THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
MONROE, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES

CONTENTS

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

November 12, 2018

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, 2018 and 2017 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, 2018 and 2017 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

	2018	2017
Utility Plant		
Electric Plant in Service - At Cost	**$ 448,318,258**	$ 433,729,251
Construction Work in Progress	**1,208,509**	1,322,697
	449,526,767	435,051,948
Accumulated Provision for Depreciation	**(167,911,126)**	(157,643,936)
	281,615,641	277,408,012
Other Property and Investments		
Nonutility Property (Net of Accumulated Depreciation, $830,301 in 2018 and $579,148 in 2017)	**11,833,456**	6,717,602
Investments in Associated Organizations	**109,320,218**	103,990,558
Other Investments	**2,206,368**	1,804,480
	123,360,042	112,512,640
Current Assets		
Cash and Cash Equivalents	**29,279,081**	24,186,174
Interest Receivable	**101,902**	84,532
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $89,269 in 2018 and $374,084 in 2017)	**28,876,307**	25,433,463
Current Portion of Other Investments	**40,251**	58,250
Materials and Supplies	**2,231,681**	2,080,927
Prepayments	**38,513,900**	40,755,984
	99,043,122	92,599,330
Other Assets	**16,459,868**	16,505,381
Total Assets	**$ 520,478,673**	$ 499,025,363

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

	2018	2017
Members' Equity		
Membership Fees	**$ 1,012,765**	$ 1,029,360
Patronage Capital	**189,026,921**	177,291,485
Donated Capital	**2,590,138**	2,207,434
Other Equities	**30,268,851**	29,727,008
Accumulated Other Comprehensive Income	**(32,656,266)**	(34,981,344)
	190,242,409	175,273,943
Long-Term Debt	**124,311,535**	129,748,038
Accumulated Provision for Postretirement Benefits		
Pension Plan	**20,724,202**	20,515,243
Healthcare Benefits	**48,493,723**	45,791,072
	69,217,925	66,306,315
Other Long-Term Liabilities	**961,215**	716,209
Current Liabilities		
Current Maturities of Mortgage Notes	**5,691,000**	5,660,000
Line-of-Credit	**12,000,000**	9,200,000
Accounts Payable	**32,843,089**	31,304,106
Consumer Deposits	**9,929,253**	9,999,772
Current Portion of Healthcare Benefits	**1,193,000**	976,000
Accrued and Withheld Taxes	**3,835,803**	3,593,037
Accrued Interest	**877,475**	861,307
Other	**4,427,929**	4,329,995
	70,797,549	65,924,217
Deferred Credits	**64,948,040**	61,056,641
Total Members' Equity and Liabilities	**$520,478,673**	$499,025,363

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

	2018	2017
Operating Revenues and Patronage Capital	**$381,839,448**	$340,023,475
Cost of Revenues	**302,594,152**	279,102,790
Gross Margins	**79,245,296**	60,920,685
Operating Expenses		
Operations	**11,349,190**	10,501,346
Maintenance	**13,906,750**	11,417,014
Consumer Accounts	**7,677,794**	7,152,227
Consumer Service and Information	**8,034,442**	7,448,848
Sales	**61,000**	58,347
Administrative and General	**10,648,165**	12,167,054
Depreciation and Amortization	**14,940,324**	14,377,764
Other	**223,835**	105,685
	66,841,500	63,228,285
Operating Margins (Loss) Before Interest Expense	**12,403,796**	(2,307,600)
Interest Expense	**5,169,900**	4,957,510
Operating Margins (Loss) After Interest Expense	**7,233,896**	(7,265,110)
Nonoperating Margins	**3,948,613**	3,678,659
Generation and Transmission Cooperative Capital Credits	**5,194,753**	5,078,997
Other Capital Credits and Patronage Capital Allocations	**811,205**	724,937
Income Tax Benefit	**(2,184,500)**	(135,500)
Net Margins	**$ 19,372,967**	$ 2,352,983

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

	2018	2017
Net Margins	**$ 19,372,967**	$ 2,352,983
Other Comprehensive Income		
Changes in Fair Value of Costs Related to Pension Plans	**(1,920,485)**	(3,375,868)
Changes in Fair Value of Costs Related to Healthcare Benefits	**(510,991)**	14,160,897
Amortization of Actuarial Changes	**4,272,867**	5,726,873
Amortization of Prior Service Cost	**(180,223)**	(180,223)
Amortization of Net Transition Obligation	**663,910**	663,910
	2,325,078	16,995,589
Total Comprehensive Income	**$ 21,698,045**	$ 19,348,572

