

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
Graham County Electric Cooperative, Inc.
Pima, Arizona

We have audited the accompanying financial statements of Graham County Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of income, patronage capital, and comprehensive income (loss), 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 audit 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 entity'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 entity'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 Graham County Electric Cooperative, Inc. as of September 30, 2021 and 2020, 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following schedules of administrative and general expenses, and five year comparative statement of revenues and expenses are presented for purpose of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Cooperative's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 22, 2021

FINANCIAL STATEMENTS

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
SEPTEMBER 30, 2021 AND 2020

ASSETS

	September 30,	
	2021	2020
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 55,738,395	\$ 53,385,616
Construction Work in Progress	250,769	767,784
	\$ 55,989,164	\$ 54,153,400
Less: Accumulated Provision for Depreciation	27,322,392	25,868,901
	\$ 28,666,772	\$ 28,284,499
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 13,911,090	\$ 13,610,845
Notes Receivable	494,602	837,035
Non-Utility Property - Net of Amortization	38,309	
	\$ 14,444,001	\$ 14,447,880
CURRENT ASSETS		
Cash - General	\$ 631,832	\$ 716,497
Accounts Receivable (Less allowance for uncollectibles of \$178,099 in 2021 and \$183,010 in 2020)	566,387	1,247,484
Accounts Receivable - Graham County Utilities, Inc.	3,875,866	3,028,270
Unbilled Revenue	263,957	136,737
Note Receivable - Current Portion	174,656	249,600
Materials and Supplies	1,100,967	1,189,863
Other Current and Accrued Assets	52,181	127,796
	\$ 6,665,846	\$ 6,696,247
DEFERRED CHARGES	\$ 1,174,370	\$ 1,068,566
TOTAL ASSETS	\$ 50,950,989	\$ 50,497,192

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 28,475	\$ 27,900
Patronage Capital	29,356,668	27,396,315
Other Equities (Deficits)	13,144	(152,326)
Accumulated Other Comprehensive Loss	(684,164)	(1,140,757)
	\$ 28,714,123	\$ 26,131,132
LONG-TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 13,746,198	\$ 14,501,116
Other Long Term Debt - Less Current Maturities	361,183	585,045
Paycheck Protection Program		906,800
	\$ 14,107,381	\$ 15,992,961
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,277,532	\$ 2,567,995
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 808,556	\$ 837,000
Current Portion of APBO	155,767	173,032
Accounts Payable - Purchased Power	588,028	513,962
Accounts Payable - Other	198,657	154,082
Over-Recovered Fuel Cost	1,794,986	1,631,063
Accrued Taxes	288,546	335,680
Accrued Interest	64,738	63,600
Consumer Deposits and Prepayments	445,990	413,485
Accrued Compensated Absences	581,215	564,299
Other Current and Accrued Liabilities	177,219	204,526
	\$ 5,103,702	\$ 4,890,729
DEFERRED CREDITS	\$ 748,251	\$ 914,375
TOTAL EQUITIES AND LIABILITIES	\$ 50,950,989	\$ 50,497,192

