benefits Paid	**(2,800,801)**	(6,487,095)
Fair Value of Plan Assets, End of Year	**30,502,745**	28,490,637
Funded Status	**$26,898,468**	$22,159,976

Amounts recognized as a reduction in equity consisted of the following:

Transition Obligation	**$ 4,707,122**	$ 5,371,032
Prior Service Cost	**(1,423,755)**	(1,603,978)
Actuarial Loss	**20,788,263**	14,116,084
Amount Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost	**$24,071,630**	$17,883,138

Changes in benefit obligations recognized in patronage capital are as follows:

Service Cost	**$ 2,703,994**	$ 2,365,093
Interest Cost	**1,759,828**	1,403,931
Amortization of Unrecognized Amounts	**(1,100,913)**	857,839
Actual Gain (Loss) on Plan Assets	**257,091**	(976,863)
	$ 3,620,000	$ 3,650,000

(9) Postretirement Benefits (Continued)

Pension Plan (Defined Benefit) (Continued)

Changes in benefit obligations recognized in other comprehensive income as of June 30 are as follows:

	2016	2015
Actuarial Loss	**$ 5,087,579**	$ 8,977,587
Amortization of Unrecognized Amounts	**1,584,600**	(374,152)
Amortization of Prior Service Cost	**180,223**	180,223
Amortization of Net Transition Obligation	**(663,910)**	(663,910)
	$ 6,188,492	$ 8,119,748

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

	June 30		
Description	**2016**	2015	2014
Discount Rate			
APBO	**2.74%**	3.60%	3.31%
Net Periodic Expense	**3.60%**	3.31%	3.62%
Expected Long-Term Rate of Return on Plan Assets	**7.50%**	7.50%	7.50%
Rate of Compensation Increase	**3.00%**	3.00%	3.00%
Plan Asset Allocation			
Equity	**69.00%**	69.00%	82.00%
Fixed	**0.00**	0.00	0.00
Cash and Cash Equivalents	**29.00**	29.00	9.00
Other	**2.00**	2.00	9.00
Total Plan Asset Allocation	**100.00%**	100.00%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value. The fair value measurement is considered a Level 1 measurement based on quoted market prices in active markets for identical assets for equity and cash and cash equivalent plan assets. Fixed and other plan assets are considered a Level 2 measurement.

The Corporation expects to contribute $4,370,000 to the pension plan for the year ending June 30, 2017.

The Corporation expects to amortize the following amounts from other comprehensive income during the next fiscal year:

Net Loss	$3,066,459
Prior Service Credit	(180,223)
Net Transition Obligation	663,910

(9) Postretirement Benefits (Continued)

Pension Plan (Defined Benefit) (Continued)

The following benefits are expected to be paid:

Year	Amount
2017	$ 4,315,000
2018	4,162,000
2019	3,952,000
2020	5,537,000
2021	5,072,000
2022-2026	28,607,000

Postretirement Healthcare Benefits

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

	2016	2015
Accumulated Benefit Obligation, Beginning of Year	**$41,210,397**	$35,563,096
Service Cost	**1,051,352**	777,618
Interest Cost	**2,109,765**	1,455,208
Participant Contributions	**88,408**	118,563
Change in Actuarial Assumptions	**15,734,201**	4,468,884
Benefits Paid	**(1,410,446)**	(1,172,972)
Accumulated Benefit Obligation, End of Year	**58,783,677**	41,210,397
Fair Value of Plan Assets, Beginning of Year	**-**	-
Employer Contributions	**1,322,038**	1,054,409
Participant Contributions	**88,408**	118,563
Benefits Paid	**(1,410,446)**	(1,172,972)
Fair Value of Plan Assets, End of Year	**-**	-
Funded Status	**$58,783,677**	$41,210,397

Amounts recognized in the consolidated balance sheets consisted of the following:

Noncurrent Liabilities	**$57,506,677**	$40,264,397
Current Liabilities	**1,277,000**	946,000
	$58,783,677	$41,210,397