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, 2018 AND 2017

	Membership Fees	Patronage Capital	Donated Capital	Other Equities	Accumulated Other Comprehensive Income	Total Members' Equity
Balance, June 30, 2016	$1,034,705	$182,169,758	$1,817,071	$29,883,561	$(51,976,933)	$162,928,162
Net Margins		2,509,536		(156,553)		2,352,983
Patronage Capital Retirements		(7,387,809)	390,363			(6,997,446)
Membership Fees	(5,345)					(5,345)
Postretirement Benefits					16,995,589	16,995,589
Balance, June 30, 2017	1,029,360	177,291,485	2,207,434	29,727,008	(34,981,344)	175,273,943
Net Margins		18,831,124		541,843		19,372,967
Patronage Capital Retirements		(7,095,688)	382,704			(6,712,984)
Membership Fees	(16,595)					(16,595)
Postretirement Benefits					2,325,078	2,325,078
Balance, June 30, 2018	**$1,012,765**	**$189,026,921**	**$2,590,138**	**$30,268,851**	**$(32,656,266)**	**$190,242,409**

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

	2018	2017
Cash Flows from Operating Activities		
Net Margins	**$ 19,372,967**	$ 2,352,983
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	**15,625,027**	14,785,704
Patronage Capital from Associated Organizations	**(6,005,958)**	(5,803,934)
Healthcare Benefits Cost	**4,747,349**	5,210,425
Pension Plan Cost	**5,388,834**	5,681,129
Revenue Deferral	**6,000,000**	21,000,000
Deferred Revenue Recognized	**(3,974,806)**	-
Funding of Healthcare Benefits	**(1,082,495)**	(1,375,795)
Funding of Pension Plan Costs	**(3,600,000)**	(10,920,000)
Change In		
Accounts Receivable	**(3,442,844)**	(380,023)
Other Current Assets	**4,071,936**	(1,786,935)
Other Assets	**45,513**	(946,407)
Accounts Payable	**1,538,983**	1,672,706
Consumer Deposits	**(70,519)**	20,680
Accrued and Withheld Taxes	**242,766**	(503,382)
Other Current and Accrued Liabilities	**114,102**	195,196
Deferred Credits	**18,983**	950,264
	38,989,838	30,152,611
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(19,160,022)**	(18,763,713)
Return of Equity from Associated Organizations	**675,298**	500,928
Membership Fees	**1,000**	-
ERC and Other Loans	**3,497**	42,754
Materials and Supplies	**(150,754)**	(8,502)
Nonutility Property	**(5,788,488)**	126,242
Other Investments	**(142,380)**	(22,559)
	(24,561,849)	(18,124,850)
Cash Flows from Financing Activities		
Advances from NRUCFC	**-**	25,000,000
Line-of-Credit	**2,800,000**	(6,300,000)
Membership Fees	**(16,595)**	(5,345)
Principal Payments on Long-Term Debt	**(5,405,503)**	(4,966,054)
Retirement of Patronage Capital	**(6,712,984)**	(6,997,446)
	(9,335,082)	6,731,155
Net Increase in Cash and Cash Equivalents	**5,092,907**	18,758,916
Cash and Cash Equivalents - Beginning	**24,186,174**	5,427,258
Cash and Cash Equivalents - Ending	**$ 29,279,081**	$ 24,186,174

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

NOTES TO CONSOLIDATED 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 in 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.

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 Solar, LLC, a wholly-owned subsidiary of Walton Energy, Inc., is an entity whose purpose is to own and operate cooperative solar projects for wholesale renewable electricity generation and sale.

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.

Depreciation of nonutility property is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.45 to 20.0 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 $13,015,000 and $11,693,000 for the years ended June 30, 2018 and 2017, 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 $1,248,409 and $1,337,328 are included in accounts receivable for the years ended June 30, 2018 and 2017, 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 $238,365 and $745,193 have been included as a component of cost of revenues for the years ended June 30, 2018 and 2017, 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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (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 price, (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.

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard will become effective for private companies for fiscal years beginning after December 15, 2019. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the consolidated financial statements.

In March 2017, FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the statement of operations separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective for private companies for annual periods beginning after December 15, 2018, and the interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-07 will be effective for the Corporation beginning on June 1, 2019. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit cost in assets. The adoption of ASU 2017-07 is expected to have a material impact on the financial statements based on the current benefits provided in the Corporation's postretirement healthcare plan. The Corporation is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements.

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 10.

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*.

(1) Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these consolidated financial statements, the Corporation and Subsidiaries have evaluated events and transactions for potential recognition or disclosure through November 12, 2018, 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:

	2018	2017
Distribution Plant	**$400,282,075**	$387,930,604
General Plant	**40,873,635**	38,636,099
Generation Plant	**7,162,548**	7,162,548
Electric Plant in Service	**448,318,258**	433,729,251
Construction Work in Progress	**1,208,509**	1,322,697
	$449,526,767	$435,051,948

