

"Election of Directors"

(Excerpted from By Laws of Grady EMC Directors)

SECTION 4.01. NUMBER AND GENERAL POWERS. The business and affairs of the Cooperative shall be managed by a Board of seven (7) Directors. The Board shall exercise all of the powers of the Cooperative except such as are by laws or by the Cooperative's Articles of Incorporation or Bylaws conferred upon or reserved to the member. The Board of Directors shall not appoint or elect any committee to exercise the authority of the Board. However, the Board may appoint or elect from its own membership one or more committees, each consisting of at least two directors, for the purpose of serving in an advisory or recommendatory capacity to the Board.

SECTION 4.02. QUALIFICATIONS. No person shall be eligible to become or remain a director of the Cooperative who is a close relative of an incumbent director or of an employee of the Cooperative, or is not a member in good standing of the Cooperative and receiving service therefrom at his primary residential abode: PROVIDED, that the operating or chief executive of any member which is not a natural person, such as a corporation, church, etc., or his designee, shall notwithstanding that he does not receive service from the Cooperative at his primary residential abode, be eligible to become a director, from the Directorate District in which such member is located, if he or such designee (1) is in substantial permanent occupancy, direction or use of the premises served by the Cooperative, and (2) is a permanent and year round resident within or in close proximity to an area served by the Cooperative; BUT PROVIDED FURTHER, that no more than one (1) such person may serve on the Board of directors at the same time. No person shall be eligible to become or remain a director of, or to hold any other position of trust in, the Cooperative who is not at least (18) years of age or is in any way employed by or financially interested in a competing enterprise or a business selling electric energy or supplies to the Cooperative, or a business primarily engaged in selling electrical or plumbing appliances, fixtures or supplies, to among others the members of the Cooperative. Notwithstanding any of the foregoing provisions of this Section treating with close relative relationships, no incumbent director shall lose eligibility to remain a director or to be re-elected as a director if he becomes a close relative of another incumbent director or of a Cooperative employee because of a marriage to which he was not a party. Upon establishment of the fact that a nominee for director lacks eligibility under this Section or as may be provided elsewhere in these Bylaws, it shall be the duty of the chairman presiding at the meeting at which such nominee would otherwise be voted upon to disqualify such nominee. Upon the establishment of the fact that any person being considered for, or already holding, a directorship or other position of trust in the cooperative lacks eligibility under this section, it shall be the duty of the Board of Directors to withhold such position from such person, or to cause him to be removed therefrom, as the case may be. Nothing contained in this Section shall, or shall be construed to, affect in any manner whatsoever the validity of any action taken at any meeting of the Board of Directors, unless such action is taken with respect to a matter which is affected by the provisions of this Section and in which one or more of the directors have an interest adverse to that of the Cooperative.

SECTION 4.03 ELECTION. At each annual meeting of the members, directors shall be elected by secret written ballot by the members and, except as provided in the first proviso of Section 4.02 of these Bylaws, from among those members who are natural persons: PROVIDED that, Directors shall be elected by a plurality of the votes cast. Drawing by lot shall resolve, where necessary, any tie votes.

SECTION 4.04. TENURE. Directors shall be so nominated and elected that one director from or with respect to Directorate Districts Nos. 1, 4 and 7 shall be elected for three-year terms at an annual member meeting in 2006; one director from or with respect to Directorate Districts Nos. 2 and 5 shall be elected for three-year terms at the next succeeding annual member meeting in 2007; one director from or with respect to Directorate District Nos. 3 and 6 shall be elected for three-year terms at the next succeeding annual member meeting in 2008, and so forth. Upon their election, directors shall, subject to the provisions of these Bylaws with respect to the removal of directors, serve until the annual meeting of the members of the year in which their terms expire or until their successors shall have been elected and shall have qualified. If for any reason an election of directors shall not be held at an annual meeting of the members duly fixed and called pursuant to these Bylaws, such election may be held at an adjournment of such meeting or at a subsequently held special or the next annual meeting of the members. Failure of an election for a given year shall allow the incumbents whose directorships would have been voted on to hold over only until the next member meeting at which a quorum is present.