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	Years Ended September 30,				Increase (Decrease)
	2021		2020		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 7,065,883	49.4	\$ 8,192,974	53.0	\$ (1,127,091)
Irrigation	1,185,942	8.3	1,366,637	8.9	(180,695)
Commercial and Industrial	3,770,872	26.4	4,462,996	28.9	(692,124)
Public Street and Highway Lighting	19,604	0.1	22,897	0.1	(3,293)
Fuel Cost - Under (Over) Billed	(163,923)	(1.1)	(637,596)	(4.1)	473,673
Unbilled Revenue	127,220	0.9	(77,807)	(0.5)	205,027
Rent from Electric Property	257,766	1.8	257,431	1.7	335
Other Operating Revenues	2,037,407	14.2	1,845,474	12.0	191,933
Total Operating Revenues	\$ 14,300,771	100.0	\$ 15,433,006	100.0	\$ (1,132,235)
OPERATING EXPENSES					
Purchased Power	\$ 6,370,179	44.5	\$ 7,992,457	51.8	\$ (1,622,278)
Operation	681,275	4.8	730,472	4.7	(49,197)
Maintenance	1,554,961	10.9	1,241,134	8.0	313,827
Customer Accounts	646,868	4.5	619,632	4.0	27,236
Administrative and General	1,623,484	11.4	1,734,733	11.2	(111,249)
Depreciation and Amortization	1,575,627	11.0	1,520,647	9.9	54,980
Other Interest and Deductions	30,348	0.2	37,038	0.2	(6,690)
Total Operating Expenses	\$ 12,482,742	87.3	\$ 13,876,113	89.8	\$ (1,393,371)
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,818,029	12.7	\$ 1,556,893	10.2	\$ 261,136
FIXED CHARGES					
Interest on Long-Term Debt	847,167	5.9	890,191	5.8	(43,024)
OPERATING MARGINS - After					
Fixed Charges	\$ 970,862	6.8	\$ 666,702	4.4	\$ 304,160
Other Capital Credits	482,906	3.4	518,746	3.4	(35,840)
NET OPERATING MARGINS	\$ 1,453,768	10.2	\$ 1,185,448	7.8	\$ 268,320
NONOPERATING MARGINS					
Interest Income	\$ 121,136	0.8	\$ 119,564	0.8	\$ 1,572
Paycheck Protection Program Loan Forgiveness	906,800	6.3		0.0	906,800
Other Nonoperating Income	48,901	0.3	47,028	0.3	1,873
	\$ 1,076,837	7.4	\$ 166,592	1.1	\$ 910,245
NET MARGINS	\$ 2,530,605	17.6	\$ 1,352,040	8.9	\$ 1,178,565
OTHER COMPREHENSIVE INCOME (LOSS)					
Prior Service Cost	170,433		170,433		
Amortization of Actuarial Loss	13,282		2,916		
Actuarial Gain (Loss)	272,878		(160,778)		
COMPREHENSIVE INCOME	\$ 2,987,198		\$ 1,364,611		
Post-Retirement Benefit Obligation	(456,593)		(12,571)		
Patronage Capital Retired	(404,782)		(362,193)		
Offset Prior Year Losses	(157,478)		(42,958)		
Retained Non-Operating Margins	(7,992)				
PATRONAGE CAPITAL - BEGINNING OF YEAR	\$ 27,396,315		\$ 26,449,426		
PATRONAGE CAPITAL - END OF YEAR	\$ 29,356,668		\$ 27,396,315		

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	September 30,	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 2,530,605	\$ 1,352,040
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization	1,780,748	1,713,913
Post-Retirement Benefit Amortization	155,909	140,872
Capital Credits Allocations	(482,906)	(518,746)
Paycheck Protection Program Loan Forgiveness	(906,800)	
(Increase) Decrease		
Accounts Receivable	681,097	215,158
Accounts Receivable - Graham County Utilities	(847,596)	(784,768)
Unbilled Revenue	(127,220)	77,807
Inventories and Prepaid Expenses	164,511	(149,586)
Deferred Charges	43,061	(50,564)
Increase (Decrease)		
Payables and Accrued Expenses	94,759	(180,405)
Fuel Costs Over (Under) Recovered	163,923	637,596
Deferred Credits	(166,124)	198,726
Net Cash From Operating Activities	<u>\$ 3,083,967</u>	<u>\$ 2,652,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (2,078,692)	\$ (1,790,381)
Cost of Removal Less Salvage Value and Other Credits	(84,088)	(92,144)
Notes Receivable	417,377	(222,666)
Other Property and Investments	144,111	156,366
Net Cash From Investing Activities	<u>\$ (1,601,292)</u>	<u>\$ (1,948,825)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt Other	\$	\$ 906,800
Payments on Long-Term Debt to CFC	(707,918)	(664,067)
Payments on Long-Term Debt Other	(299,306)	(102,764)
Advances (Payments) on CFC Line of Credit - Net		(700,000)
Payments on Behalf of Retirees	(155,909)	(140,872)
Retirement of Patronage Capital	(404,782)	(362,193)
Other Equities		1,623
Memberships	575	470
Net Cash From Financing Activities	<u>\$ (1,567,340)</u>	<u>\$ (1,061,003)</u>
CHANGE IN CASH EQUIVALENTS	\$ (84,665)	\$ (357,785)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>716,497</u>	<u>1,074,282</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 631,832</u></u>	<u><u>\$ 716,497</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 847,167	\$ 890,191
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from Arizona G&T Cooperatives, Inc. of which the Cooperative is a member/owner. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheets.

