SAWNEE ELECTRIC MEMBERSHIP CORPORATION
CUMMING, GEORGIA

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017 AND INDEPENDENT AUDITOR'S REPORT

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

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March 8, 2019

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Sawnee Electric Membership Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Sawnee Electric Membership Corporation** (the Corporation), which comprise the balance sheets as of December 31, 2018 and 2017 and the related statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Sawnee Electric Membership Corporation as of December 31, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019, on our consideration of Sawnee Electric Membership Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sawnee Electric Membership Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sawnee Electric Membership Corporation's internal control over financial reporting and compliance.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

ASSETS

	2018	2017
Utility Plant		
Electric Plant in Service - At Cost	**$ 620,317,526**	$ 595,741,812
Construction Work in Progress	**9,565,226**	5,950,676
Gross Utility Plant	**629,882,752**	601,692,488
Accumulated Provision for Depreciation	**(126,927,042)**	(124,073,177)
	502,955,710	477,619,311
Other Property and Investments		
Investments in Associated Organizations	**41,159,106**	41,876,626
Restricted Funds	**122,071,270**	107,071,270
Other Investments	**478,730**	478,730
	163,709,106	149,426,626
Current Assets		
Cash and Cash Equivalents	**7,849,318**	11,126,116
Accounts Receivable (Net of Accumulated Provision for Uncollectibles of $73,279 in 2018 and $88,659 in 2017)	**32,855,178**	31,895,489
Materials and Supplies	**4,076,614**	3,201,592
Prepayments	**241,074**	232,343
Interest Receivable	**1,106,267**	432,235
	46,128,451	46,887,775
Deferred Debits	**294,468**	1,420,540
Total Assets	**$ 713,087,735**	$ 675,354,252

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2018	2017
Members' Equity		
Membership Fees	**$ 176,170**	$ 184,480
Patronage Capital	**238,243,472**	226,040,861
Other Equities	**23,118,844**	22,204,264
	261,538,486	248,429,605
Long-Term Liabilities		
Long-Term Debt	**227,918,485**	239,182,730
Accumulated Provisions for Postretirement Benefits	**25,171,738**	28,382,583
Other Liabilities	**431,818**	650,106
	253,522,041	268,215,419
Current Liabilities		
Long-Term Debt - Current Portion	**10,414,000**	10,024,000
Accumulated Provisions for Postretirement Benefits Other Than Pensions - Current Portion	**1,011,230**	823,084
Line-of-Credit	**22,820,183**	-
Accounts Payable	**18,525,230**	18,917,787
Consumers' Deposits	**8,159,422**	7,851,740
Accrued and Withheld Taxes	**4,943,954**	4,059,364
Other	**9,957,142**	9,750,563
	75,831,161	51,426,538
Deferred Credits	**122,196,047**	107,282,690
Total Members' Equity and Liabilities	**$ 713,087,735**	$ 675,354,252

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	2018	2017
Operating Revenues	**$ 360,104,084**	$ 355,871,803
Operating Expenses		
Cost of Power	**242,411,692**	233,004,950
Distribution Operations	**20,193,743**	20,332,800
Distribution Maintenance	**24,717,040**	28,429,271
Consumer Accounts	**9,739,034**	9,706,814
Consumer Information and Sales	**2,808,191**	2,716,378
Administrative and General	**12,295,341**	13,047,239
Depreciation	**19,278,801**	20,378,496
Other	**10,000**	6,255
	331,453,842	327,622,203
Operating Margins Before Interest Expense	**28,650,242**	28,249,600
Interest Expense	**11,753,182**	11,757,958
Operating Margins After Interest Expense	**16,897,060**	16,491,642
Nonoperating Margins	**7,104,829**	6,215,699
Generation and Transmission Cooperative Capital Credits	**(1,160,925)**	1,321,837
Other Capital Credits and Patronage Capital Allocations	**531,508**	706,589
Net Margins	**$ 23,372,472**	$ 24,735,767

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Membership Fees	Patronage Capital	Other Equities	Total Members' Equity
Balance, December 31, 2016	$ 192,610	$ 217,345,141	$ 18,830,612	$ 236,368,363
Net Margins		24,735,767		24,735,767
Retirement of Patronage Capital		(16,040,047)	3,276,117	(12,763,930)
Membership Fees	(8,130)			(8,130)
Other Equities			97,535	97,535
Balance, December 31, 2017	184,480	226,040,861	22,204,264	248,429,605
Net Margins		23,372,472		23,372,472
Retirement of Patronage Capital		(11,169,861)	815,566	(10,354,295)
Membership Fees	(8,310)			(8,310)
Other Equities			99,014	99,014
Balance, December 31, 2018	**$ 176,170**	**$ 238,243,472**	**$ 23,118,844**	**$ 261,538,486**