(3) Investments in Associated Organizations

	2018	2017
National Rural Utilities Cooperative Finance Corporation (NRUCFC)		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**7,935,572**	8,141,429
Capital Credits	**7,129,955**	6,904,491
Capital Stock	**100**	100
Oglethorpe Power Corporation		
Capital Credits	**72,473,652**	68,108,308
Georgia Transmission Corporation		
Contributed Capital	**3,743,638**	3,743,638
Capital Credits	**14,347,850**	13,518,442
Georgia System Operations Corporation		
Capital Credits	**18,021**	18,021
GRESCO Utility Supply, Inc.		
Capital Credits	**519,102**	518,077
Southeastern Data Cooperative, Inc.		
Capital Credits	**496,988**	490,829
Georgia Electric Membership Corporation Workers' Compensation Fund		
Capital Credits	**37,606**	141,230
Smarr EMC		
Contributed Capital	**423,079**	423,079
Capital Credits	**916,797**	916,797
Federated Rural Electric Insurance Exchange		
Capital Credits	**580,052**	505,184
National Rural Telecommunications Cooperative		
Membership Fee	**1,000**	1,000
Capital Credits	**13,858**	13,858
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	**658,039**	520,166
CoBank	**-**	1,000
Other	**1,010**	1,010
	$109,320,218	$103,990,558

(4) Other Investments

	2018	2017
Investment in Cooperative Choice, LLC	**$1,218,389**	$1,076,010
Deferred Compensation	**961,218**	716,209
Other	**26,761**	12,261
	$2,206,368	$1,804,480

The Corporation accounts for its investments in Cooperative Choice, LLC utilizing the equity method. For the years ended June 30, 2018 and 2017, the Corporation recorded income of $1,347,492 and $1,219,352, 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 $961,218 and $716,209 for the years ended June 30, 2018 and 2017, respectively.

(5) Prepayments

	2018	2017
Prepaid Power Costs	**$24,993,900**	$26,812,641
Prepaid Natural Gas	**13,000,000**	13,000,000
Other	**520,000**	943,343
	$38,513,900	$40,755,984

During the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

Prepaid natural gas consists of prepayments for customers from the Corporation to Texican Industrial Energy Marketing of $13,000,000 for the years ended June 30, 2018 and 2017. Of these prepayments, $3,000,000 represents a noninterest-bearing deposit with the remaining balance accruing interest at a rate of 5.9 percent along with principal. The prepayments have a maturity date of May 31, 2019.

(6) Patronage Capital

	2018	2017
Assignable	**$ (56,490,277)**	$ (61,900,385)
Assigned	**342,733,686**	329,312,670
	286,243,409	267,412,285
Cumulative Retirements	**(97,216,488)**	(90,120,800)
	$189,026,921	$177,291,485

(7) Debt

Long-term debt consists of mortgage notes payable to the 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 October 10, 2019 to January 13, 2055 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, 2018 and 2017, the Corporation was in compliance with the covenants.

Holder of Note	**Interest Rate at June 30, 2018**	**2018**	2017
NRUCFC	2.95% to 7.05%	**$130,002,535**	$135,408,038
Maturities Due Within One Year		**(5,691,000)**	(5,660,000)
		$124,311,535	$129,748,038

The Corporation has a $24,000,000 line-of-credit at 3.25 percent with NRUCFC which had an outstanding balance of $-0- for the years ended June 30, 2018 and 2017.

The Corporation has a $75,000,000 letter-of-credit with NRUCFC which is irrevocable and unconditionally guaranteed. The letter-of-credit would be payable to a third party under the terms of a power purchase and scheduling agent agreement entered into by the Corporation. Additional information pertinent to the agreement is provided in Note 13.

Walton Energy, Inc. has a $30,000,000 line-of-credit with the National Cooperative Services Corporation (NCSC) with an interest rate of 3.90 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 $12,000,000 and $9,200,000 as of June 30, 2018 and 2017, respectively.

(7) Debt (Continued)

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

Year	Amount
2019	$ 5,691,000
2020	5,662,000
2021	5,272,000
2022	5,095,000
2023	5,195,000
Thereafter	103,087,535
	$130,002,535

Cash payments of interest totaled $5,153,732 and $4,870,778 for June 30, 2018 and 2017, respectively.

(8) 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 $1,242,125 and $1,229,624 for the years ended June 30, 2018 and 2017, respectively.

Defined Benefit Pension Plan

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

	2018	2017
Accumulated Benefit Obligation, Beginning of Year	**$59,064,394**	$57,401,213
Service Cost	**2,991,772**	2,878,199
Interest Cost	**1,804,803**	1,513,677
Change in Actuarial Assumptions	**1,920,485**	3,375,868
Benefits Paid	**(2,466,665)**	(6,104,563)
Accumulated Benefit Obligation, End of Year	**63,314,789**	59,064,394
Fair Value of Plan Assets, Beginning of Year	**38,549,151**	30,502,745
Actual Return on Plan Assets	**2,908,101**	3,230,969
Contributions	**3,600,000**	10,920,000
Benefits Paid	**(2,466,665)**	(6,104,563)
Fair Value of Plan Assets, End of Year	**42,590,587**	38,549,151
Funded Status	**$20,724,202**	$20,515,243

(8) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

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

	2018	2017
Transition Obligation	**$ 3,379,302**	$ 4,043,212
Prior Service Cost	**(1,063,309)**	(1,243,532)
Actuarial Loss	**19,031,408**	20,127,596
Amount Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost	**$21,347,401**	$22,927,276

Changes in benefit obligations recognized as net periodic benefit cost are as follows:

Service Cost	**$ 2,991,772**	$ 2,878,199
Interest Cost	**1,804,803**	1,513,677
Amortization of Unrecognized Amounts	**3,500,360**	4,520,222
Actual Loss on Plan Assets	**(2,908,101)**	(3,230,969)
	$ 5,388,834	$ 5,681,129

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

Actuarial Loss	**$ 1,920,485**	$ 3,375,868
Amortization of Unrecognized Amounts	**(3,016,673)**	(4,036,535)
Amortization of Prior Service Cost	**180,223**	180,223
Amortization of Net Transition Obligation	**(663,910)**	(663,910)
	$ (1,579,875)	$ (1,144,354)

(8) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

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

	June 30		
Description	**2018**	2017	2016
Discount Rate			
APBO	**3.77%**	3.19%	2.74%
Net Periodic Expense	**3.19%**	2.74%	3.60%
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	**58.00%**	88.00%	69.00%
Fixed	**40.00**	10.00	0.00
Cash and Cash Equivalents	**-**	-	29.00
Other	**2.00**	2.00	2.00
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.

Level 2 inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

The Corporation expects to contribute $9,600,000 to the pension plan for the year ending June 30, 2019.

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

Net Loss	$2,680,794
Prior Service Credit	(180,223)
Net Transition Obligation	663,910

(8) Postretirement Benefits (Continued)

Defined Benefit Pension Plan (Continued)

The following benefits are expected to be paid:

Year	Amount
2019	$ 5,341,000
2020	6,481,000
2021	5,800,000
2022	4,946,000
2023	6,379,000
2024-2028	36,488,000

Postretirement Healthcare Benefits

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

	2018	2017
Accumulated Benefit Obligation, Beginning of Year	**$46,767,072**	$58,783,677
Service Cost	**1,476,933**	1,645,821
Interest Cost	**2,014,222**	1,874,266
Participant Contributions	**122,838**	105,514
Change in Actuarial Assumptions	**510,991**	(14,160,897)
Benefits Paid	**(1,205,333)**	(1,481,309)
Accumulated Benefit Obligation, End of Year	**49,686,723**	46,767,072
Fair Value of Plan Assets, Beginning of Year	**-**	-
Employer Contributions	**1,082,495**	1,375,795
Participant Contributions	**122,838**	105,514
Benefits Paid	**(1,205,333)**	(1,481,309)
Fair Value of Plan Assets, End of Year	**-**	-
Funded Status	**$49,686,723**	$46,767,072

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

Noncurrent Liabilities	**$48,493,723**	$45,791,072
Current Liabilities	**1,193,000**	976,000
	$49,686,723	$46,767,072

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

Actuarial Loss	**$11,308,865**	$12,054,068

(8) Postretirement Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Changes in benefit obligations recognized as net periodic benefit cost are as follows:

	2018	2017
Service Cost	**$ 1,476,933**	$ 1,645,821
Interest Cost	**2,014,222**	1,874,266
Amortization of Actuarial Loss	**1,256,194**	1,690,338
	$ 4,747,349	$ 5,210,425

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

Actuarial (Gain) Loss	**$ 510,991**	$(14,160,897)
Amortization of Actuarial Loss	**(1,256,194)**	(1,690,338)
	$ (745,203)	$(15,851,235)

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

	June 30		
Description	**2018**	2017	2016
Discount Rate			
APBO	**4.12%**	3.89%	3.60%
Net Periodic Benefit Cost	**3.89%**	3.60%	4.47%
Medical Trend Rate			
Initial	**6.40%**	6.50%	7.00%
Ultimate	**5.00%**	5.00%	5.50%
Fiscal Year Reached	**2032**	2032	2019

The Corporation expects to contribute $1,193,000 to this postretirement healthcare plan for the fiscal year ending June 30, 2019.

The Corporation expects to amortize $695,964 of net loss from accumulated other comprehensive income during the next fiscal year.

The following benefits are expected to be paid:

Year	**Amount**
2019	$ 1,193,000
2020	1,271,000
2021	1,353,000
2022	1,455,000
2023	1,565,000
2024-2028	9,816,000

(9) Other Assets

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

	2018	2017
AGLC	**$ 1,928,558**	$ 2,357,610
Note Receivable	**10,000,000**	10,000,000
Solar Farm Project	**-**	2,027,037
Deferred Tax Asset	**2,843,000**	654,000
Various Clearing Accounts	**1,687,845**	1,449,699
Miscellaneous Deferred Debits	**465**	17,035
	$16,459,868	$16,505,381

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, 2018 and 2017. The agreement bears an interest rate of 5 percent and matures on June 30, 2019. The Corporation will be paid accrued interest annually along with principal upon maturity. Interest receivable on the prepayments totaled $5,973 and $10,802 as of June 30, 2018 and 2017, respectively. The Corporation intends to continue and extend the agreement in subsequent years, and has reported the agreement as a component of other assets accordingly.