Amounts recognized as a reduction in equity consisted of the following:

Actuarial Loss	**$27,905,303**	$13,625,140

(9) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Other changes in benefit obligations recognized in patronage capital as of June 30 are as follows:

	2016	2015
Service Cost	**$ 1,051,352**	$ 777,618
Interest Cost	**2,109,765**	1,455,208
Amortization of Actuarial Loss	**1,454,038**	777,339
Total Recognized in Net Periodic Cost and Patronage Capital	**$ 4,615,155**	$ 3,010,165

Other changes in benefit obligations recognized in other comprehensive income are as follows:

Actuarial Loss	**$15,734,201**	$ 4,468,884
Amortization of Actuarial Loss	**(1,454,038)**	(777,339)
Total Recognized in Other Comprehensive Income	**$14,280,163**	$ 3,691,545

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

	June 30		
Description	**2016**	2015	2014
Discount Rate			
APBO	**3.60%**	4.47%	4.26%
Net Periodic Benefit Cost	**4.47%**	4.26%	4.25%
Medical Trend Rate			
Initial	**7.00%**	7.50%	7.50%
Ultimate	**5.50%**	5.50%	5.50%
Fiscal Year Reached	**2019**	2019	2018

The Corporation expects to contribute $1,277,000 to this postretirement healthcare plan for the fiscal year ending June 30, 2017.

The Corporation expects to amortize $1,944,388 of net loss from other comprehensive income during the next fiscal year.

The following benefits are expected to be paid:

Year	**Amount**
2017	$1,277,000
2018	1,333,000
2019	1,410,000
2020	1,502,000
2021	1,594,000
2022-2026	9,630,000

(10) Other Assets

Other assets are comprised of the following as of June 30:

	2016	2015
AGLC	**$ 2,096,840**	$ 1,922,255
Note Receivable	**10,000,000**	10,000,000
Solar Farm Project	**1,670,209**	-
Deferred Tax Asset	**514,000**	-
Various Clearing Accounts	**1,277,315**	777,321
Miscellaneous Deferred Debits	**610**	2,492
	$15,558,974	$12,702,068

AGLC charges for Walton Energy, Inc. are reported by the Corporation related to cost for pipeline, storage and supporting services to be incurred the month following actual billing. The Corporation accounts for the charges as a deferred item and expenses them in the appropriate month.

Walton Energy, Inc. has a credit agreement with an unrelated party for $10,000,000 for the years ended June 30, 2016 and 2015. The agreement bears an interest rate of 5 percent and matures on June 28, 2017. The Corporation will be paid accrued interest annually along with principal upon maturity. Interest receivable on the prepayments totaled $2,740 as of June 30, 2016 and 2015, respectively.

(11) Income Taxes

Details of income tax expense (benefit) are as follows:

	2016	2015
Federal		
Current	**$ -**	$(299,885)
Deferred	**(852,770)**	289,000
State		
Current	**18,513**	89,795
Deferred	**53,487**	-
	$(780,770)	$ 78,910

(11) Income Taxes (Continued)

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax basis, which give rise to deferred tax assets and liabilities computed at statutory rates, are as follows as of June 30:

	2016	2015
Deferred Tax Assets		
Net Operating Loss Carryforwards	**$ 379,070**	$ -
Unrealized Federal Tax Credits	**1,263,218**	-
Deferred Tax Liabilities		
Accelerated Depreciation and Other Property Basis Differences	**(1,128,288)**	(289,000)
	$ 514,000	$(289,000)

For the year ended June 30, 2016, the Corporation had a federal net operating loss (NOL) carryforward resulting in a deferred tax asset. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized before expiration in 2037.

Unrealized federal tax credits are a result of the federal investment tax credit (ITC) related to construction of solar plant. No valuation allowance has been established due to the likelihood that the full tax benefit will be realized before expiration in 2037.

Deferred tax liabilities are the result of property-related timing differences for depreciation. The application of bonus depreciation for solar plant significantly increased deferred tax liabilities for the years ended June 30, 2016 and 2015, respectively.