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

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2018	2017
Cash Flows from Operating Activities		
Net Margins	**$ 23,372,472**	$ 24,735,767
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	**20,418,926**	21,356,739
Investment in Associated Organizations	**629,417**	(2,028,425)
Revenue Deferral	**34,727,407**	17,502,670
Revenue Recognition	**(19,727,407)**	(7,502,670)
Postretirement Medical Benefits	**(2,064,096)**	3,851,320
Postretirement Medical Benefit Contributions	**(958,603)**	(721,031)
Change In		
Accounts Receivable	**(959,689)**	(4,232,632)
Other Current Assets	**(682,763)**	(152,742)
Other Liabilities	**(218,288)**	271,749
Accounts Payable	**(392,557)**	(188,439)
Consumers' Deposits	**307,682**	401,938
Other Current Liabilities	**1,091,169**	(4,521,837)
Deferred Debits	**1,126,072**	(1,356,968)
Deferred Credits	**(86,643)**	24,764
	56,583,099	47,440,203
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(45,755,325)**	(41,079,794)
Materials and Supplies	**(875,022)**	47,425
Return of Equity from Associated Organizations	**88,103**	331,183
Restricted Funds	**(15,000,000)**	(10,000,000)
	(61,542,244)	(50,701,186)
Cash Flows from Financing Activities		
Membership Fees	**(8,310)**	(8,130)
Advances on Long-Term Debt	**-**	18,000,000
Principal Repayment of Long-Term Debt	**(10,982,139)**	(10,410,220)
Advanced Payments Unapplied	**107,894**	(5,118,962)
Line-of-Credit	**22,820,183**	-
Retirement of Patronage Capital	**(10,354,295)**	(12,763,930)
Other Equities	**99,014**	97,535
	1,682,347	(10,203,707)
Net Decrease in Cash and Cash Equivalents	**(3,276,798)**	(13,464,690)
Cash and Cash Equivalents - Beginning	**11,126,116**	24,590,806
Cash and Cash Equivalents - Ending	**$ 7,849,318**	$ 11,126,116

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

(1) Summary of Significant Accounting Policies

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

Nature of Operations

The Corporation is a member-owned, not-for-profit corporation organized 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 considered as capital, at the moment of receipt, and are credited to each member's capital account.

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*.

Use of Estimates

The preparation of financial statements in accordance 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

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

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

(1) Summary of Significant Accounting Policies (Continued)

Utility Plant

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

Depreciation and Maintenance

Depreciation of capitalized cost is provided using 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 straight-line rates ranging from 2.80 percent to 3.90 percent per annum with the exception of automated meters. Automated meters are depreciated based on the manufacturer's useful life which equates to 6.67 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 2.00 percent to 16.67 percent per annum.

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

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is deemed uncollectible, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the 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.

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 revenue from individual consumption of electric energy.

(1) Summary of Significant Accounting Policies (Continued)

Operating Revenues

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members is recorded as a component of accounts receivable in the balance sheets. Unbilled electric revenue totaled $15,022,294 and $13,939,607 as of December 31, 2018 and 2017, respectively.

Recent Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (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. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* 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 income statement 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 benefit 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 January 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 income statement, 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 Corporation is currently evaluating the impact of the adoption of this guidance on its financial statements. The adoption of ASU 2017-07 is expected to have a material impact on the financial statements.

Patronage Capital

Patronage capital represents the Corporation's accumulated retained excess of revenues over operating cost and expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of directors in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements and the policies of the Corporation. Under provisions of long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed is limited.

(1) Summary of Significant Accounting Policies (Continued)

Sales Tax

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

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Restricted Funds and Other Investments

The Corporation is required to restrict funds related to revenue deferral plans by depositing them in special accounts or the RUS Cushion-of-Credit until such time as a like amount is subsequently amortized into revenue. See Note 6 for additional details on the RUS Cushion-of-Credit.

