

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020 and 2019, 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, 2020 and 2019, 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 19, 2020, 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 19, 2020

FINANCIAL STATEMENTS

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019

ASSETS

	September 30,	
	2020	2019
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 53,385,616	\$ 52,285,094
Construction Work in Progress	767,784	418,312
	\$ 54,153,400	\$ 52,703,406
Less: Accumulated Provision for Depreciation	25,868,901	24,587,519
	\$ 28,284,499	\$ 28,115,887
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 13,610,845	\$ 13,248,465
Notes Receivable	837,035	659,169
	\$ 14,447,880	\$ 13,907,634
CURRENT ASSETS		
Cash - General	\$ 716,497	\$ 1,074,282
Accounts Receivable (Less allowance for uncollectibles of \$183,010 in 2020 and \$182,492 in 2019)	1,247,484	1,462,642
Accounts Receivable - Graham County Utilities, Inc.	3,028,270	2,243,502
Unbilled Revenue	136,737	214,544
Note Receivable - Current Portion	249,600	204,800
Materials and Supplies	1,189,863	860,015
Other Current and Accrued Assets	127,796	308,058
	\$ 6,696,247	\$ 6,367,843
DEFERRED CHARGES	\$ 1,068,566	\$ 860,327
TOTAL ASSETS	\$ 50,497,192	\$ 49,251,691
EQUITIES AND LIABILITIES		
EQUITIES		
Memberships	\$ 27,900	\$ 27,430
Patronage Capital	27,396,315	26,449,426
Other Equities (Deficits)	(152,326)	(196,907)
Accumulated Other Comprehensive Loss	(1,140,757)	(1,153,328)
	\$ 26,131,132	\$ 25,126,621
LONG-TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 14,501,116	\$ 15,207,183
Other Long Term Debt - Less Current Maturities	585,045	720,809
Paycheck Protection Program	906,800	
	\$ 15,992,961	\$ 15,927,992
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,567,995	\$ 2,419,516
CURRENT LIABILITIES		
Line of Credit Payable	\$	\$ 700,000
Current Maturities of Long-Term Debt	837,000	762,000
Current Portion of APBO	173,032	176,407
Accounts Payable - Purchased Power	513,962	752,160
Accounts Payable - Other	154,082	202,230
Over-Recovered Fuel Cost	1,631,063	993,467
Accrued Taxes	335,680	382,804
Accrued Interest	63,600	57,759
Consumer Deposits and Prepayments	413,485	424,726
Accrued Compensated Absences	564,299	480,033
Other Current and Accrued Liabilities	204,526	130,327
	\$ 4,890,729	\$ 5,061,913
DEFERRED CREDITS	\$ 914,375	\$ 715,649
TOTAL EQUITIES AND LIABILITIES	\$ 50,497,192	\$ 49,251,691