Nominations of Director Article IV of the By-Laws of The Grady EMC

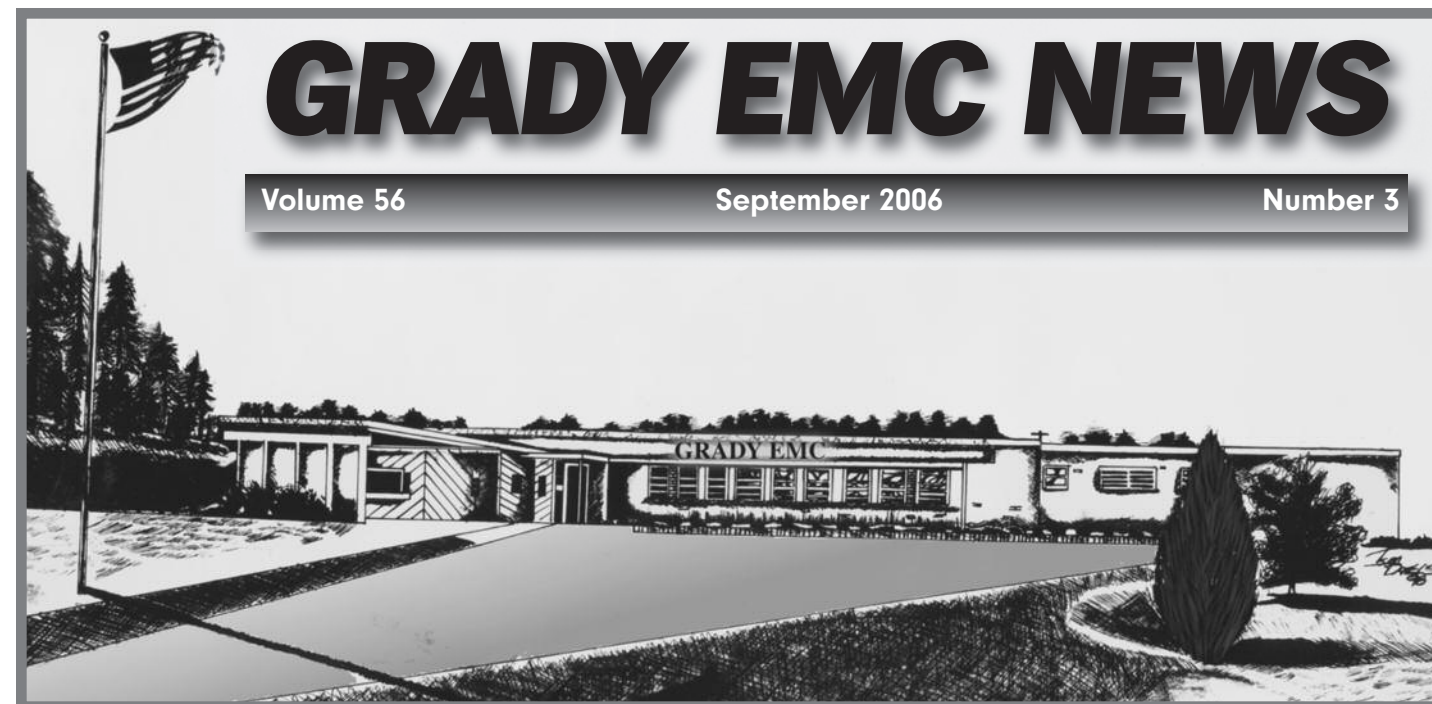
SECTION 4.06. NOMINATIONS. It shall be the duty of the Board of Directors to appoint not less than sixty (60) nor more than ninety (90) days prior to the date of a meeting of the members at which directors are to be elected, a Committee on Nominations, consisting of not less than eight (8) nor more than twelve (12) members of the cooperative who are not existing Cooperative employees, agents, officers, directors or known candidates for director, who are not close relatives (as hereinafter defined) or members of the same household thereof, and who are so selected that each of the Cooperative's directorate districts shall have representation thereon in proportion to the number of authorized directors from or with respect to such District. The Committee shall prepare and post at the principal office of the Cooperative at least thirty (30) days prior to the meeting a list of nominations for directors to be elected, listing separately the nominee(s) for each Directorate District from or with respect to which a director must, pursuant to this Article, be elected at the meeting. The Committee shall include two (2) nominees for each Directorate District. Any fifteen (15) or more members of the Cooperative, acting together, may make additional nominations in writing over their signatures, listing their nominee(s) in like manner, not less than twenty (20) days prior to the meeting, and the Secretary shall post such nominations at the same place where the list of nominations made by the Committee is posted. The Secretary shall mail to the members with the notice of the meeting, or separately, but at least five (5) days prior to the date of the meeting, a statement of the names and addresses of all nominees for each Directorate District from which directors must be elected, showing clearly those nominated by the Committee and those nominated by petition, if any. Nominations shall be closed at 5:00 p.m. on the date twenty (20) days before the meeting. Candidates failing to be placed on the ballot through nominations shall have the opportunity of running for the Board as write-in candidates. Any member desiring to vote for a member not nominated may vote for such person by writing in such person's name on the ballot. All ballots shall provide space for the names of such candidates. Notwithstanding the provisions contained in this Section, failure to comply with any such provisions shall not affect in any member whatsoever the validity of any action taken by the Board of Directors after the election of directors.