Restricted funds and other investments consist of corporate debt securities. The Corporation classifies all of its debt securities as held-to-maturity (HTM). HTM debt securities are those debt securities in which the Corporation has the ability and intent to hold the security until maturity. HTM debt securities are recorded at cost, as there are no associated premiums and discounts to amortize. A decline in the market value of any HTM security below cost that is deemed to be other than temporary, results in an impairment to reduce the carrying amount to fair value. To determine whether impairment is other than temporary, the Corporation considers all available information relevant to the collectibility of the security, including past events, current conditions and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performances of the investee and the general market conditions in the geographical area or industry in which the investee operates. The Corporation's debt securities investments are invested at the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

The carrying value of the debt securities investments approximated fair value with interest rates ranging from 2.56 percent to 3.03 percent at December 31, 2018.

Cost of Purchased Power

Cost of purchased power is expensed as consumed.

Fair Value Option

The Corporation has elected the fair value option for its allocated equities from Oglethorpe Power Corporation (OPC) and Georgia System Operations Corporation (GSOC). The election to account for this financial instrument under the fair value option was made based on management's assessment of the regulation surrounding the industry in which OPC and GSOC operate, OPC's and GSOC's financial condition and its potential effect on future returns of capital. The decision to elect the fair value option is determined on an instrument by instrument basis, must be applied to an entire instrument, and is irrevocable once elected. At this time, the Corporation has not elected to apply the fair value option to any of its other financial instruments.

(1) Summary of Significant Accounting Policies (Continued)

Investments in Associated Organizations

Investments in associated organizations consist of the following:

- Investments in Other Cooperative Organizations - These investments represent capital investments made primarily to obtain an economical source of financing, product or service. These investments are carried at cost plus allocated equities based on guidance issued in *ASC 905-325-30*.

- OPC and GSOC Capital Credits - The Corporation has elected the fair value option for valuing OPC and GSOC capital credits. The election to account for these financial instruments under the fair value option was made based on management's assessment of the industry in which OPC and GSOC operate and its potential effect on future returns of capital. See Note 11 for additional details on the Corporation's fair value assessment of OPC and GSOC capital credits.

Capital credit allocations from associated organizations are included on the statements of operations as "generation and transmission cooperative capital credits" and "other capital credits and patronage capital allocations."

Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain this exemption. The Corporation has met the requirement for the tax year ended December 31, 2018. Accordingly, no provision for income taxes has been made in the financial statements.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 8, 2019, the date the financial statements were available to be issued.

(2) Utility Plant

Listed below are the major classes of the electric utility plant as of December 31:

	2018	2017
Distribution Plant	**$ 570,393,818**	$ 548,837,803
General Plant	**49,923,708**	46,904,009
Electric Plant in Service	**620,317,526**	595,741,812
Construction Work in Progress	**9,565,226**	5,950,676
	$ 629,882,752	$ 601,692,488

(3) Investments in Associated Organizations

	2018	2017
National Rural Utilities Cooperative Finance Corporation		
Capital Term Certificates	**$ 1,286,469**	$ 1,286,469
Capital Credits	**1,569,607**	1,568,163
GRESCO Utility Supply, Inc.	**4,243,955**	3,934,934
Southeastern Data Cooperative, Inc.	**40,846**	40,846
Georgia Transmission Corporation	**22,020,579**	23,181,504
Smarr EMC	**10,665,084**	10,665,084
Federated Rural Electric Insurance Exchange	**749,056**	667,030
Green Power EMC	**56,485**	54,504
National Information Solutions Cooperative	**525,985**	477,052
Other	**1,040**	1,040
	$ 41,159,106	$ 41,876,626

(4) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	2018	2017
Clearing Accounts and Other	**$ 200**	$ 36,190
Hurricane Irma Restoration	**294,268**	1,384,350
	$ 294,468	$ 1,420,540

The Federal Emergency Management Agency (FEMA) declared a portion of the Corporation's service territory a disaster area (FEMA-4338-DR) on September 7, 2017. The Corporation estimated total reimbursement of $1,384,350 related to the incurred costs expended by the Corporation for Hurricane Irma system restoration. Final approval of the amount remaining to be reimbursed is currently pending final settlement and is expected in 2019.