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	Years Ended September 30,				Increase (Decrease)
	2020		2019		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 8,192,974	53.1	\$ 8,434,079	50.9	\$ (241,105)
Irrigation	1,366,637	8.9	1,645,288	9.9	(278,651)
Commercial and Industrial	4,462,996	28.9	5,111,255	30.8	(648,259)
Public Street and Highway Lighting	22,897	0.1	25,400	0.2	(2,503)
Fuel Cost - Under (Over) Billed	(637,596)	(4.1)	(642,015)	(3.9)	4,419
Unbilled Revenue	(77,807)	(0.5)	29,123	0.2	(106,930)
Rent from Electric Property	257,431	1.7	268,506	1.6	(11,075)
Other Operating Revenues	1,845,474	12.0	1,719,418	10.4	126,056
Total Operating Revenues	\$ 15,433,006	100.1	\$ 16,591,054	100.1	\$ (1,158,048)
OPERATING EXPENSES					
Purchased Power	\$ 7,992,457	51.8	\$ 9,286,269	56.0	\$ (1,293,812)
Operation	730,472	4.7	713,441	4.3	17,031
Maintenance	1,241,134	8.0	1,443,920	8.7	(202,786)
Customer Accounts	619,632	4.0	654,196	3.9	(34,564)
Administrative and General	1,734,733	11.2	1,561,027	9.4	173,706
Depreciation and Amortization	1,520,647	9.9	1,448,371	8.7	72,276
Other Interest and Deductions	37,038	0.2	58,542	0.4	(21,504)
Total Operating Expenses	\$ 13,876,113	89.8	\$ 15,165,766	91.4	\$ (1,289,653)
OPERATING MARGINS - Before Fixed Charges	\$ 1,556,893	10.3	\$ 1,425,288	8.7	\$ 131,605
FIXED CHARGES					
Interest on Long-Term Debt	890,191	5.8	917,465	5.5	(27,274)
OPERATING MARGINS - After Fixed Charges	\$ 666,702	4.5	\$ 507,823	3.2	\$ 158,879
Other Capital Credits	518,746	3.4	679,607	4.1	(160,861)
NET OPERATING MARGINS	\$ 1,185,448	7.9	\$ 1,187,430	7.3	\$ (1,982)
NONOPERATING MARGINS					
Interest Income	\$ 119,564	0.8	\$ 115,574	0.7	\$ 3,990
Nonoperating Income	47,028	0.3	46,985	0.3	43
	\$ 166,592	1.1	\$ 162,559	1.0	\$ 4,033
NET MARGINS	\$ 1,352,040	9.0	\$ 1,349,989	8.3	\$ 2,051
OTHER COMPREHENSIVE INCOME (LOSS)					
Prior Service Cost	170,433		195,850		
Amortization of Actuarial Loss	2,916				
Actuarial Gain (Loss)	(160,778)		(343,249)		
Plan Amendments			357,618		
COMPREHENSIVE INCOME	\$ 1,364,611		\$ 1,560,208		
Post-Retirement Benefit Obligation	(12,571)		(210,219)		
Patronage Capital Retired	(362,193)		(3,986)		
Offset Prior Year Losses	(42,958)				
Transfer of Operating Loss to Other Equities			186,643		
PATRONAGE CAPITAL - BEGINNING OF YEAR	26,449,426		24,916,780		
PATRONAGE CAPITAL - END OF YEAR	\$ 27,396,315		\$ 26,449,426		

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	September 30,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,352,040	\$ 1,349,989
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities		
Depreciation and Amortization	1,713,913	1,565,553
Post-Retirement Benefit Amortization	140,872	122,042
Capital Credits Allocations	(518,746)	(679,607)
(Increase) Decrease		
Accounts Receivable	215,158	107,892
Accounts Receivable - Graham County Utilities	(784,768)	(632,070)
Unbilled Revenue	77,807	(29,123)
Inventories and Prepaid Expenses	(149,586)	(47,483)
Deferred Charges	(50,564)	10,914
Increase (Decrease)		
Payables and Accrued Expenses	(180,405)	(156,350)
Fuel Costs Over (Under) Recovered	637,596	642,015
Deferred Credits	198,726	30,679
Net Cash From Operating Activities	<u>\$ 2,652,043</u>	<u>\$ 2,284,451</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,790,381)	\$ (1,174,272)
Salvage Value and Other Credits Less Cost of Removal	(92,144)	(100,891)
Investments in Associated Organizations	156,366	155,068
Notes Receivable	(222,666)	(290,589)
Net Cash From Investing Activities	<u>\$ (1,948,825)</u>	<u>\$ (1,410,684)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt Other	\$ 906,800	\$ 875,059
Payments on Long-Term Debt to CFC	(664,067)	(627,654)
Payments on Long-Term Debt Other	(102,764)	(56,250)
Advances (Payments) on CFC Line of Credit - Net	(700,000)	(900,000)
Payments on Behalf of Retirees	(140,872)	(116,170)
Retirement of Patronage Capital	(362,193)	(3,986)
Other Equities	1,623	2,165
Memberships	470	535
Net Cash From Financing Activities	<u>\$ (1,061,003)</u>	<u>\$ (826,301)</u>
CHANGE IN CASH EQUIVALENTS	\$ (357,785)	\$ 47,466
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,074,282</u>	<u>1,026,816</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 716,497</u></u>	<u><u>\$ 1,074,282</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 890,191	\$ 917,465
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

At September 30, 2020, 57% of the Cooperative's 47 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, 2020 and 2019 amounted to \$136,737 and \$214,544, 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, 2020 and 2019 the Cooperative was over-recovered by \$1,631,063 and \$993,467, respectively.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers, Topic 606*, which provides a new framework for the recognition of revenue. The Cooperative implemented the guidance on October 1, 2019. The implementation did not have a material impact on the Cooperative's financial statements, other than increased disclosures regarding revenues related to contracts with customers.