(12) Deferred Credits

Deferred credits are comprised of the following as of June 30:

	2016	2015
Unclaimed Property	**$ 5,531,571**	$ 4,428,728
Power Cost Revenue Deferral	**33,574,806**	14,974,806
Deferred Tax Liability	**-**	289,000
	$39,106,377	$19,692,534

The power cost revenue deferrals represent a revenue deferral plan to reduce the impact of the future power cost increases by various power suppliers on the Corporation's rate structure. The revenue deferral is in compliance with U.S. GAAP related to the effects of certain types of regulations and has been approved by the board of directors.

(13) 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 assignment of fixed costs through the term of these contracts, as well as any variable cost incurred above the allocated fixed cost amounts. The Corporation is a member of a 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 facilities owned by OPC. The Corporation has multiple contracts with various expiration terms through 2050. Related fixed costs under these contracts were $68,374,080 in 2016 and are expected to remain relatively constant in the immediate future.

Effective January 1, 2016, the Corporation entered into a power purchases and scheduling agent agreement. The agreement will continue through December 31, 2025. Under the terms of the agreement, the Corporation is required to maintain a modified debt service coverage ratio equal to or greater than 1.35 and a debt to equity ratio less than 2.5:1. In the event these conditions are not met, the Corporation will be required to provide the supplier with acceptable credit support in an amount equal to $100 million. Once conditions are again met by the Corporation, the remaining amount of credit support will be returned. Also under the terms of the agreement, the supplier will supply 100 percent of regulation, spinning reserves, supplemental reserves and planning reserve capacity. The Corporation is in compliance as of June 30, 2016.

The Corporation is a member of a transmission cooperative known as Georgia Transmission Corporation (GTC) and as such, has a Member Transmission Service Agreement (MTSA) executed in 1996 and amended in 2005 and 2012. The MTSA revision of 2012 requires the Corporation to take transmission-related services through 2060 and allows for a reduction in service at prescribed periods. Transmission service under the MTSA was $14,408,886 in 2016 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

The Corporation has entered into various assignment and assumption agreements through Green Power EMC and their participating EMCs. These agreements are in support of the Corporation's receiving capacity and energy from the various renewable generation projects that the Corporation has chosen to participate in through Green Power EMC. In 2016, the Corporation made $1,430,347 in capacity and energy payments for these assets.

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.

In addition, Walton Energy, Inc. is subject to a natural gas supply management agreement, as amended, with an outside third party. The third party acts as the gas asset manager and is responsible for "management services" which include, but are not limited to, performing all administrative and operational tasks associated with providing the Corporation with transportation services, storage services, consulting services and nominating services.

Walton Energy, Inc. services both fixed- and variable-rate customers. The third party bills the Corporation monthly for the volume of gas used by each customer type. When fixed-rate customers lock their rate in with Walton Energy, Inc., the third party is required by the agreement to sell that volume at a negotiated fixed price to the Corporation. Therefore, the transaction is not considered a hedging activity, and no exposure to the Corporation exists as of the balance sheet date unless the third party fails to perform.

(13) Commitments (Continued)

Walton Energy, Inc. has an obligation to deliver a volume of natural gas required by AGLC. If a natural gas marketer does not deliver the required amount of natural gas, penalties may apply in accordance with the AGLC Tariff. Since the amounts required by AGLC are based on estimates, an imbalance, either positive or negative, occurs with some natural gas marketers delivering more natural gas than their consumers actually consume and other natural gas marketers delivering less natural gas than their consumers actually consume. An imbalance in deliveries of natural gas results in some marketers owing other marketers for excess natural gas (short marketer) and some marketers being owed by other marketers for deficient deliveries of natural gas (long marketer). An imbalance from the short marketers is settled with the long marketers, pursuant to the AGLC Tariff.