(5) Other Equities

	2018	2017
Capital Gains and Losses	**$ 37,520**	$ 37,520
Retired Capital Credits - Gain	**8,441,008**	7,625,442
Unbilled Revenue Prior to 2017	**13,093,000**	13,093,000
Donated Capital	**1,547,316**	1,448,302
	$ 23,118,844	$ 22,204,264

(6) Debt

Long-term debt consists primarily of mortgage notes payable to the United States of America acting through RUS and the Federal Financing Bank (FFB). The notes are secured by a mortgage agreement among the Corporation, RUS and FFB. Substantially all the assets of the Corporation are pledged as security for the long-term debt. The notes generally have 35-year maturity periods and are payable in quarterly and monthly installments. The notes contain certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2018 and 2017, the Corporation was in compliance with the covenants.

Holder of Note	**Interest Rate at December 31, 2018**	**2018**	2017
RUS Mortgage Notes	1.875% to 6.00%	**$ 123,748,759**	$ 128,589,408
FFB Mortgage Notes	1.785% to 5.541%	**191,629,804**	197,771,294
		315,378,563	326,360,702
RUS Advanced Payments Unapplied		**(77,046,078)**	(77,153,972)
Maturities Due Within One Year		**(10,414,000)**	(10,024,000)
		$ 227,918,485	$ 239,182,730

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

Year	**Amount**
2019	$ 10,414,000
2020	11,213,000
2021	12,074,000
2022	13,001,000
2023	13,999,000

(6) Debt (Continued)

Cash payments of interest totaled $9,226,067 and $9,534,202 for 2018 and 2017, respectively.

The Corporation has two separate and distinct line-of-credit instruments with NRUCFC that total $80,000,000. The first line-of-credit is for $50,000,000 and is for general use to meet the ongoing short-term cash needs of the Corporation. The second line-of-credit is for $30,000,000 and is limited to serving the short-term cash needs of the Corporation. The line-of-credit instruments had an outstanding obligation of $22,820,183 and $-0- as of December 31, 2018 and 2017, respectively. The rate of interest as of December 31, 2018 was 3.75 percent.

The Corporation has made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program, the Corporation may make voluntary deposits into a special cushion-of-credit account. The cushion-of-credit account balance accrues interest to the Corporation at a rate of 5 percent per annum. The use of the cushion-of-credit account is restricted to funding the future debt service payments that the Corporation is obligated to pay against its outstanding indebtedness to RUS or FFB. Interest payments totaling $2,441,516 and $2,317,637 were made through the Cushion-of-Credit program for the years ended December 31, 2018 and 2017, respectively. Interest earned on unapplied advanced payments is recorded as a component of nonoperating margins.

On December 20, 2018, the President of the United States signed the Agriculture Improvement Act which makes the following changes to the RUS Cushion-of-Credit program:

- No new cushion-of-credit deposits will be allowed after December 20, 2018,
- Cooperatives in the program may transfer their cushion-of-credit money to prepay RUS loans without penalty through September 30, 2020,
- Remaining cushion-of-credit funds after September 30, 2020, may be applied only to regular RUS and FFB debt service payments,
- Existing cushion-of-credit balances will earn 5 percent interest until October 1, 2020, when that rate will drop to 4 percent. Beginning October 1, 2021, interest on remaining balances will be paid at a floating one-year Treasury rate.

(7) Retiree Benefits

Pension Plan (Defined Benefit)

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

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

(7) Retiree Benefits (Continued)

Pension Plan (Defined Benefit) (Continued)

The Corporation's annual contributions to the NRECA RS Plan represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $3,549,829 and $3,635,374 for the years ended December 31, 2018 and 2017, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was greater than 80 percent funded at January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

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

Pension Plan (Defined Contribution Plan)

The Corporation also provides employee benefits to qualified employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $745,510 and $561,328 for the years ended December 31, 2018 and 2017, respectively.

Postretirement Healthcare Benefits

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

(7) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	2018	2017
Changes in the Accumulated Postretirement Benefit Obligation (APBO)		
APBO Beginning of Year	**$ 29,205,667**	$ 26,075,378
Service Cost	**843,123**	741,523
Interest Cost	**1,215,102**	1,182,810
Actuarial (Gain) Loss	**(4,122,321)**	1,926,987
Direct Benefit Payments	**(958,603)**	(721,031)
APBO End of Year	**26,182,968**	29,205,667
Changes in Plan Assets		
Fair Value of Plan Assets Beginning of Year	**-**	-
Employer Contributions	**958,603**	721,031
Plan Participant Contributions	**-**	-
Actual Distributions	**(958,603)**	(721,031)
Fair Value of Plan Assets at End of Year	**-**	-
Under Funded Status at End of Year	**$ 26,182,968**	$ 29,205,667

