

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ARIZONA 17 GRAHAM
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditor's Report		1
Financial Statements		
Balance Sheets	Exhibit A	3
Statements of Income, Patronage Capital, Comprehensive Income (Loss)	Exhibit B	4
Statements of Cash Flows	Exhibit C	5
Notes to Financial Statements		6
Supplementary Information		
Administrative and General Expenses	Schedule 1	20
Five Year Comparative Statement of Revenues and Expenses	Schedule 2	21
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		23

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, 2019 and 2018, and the related statements of income, patronage capital, and other 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. 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, 2019 and 2018, 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.

Emphasis of Matter

Changes in Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to retrospectively change its method of revenue recognition by recognizing revenue earned, but not yet billed as of October 1, 2017. Our opinion is not modified with respect to that matter.

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 20, 2019, 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 20, 2019

FINANCIAL STATEMENTS

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018

ASSETS

	September 30,	
	2019	2018
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 52,285,094	\$ 50,992,151
Construction Work in Progress	418,312	633,323
	<u>\$ 52,703,406</u>	<u>\$ 51,625,474</u>
Less: Accumulated Provision for Depreciation	24,587,519	23,219,197
	<u>\$ 28,115,887</u>	<u>\$ 28,406,277</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 13,248,465	\$ 12,723,926
Notes Receivable	659,169	472,199
	<u>\$ 13,907,634</u>	<u>\$ 13,196,125</u>
CURRENT ASSETS		
Cash - General	\$ 1,074,282	\$ 1,026,816
Accounts Receivable (Less allowance for uncollectibles of \$182,492 in 2019 and \$193,953 in 2018)	1,462,642	1,570,534
Accounts Receivable - Graham County Utilities, Inc.	2,243,502	1,611,432
Unbilled Revenue	214,544	185,421
Note Receivable - Current Portion	204,800	101,181
Materials and Supplies	860,015	806,103
Other Current and Accrued Assets	308,058	314,487
	<u>\$ 6,367,843</u>	<u>\$ 5,615,974</u>
DEFERRED CHARGES	\$ 860,327	\$ 606,241
TOTAL ASSETS	<u>\$ 49,251,691</u>	<u>\$ 47,824,617</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 27,430	\$ 26,895
Patronage Capital	26,449,426	24,916,780
Other Equities (Deficits)	(196,907)	(12,429)
Accumulated Other Comprehensive Loss	(1,153,328)	(1,363,547)
	<u>\$ 25,126,621</u>	<u>\$ 23,567,699</u>
LONG-TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 15,207,183	\$ 15,866,837
Other Long Term Debt - Less Current Maturities	720,809	
	<u>\$ 15,927,992</u>	<u>\$ 15,866,837</u>
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,419,516	\$ 2,362,756
CURRENT LIABILITIES		
Line of Credit Payable	\$ 700,000	\$ 1,600,000
Current Maturities of Long-Term Debt	762,000	632,000
Current Portion of APBO	176,407	172,514
Accounts Payable - Purchased Power	752,160	927,326
Accounts Payable - Other	202,230	130,089
Over-Recovered Fuel Cost	993,467	351,452
Accrued Taxes	382,804	411,710
Accrued Interest	57,759	52,006
Consumer Deposits and Prepayments	424,726	398,809
Accrued Compensated Absences	480,033	535,340
Other Current and Accrued Liabilities	130,327	131,109
	<u>\$ 5,061,913</u>	<u>\$ 5,342,355</u>
DEFERRED CREDITS	\$ 715,649	\$ 684,970
TOTAL EQUITIES AND LIABILITIES	<u>\$ 49,251,691</u>	<u>\$ 47,824,617</u>