(10) Income Taxes

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

	2018	2017
Federal		
Current	**$(1,859,000)**	$ (88,000)
Deferred	**(234,000)**	(37,000)
State		
Current	**(128,000)**	(16,000)
Deferred	**36,500**	5,500
	$(2,184,500)	$(135,500)

(10) 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:

	2018	2017
Deferred Tax Assets		
Net Operating Loss Carryforwards	**$ 1,292,699**	$ 797,001
Unrealized Federal Tax Credits	**2,831,752**	1,311,002
Deferred Tax Liabilities		
Accelerated Depreciation and Other Property Basis Differences	**(1,281,451)**	(1,454,003)
	$ 2,843,000	$ 654,000

For the years ended June 30, 2018 and 2017, the Corporation had a federal net operating loss 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 2037 and 2039, respectively.

Unrealized federal tax credits are a result of the federal investment tax credit 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 and 2039.

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, 2018 and 2017, respectively.

(11) Deferred Credits

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

	2018	2017
Unclaimed Property	**$ 6,500,818**	$ 6,090,091
Power Cost Revenue Deferral	**56,600,000**	54,574,806
Other	**1,847,222**	391,744
	$64,948,040	$61,056,641

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.

(12) Accumulated Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income for the years ended June 30:

	Pension Plan	Postretirement Healthcare	Accumulated Other Comprehensive Income
Balance, June 30, 2016	$24,071,630	$ 27,905,303	$ 51,976,933
Change in Fair Value Costs	3,375,868	(14,160,897)	(10,785,029)
Amortization of Actuarial Changes	(4,036,535)	(1,690,338)	(5,726,873)
Amortization of Prior Service Cost	180,223	-	180,223
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2017	22,927,276	12,054,068	34,981,344
Change in Fair Value Costs	1,920,485	510,991	2,431,476
Amortization of Actuarial Changes	(3,016,673)	(1,256,194)	(4,272,867)
Amortization of Prior Service Cost	180,223	-	180,223
Amortization of Net Transition Obligation	(663,910)	-	(663,910)
Balance, June 30, 2018	**$21,347,401**	**$ 11,308,865**	**$ 32,656,266**

(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 $77,446,512 in 2018 and are expected to remain relatively constant in the immediate future.

Effective January 1, 2016, the Corporation entered into a power purchase and scheduling agent agreement. The agreement will continue through December 31, 2025. Effective March 19, 2018, the Corporation entered into an additional power purchase and scheduling agent services agreement with the same supplier extending the terms through December 31, 2035. Under the terms of the agreements, 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 through 2025. As a result of the additional agreement, the Corporation was required to provide a credit enhancement in the form of an irrevocable standby letter of credit for an initial amount not less than $75 million. In the event the conditions outlined previously are not met from 2026 through 2035, the Corporation will be required to provide the supplier additional acceptable credit not to exceed $75 million. Once conditions are again met by the Corporation, the remaining amount of credit support will be returned.

(13) Commitments (Continued)

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, 2018.

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 $16,873,016 in 2018 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 2018, the Corporation made $1,510,598 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.

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.

(13) Commitments (Continued)

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 $1,437,272 and was obtained from NCSC for the year ended June 30, 2018. 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 $5,733,300 from NCSC to meet requirements for the year ended June 30, 2018.

(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 deposit 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, 2018, bank balances exceeded federally insured deposit limits by $4,807,301.

At June 30, 2018, commercial paper of the NRUCFC in the amount of $21,000,000 was held by the Corporation. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

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

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

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

November 12, 2018

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, 2018 and 2017 and our report thereon dated November 12, 2018, 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, 2018