Amounts recognized on the balance sheets consist of the following:

	2018	2017
Current Liabilities	**$ 1,011,230**	$ 823,084
Noncurrent Liabilities	**25,171,738**	28,382,583
	$ 26,182,968	$ 29,205,667

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

	2018	2017
Service Cost	**$ 843,123**	$ 741,523
Interest Cost	**1,215,102**	1,182,810
Actuarial (Gain) Loss	**(4,122,321)**	1,926,987
	$ (2,064,096)	$ 3,851,320

(7) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

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

	December 31		
Description	**2018**	2017	2016
Discount Rate			
Benefit Obligations	**4.70%**	3.98%	4.62%
Net Periodic Benefit Cost	**3.98%**	4.62%	4.73%
Medical Trend Rate			
Initial (Pre-65/Post 65)	**6.30/7.10%**	6.60/7.10%	6.90/7.20%
Ultimate	**4.50%**	4.50%	4.50%
Year Reached	**2037**	2037	2037

The Corporation has elected to amortize gains and losses from changes in actuarial assumptions in the year they occur. This practice is accepted under U.S. GAAP.

The following benefits are expected to be paid:

Year	**Amount**
2019	$ 1,011,230
2020	1,005,949
2021	996,003
2022	1,020,394
2023	1,137,051
2024-2027	6,150,222

Deferred Compensation Plans

The Corporation has also established an Executive Benefit Restoration Plan (EBR Plan) for key management and highly compensated employees whose benefits under the RS Plan are restricted because of maximum limits on benefits or compensation that may be provided by the RS Plan. The net periodic benefit cost is calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, expected return on plan assets, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis.

The EBR Plan accumulated benefit obligation was $431,818 and $650,106 as of December 31, 2018 and 2017, respectively. The amounts are included in other long-term liabilities on the balance sheets.

(8) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	2018	2017
Power Cost Revenue Deferral	**$ 122,071,270**	$ 107,071,270
Holcomb Bridge Substation	**122,992**	140,560
Clearing Accounts and Other	**1,785**	70,860
	$ 122,196,047	$ 107,282,690

Power Cost Revenue Deferrals

The power cost revenue deferrals represent revenue deferral plans to reduce the impact of the future power cost increases by various power suppliers on the Corporation's rate structure.

Plan transactions were as follows:

	2018	2017
Beginning Balance	**$ 107,071,270**	$ 97,071,270
Current Year Recognition	**(19,727,407)**	(7,502,670)
Current Year Deferral	**34,727,407**	17,502,670
	$ 122,071,270	$ 107,071,270

The revenue deferrals are in compliance with U.S. GAAP related to the effects of certain types of regulation and have been approved by RUS.

The board of directors of the Corporation specified the deferred funds be deposited in special accounts until such time as a like amount is subsequently amortized into revenue. Accordingly, the funds have been set aside as restricted funds.

(9) Commitments

The Corporation entered into a Wholesale Power Contract with Oglethorpe Power Corporation (An Electric Membership Corporation) (OPC) in 1997. The Wholesale Power Contract was amended in 2003 and its term has been extended through December 31, 2050. Under the Wholesale Power Contract, the Corporation is obligated, on a "take or pay" basis, for a fixed percentage of capacity costs (referred to as a "percentage capacity responsibility") of certain of OPC's generation and purchased power resources. The Corporation will be assigned only a percentage capacity responsibility for any future OPC resource if the Corporation elects to participate in the resource. The Corporation's percentage capacity responsibility in each of OPC's existing generation and purchased power resources ranges from 3.5246 percent to 34.3401 percent with an aggregate capacity cost responsibility totaling approximately $83,628,000 for the year ended December 31, 2018.

(9) Commitments (Continued)

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 $26,957,395 in 2018 and is expected to remain relatively constant in the immediate future. Transmission service is recorded as a component of cost of power.

GSOC is an independent, not-for-profit system operations company. The Corporation has a service agreement with GSOC that can be terminated with a one-year notice. For 2018, the Corporation paid GSOC $270,683.

Southeastern Power Administration (SEPA) is responsible for marketing electric power and energy to preferred power customers of which the Corporation is considered to be. The Corporation has a perpetual agreement with SEPA that can be terminated with a two-year notice. For 2018, the Corporation paid SEPA $1,407,377.