System of Accounts

Although the Cooperative is no longer an RUS borrower, its accounting records are maintained in accordance with the RUS Uniform System of Accounts (USOA) as prescribed for RUS electric borrowers.

Labor Agreements

As of September 30, 2021, 56% of the Cooperative's 45 employees work under a collective bargaining agreement. The collective bargaining agreement will expire on June 30, 2022.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the estimated cost of such property is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Materials and Supplies

Materials and supplies inventories are valued at average unit cost.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are represented by Cash – General.

Electric Revenues from Contracts with Customers

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis four times a month.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative records electric revenues as billed to customers on a monthly basis. Amounts of energy delivered to customers since the date of the last meter readings are estimated, and the corresponding unbilled revenue is recognized. The Cooperative estimated that its unbilled revenue for delivered power usage which has not been billed to customers as of September 30, 2021 and 2020 amounted to \$263,957 and \$136,737, respectively. This amount is included as a component of current assets on the balance sheets.

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative's tariffs for electric service include fuel adjustment clauses under which electric rates charged to consumers are adjusted to reflect changes in the cost of fuel included in purchased power. The power cost to be billed in subsequent periods is recognized as under-recovered fuel costs and power cost billed in advance is reflected as over-recovered fuel cost. For the years ended September 30, 2021 and 2020 the Cooperative was over-recovered by \$1,794,986 and \$1,631,063, respectively.

Group Concentration of Credit Risk

The Cooperative headquarters facilities are located in Pima, Arizona. The service area includes members located in Graham County, Arizona. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from some consumers upon connection. The deposit is applied to any unpaid bills and fees in the event of default. The deposit accrues interest annually and is refunded after an established history of prompt payments. Deposits on hand totaled \$445,990 and \$413,485 at September 30, 2021 and 2020, respectively.

Graham County Electric Cooperative, Inc. is the guarantor of the mortgage notes executed by Graham County Utilities, Inc. (an affiliated company) to CFC in the amount of \$3,193,711 payable over 25 years with maturity dates of June 30, 2023, and September 30, 2031. As of September 30, 2021, the principal balance owed on the mortgage note was \$1,120,599. Payments on the note are being made when due.

The Cooperative maintains its cash balances in various financial institutions in Safford, Arizona. The balance is insured at each location by the Federal Deposit Insurance Corporation. Deposits, at times, exceed insured amounts.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Federal Income Tax Status

The Cooperative qualifies for exempt status under Internal Revenue Code Section 501(c)(12) which requires that 85% or more of income consists of amounts collected from members.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative has adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2018.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2021 and 2020.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Expense Allocation

Expenses not directly assignable to Graham County Electric Cooperative, Inc. or Graham County Utilities, Inc. are allocated to each entity on a pro rate share of the entity's meters as a percentage of total meters for all entities.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due to the National Rural Utilities Cooperative Finance Corporation (CFC).