	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
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	$ 441,109,082	$ -	$ 3,145,535	$ 4,063,641	$ 448,318,258	$ -	$ -	$ 448,318,258
Construction Work in Progress	1,208,509	-	-	-	1,208,509	-	-	1,208,509
	442,317,591	-	3,145,535	4,063,641	449,526,767	-	-	449,526,767
Accumulated Provision for Depreciation	(167,090,837)	-	(416,275)	(404,014)	(167,911,126)	-	-	(167,911,126)
	275,226,754	-	2,729,260	3,659,627	281,615,641	-	-	281,615,641
Other Property and Investments								
Nonutility Property (Net)	-	11,833,456	-	-	11,833,456	-	-	11,833,456
Investments in Associated Organizations	109,320,218	-	-	-	109,320,218	-	-	109,320,218
Investment in Subsidiary	32,845,817	-	-	-	32,845,817	-	32,845,817	-
Other Investments	2,206,368	-	-	-	2,206,368	-	-	2,206,368
	144,372,403	11,833,456	-	-	156,205,859	-	32,845,817	123,360,042
Current Assets								
Cash and Cash Equivalents	24,272,841	1,573,924	1,670,904	1,761,412	29,279,081	-	-	29,279,081
Interest Receivable	95,929	5,973	-	-	101,902	-	-	101,902
Accounts Receivable (Net)	23,046,312	6,040,740	114,335	139,335	29,340,722	-	464,415	28,876,307
Current Portion of Note Receivable - Other Investments	40,251	-	-	-	40,251	-	-	40,251
Materials and Supplies	1,934,415	-	102,777	194,489	2,231,681	-	-	2,231,681
Prepayments	25,086,619	13,101,945	149,771	175,565	38,513,900	-	-	38,513,900
	74,476,367	20,722,582	2,037,787	2,270,801	99,507,537	-	464,415	99,043,122
Other Assets	1,687,845	14,772,023	-	-	16,459,868	-	-	16,459,868
Total Assets	$ 495,763,369	$ 47,328,061	$ 4,767,047	$ 5,930,428	$ 553,788,905	$ -	$ 33,310,232	$ 520,478,673
MEMBERS' EQUITY AND LIABILITIES								
Members' Equity								
Membership Fees	$ 1,012,765	$ -	$ -	$ -	$ 1,012,765	$ -	$ -	$ 1,012,765
Patronage Capital	189,026,921	-	-	-	189,026,921	-	-	189,026,921
Retained Earnings	-	9,300,626	-	-	9,300,626	9,300,626	-	-
Common Stock	-	6,500	-	-	6,500	6,500	-	-
Members' Equity	-	-	4,727,105	5,818,086	10,545,191	10,545,191	-	-
Paid-In Capital	-	12,993,500	-	-	12,993,500	12,993,500	-	-
Donated Capital	2,590,138	-	-	-	2,590,138	-	-	2,590,138
Other Equities	30,268,851	-	-	-	30,268,851	-	-	30,268,851
Accumulated Other Comprehensive Income	(32,656,266)	-	-	-	(32,656,266)	-	-	(32,656,266)
	190,242,409	22,300,626	4,727,105	5,818,086	223,088,226	32,845,817	-	190,242,409
Long-Term Debt	124,311,535	-	-	-	124,311,535	-	-	124,311,535
Accumulated Provision for Postretirement Benefits								
Pension Plan	20,724,202	-	-	-	20,724,202	-	-	20,724,202
Healthcare Benefits	48,493,723	-	-	-	48,493,723	-	-	48,493,723
	69,217,925	-	-	-	69,217,925	-	-	69,217,925
Other Long-Term Liabilities	961,215	-	-	-	961,215	-	-	961,215
Current Liabilities								
Current Maturities of Mortgage Notes	5,691,000	-	-	-	5,691,000	-	-	5,691,000
Line-of-Credit	-	12,000,000	-	-	12,000,000	-	-	12,000,000
Accounts Payable	21,373,437	11,821,683	18,942	93,442	33,307,504	464,415	-	32,843,089
Consumer Deposits	9,078,126	851,127	-	-	9,929,253	-	-	9,929,253
Current Portion of Healthcare Benefits	1,193,000	-	-	-	1,193,000	-	-	1,193,000
Accrued and Withheld Taxes	3,464,735	331,168	21,000	18,900	3,835,803	-	-	3,835,803
Accrued Interest	877,475	-	-	-	877,475	-	-	877,475
Other	4,427,929	-	-	-	4,427,929	-	-	4,427,929
	46,105,702	25,003,978	39,942	112,342	71,261,964	464,415	-	70,797,549
Deferred Credits	64,924,583	23,457	-	-	64,948,040	-	-	64,948,040
Total Members' Equity and Liabilities	$ 495,763,369	$ 47,328,061	$ 4,767,047	$ 5,930,428	$ 553,788,905	$ 33,310,232	$ -	$ 520,478,673

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2018

	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	$ 289,448,614	$ 89,450,834	$ 1,320,000	$ 1,620,000	$381,839,448	$ -	$ -	$ 381,839,448
Cost of Revenues	218,713,371	83,880,781	-	-	302,594,152	-	-	302,594,152
Gross Margins	70,735,243	5,570,053	1,320,000	1,620,000	79,245,296	-	-	79,245,296
Operating Expenses								
Operations	10,930,713	-	155,869	262,608	11,349,190	-	-	11,349,190
Maintenance	13,155,042	-	263,822	487,886	13,906,750	-	-	13,906,750
Consumer Accounts	7,677,794	-	-	-	7,677,794	-	-	7,677,794
Consumer Service and Information	2,000,475	6,033,967	-	-	8,034,442	-	-	8,034,442
Sales	61,000	-	-	-	61,000	-	-	61,000
Administrative and General	8,491,543	1,475,767	299,222	381,633	10,648,165	-	-	10,648,165
Depreciation and Amortization	14,267,691	290,148	194,488	187,997	14,940,324	-	-	14,940,324
Other	135,805	-	39,612	48,418	223,835	-	-	223,835
	56,720,063	7,799,882	953,013	1,368,542	66,841,500	-	-	66,841,500
Operating Margins (Loss) Before Interest Expense	14,015,180	(2,229,829)	366,987	251,458	12,403,796	-	-	12,403,796
Interest Expense	5,006,624	163,276	-	-	5,169,900	-	-	5,169,900
Operating Margins (Loss) After Interest Expense	9,008,556	(2,393,105)	366,987	251,458	7,233,896	-	-	7,233,896
Nonoperating Margins	4,358,453	750,448	4,338	4,338	5,117,577	1,168,964	-	3,948,613
Generation and Transmission Cooperative Capital Credits	5,194,753	-	-	-	5,194,753	-	-	5,194,753
Other Capital Credits and Patronage Capital Allocations	811,205	-	-	-	811,205	-	-	811,205
Income Tax Benefit	-	(2,184,500)	-	-	(2,184,500)	-	-	(2,184,500)
Net Margins	$ 19,372,967	$ 541,843	$ 371,325	$ 255,796	$ 20,541,931	$1,168,964	$ -	$ 19,372,967