On December 12, 2008, Georgia Public Service Commission (GPSC) approved an order which changed the methodology to determine the amount of natural gas each marketer is required to deliver, established an escrow fund to receive imbalance amounts from short marketers, required letters-of-credit to secure payment obligations and shortened the time period associated with the settlement process. GPSC conducts an audit to determine Walton Energy, Inc.'s letter-of-credit requirement. As a result of the audit, Walton Energy, Inc.'s letter-of-credit requirement totaled $134,204 and was obtained from NCSC for the year ended June 30, 2016. The letter-of-credit requirement is determined on a quarterly basis, and has been guaranteed by the Corporation.

Walton Energy, Inc. is also required by AGLC's Tariff to provide liquidity support to secure payment of their obligations to AGLC. The liquidity support required is adjusted semiannually based upon a calculation defined in the AGLC Tariff. The liquidity support requirement can be satisfied by cash deposits, a letter-of-credit or a combination of each. Walton Energy, Inc. has elected to secure a letter-of-credit in the amount of $4,090,200 from NCSC to meet requirements for the year ended June 30, 2016.

The Corporation is also 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.

(14) Concentrations of Credit Risk

The Corporation maintains interest-bearing cash balances in multiple financial institutions; those cash balances throughout the year periodically exceed the federally insured deposits limits. The Corporation believes that its cash is not exposed to any significant risk and the Corporation has not experienced any loss in accounts which exceed federally insured limits. At June 30, 2016, bank balances exceeded federally insured deposit limits by $3,606,771.

The Corporation serves customers in the state of Georgia. The geographic concentrations of the Corporation's customers result in a concentrations 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. If a customer does not pay its bill based on the terms of its service agreement, the Corporation may require a consumer deposit as a condition for continued service.

(15) Litigation

Class-action lawsuits have been filed against the Corporation and other cooperatives. The lawsuits challenge patronage capital distribution practices. On May 2, 2016, all plaintiffs' claims against the defendants' were dismissed with prejudice. On June 1, 2016, the plaintiffs filed a notice of appeal with the Court. Management believes the case is without merit and intends to defend the case vigorously. It is not possible to estimate the likelihood of unfavorable outcome in the cases; however, a decision in favor of the plaintiffs could significantly impact the financial position of the Corporation.

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.

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November 2, 2016

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
The Walton Electric Membership Corporation

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** as of and for the years ended June 30, 2016 and 2015 and our report thereon dated November 2, 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 accompanying information on pages 28 through 31 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. 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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2016