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 \$413,485 and \$424,726 at September 30, 2020 and 2019, 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, 2020, the principal balance owed on the mortgage note was \$1,190,891. 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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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 2017.

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, 2020 and 2019.

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

The major classes of electric plant are as follows:

	September 30,	
	2020	2019
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	4,760,068	4,644,548
Distribution Plant	40,159,170	39,429,166
General Plant	8,463,318	8,208,320
Total Electric Plant in Service	\$ 53,385,616	\$ 52,285,094
Construction Work in Progress	767,784	418,312
Total Electric Plant	\$ 54,153,400	\$ 52,703,406

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, 2020 and 2019, was \$1,713,913 and \$1,565,553, respectively, of which \$1,520,647 and \$1,448,371 was charged to depreciation and amortization expense and \$193,266 and \$117,182 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>2020</u>	<u>2019</u>
CFC		
Patronage Capital	\$ 833,777	\$ 793,659
Capital Term Certificates	596,799	599,901
Member Capital Securities	50,000	50,000
Membership	<u>1,000</u>	<u>1,000</u>
	\$ <u>1,481,576</u>	\$ <u>1,444,560</u>
Arizona G&T Cooperatives, Inc.		
Patronage Capital	\$ 11,914,141	\$ 11,594,235
Membership	<u>5</u>	<u>5</u>
	\$ <u>11,914,146</u>	\$ <u>11,594,240</u>
Graham County Utilities, Inc.		
Membership	\$ <u>5,000</u>	\$ <u>5,000</u>
Federated Rural Electric Insurance Corporation		
Patronage Capital	\$ <u>161,938</u>	\$ <u>156,956</u>
Other	\$ <u>48,185</u>	\$ <u>47,709</u>
	\$ <u><u>13,610,845</u></u>	\$ <u><u>13,248,465</u></u>

5. Notes Receivable

Notes receivable consisted of the following:

	September 30,	
	<u>2020</u>	<u>2019</u>
Graham County Utilities, Inc.	\$ 365,374	\$ 472,199
Town of Pima	243,750	318,750
Taylor Freeze	<u>477,511</u>	<u>73,020</u>
	\$ 1,086,635	\$ 863,969
Less: Current Maturities	<u>249,600</u>	<u>204,800</u>
	\$ <u><u>837,035</u></u>	\$ <u><u>659,169</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. Materials and Supplies

Materials and supplies consisted of the following:

	September 30,	
	2020	2019
Construction Materials	\$ 853,510	\$ 523,662
Spare Transformer	336,353	336,353
	<u>\$ 1,189,863</u>	<u>\$ 860,015</u>

7. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2020	2019
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	\$ 159,765	\$ 103,331
Right of Way Lease	12,450	18,196
Post Retirement Benefit Regulatory Asset	896,351	738,675
Other Deferred Charges		125
	<u>\$ 1,068,566</u>	<u>\$ 860,327</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.

8. 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, 2020. The equities and margins of the Cooperative represent 54.01% (excluding Accumulated Other Comprehensive loss) or 51.75% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$362,193 and \$3,986 were made during the years ended September 30, 2020 and 2019.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Patronage Capital

	September 30,	
	2020	2019
Assignable (9 Months Ended September 30)	\$ 1,432,939	\$ 1,531,331
Net Margins (Prior to 1971)	1,556,645	1,556,645
Assignable (12 Months Ended December 31)		1,145,501
Underassigned	63	
Assigned	<u>25,651,164</u>	<u>23,073,768</u>
	\$ 28,640,811	\$ 27,307,245
Less: Retired	1,429,917	1,067,724
Add: Unassigned Unbilled Revenue	<u>185,421</u>	<u>209,905</u>
	<u>\$ 27,396,315</u>	<u>\$ 26,449,426</u>