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
JUNE 30, 2017

	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
ASSETS								
Utility Plant								
Electric Plant in Service - At Cost	$ 426,520,075	$ -	$ 3,145,535	$ 4,063,641	$ 433,729,251	$ -	$ -	$ 433,729,251
Construction Work in Progress	1,322,697	-	-	-	1,322,697	-	-	1,322,697
	427,842,772	-	3,145,535	4,063,641	435,051,948	-	-	435,051,948
Accumulated Provision for Depreciation	(157,206,131)	-	(221,788)	(216,017)	(157,643,936)	-	-	(157,643,936)
	270,636,641	-	2,923,747	3,847,624	277,408,012	-	-	277,408,012
Other Property and Investments								
Nonutility Property (Net)	-	6,717,602	-	-	6,717,602	-	-	6,717,602
Investments in Associated Organizations	103,990,558	-	-	-	103,990,558	-	-	103,990,558
Investment in Subsidiary	31,676,852	-	-	-	31,676,852	-	31,676,852	-
Other Investments	1,804,480	-	-	-	1,804,480	-	-	1,804,480
	137,471,890	6,717,602	-	-	144,189,492	-	31,676,852	112,512,640
Current Assets								
Cash and Cash Equivalents	19,287,186	2,473,968	1,174,320	1,250,700	24,186,174	-	-	24,186,174
Interest Receivable	73,730	10,802	-	-	84,532	-	-	84,532
Accounts Receivable (Net)	19,617,791	5,562,172	114,250	139,250	25,433,463	-	-	25,433,463
Current Portion of Note Receivable - Other Investments	58,250	-	-	-	58,250	-	-	58,250
Materials and Supplies	1,801,698	-	89,856	189,373	2,080,927	-	-	2,080,927
Prepayments	27,312,997	13,106,445	156,401	180,141	40,755,984	-	-	40,755,984
	68,151,652	21,153,387	1,534,827	1,759,464	92,599,330	-	-	92,599,330
Other Assets	1,449,699	15,055,682	-	-	16,505,381	-	-	16,505,381
Total Assets	$ 477,709,882	$ 42,926,671	$ 4,458,574	$ 5,607,088	$ 530,702,215	$ -	$ 31,676,852	$ 499,025,363
MEMBERS' EQUITY AND LIABILITIES								
Members' Equity								
Membership Fees	$ 1,029,360	$ -	$ -	$ -	$ 1,029,360	$ -	$ -	$ 1,029,360
Patronage Capital	177,291,485	-	-	-	177,291,485	-	-	177,291,485
Retained Earnings	-	8,758,783	-	-	8,758,783	8,758,783	-	-
Common Stock	-	6,500	-	-	6,500	6,500	-	-
Members' Equity	-	-	4,355,778	5,562,291	9,918,069	9,918,069	-	-
Paid-In Capital	-	12,993,500	-	-	12,993,500	12,993,500	-	-
Donated Capital	2,207,434	-	-	-	2,207,434	-	-	2,207,434
Other Equities	29,727,008	-	-	-	29,727,008	-	-	29,727,008
Accumulated Other Comprehensive Income	(34,981,344)	-	-	-	(34,981,344)	-	-	(34,981,344)
	175,273,943	21,758,783	4,355,778	5,562,291	206,950,795	31,676,852	-	175,273,943
Long-Term Debt	129,748,038	-	-	-	129,748,038	-	-	129,748,038
Accumulated Provision for Postretirement Benefits								
Pension Plan	20,515,243	-	-	-	20,515,243	-	-	20,515,243
Healthcare Benefits	45,791,072	-	-	-	45,791,072	-	-	45,791,072
	66,306,315	-	-	-	66,306,315	-	-	66,306,315
Other Long-Term Liabilities	716,209	-	-	-	716,209	-	-	716,209
Current Liabilities								
Current Maturities of Mortgage Notes	5,660,000	-	-	-	5,660,000	-	-	5,660,000
Line-of-Credit	-	9,200,000	-	-	9,200,000	-	-	9,200,000
Accounts Payable	20,381,016	10,798,689	81,404	42,997	31,304,106	-	-	31,304,106
Consumer Deposits	9,106,258	893,514	-	-	9,999,772	-	-	9,999,772
Current Portion of Healthcare Benefits	976,000	-	-	-	976,000	-	-	976,000
Accrued and Withheld Taxes	3,314,542	255,303	21,392	1,800	3,593,037	-	-	3,593,037
Accrued Interest	861,307	-	-	-	861,307	-	-	861,307
Other	4,329,995	-	-	-	4,329,995	-	-	4,329,995
	44,629,118	21,147,506	102,796	44,797	65,924,217	-	-	65,924,217
Deferred Credits	61,036,259	20,382	-	-	61,056,641	-	-	61,056,641
Total Members' Equity and Liabilities	$ 477,709,882	$ 42,926,671	$ 4,458,574	$ 5,607,088	$ 530,702,215	$ 31,676,852	$ -	$ 499,025,363