	The Walton Electric Membership Corporation	Walton Energy Inc. and Subsidiry	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	$ 412,590,124	$ -	$ 3,113,249	$ 4,049,299	$ 419,752,672	$ -	$ -	$ 419,752,672
Construction Work in Progress	1,870,821	-			1,870,821	-	-	1,870,821
	414,460,945	-	3,113,249	4,049,299	421,623,493	-	-	421,623,493
Accumulated Provision for Depreciation	(148,131,775)	-	(31,066)	(30,649)	(148,193,490)	-	-	(148,193,490)
	266,329,170	-	3,082,183	4,018,650	273,430,003	-	-	273,430,003
Other Property and Investments								
Nonutility Property (Net)	-	6,843,844	-	-	6,843,844	-	-	6,843,844
Investments in Associated Organizations	98,687,552	-	-	-	98,687,552	-	-	98,687,552
Investment in Subsidiary	30,828,104	-	-	-	30,828,104	-	30,828,104	-
Other Investments	1,603,320	-	-	-	1,603,320	-	-	1,603,320
	131,118,976	6,843,844	-	-	137,962,820	-	30,828,104	107,134,716
Current Assets								
Cash and Cash Equivalents	2,521,800	1,505,294	682,429	717,735	5,427,258	-	-	5,427,258
Interest Receivable	61,274	4,150	-	-	65,424	-	-	65,424
Accounts Receivable (Net)	20,122,521	4,677,585	114,167	139,167	25,053,440	-	-	25,053,440
Current Portion of Note Receivable - Other Investments	92,893	-	-	-	92,893	-	-	92,893
Materials and Supplies	1,795,460	-	84,562	192,403	2,072,425	-	-	2,072,425
Prepayments	25,877,212	13,110,945	-	-	38,988,157	-	-	38,988,157
	50,471,160	19,297,974	881,158	1,049,305	71,699,597	-	-	71,699,597
Other Assets	1,132,877	14,281,049	124,552	20,496	15,558,974	-	-	15,558,974
Total Assets	$ 449,052,183	$ 40,422,867	$ 4,087,893	$ 5,088,451	$ 498,651,394	$ -	$ 30,828,104	$ 467,823,290
MEMBERS' EQUITY AND LIABILITIES								
Members' Equity								
Membership Fees	$ 1,034,705	$ -	$ -	$ -	$ 1,034,705	$ -	$ -	$ 1,034,705
Patronage Capital	181,027,413	-	-	-	181,027,413	-	-	181,027,413
Retained Earnings	-	8,915,342	-	-	8,915,342	8,915,342	-	-
Common Stock	-	6,500	-	-	6,500	6,500	-	-
Member's Equity	-	-	3,948,674	4,964,088	8,912,762	8,912,762	-	-
Paid-In Capital	-	12,993,500	-	-	12,993,500	12,993,500	-	-
Donated Capital	1,817,071	-	-	-	1,817,071	-	-	1,817,071
Other Equities	31,025,906	-	-	-	31,025,906	-	-	31,025,906
Accumulated Other Comprehensive Income	(51,976,933)	-	-	-	(51,976,933)	-	-	(51,976,933)
	162,928,162	21,915,342	3,948,674	4,964,088	193,756,266	30,828,104	-	162,928,162
Long-Term Debt	103,319,092	-	-	-	103,319,092	-	-	103,319,092
Accumulated Provision for Postretirement Benefits								
Pension Plan	26,898,468	-	-	-	26,898,468	-	-	26,898,468
Healthcare Benefits	57,506,677	-	-	-	57,506,677	-	-	57,506,677
	84,405,145	-	-	-	84,405,145	-	-	84,405,145
Other Long-Term Liabilities	529,497	-	-	-	529,497	-	-	529,497
Current Liabilities								
Current Maturities of Mortgage Notes	12,055,000	-	-	-	12,055,000	-	-	12,055,000
Line-of-Credit	7,000,000	8,500,000	-	-	15,500,000	-	-	15,500,000
Accounts Payable	20,695,394	8,693,104	127,163	115,739	29,631,400	-	-	29,631,400
Consumer Deposits	9,006,754	972,338	-	-	9,979,092	-	-	9,979,092
Current Portion of Healthcare Benefits	1,277,000	-	-	-	1,277,000	-	-	1,277,000
Accrued and Withheld Taxes	3,752,195	323,544	12,056	8,624	4,096,419	-	-	4,096,419
Accrued Interest	774,575	-	-	-	774,575	-	-	774,575
Other	4,221,531	-	-	-	4,221,531	-	-	4,221,531
	58,782,449	18,488,986	139,219	124,363	77,535,017	-	-	77,535,017
Deferred Credits	39,087,838	18,539	-	-	39,106,377	-	-	39,106,377
Total Members' Equity and Liabilities	$ 449,052,183	$ 40,422,867	$ 4,087,893	$ 5,088,451	$ 498,651,394	$ 30,828,104	$ -	$ 467,823,290