10. Other Equities (Deficits)

Other Equities (Deficits) consisted of the following:

	September 30,	
	2020	2019
Prior Year Operating Losses	\$ (157,478)	\$ (200,437)
Retired Capital Credits Gain	<u>5,152</u>	<u>3,530</u>
	<u>\$ (152,326)</u>	<u>\$ (196,907)</u>

In accordance with its bylaws, the Cooperative will use future non-operating margins to offset prior year operating losses.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. 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,	
				2020	2019
9002's	7.45%	04/01/29	Construction	\$ 261,368	\$ 282,676
9003-001	7.45%	07/01/30	Construction	278,332	297,126
9004-001	7.70%	06/30/30	Construction	288,957	308,185
9005-001	7.45%	06/30/30	Construction	278,332	297,125
9006-001	7.45%	06/30/30	Construction	284,925	304,164
9007-001	7.35%	06/30/30	Construction	378,135	403,817
9008's	7.40%	06/30/32	Construction	534,628	562,281
9009's	6.85%	06/30/33	Construction	1,293,977	1,355,666
9009-003	7.90%	06/30/33	Construction	1,365,671	1,425,720
9009-004	4.95%	06/30/33	Construction	580,071	611,989
9009-005	3.18%	06/30/33	Construction	579,053	613,759
9009-006	6.25%	06/30/33	Construction	255,416	268,162
9009-007	6.70%	06/30/33	Construction	226,196	237,105
9010-001	6.90%	12/31/38	Construction	788,818	809,806
9010-002	7.10%	09/30/34	Construction	2,144,228	2,231,038
9010-003	6.40%	06/30/38	Construction	772,573	795,354
9010-004	4.65%	03/31/37	Construction	377,895	392,815
9010-005	4.40%	12/31/38	Construction	742,983	769,005
9010-006	3.80%	12/31/38	Construction	733,269	760,643
9010-007	4.00%	09/30/38	Construction	726,383	753,451
9010-008	4.45%	12/31/38	Construction	381,061	394,337
9010-009	5.30%	12/31/38	Construction	754,499	778,475
9010-010	4.20%	12/31/38	Construction	621,216	643,447
9011-001	4.85%	12/31/40	Construction	559,130	575,037
				<u>\$ 15,207,116</u>	<u>\$ 15,871,183</u>
Less: Current Maturities				<u>706,000</u>	<u>664,000</u>
				<u>\$ 14,501,116</u>	<u>\$ 15,207,183</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, 2020, annual maturities of long-term debt due CFC for the next five years are as follows:

2021	\$ 706,000
2022	751,000
2023	799,000
2024	799,000
2025	851,000

12. 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,	
		2020	2019
0.00%	Rural Economic Development	\$ 243,750	\$ 318,750
0.00%	Rural Economic Development	472,295	500,059
		\$ 716,045	\$ 818,809
	Less: Current Maturities	131,000	98,000
		\$ 585,045	\$ 720,809

These are non-interest bearing notes with principal only payments due monthly. As of September 30, 2020, annual maturities of long-term debt due to the USDA for the next five years is as follows:

2021	\$ 131,000
2022	131,000
2023	131,000
2024	131,000
2025	131,000

13. Paycheck Protection Program

On May 6, 2020, the Cooperative qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of approximately \$906,800 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Cooperative's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Cooperative. The Cooperative intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Cooperative will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in November 2020 principal and interest

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

payments will be required through the maturity date in May 2021. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

The Cooperative has accounted for the PPP loan under the Debt Model as provided for in applicable accounting guidance. The process to apply for and receive a legal release from the obligation is anticipated to take several months. Should the release be granted, the Cooperative will record income associated with the eligible expenses in the period the legal release is finalized. The Cooperative intends to claim only eligible payroll and benefits expenses against the loan proceeds.