The Corporation entered into a Requirements Service Agreement (RSA) dated February 28, 2002 through December 31, 2017 with Southern Power Company. Under the original terms of the RSA, the Corporation received all energy and capacity above its existing and approved resources and agreements. On September 28, 2010, the Corporation extended the RSA until December 31, 2027. Beginning on January 1, 2028, by mutual consent, a portion of the RSA can be converted to a Block Power Purchase Agreement (BPPA) for the balance of the term which ends December 31, 2032. The Corporation has to meet certain financial covenants under the RSA or provide a predefined level of credit support as specified by the agreement.

In addition, the Corporation has committed to participate in a utility scale solar project under a power purchase agreement with Southern Power Company. This agreement is to expire 25 years from the date of commercial operations or on approximately December 31, 2042. The Corporation currently meets these required financial covenants and currently provides no credit support.

The Corporation has entered into various assignment and assumption agreements through Green Power EMC and its 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. The Corporation participates in twelve Green Power EMC projects (Taylor County Biomass, Rabun Gap Biomass, Wolf Creek Biomass, Hazlehurst Solar Project, SR South Living Solar, SR Baxley, SR Hazlehurst, SR Clay, SR Houston, SR Arlington, SR Bluffton and SR Lumpkin). In 2018, the Corporation made $5,073,774 in capacity and energy payments for these assets.

Under current Georgia law, the Corporation has the ability to recover these purchase power costs as well as other operating costs from its members; however, any change to existing laws could adversely affect the ability to recover such costs.

(10) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2018, the amount exceeding insured limits totaled $6,904,305.

At December 31, 2018, the Corporation held medium-term notes of the NRUCFC in the amount of $122,550,000. The amount is not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation serves consumers in the state of Georgia. The geographic concentration of the Corporation's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on potential customers based on a board-approved methodology as defined in board policy prior to accepting them for service. Depending upon the results of the credit evaluation, a service security deposit may be required.

(11) Fair Value Measurements

The Corporation measures and reflects fair value in the balance sheets for OPC and GSOC Capital Credits. Since the Corporation reflects these assets at fair value, accounting standards require the following three-tier value information.

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following valuation techniques are used to estimate the fair value of each class of financial instruments:

(1) *Market approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) and deriving fair value based on these inputs.

(2) *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

(3) *Cost approach.* The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). This approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset or comparable utility, adjusted for obsolescence.

(11) Fair Value Measurements (Continued)

The Corporation has capital credit notifications from OPC and GSOC totaling $68,681,699 and $64,933,941 as of December 31, 2018 and 2017, respectively. The Corporation has elected to account for OPC and GSOC capital credits as financial instruments under U.S. GAAP, based on an expectation of a return of capital, and measures these capital credits at fair value on an annual basis (recurring fair value measurement) using significant unobservable inputs (Level 3). No market data exists for these instruments.

The Corporation had no nonrecurring fair value measurements for the years ended December 31, 2018 and 2017.

Fair Value Measurements Carried at Fair Value

		Fair Value Measurements Using			
	Carrying Value as of December 31	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
2018					
Recurring Fair Value Measurements					
Investments in Associated Organizations OPC and GSOC Capital Credits	**$ -**			**$ -**	**$ -**
2017					
Recurring Fair Value Measurements					
Investments in Associated Organizations OPC and GSOC Capital Credits	$ -			$ -	$ -

Gains and losses included in earnings for each period are presented as a component of generation and transmission cooperative capital credits in the statements of operations.

(11) Fair Value Measurements (Continued)

Fair Value Measurements Carried at Fair Value (Continued)

Unobservable inputs are inputs that reflect management's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances. Level 3 fair value measurements for the years ended December 31 are as follows:

	2018	2017
Beginning Balance	**$ -**	$ -
Transfers into Level 3	-	-
Total Gains or Losses for the Period		
Included in Margins		
Patronage Notifications	**3,747,820**	3,791,112
Fair Value Adjustment(s)	**(3,747,820)**	(3,791,112)
Purchases, Issues, Sales and Settlements	-	-
Ending Balance	**$ -**	$ -

For Level 3 fair value measurements, the Corporation's management determines the fair value measurement valuation policies and procedures. In accordance with board policy, the board of directors assess and approve the fair value measurement policies and procedures. On an annual basis, management determines if the current valuation techniques used in the fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and any available third-party information. There were no changes in the valuation techniques during the current year.