Nominating Committee Meeting

The Nominating Committee is scheduled to meet September 7, 2006 at 10:00 a.m. at the Grady EMC office building. They will appoint designated names from each district in which two of whom will be elected as Directors of Grady Electric Membership Corporation. The Board of Directors met August 2 and approved the following names as the 2006 Nominating Committee:

J.C. Hortman
H. Lamar Strickland
Robert L. Gainey
Willie B. Hickey

W. H. Ansley
Lowell E. Dollar
Freddie Bryant
Julian E. Robinson



2006 Annual Meeting Friday, October 20

Registration Begins at 8:30 A.M. • Meeting Begins at 10:30 A.M.

THE 68TH ANNUAL MEMBERSHIP MEETING will be held on Friday, October 20th, 2006 at 10:30 AM. in the EMC operations complex located directly behind the EMC headquarters office building on Highway 84 West in Cairo, Georgia. Registration and voting on directors will begin at 8:30 A.M. and end promptly at 10:30 A.M. The business meeting will begin at 10:30 a.m.

As mentioned earlier, members will have the opportunity to participate in the election of directors who will represent them in the Co-op. The directors are elected each year on a rotation basis to serve three-year terms. This year, directors will be elected from districts one, four, and seven. You are encouraged to participate in this process as you are vital to the progress and service of your co-op.

Entertainment for this year's meeting will be provided by the Hymn Masters Quartet. The group consists of Mr. Sam Sirmons who sings tenor and lives in Climax, GA, Mr. Bill Bass from Leesburg, GA, who sings bass, Mr. Joe Salter sings baritone and lives in Climax, GA, and Mr. Wayne McDonald who is the lead singer and lives in Cairo, GA. The ministry of the Hymn Masters Quartet is to uplift and glorify the name of Jesus Christ through good Southern Gospel music. They have been doing this for approximately 30 years in the North Florida, Eastern Alabama, and Southwest Georgia area. They will perform from 9:30 AM to 10:30 AM. You are invited to come and enjoy the entertainment, refreshments, and fellowship. Free gifts will be given to those registering at the meeting.

The directors, staff and employees of your Co-op look forward to seeing and visiting with you on this day. The mission of Grady EMC remains the same; to provide high quality, affordable electricity to all our membership. Remember, Grady EMC is owned by you and is directed by a Board of Directors that you have elected.



MEMBERSHIP DOES HAVE ITS PRIVILEGES.



T.A. ROSSER
General Manager

BOARD OF DIRECTORS

DONALD COOPER
Chairman - District 2

DEWEY BROCK, Jr.
District 1

LAMAR CARLTON
Vice-Chairman - District 3

ROBERT E. LEE
Secretary - Treasurer - District 6

JAMES FREEMAN
District 4

L. O. MAXWELL, III
District 5

G. WILLIS SMITH
District 7

Attorney
KEVIN CHASON

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Utilities Service
Statement of Nondiscrimination

Grady Electric Membership Corporation has filed with the Federal Government a Compliance Assurance in which it assures the Rural Utilities Service that it will comply fully with all requirements of Title VI of the Civil Rights Act of 1964, all requirements of Section 504 of the Rehabilitation Act of 1973, as amended, all requirements of the Age Discrimination Act of 1975, as amended, all requirements under the Americans Disabilities Act of 1990 and all requirements of the rules and regulations of the U.S. Department of Agriculture to the end that no person in the United States shall, on the ground of race, color or national origin, of solely by reason of such person's disabilities or on the basis of age, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination in the conduct of its program or the operation of its facilities. Under this Assurance, this organization is committed not to discriminate against any person on the ground of race, color or national origin, solely by reason of such person's disabilities, or on the basis of age, in its policies and practices relating to applications for service or any other policies and practices relating to treatment of beneficiaries and participants including employment, rates, conditions and extensions of service, admissions or access to or use of any of its facilities, attendance at and participation in any meetings of beneficiaries and participants or the exercise of any rights of such beneficiaries and participants in the conduct of the operations of this organization. The person in this organization responsible for coordinating the nondiscrimination compliance efforts of this organization is Patricia B. Reed.