14. Short-Term Borrowing

The Cooperative has a \$2,900,000 line of credit for short-term financing with CFC. There was \$0 and \$700,000 outstanding on this line of credit as of September 30, 2020 and 2019, respectively. As of September 30, 2020, the interest rate available on the line of credit is 2.25%.

15. Deferred Credits

Deferred credits consisted of the following:

	September 30,	
	2020	2019
Unclaimed Memberships and Deposit Refunds	\$ 1,087	\$ 661
Sun Watts Energy Conservation Program	327,166	207,698
Energy Efficiency Program	586,122	507,290
	<u>\$ 914,375</u>	<u>\$ 715,649</u>

16. 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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

17. 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 2020 and 2019 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 \$836,800 in 2020 and \$987,577 in 2019. RS Plan pension expense for the years ended September 30, 2020 and 2019 was \$1,015,740 and \$1,004,707, respectively. Effective May 2020 the RS Plan returned to a twelve month billing versus the eight month billing that occurred during 2019.

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, 2020 and 2019 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 \$91,770 and \$87,792 for the years ended September 30, 2020 and 2019, 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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Net periodic post-retirement medical care costs for years ending September 30, 2020 and 2019, consisted of the following components:

	<u>September 30,</u>	
	<u>2020</u>	<u>2019</u>
I) Components of Periodic Net Post-Retirement Benefit Cost		
Interest Cost	\$ 72,975	\$ 105,779
Service Cost	52,223	48,887
Amortization of Prior Service Cost	170,433	195,850
Amortization of Actuarial Loss	2,916	
Net Post-Retirement Cost Transferred to Regulatory Asset	(157,675)	(265,000)
Pay-Go Differences True Up		36,526
Total	<u>\$ 140,872</u>	<u>\$ 122,042</u>
II) Change In Accumulated Post-Retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 2,595,923	\$ 2,535,270
Interest Cost	72,975	105,779
Service Cost	52,223	48,887
Pay-Go Differences True Up		36,526
Plan Amendments		(357,618)
Actuarial (Gain) / Loss	160,778	343,249
Plan Participants' Contributions		22,948
Actual Benefits Paid	(140,872)	(139,118)
Net Post-Retirement Benefit Liability at Year End	<u>\$ 2,741,027</u>	<u>\$ 2,595,923</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,741,027	\$ 2,595,923
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,741,027</u>	<u>\$ 2,595,923</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ 173,032	\$ 176,407
Non Current Liability	2,567,995	2,419,516
Post-Retirement Benefits Other Than Pensions	<u>\$ 2,741,027</u>	<u>\$ 2,595,923</u>
V) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$	\$
Prior Service Cost	(682,300)	(852,733)
Unamortized Actuarial Loss	(458,457)	(300,595)
Accumulated Other Comprehensive Loss	<u>\$ (1,140,757)</u>	<u>\$ (1,153,328)</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2020 and 2019 paid \$140,872 and \$116,170, respectively, for retirees' health care coverage.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 2.30%. The assumed health care cost trend rate is 7.00% for 2020 declining to 5.00% by 2024.

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 \$16,527. 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:

2021	\$ 173,032
2022	169,839
2023	183,169
2024	147,567
2025	154,821
2026-2030	700,348

18. 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. (AEPSCO). 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,	
	2020	2019
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 3,028,270	\$ 2,243,502
Note Receivable (Current and Long-Term)	365,374	472,199
Total	\$ 3,393,644	\$ 2,715,701
 Graham County Utilities, Inc.		
Accounts Payable	\$ (3,028,270)	\$ (2,243,502)
Loan Payable (Current and Long-Term)	(365,374)	(472,199)
Total	\$ (3,393,644)	\$ (2,715,701)

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, 2020, the outstanding balance on the note is \$365,374. The annual maturities of the note due to the Cooperative for the next four years are as follows:

2021	\$ 112,800
2022	119,100
2023	133,474

19. 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.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. There has been no material financial impact to the Cooperative's operations to date. Future potential impacts include disruptions or restrictions on our employees' ability to work, reduced consumer demand for energy, and customers' ability to pay their monthly bills in a timely fashion. Changes to our operating environment may also be impacted. These changes may impact operating costs and net income. The future effects of these issues are unknown.