THE WALTON ELECTRIC MEMBERSHIP CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2017

	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	$ 259,974,819	$ 77,108,656	$ 1,320,000	$ 1,620,000	$340,023,475	$ -	$ -	$ 340,023,475
Cost of Revenues	208,621,826	70,480,964	-	-	279,102,790	-	-	279,102,790
Gross Margins	51,352,993	6,627,692	1,320,000	1,620,000	60,920,685	-	-	60,920,685
Operating Expenses								
Operations	10,165,599	-	128,556	207,191	10,501,346	-	-	10,501,346
Maintenance	10,567,286	-	410,589	439,139	11,417,014	-	-	11,417,014
Consumer Accounts	7,152,227	-	-	-	7,152,227	-	-	7,152,227
Consumer Service and Information	1,815,431	5,633,417	-	-	7,448,848	-	-	7,448,848
Sales	58,347	-	-	-	58,347	-	-	58,347
Administrative and General	10,227,997	1,568,794	173,695	196,568	12,167,054	-	-	12,167,054
Depreciation and Amortization	13,781,197	220,478	190,721	185,368	14,377,764	-	-	14,377,764
Other	102,817	-	9,336	(6,468)	105,685	-	-	105,685
	53,870,901	7,422,689	912,897	1,021,798	63,228,285	-	-	63,228,285
Operating Margins (Loss) Before Interest Expense	(2,517,908)	(794,997)	407,103	598,202	(2,307,600)	-	-	(2,307,600)
Interest Expense	4,895,819	61,691	-	-	4,957,510	-	-	4,957,510
Operating Margins (Loss) After Interest Expense	(7,413,727)	(856,688)	407,103	598,202	(7,265,110)	-	-	(7,265,110)
Nonoperating Margins	3,962,776	564,629	-	-	4,527,405	848,746	-	3,678,659
Generation and Transmission Cooperative Capital Credits	5,078,997	-	-	-	5,078,997	-	-	5,078,997
Other Capital Credits and Patronage Capital Allocations	724,937	-	-	-	724,937	-	-	724,937
Income Tax Benefit	-	(135,500)	-	-	(135,500)	-	-	(135,500)
Net Margins	$ 2,352,983	$ (156,559)	$ 407,103	$ 598,202	$ 3,201,729	$ 848,746	$ -	$ 2,352,983

MCNAIR MCLEMORE MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

November 12, 2018

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, 2018 and 2017 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 12, 2018.

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

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MCNAIR MCLEMORE
MIDDLEBROOKS & CO
CERTIFIED PUBLIC ACCOUNTANTS

389 Mulberry Street | Macon, Georgia 31201
Post Office Box One | Macon, Georgia 31202
478-746-6277 | mmmcpa.com

November 12, 2018

MANAGEMENT LETTER

The Board of Directors
The Walton Electric Membership Corporation

We have audited the consolidated financial statements of **The Walton Electric Membership Corporation and Subsidiaries** for the year ended June 30, 2018, and have issued our report thereon dated November 12, 2018. 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 consolidated financial statements are free of material misstatement.

In planning and performing our audit of the consolidated financial statements of The Walton Electric Membership Corporation and Subsidiaries as of and for the year ended June 30, 2018, 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 consolidated 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

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 consolidated 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 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 Walton Electric Membership Corporation and Subsidiaries (the Corporation) are outlined in Note 1 to the consolidated financial statements. No new accounting policies were adopted and the application of existing polices was not changed during the year ended June 30, 2018. 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:

- 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 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. Attachment A lists adjustments to the consolidated 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 consolidated financial statements or the auditors' 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 November 12, 2018.

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.

Supplementary Information

With respect to the supplementary information accompanying the 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. generally accepted accounting principles, 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 financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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, 2018

	Debit	Credit
Adjustment 1		
Investment in Subsidiary Companies	$ 2,151,265	
Equity in Earnings of Subsidiaries		$ 2,151,265
To record current year adjustments for earnings in subsidiaries		
Adjustment 2		
Administrative and General	1,651,231	
Pension Plan Liability	441,436	
Pension Plan Equity Adjustment		1,579,875
Pension Plan Assets		512,792
To record current year adjustments for actuarially determined pension liability		
Adjustment 3		
Administrative and General	68,518	
Postretirement Medical Benefit Liability	899,648	
Medical Plan Equity Adjustment		968,166
To record current year adjustments for actuarially determined postretirement medical benefit liability		
Adjustment 4		
Other Investments	203,218	
Other Long-Term Liabilities		203,218
To record current year adjustments for deferred compensation funds		