Any individual, or any specific class of individuals, who feel subjected by this organization to discrimination prohibited by Title VI of the Civil Rights Act, by Section 504 of the Rehabilitation Act, by the Age Discrimination Act, by the Americans Disabilities Act or by the rules and regulations of the U.S. Department of Agriculture may personally or through a representative, file with the Office of the Secretary, U.S. Department of Agriculture, Washington, D.C. 20250; the office of the Administrator, Rural Utilities Service, Washington, D.C. 20250; The Office of Advocacy and Enterprise, U.S. Department of Agriculture, Washington, D.C. 20250; or this organization, or all, a written complaint. Such complaint must be filed no later than 180 days after the alleged discrimination, or by such later date to which the Secretary of Agriculture of the Administrator of the Rural Utilities Service extends the time for filing. Identity of complaints will be kept confidential except to the extent necessary to carry out the purposes of the rules and regulations of the U. S. Department of Agriculture.

ANNUAL REPORT

for Year 2005

Chairman and Manager's Report

We will remember 2005 as the year the cost of fuel and power began its long trek upward, apparently never returning to the levels of the past. This has brought with it higher electricity prices, which has a lot of people upset, and wondering why haven't we done something.

Electricity is not a naturally available product, it has to be made. The plants to make electricity are very expensive to build and operate. To operate efficiently, they need to have the ability to make large amounts of electricity. Much more than we would need. Therefore, several companies usually combine together to build one.

The coops in Georgia chose to break up into smaller member groups several years ago, which, in our opinion, was the beginning of the end of the "Cooperative Family" in Georgia. One of the results of this breakup was difficulty creating and managing new generation.

Many of you remember several years ago Grady and Three Notch EMC in Donalsonville went together to build the SOWEGA Generating facilities in Mitchell County, which was built to provide peaking power for us, and well as sell the excess. This was done shortly after Oglethorpe Power Corporation decided to get out of the generation building business. We took our future into our own hands and built SOWEGA. This worked as it should, but now, because of constant growth, we need more base load generation, and SOWEGA wasn't designed to provide that. Since Oglethorpe is no longer building new generation, and we need more base load, and the coops in Georgia are no longer working together as one large group, we felt the need to pursue another course. We are now in final negotiations to join Alabama Electric Cooperative, in Andalusia, Alabama.

In the long term, we feel this will be the best course for us to take. Joining Alabama will provide long term stability as well as the size to develop and build the generation we will need for the future. We aren't particularly happy to leave the "Family" of coops in Georgia, but making the decision to do so is driven by your Board of Directors' desire to provide the best long term solution to meet the power requirements of you, our members.

Our growth is continuing, with the membership increasing from 14,479 in 2004 to 14,753 in 2005. Even though this isn't rapid membership growth, it is steady, and does require constant monitoring to be sure we don't increase demand unnecessarily, and thereby increase cost more than necessary, or even worse, not have the electricity available when it is needed. Our total KWH sales increased in 2005 to 279,171,946 KWH, up from 276,174,315 KWH in 2004.

At the end of 2005, and the first of 2006, we installed a voice response system to answer the phone as well as record outage notifications. This system works using caller ID and your telephone number, similar to the 911 systems for locating people and places. This system has shown it is by far the fastest way to receive and log calls. BUT, as good as this system is promising to be, if you, the member, don't use it, it can't provide the assistance it is designed to provide. So please use the system. You will be served faster and more accurately.

One benefit of belonging to a rural electric coop is receiving capital credit distributions. We paid \$319,334.00 to the estates of deceased members in 2005.

Your elected Board of Directors is constantly looking for ways to make your coop more efficient, and more responsive to your needs. If you know of something you would like to have changed, or wonder why something is being done a certain way, ask us, we will see what we can do to answer your questions.

Grady EMC's directors and employees are proud of the job they do for you, the member, and look forward to seeing you at the 68th Annual Meeting of YOUR COOP.

Secretary and Treasurer's Report

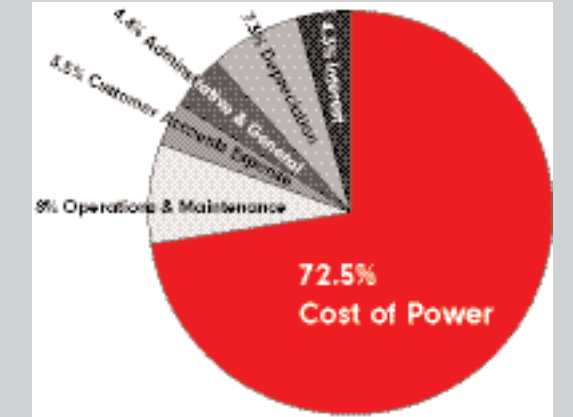
FINANCIAL STATEMENTS for the fiscal year ended December 31, 2005 reflect the sound status of Grady Electric membership Corporation.