20. Subsequent Events

The Cooperative has evaluated subsequent events through November 19, 2020, 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, 2020 AND 2019

	September 30,		Increase (Decrease)
	2020	2019	
Administrative and General Salaries	\$ 641,157	\$ 507,273	\$ 133,884
Office Supplies and Expense	223,123	198,795	24,328
Outside Services Employed	90,111	58,923	31,188
Property Insurance	13,256	13,088	168
Injuries and Damages	69,538	69,108	430
Education and Training	227,221	244,736	(17,515)
Director's Fees and Education	65,021	131,962	(66,941)
Regulatory Commission Expense	34,176	34,969	(793)
Miscellaneous General Expense	208,627	182,692	25,935
Rents	17,035	15,830	1,205
Maintenance of General Plant	<u>145,468</u>	<u>103,651</u>	<u>41,817</u>
Total	<u>\$ 1,734,733</u>	<u>\$ 1,561,027</u>	<u>\$ 173,706</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2020	2019	2018	2017*	2016*
OPERATING REVENUES					
Residential	\$ 8,192,974	\$ 8,434,079	\$ 8,433,814	\$ 8,330,966	\$ 8,887,529
Irrigation	1,366,637	1,645,288	1,825,199	1,553,462	1,682,589
Commercial and Industrial	4,462,996	5,111,255	5,327,578	5,485,125	5,972,798
Public Street and Highway Lighting	22,897	25,400	25,677	29,124	11,957
Fuel Cost - Under (Over) Billed	(637,596)	(642,015)	(56,655)	288,094	300,454
Unbilled Revenue	(51,573)	29,123	(24,484)		
Rent from Electric Property	257,431	268,506	231,058	213,485	219,946
Other Operating Revenues	1,845,474	1,719,418	1,469,364	787,431	525,960
Total Operating Revenues	<u>\$ 15,459,240</u>	<u>\$ 16,591,054</u>	<u>\$ 17,231,551</u>	<u>\$ 16,687,687</u>	<u>\$ 17,601,233</u>
OPERATING EXPENSES					
Purchased Power	\$ 7,922,457	\$ 9,286,269	\$ 10,469,264	\$ 10,387,712	\$ 11,068,119
Operation	737,337	713,441	696,285	684,590	819,179
Maintenance	1,261,182	1,443,920	1,245,787	1,521,056	1,323,084
Customer Accounts	634,347	654,196	652,330	697,886	784,979
Administrative and General	1,764,899	1,561,027	1,420,834	1,373,891	1,422,346
Depreciation and Amortization	1,520,647	1,448,370	1,453,690	1,420,759	1,404,514
Other Interest and Deductions	37,431	58,543	61,396	49,659	38,292
Total Operating Expenses	<u>\$ 13,878,300</u>	<u>\$ 15,165,766</u>	<u>\$ 15,999,586</u>	<u>\$ 16,135,553</u>	<u>\$ 16,860,513</u>
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,580,940	\$ 1,425,288	\$ 1,231,965	\$ 552,134	\$ 740,720
Interest - Long-Term Debt	890,191	917,465	939,846	975,166	1,004,371
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ 690,749	\$ 507,823	\$ 292,119	\$ (423,032)	\$ (263,651)
Other Capital Credits	518,746	679,607	706,429	844,106	809,859
NET OPERATING MARGINS	<u>\$ 1,209,495</u>	<u>\$ 1,187,430</u>	<u>\$ 998,548</u>	<u>\$ 421,074</u>	<u>\$ 546,208</u>
NONOPERATING MARGINS	<u>166,592</u>	<u>162,559</u>	<u>150,000</u>	<u>144,653</u>	<u>457,237</u>
NET MARGINS	<u><u>\$ 1,376,087</u></u>	<u><u>\$ 1,349,989</u></u>	<u><u>\$ 1,148,548</u></u>	<u><u>\$ 565,727</u></u>	<u><u>\$ 1,003,445</u></u>

Note

The * for the fiscal years ended September 30, 2017 and 2016 denotes that unbilled revenue has been excluded for those years.