Quantitative information about Level 3 fair value measurements for the years ended December 31, 2018 and 2017 is as follows:

Financial Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Percentage**
OPC and GSOC Capital Credits	$ -	Discounted Cash Flow	Expected Return of Capital	0.0%

The significant unobservable input used in the fair value measurement of the Corporation's OPC capital credits is an expected return of capital. Management has assessed that no expected return of capital exists based on the following factors:

- Uncertainty as to return of capital since no capital has been returned in recent years.
- Capital returns limited by debt agreements.
- Review of major construction and related debt requirements.
- Regulatory environment.
- No known market.

An increase in the percentage of expected capital returns would result in a significantly higher fair value measurement.

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March 8, 2019

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

The Board of Directors
Sawnee Electric Membership Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Sawnee Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of December 31, 2018 and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mc Nair, Mc Lemore, Middlebrooks & Co., LLC

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March 8, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Sawnee Electric Membership Corporation

Report on Compliance for Each Major Federal Program

We have audited **Sawnee Electric Membership Corporation's** (the Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2018. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Homeland Security			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)			
Pass-through Program From:			
Georgia Emergency			
Management Division	97.036	000-U3X50-00	$ 1,449,113

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Sawnee Electric Membership Corporation (the Corporation) for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in equities or cash flows of the Corporation.

(2) Federal Award

On September 7, 2017, President Donald J. Trump issued a major disaster declaration designated FEMA-4338-DR-GA for the state of Georgia as a result of Hurricane Irma. The declaration authorized public assistance in Dawson, Forsyth, Gwinnett, Hall and Lumpkin Counties.

(3) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited for reimbursement.

(4) Indirect Cost Rate

The Corporation has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

(5) SEFA Amounts Expended in Prior Years

Public Assistance Grant expenditures in the amount of $1,449,113 were included in the SEFA for the year ended December 31, 2018 that were expended in the year ended December 31, 2017. The Corporation's grant application for FEMA-4338-DR-GA was approved on July 11, 2018.

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

(A) Summary of Audit Results

(1) The Independent Auditor's Report expresses an unmodified opinion on whether the financial statements of Sawnee Electric Membership Corporation were prepared in accordance with accounting principles generally accepted in the United States of America.

(2) There were no significant deficiencies or material weaknesses disclosed during the audit of the financial statements.

(3) No instances of noncompliance material to the financial statements of Sawnee Electric Membership Corporation, which would be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.

(4) There were no significant deficiencies or material weaknesses in internal controls over major federal award programs disclosed during the audit of the major federal award program.

(5) The Independent Auditor's Report on Compliance for the Major Federal Award Program of Sawnee Electric Membership Corporation expresses an unmodified opinion for the major program.

(6) There were no audit findings, required to be reported in accordance with 2 CFR section 200.516(a).

(7) The program tested as major program: CFDA No. 97.036, Disaster Grants - Public Assistance (Presidentially Declared Disasters).

(8) The threshold for distinguishing whether the program was Type A or B was $750,000.

(9) Sawnee Electric Membership Corporation did not qualify as a low-risk auditee.

(B) Findings - Audit of Financial Statements

- There were no findings related to the audit of the financial statements.

(C) Findings and Questioned Costs - Major Federal Award Program Audit

- There were no findings or questioned costs related to the major federal awards program.

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Certified Public Accountants

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March 8, 2019

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

The Board of Directors
Sawnee Electric Membership Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Sawnee Electric Membership Corporation** (the Corporation), which comprise the balance sheet as of December 31, 2018 and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

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

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

- Record and properly price the retirement of plant;

- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;

- Maintain adequate control over materials and supplies;

- Prepare accurate and timely Financial and Operating Reports;

- Obtain written RUS approval to enter into any contract for the management, operation or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures), except for automated metering and service reconnection devices which are being depreciated in compliance with guidance provided in 7 CFR Part 1767;

- Comply with the requirements for the detailed schedule of deferred debits and deferred credits which is included in the notes to the financial statements; and

- Comply with the requirements for the detailed schedule of investments which consists of investments in associated organizations and is disclosed in the notes to the financial statements.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

SAWNEE ELECTRIC MEMBERSHIP CORPORATION
MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS
DECEMBER 31, 2018

Auditor's Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in accordance 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 Sawnee Electric Membership Corporation are outlined in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 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 financial statements in a period other than when the transaction occurred.

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:

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

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

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2018. There were no material uncorrected misstatements.

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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 8, 2019.

Consultation with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

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

Difficulties Encountered in Performing the Audit

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

Restriction of Use

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