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2016

	The Walton Electric Membership Corporation	Walton Energy Inc. and Subsidiary	Walton Bainbridge, LLC	Walton Discover, LLC	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
Operating Revenues and Patronage Capital	$ 247,299,668	$ 71,439,082	$ 330,000	$ 405,000	$319,473,750	$ -	$ -	$ 319,473,750
Cost of Revenues	195,413,325	64,359,011	-	-	259,772,336	-	-	259,772,336
Gross Margins	51,886,343	7,080,071	330,000	405,000	59,701,414	-	-	59,701,414
Operating Expenses								
Operations	10,507,947	-	45,522	69,588	10,623,057	-	-	10,623,057
Maintenance	12,216,923	-	91,140	69,078	12,377,141	-	-	12,377,141
Consumer Accounts	7,116,780	-	-	-	7,116,780	-	-	7,116,780
Consumer Service and Information	1,657,298	4,838,200	-	-	6,495,498	-	-	6,495,498
Sales	55,342	-	-	-	55,342	-	-	55,342
Administrative and General	9,040,533	1,598,670	201,531	248,176	11,088,910	-	-	11,088,910
Depreciation and Amortization	13,321,414	60,005	31,066	30,649	13,443,134	-	-	13,443,134
Other	112,343	-	12,054	8,624	133,021	-	-	133,021
	54,028,580	6,496,875	381,313	426,115	61,332,883	-	-	61,332,883
Operating Margins (Loss) Before Interest Expense	(2,142,237)	583,196	(51,313)	(21,115)	(1,631,469)	-	-	(1,631,469)
Interest Expense	4,586,061	140,562	-	-	4,726,623	-	-	4,726,623
Operating Margins (Loss) After Interest Expense	(6,728,298)	442,634	(51,313)	(21,115)	(6,358,092)	-	-	(6,358,092)
Nonoperating Margins	4,470,085	736,723	-	-	5,206,808	1,887,699	-	3,319,109
Generation and Transmission Cooperative Capital Credits	4,836,369	-	-	-	4,836,369	-	-	4,836,369
Other Capital Credits and Patronage Capital Allocations	1,120,024	-	-	-	1,120,024	-	-	1,120,024
Income Tax Expense (Benefit)	-	(780,770)	-	-	(780,770)	-	-	(780,770)
Net Margins	$ 3,698,180	$ 1,960,127	$ (51,313)	$ (21,115)	$ 5,585,879	$1,887,699	$ -	$ 3,698,180