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

3. Electric Plant in Service

The major classes of electric plant are as follows:

	September 30,	
	<u>2021</u>	<u>2020</u>
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	5,115,960	4,760,068
Distribution Plant	41,848,006	40,159,170
General Plant	<u>8,771,369</u>	<u>8,463,318</u>
Total Electric Plant in Service	\$ 55,738,395	\$ 53,385,616
Construction Work in Progress	<u>250,769</u>	<u>767,784</u>
Total Electric Plant	<u>\$ 55,989,164</u>	<u>\$ 54,153,400</u>

Provision for depreciation of electric plant is computed using straight-line composite rates as follows:

Transmission Plant	2.75%
Distribution Plant	2.94%

Straight-line composite depreciation rates are applied to all general plant accounts, except the transportation equipment which is depreciated on an item-by-item basis. Depreciation rates are selected for the general plant account, based upon the estimated useful life of the asset and are as follows:

Buildings	2.0 – 2.5%
Transportation	10.0 – 20.0%
Office Equipment	5.0 – 20.0%
Laboratory and Tools	4.8%
Communication	5.0 – 10.0%

Depreciation and amortization for the years ended September 30, 2021 and 2020, was \$1,780,748 and \$1,713,913, respectively, of which \$1,575,627 and \$1,520,647 was charged to depreciation and amortization expense and \$205,121 and \$193,266 allocated to other accounts, respectively.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	<u>2021</u>	<u>2020</u>
CFC		
Patronage Capital	\$ 868,751	\$ 833,777
Capital Term Certificates	593,474	596,799
Member Capital Securities	50,000	50,000
Membership	<u>1,100</u>	<u>1,000</u>
	\$ <u>1,513,325</u>	\$ <u>1,481,576</u>
Arizona G&T Cooperatives, Inc.		
Patronage Capital	\$ 12,195,598	\$ 11,914,141
Membership	<u>5</u>	<u>5</u>
	\$ <u>12,195,603</u>	\$ <u>11,914,146</u>
Graham County Utilities, Inc.		
Membership	\$ <u>5,000</u>	\$ <u>5,000</u>
Federated Rural Electric Insurance Corporation		
Patronage Capital	\$ <u>175,541</u>	\$ <u>161,938</u>
Other	\$ <u>21,621</u>	\$ <u>48,185</u>
	\$ <u><u>13,911,090</u></u>	\$ <u><u>13,610,845</u></u>

5. Notes Receivable

Notes receivable consisted of the following:

	September 30,	
	<u>2021</u>	<u>2020</u>
Graham County Utilities, Inc.	\$ 252,591	\$ 365,374
Town of Pima		243,750
Taylor Freeze	<u>416,667</u>	<u>477,511</u>
	\$ 669,258	\$ 1,086,635
Less: Current Maturities	<u>174,656</u>	<u>249,600</u>
	\$ <u><u>494,602</u></u>	\$ <u><u>837,035</u></u>

The notes receivable from the Town of Pima and Taylor Freeze were provided from the United States Department of Agriculture (USDA) REDL&G funds. The Cooperative received zero interest loans from USDA which the Cooperative, in turn, passed through to the Town of Pima and Taylor Freeze.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Non-Utility Property

On January 1, 2021, Grand Canyon State Electric Cooperative Association, Inc. (GCSECA) transferred building ownership of the building occupied by GCSECA to the full member cooperatives whose contributions paid for the building. The amount paid was transferred to Non-Utility Property and is being amortized over the estimated useful life of the building. The total amount paid by the Cooperative amounted to \$38,550 with amortization for the year ended September 30, 2021 totaling \$241.

7. Materials and Supplies

Materials and supplies consisted of the following:

	September 30,	
	2021	2020
Construction Materials	\$ 764,614	\$ 853,510
Spare Transformer	336,353	336,353
	<u>\$ 1,100,967</u>	<u>\$ 1,189,863</u>

8. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2021	2020
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	\$ 119,824	\$ 159,765
Right of Way Lease	6,704	12,450
Post Retirement Benefit Regulatory Asset	1,045,216	896,351
Rate Case	2,626	
	<u>\$ 1,174,370</u>	<u>\$ 1,068,566</u>

On March 31, 2017 Graham County filed an application (Docket No. E-01749A-17-0091) for an authorization of an accounting order to defer costs associated with the Cooperative's post-retirement benefit plan obligation. The Arizona Corporation Commission granted the accounting order on September 19, 2017 in Decision No. 76366.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Return of Capital

The mortgage with CFC contains provisions that must be met in order for the Cooperative to make patronage capital retirements. The provisions include minimum equity, debt service, and earnings ratios. The Cooperative is in compliance with these provisions as of September 30, 2021. The equities and margins of the Cooperative represent 57.70% (excluding Accumulated Other Comprehensive loss) or 56.36% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$404,782 and \$362,193 were made during the years ended September 30, 2021 and 2020.