Each year we obtain the services of Certified Public Accountants to perform an audit of the corporation's accounting records. This audit includes and examination of the cooperative's balance sheets, related statements of revenue and expenses and appropriate remarks concerning each.

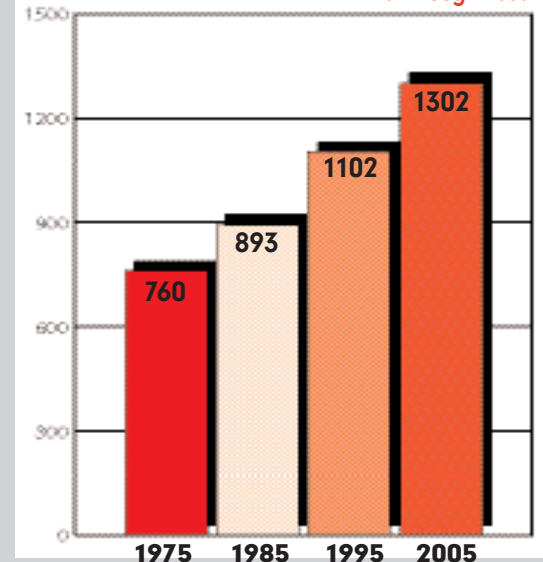
Our auditor, Nichols, Cauley & Associates, LLC, conducts our audits in accordance with generally accepted auditing standards and Government Auditing Standards.

Respectfully Submitted,
Robert E. Lee
Secretary-Treasurer

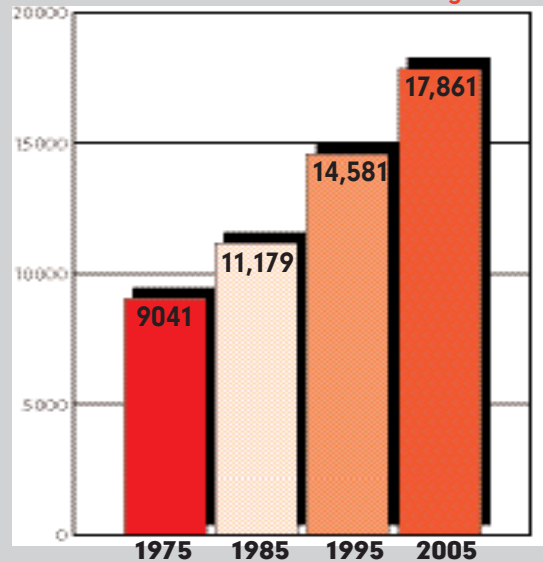
Where Your Dollars Were Spent



Average Kilowatt Hours used per month per meter
1975 through 2005



Number of Active Meters 1975 through 2005



STATEMENT OF REVENUE AND PATRONAGE CAPITAL

	Year 2005	Year 2004
Revenues	\$29,530,974	\$26,979,957
Operating Expenses:		
Cost of Power	\$20,635,680	\$18,747,065
Distribution Expense—Operation of Lines	1,268,148	1,201,287
Distribution Expense—Maintenance of Lines	1,011,889	1,328,767
Consumer Accounts Expense	998,391	877,840
Administrative and General Expense	1,250,714	1,245,860
Depreciation and Amortization Expense	2,077,258	1,826,912
Interest	1,224,178	836,051
Total Expenses	\$28,466,258	\$26,063,782
Operating Margins	\$1,064,716	916,175

BALANCE SHEET

As of December 31, 2005

What We Own—Assets	2005
Cash on Hand and Temporary Investments	1,008,707
Investments in Associated Organizations	9,167,263
Accounts Receivable	3,439,593
Stock Materials and Supplies	324,240
Cost of System, Less Depreciation	50,912,679
Deferred Charges	28,364
Other Current Assets	138,335
Total Assets	\$65,019,181
Our Equity and What We Owe—Liabilities & Equity	
Long-Term Mortgage Notes, RUS, CFC & Other	24,839,714
Membership Fees	74,070
Patronage Capital and Other Equities	31,135,925
Other Liabilities	8,969,472
Total Liabilities & Equity	\$65,019,181