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2015

	The Walton Electric Membership Corporation	Doyle I, LLC	Walton Energy, Inc.	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
ASSETS							
Utility Plant							
Electric Plant in Service - At Cost	$ 399,076,604	$ 434,773	$ -	$ 399,511,377	$ -	$ -	$ 399,511,377
Construction Work in Progress	2,020,966	-	-	2,020,966	-	-	2,020,966
	401,097,570	434,773	-	401,532,343	-	-	401,532,343
Accumulated Provision for Depreciation	(139,012,625)	(306,798)	-	(139,319,423)	-	-	(139,319,423)
	262,084,945	127,975	-	262,212,920	-	-	262,212,920
Other Property and Investments							
Nonutility Property (Net)	-	-	2,138,044	2,138,044	-	-	2,138,044
Investments in Associated Organizations	93,753,326	6,868	-	93,760,194	-	-	93,760,194
Investment in Subsidiary	23,869,302	-	-	23,869,302	-	23,869,302	-
Other Investments	1,559,867	-	-	1,559,867	-	-	1,559,867
	119,182,495	6,868	2,138,044	121,327,407	-	23,869,302	97,458,105
Current Assets							
Cash and Cash Equivalents	7,810,145	5,966,497	4,147,716	17,924,358	-	-	17,924,358
Interest Receivable	62,319	1,988	4,247	68,554	-	-	68,554
Accounts Receivable (Net)	21,706,707	376,114	4,953,644	27,036,465	-	697,596	26,338,869
Current Portion of Note Receivable - Capital Lease	-	11,959,754	-	11,959,754	-	-	11,959,754
Current Portion of Note Receivable - Other Investments	136,926	-	-	136,926	-	-	136,926
Materials and Supplies	1,661,477	-	-	1,661,477	-	-	1,661,477
Prepayments	25,032,788	-	13,000,000	38,032,788	-	-	38,032,788
	56,410,362	18,304,353	22,105,607	96,820,322	-	697,596	96,122,726
Other Assets	779,334	-	11,922,734	12,702,068	-	-	12,702,068
Total Assets	$ 438,457,136	$ 18,439,196	$ 36,166,385	$ 493,062,717	$ -	$ 24,566,898	$ 468,495,819
MEMBERS' EQUITY AND LIABILITIES							
Members' Equity							
Membership Fees	$ 1,051,205	$ -	$ -	$ 1,051,205	$ -	$ -	$ 1,051,205
Patronage Capital	190,245,593	-	-	190,245,593	-	-	190,245,593
Retained Earnings	-	19,169,788	6,955,216	26,125,004	26,125,004	-	-
Capital Contributions	-	(10,255,707)	-	(10,255,707)	-	10,255,707	-
Common Stock	-	-	4,000	4,000	4,000	-	-
Paid-In Capital	-	-	7,996,000	7,996,000	7,996,000	-	-
Donated Capital	1,439,762	-	-	1,439,762	-	-	1,439,762
Other Equities	29,402,806	-	-	29,402,806	-	-	29,402,806
Accumulated Other Comprehensive Income	(31,508,279)	-	-	(31,508,279)	-	-	(31,508,279)
	190,631,087	8,914,081	14,955,216	214,500,384	34,125,004	10,255,707	190,631,087
Long-Term Debt	98,496,242	9,218,689	-	107,714,931	9,218,689	9,307,800	107,804,042
Accumulated Provision for Postretirement Benefits							
Pension Plan	22,159,976	-	-	22,159,976	-	-	22,159,976
Healthcare Benefits	40,264,397	-	-	40,264,397	-	-	40,264,397
	62,424,373	-	-	62,424,373	-	-	62,424,373
Other Long-Term Liabilities	415,497	-	-	415,497	-	-	415,497
Current Liabilities							
Current Maturities of Mortgage Notes	29,480,000	-		29,480,000	-	-	29,480,000
Line-of-Credit	-	-	10,100,000	10,100,000	-	-	10,100,000
Accounts Payable	19,517,023	107,618	9,503,219	29,127,860	697,596	-	28,430,264
Consumer Deposits	8,935,696	500	1,015,106	9,951,302	-	-	9,951,302
Current Portion of Healthcare Benefits	946,000	-	-	946,000	-	-	946,000
Accrued and Withheld Taxes	3,308,143	-	290,345	3,598,488	-	-	3,598,488
Accrued Interest	936,612	89,116	-	1,025,728	89,116	-	936,612
Other	3,976,428	109,192	-	4,085,620	-	-	4,085,620
	67,099,902	306,426	20,908,670	88,314,998	786,712	-	87,528,286
Deferred Credits	19,390,035	-	302,499	19,692,534	-	-	19,692,534
Total Members' Equity and Liabilities	$ 438,457,136	$ 18,439,196	$ 36,166,385	$ 493,062,717	$ 44,130,405	$ 19,563,507	$ 468,495,819

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2015

	The Walton Electric Membership Corporation	Doyle I, LLC	Walton Energy, Inc.	Total	Eliminating Entries Debit	Eliminating Entries Credit	The Walton EMC and Subsidiaries
Operating Revenues and Patronage Capital	$ 251,363,488	$ -	$ 85,426,865	$336,790,353	$ -	$ -	$ 336,790,353
Cost of Revenues	195,452,531	-	78,265,243	273,717,774	-	-	273,717,774
Gross Margins	55,910,957	-	7,161,622	63,072,579	-	-	63,072,579
Operating Expenses							
Operations	10,177,652	-	-	10,177,652	-	-	10,177,652
Maintenance	9,349,663	-	-	9,349,663	-	-	9,349,663
Consumer Accounts	7,134,396	-	-	7,134,396	-	-	7,134,396
Consumer Service and Information	1,526,389	-	4,673,886	6,200,275	-	-	6,200,275
Sales	63,211	-	-	63,211	-	-	63,211
Administrative and General	6,518,429	-	1,375,769	7,894,198	-	-	7,894,198
Depreciation and Amortization	12,943,323	-	17,440	12,960,763	-	-	12,960,763
Other	68,047	-	-	68,047	-	-	68,047
	47,781,110	-	6,067,095	53,848,205	-	-	53,848,205
Operating Margins Before Interest Expense	8,129,847	-	1,094,527	9,224,374	-	-	9,224,374
Interest Expense	5,189,546	-	82,185	5,271,731	-	-	5,271,731
Operating Margins After Interest Expense	2,940,301	-	1,012,342	3,952,643	-	-	3,952,643
Nonoperating Margins	4,881,826	1,064,190	668,642	6,614,658	2,666,264	-	3,948,394
Generation and Transmission Cooperative Capital Credits	4,745,215	-	-	4,745,215	-	-	4,745,215
Other Capital Credits and Patronage Capital Allocations	978,762	-	-	978,762	-	-	978,762
Income Tax Expense			78,910	78,910	-	-	78,910
Net Margins	$ 13,546,104	$ 1,064,190	$ 1,602,074	$ 16,212,368	$2,666,264	$ -	$ 13,546,104

MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC
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November 2, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Directors
The Walton Electric Membership Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of **The Walton Electric Membership Corporation** as of June 30, 2016 and 2015 and the related consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the years then ended, and have issued our report thereon dated November 2, 2016.

In connection with our audits, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such 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 insofar as they relate to accounting matters.

This report is intended solely for the information and use of the boards of directors and management of The Walton Electric Membership Corporation and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

McNair, McLemore, Middlebrooks & Co., LLC
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November 2, 2016

MANAGEMENT LETTER

The Board of Directors
The Walton Electric Membership Corporation

We have audited the financial statements of **The Walton Electric Membership Corporation** for the year ended June 30, 2016, and have issued our report thereon dated November 2, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of The Walton Electric Membership Corporation as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those 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.

Auditing standards require that certain matters related to the conduct of the audit are communicated to those who have responsibility for oversight of the financial reporting process. In accordance with these requirements, refer to Matters to be Communicated with the Board of Directors.

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

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION
MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS
JUNE 30, 2016

Auditor's Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter, the auditors are responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America. 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 Walton Electric Membership Corporation (the Corporation) are outlined in Note 1 to the financial statements. The Corporation has early implemented certain provisions of the following Accounting Standards Updates (ASU):

> 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 the 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 financial statements in a period other than when the transaction occurred.
>
> ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* which simplifies the presentation of deferred income taxes. ASU 2015-17 requires deferred tax assets and liabilities to be presented as non-current in a classified balance sheet and is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. As permitted, the Corporation elected to early adopt the guidance as of June 30, 2016 and applied its provisions retrospectively to each prior period presented for comparative purposes. Prior to the adoption of ASU 2015-17, all deferred income tax assets and liabilities were required to be separated into current and non-current amounts. The adoption of ASU 2015-17 did not have an impact on the results of operations, cash flows, or balance sheet for the year ended June 30, 2015.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the 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 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 financial statements were:

- Construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions related to postretirement benefits accruals

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. Attachment A lists adjustments to the consolidated financial statements.

Other Information in Documents Containing Audited Financial Statements

All information accompanying the financial statements has been subject to the same audit procedures as the basic financial statements.

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 financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated November 2, 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 auditors. 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.

Restriction of Use

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

THE WALTON ELECTRIC MEMBERSHIP CORPORATION
AUDIT ENTRIES
FOR THE YEAR ENDED JUNE 30, 2016

	Debit	Credit
Adjustment 1		
Investment in Subsidiary Companies	$ 906,523	
Equity in Earnings of Subsidiaries		$ 906,523
To record current year adjustments for earnings in subsidiary		
Adjustment 2		
Pension Plan Equity Adjustment	6,188,492	
Pension Plan Liability		3,130,600
Pension Plan Assets		3,057,892
To record current year adjustments for actuarially determined pension liability		
Adjustment 3		
Medical Plan Equity Adjustment	14,280,163	
Administrative and General	885,158	
Postretirement Medical Benefit Liability		15,165,321
To record current year adjustments for actuarially determined postretirement medical benefit liability		