10. Patronage Capital

	September 30,	
	2021	2020
Assignable (9 Months Ended September 30)	\$ 2,412,734	\$ 1,432,939
Net Margins (Prior to 1971)	1,499,875	1,556,645
Underassigned	326	63
Assigned	<u>27,093,011</u>	<u>25,651,164</u>
	\$ 31,005,946	\$ 28,640,811
Less: Retired	1,834,699	1,429,917
Add: Unassigned Unbilled Revenue	<u>185,421</u>	<u>185,421</u>
	<u>\$ 29,356,668</u>	<u>\$ 27,396,315</u>

11. Other Equities (Deficits)

Other Equities (Deficits) consisted of the following:

	September 30,	
	2021	2020
Prior Year Operating Losses	\$	\$ (157,478)
Retained Nonoperating Margins	7,992	
Retired Capital Credits Gain	<u>5,152</u>	<u>5,152</u>
	<u>\$ 13,144</u>	<u>\$ (152,326)</u>

In accordance with its bylaws, the Cooperative annual elects to retain nonoperating margins as permanent equity.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

12. Long-Term Debt – CFC

Following is a summary of long-term debt due CFC maturing at various times from 2029 to 2040:

Note No.	Interest Rate	Final Payment	Purpose	September 30,	
				2021	2020
9002's	7.45%	04/01/29	Construction	\$ 238,426	\$ 261,368
9003-001	7.45%	07/01/30	Construction	258,099	278,332
9004-001	7.70%	06/30/30	Construction	268,204	288,957
9005-001	7.45%	06/30/30	Construction	258,098	278,332
9006-001	7.45%	06/30/30	Construction	264,212	284,925
9007-001	7.35%	06/30/30	Construction	350,512	378,135
9008's	7.40%	06/30/32	Construction	504,870	534,628
9009's	6.85%	06/30/33	Construction	1,227,951	1,293,977
9009-003	7.90%	06/30/33	Construction	1,300,735	1,365,671
9009-004	4.95%	06/30/33	Construction	546,545	580,071
9009-005	3.18%	06/30/33	Construction	541,602	579,053
9009-006	6.25%	06/30/33	Construction	241,854	255,416
9009-007	6.70%	06/30/33	Construction	214,539	226,196
9010-001	6.90%	12/31/38	Construction	766,343	788,818
9010-002	7.10%	09/30/34	Construction	2,051,088	2,144,228
9010-003	6.40%	06/30/38	Construction	748,300	772,573
9010-004	4.65%	03/31/37	Construction	362,270	377,895
9010-005	4.40%	12/31/38	Construction	715,796	742,983
9010-006	3.80%	12/31/38	Construction	704,647	733,269
9010-007	4.00%	09/30/38	Construction	698,216	726,383
9010-008	4.45%	12/31/38	Construction	367,186	381,061
9010-009	5.30%	12/31/38	Construction	729,227	754,499
9010-010	4.20%	12/31/38	Construction	598,040	621,216
9011-001	4.85%	12/31/40	Construction	542,438	559,130
				<u>\$ 14,499,198</u>	<u>\$ 15,207,116</u>
				753,000	706,000
Less: Current Maturities				<u>\$ 13,746,198</u>	<u>\$ 14,501,116</u>

All of the notes are fixed rate notes.

The Cooperative has unadvanced loan funds available of \$8,000,000.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of September 30, 2021, annual maturities of long-term debt due CFC for the next five years are as follows:

2022	\$ 753,000
2023	801,000
2024	852,000
2025	907,000
2026	965,000

13. Other Long-Term Debt

Following is a summary of long-term debt due to the USDA and maturing at various times between 2024 and 2029:

Interest Rate	Purpose	September 30,	
		2021	2020
0.00%	Rural Economic Development	\$	\$ 243,750
0.00%	Rural Economic Development	416,739	472,295
		\$ 416,739	\$ 716,045
	Less: Current Maturities	55,556	131,000
		<u>\$ 361,183</u>	<u>\$ 585,045</u>

These are non-interest bearing notes with principal only payments due monthly. As of September 30, 2021, annual maturities of long-term debt due to the USDA for the next five years is as follows:

2022	\$ 55,556
2023	55,556
2024	55,556
2025	55,556
2026	55,556

14. Paycheck Protection Program Loan (PPP)

The Cooperative accounted for the PPP loan of \$906,800 under the Debt Model as provided for in applicable accounting guidance. During the year ended September 30, 2021, the Cooperative recognized 100% forgiveness and recognized the forgiveness as nonoperating income. The amount recognized was \$906,800.

15. Short-Term Borrowing

The Cooperative has a \$3,000,000 line of credit for short-term financing with CFC. There was \$0 and \$0 outstanding on this line of credit as of September 30, 2021 and 2020, respectively. As of September 30, 2021, the interest rate available on the line of credit is 2.25%.

The Cooperative also has two letters of credits available with CFC totaling \$812,500.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

16. Deferred Credits

Deferred credits consisted of the following:

	September 30,	
	2021	2020
Unclaimed Memberships and Deposit Refunds	\$ 2,124	\$ 1,087
Sun Watts Energy Conservation Program	98,916	327,166
Energy Efficiency Program	647,211	586,122
	<u>\$ 748,251</u>	<u>\$ 914,375</u>

17. Litigation

The Cooperative received a notice of claims letter alleging the Cooperative is responsible for the injuries of employees of a well drilling company. The insurance company of the Cooperative has hired attorneys in defense of the claim. The management and general counsel of the Cooperative do not believe the claim will have a material impact on the financial statements and ultimately will be covered by insurance.

18. Pension Benefits and Benefits to Retirees

Pension Benefits
Narrative Description

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

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

The Cooperative's contributions to the RS Plan in 2021 and 2020 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the plan of \$989,640 in 2021 and \$836,800 in 2020. RS Plan pension expense for the years ended September 30, 2021 and 2020 was \$1,054,304 and \$1,015,740, respectively. Effective May 2020, the RS Plan returned to a twelve month billing versus the eight month billing that occurred prior to May 2020.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 over 80% funded on January 1, 2021 and 2020 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 RS Plan and may change as a result of RS Plan experience.

The employees also participate in a 401(k) plan, a defined contribution plan provided through NRECA. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$97,653 and \$91,770 for the years ended September 30, 2021 and 2020, respectively.

Benefits to Retirees

The Cooperative provides post-retirement medical and life insurance benefits for eligible employees and their dependents through a plan with NRECA. For purposes of this statement, the written plan in effect is the substantive plan, and is considered a defined benefit plan.

Summary of the Plan

The retiree medical plan is a Preferred Provider Organization. Eligibility for retirement benefits are currently retired, surviving spouse, or an active employee age 55 with ten years of service by July 1, 2001. Active directors and spouses of future retirees will not become eligible for post-retirement benefits.

The retiree contributes to the benefit plan based on the following schedule of years of service:

<u>Service</u>	<u>Contributions</u>
0-9	100.00%
10-14	66.67%
15-19	33.33%
20+	0.00%

The Cooperative contributes the same amount for the retiree's dependent or surviving spouse as for the retiree.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Net periodic post-retirement medical care costs for years ending September 30, 2021 and 2020, consisted of the following components:

	September 30,	
	2021	2020
I) Components of Periodic Net Post-Retirement Benefit Cost		
Interest Cost	\$ 61,054	\$ 72,975
Service Cost	60,005	52,223
Amortization of Prior Service Cost	170,433	170,433
Amortization of Actuarial Loss	13,282	2,916
Net Post-Retirement Cost Transferred to Regulatory Asset	(148,865)	(157,675)
Total	<u>\$ 155,909</u>	<u>\$ 140,872</u>
II) Change In Accumulated Post-Retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 2,741,027	\$ 2,595,923
Interest Cost	61,054	72,975
Service Cost	60,005	52,223
Actuarial (Gain) / Loss	(272,878)	160,778
Plan Participant Contributions		
Actual Benefits Paid	(155,909)	(140,872)
Net Post-Retirement Benefit Liability at Year End	<u>\$ 2,433,299</u>	<u>\$ 2,741,027</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,433,299	\$ 2,741,027
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,433,299</u>	<u>\$ 2,741,027</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ 155,767	\$ 173,032
Non Current Liability	2,277,532	2,567,995
Post-Retirement Benefits Other Than Pensions	<u>\$ 2,433,299</u>	<u>\$ 2,741,027</u>
V) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$	\$
Prior Service Cost	(511,867)	(682,300)
Unamortized Actuarial Loss	(172,297)	(458,457)
Accumulated Other Comprehensive Loss	<u>\$ (684,164)</u>	<u>\$ (1,140,757)</u>

The information is based on the most recent USI Consulting Group valuation calculated as of October 1, 2020.

The Cooperative funds the retiree health care premiums on a cash basis and in 2021 and 2020 paid \$155,909 and \$140,872, respectively, for retirees' health care coverage.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 2.62%. The assumed health care cost trend rate is 7.50% for 2021 declining to 5.00% by 2026.

The estimated actuarial loss for the post-retirement medical benefit plan that will be amortized from accumulated other comprehensive loss into net post-retirement benefit cost over the next fiscal year is \$0. The amount of prior service cost that will be amortized from accumulated other comprehensive loss into net post-retirement benefit cost over the next fiscal year is \$170,433.

Estimated future benefit payments for the next ten years are as follows:

2022	\$ 155,767
2023	163,296
2024	122,137
2025	126,636
2026	130,444
2027-2031	599,365

19. Related Parties

The Cooperative is represented on the Board of Directors of Arizona G&T Cooperatives, purchasing all of its electric power and transmission requirements from Arizona Electric Power Cooperative, Inc. (AEPCO). Margins earned by Arizona G&T Cooperatives have been allocated to the Cooperative, and are reflected under investments in associated organizations on the balance sheet.

In addition, the Cooperative is related by having six out of nine directors from the Cooperative on the Board of Directors of Graham County Utilities, Inc. (GCU). The Cooperative is a Class "A" Member of GCU, having paid a membership fee of \$5,000.

The Cooperative provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989. Services are billed and accounted for under the terms of the agreement. The Cooperative has the intent and the ability to provide working capital to GCU for the foreseeable future.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2021</u>	<u>2020</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 3,875,865	\$ 3,028,270
Note Receivable (Current)	119,100	112,800
Note Receivable (Long-Term)	<u>133,491</u>	<u>252,574</u>
	<u>\$ 4,128,456</u>	<u>\$ 3,393,644</u>
 Graham County Utilities, Inc.		
Accounts Payable	\$ (3,875,865)	\$ (3,028,270)
Loan Payable (Current and Long-Term)	<u>(252,591)</u>	<u>(365,374)</u>
	<u>\$ (4,128,456)</u>	<u>\$ (3,393,644)</u>

During the year ended September 30, 2013, the Cooperative loaned funds to Graham County Utilities, Inc. in the amount of \$1,000,000 with a term of ten years at an interest rate of 5.44%. As of September 30, 2021, the outstanding balance on the note is \$252,591. The annual maturities of the note due to the Cooperative for the next four years are as follows:

2022	\$ 119,100
2023	133,491

20. Commitments and Contingencies

As previously mentioned in Note 1, the Cooperative is the guarantor of Graham County Utilities, Inc. mortgage notes payable to CFC.

The Cooperative has executed a contract to purchase all of its electric power requirements from Arizona Electric Power Cooperative, Inc. The contract is effective through December 31, 2035.

On July 14, 2021, the Cooperative filed an application with the Arizona Corporation Commission for merger of Graham County Electric Cooperative, Inc. and GCU. with Graham County Electric Cooperative, Inc. as the surviving entity. As of September 30, 2021, the Cooperative is pending approval from the Arizona Corporation Commission on the proposed merger.

21. Subsequent Events

The Cooperative has evaluated subsequent events through November 22, 2021, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 1

ADMINISTRATIVE AND GENERAL EXPENSES
SEPTEMBER 30, 2021 AND 2020

	September 30,		Increase (Decrease)
	2021	2020	
Administrative and General Salaries	\$ 612,914	\$ 641,157	\$ (28,243)
Office Supplies and Expense	227,700	223,123	4,577
Outside Services Employed	71,936	90,111	(18,175)
Property Insurance	13,486	13,256	230
Injuries and Damages	70,746	69,538	1,208
Education and Training	242,527	227,221	15,306
Director's Fees and Education	46,113	65,021	(18,908)
Regulatory Commission Expense	34,654	34,176	478
Miscellaneous General Expense	155,295	208,627	(53,332)
Rents	14,483	17,035	(2,552)
Maintenance of General Plant	<u>133,630</u>	<u>145,468</u>	<u>(11,838)</u>
Total	<u>\$ 1,623,484</u>	<u>\$ 1,734,733</u>	<u>\$ (111,249)</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2021	2020	2019	2018	2017*
OPERATING REVENUES					
Residential	\$ 7,065,883	\$ 8,192,974	\$ 8,434,079	\$ 8,433,814	\$ 8,330,966
Irrigation	1,185,942	1,366,637	1,645,288	1,825,199	1,553,462
Commercial and Industrial	3,770,872	4,462,996	5,111,255	5,327,578	5,485,125
Public Street and Highway Lighting	19,604	22,897	25,400	25,677	29,124
Fuel Cost - Under (Over) Billed	(163,923)	(637,596)	(642,015)	(56,655)	288,094
Unbilled Revenue	127,220	(51,573)	29,123	(24,484)	
Rent from Electric Property	257,766	257,431	268,506	231,058	213,485
Other Operating Revenues	2,037,407	1,845,474	1,719,418	1,469,364	787,431
Total Operating Revenues	\$ 14,300,771	\$ 15,459,240	\$ 16,591,054	\$ 17,231,551	\$ 16,687,687
OPERATING EXPENSES					
Purchased Power	\$ 6,370,179	\$ 7,922,457	\$ 9,286,269	\$ 10,469,264	\$ 10,387,712
Operation	681,275	737,337	713,441	696,285	684,590
Maintenance	1,554,961	1,261,182	1,443,920	1,245,787	1,521,056
Customer Accounts	646,868	634,347	654,196	652,330	697,886
Administrative and General	1,623,484	1,764,899	1,561,027	1,420,834	1,373,891
Depreciation and Amortization	1,575,627	1,520,647	1,448,370	1,453,690	1,420,759
Other Interest and Deductions	30,348	37,431	58,543	61,396	49,659
Total Operating Expenses	\$ 12,482,742	\$ 13,878,300	\$ 15,165,766	\$ 15,999,586	\$ 16,135,553
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,818,029	\$ 1,580,940	\$ 1,425,288	\$ 1,231,965	\$ 552,134
Interest - Long-Term Debt	847,167	890,191	917,465	939,846	975,166
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ 970,862	\$ 690,749	\$ 507,823	\$ 292,119	\$ (423,032)
Other Capital Credits	482,906	518,746	679,607	706,429	844,106
NET OPERATING MARGINS	\$ 1,453,768	\$ 1,209,495	\$ 1,187,430	\$ 998,548	\$ 421,074
NONOPERATING MARGINS	1,076,837	166,592	162,559	150,000	144,653
NET MARGINS	\$ 2,530,605	\$ 1,376,087	\$ 1,349,989	\$ 1,148,548	\$ 565,727

Note

The * for the fiscal year ended September 30, 2017 denotes that unbilled revenue has been excluded for that year.