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, 2019 AND 2018

	Years Ended September 30,				Increase (Decrease)
	2019		2018		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 8,434,079	50.8	\$ 8,433,814	49.0	\$ 265
Irrigation	1,645,288	9.9	1,825,199	10.6	(179,911)
Commercial and Industrial	5,111,255	30.8	5,327,578	30.9	(216,323)
Public Street and Highway Lighting	25,400	0.2	25,677	0.1	(277)
Fuel Cost - Under (Over) Billed	(642,015)	(3.9)	(56,655)	(0.3)	(585,360)
Unbilled Revenue	29,123	0.2	(24,484)	(0.1)	53,607
Rent from Electric Property	268,506	1.6	231,058	1.3	37,448
Other Operating Revenues	1,719,418	10.4	1,469,364	8.5	250,054
Total Operating Revenues	<u>\$ 16,591,054</u>	<u>100.0</u>	<u>\$ 17,231,551</u>	<u>100.0</u>	<u>\$ (640,497)</u>
OPERATING EXPENSES					
Purchased Power	\$ 9,286,269	56.0	\$ 10,469,264	60.8	\$ (1,182,995)
Operation	713,441	4.3	696,285	4.0	17,156
Maintenance	1,443,920	8.7	1,245,787	7.2	198,133
Customer Accounts	654,196	3.9	652,330	3.8	1,866
Administrative and General	1,561,027	9.4	1,420,834	8.2	140,193
Depreciation and Amortization	1,448,371	8.7	1,453,690	8.4	(5,319)
Other Interest and Deductions	58,542	0.4	61,396	0.4	(2,854)
Total Operating Expenses	<u>\$ 15,165,766</u>	<u>91.4</u>	<u>\$ 15,999,586</u>	<u>92.8</u>	<u>\$ (833,820)</u>
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,425,288	8.6	\$ 1,231,965	7.2	\$ 193,323
FIXED CHARGES					
Interest on Long-Term Debt	<u>917,465</u>	<u>5.5</u>	<u>939,846</u>	<u>5.5</u>	<u>(22,381)</u>
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ 507,823	3.1	\$ 292,119	1.7	\$ 215,704
Other Capital Credits	<u>679,607</u>	<u>4.1</u>	<u>706,429</u>	<u>4.1</u>	<u>(26,822)</u>
NET OPERATING MARGINS	<u>\$ 1,187,430</u>	<u>7.2</u>	<u>\$ 998,548</u>	<u>5.8</u>	<u>\$ 188,882</u>
NONOPERATING MARGINS					
Interest Income	\$ 115,574	0.7	\$ 93,826	0.5	\$ 21,748
Nonoperating Income	<u>46,985</u>	<u>0.3</u>	<u>56,174</u>	<u>0.3</u>	<u>(9,189)</u>
	<u>\$ 162,559</u>	<u>1.0</u>	<u>\$ 150,000</u>	<u>0.8</u>	<u>\$ 12,559</u>
NET MARGINS	<u>\$ 1,349,989</u>	<u>8.2</u>	<u>\$ 1,148,548</u>	<u>6.6</u>	<u>\$ 201,441</u>
OTHER COMPREHENSIVE INCOME (LOSS)					
Prior Service Cost	195,850		195,850		
Transition Obligation			33,162		
Actuarial Gain (Loss)	(343,249)		387,211		
Plan Amendments	<u>357,618</u>				
COMPREHENSIVE INCOME	<u>\$ 1,560,208</u>		<u>\$ 1,764,771</u>		
Post-Retirement Benefit Obligation	(210,219)		(616,223)		
Estate Retirements	(3,986)				
Transfer of Operating Loss to Other Equities	186,643		13,792		
Prior Period Adjustment - Unbilled Revenue			209,905		
PATRONAGE CAPITAL - BEGINNING					
OF YEAR	<u>24,916,780</u>		<u>23,544,535</u>		
PATRONAGE CAPITAL - END					
OF YEAR	<u>\$ 26,449,426</u>		<u>\$ 24,916,780</u>		

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	September 30,	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,349,989	\$ 1,148,548
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities		
Depreciation and Amortization	1,565,553	1,604,513
Post-Retirement Benefit Amortization	122,042	100,500
Capital Credits Allocations	(679,607)	(706,429)
(Increase) Decrease		
Accounts Receivable	107,892	(224,509)
Accounts Receivable - Graham County Utilities	(632,070)	(265,571)
Unbilled Revenue	(29,123)	24,484
Inventories and Prepaid Expenses	(47,483)	(59,443)
Deferred Charges	10,914	4,479
Increase (Decrease)		
Payables and Accrued Expenses	(156,350)	126,747
Fuel Costs Over (Under) Recovered	642,015	56,655
Deferred Credits	30,679	89,952
Net Cash From Operating Activities	<u>\$ 2,284,451</u>	<u>\$ 1,899,926</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,174,272)	\$ (1,399,440)
Salvage Value and Other Credits Less Cost of Removal	(100,891)	(43,348)
Investments in Associated Organizations	155,068	125,495
Notes Receivable	(290,589)	95,836
Net Cash From Investing Activities	<u>\$ (1,410,684)</u>	<u>\$ (1,221,457)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt Other	\$ 875,059	\$
Payments on Long-Term Debt to CFC	(627,654)	(595,449)
Payments on Long-Term Debt Other	(56,250)	
Advances (Payments) on CFC Line of Credit - Net	(900,000)	550,000
Payments on Behalf of Retirees	(116,170)	(105,148)
Retirement of Patronage Capital	(3,986)	
Other Equities	2,165	
Memberships	535	670
Net Cash From Financing Activities	<u>\$ (826,301)</u>	<u>\$ (149,927)</u>
CHANGE IN CASH EQUIVALENTS	\$ 47,466	\$ 528,542
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,026,816</u>	<u>498,274</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,074,282</u>	<u>\$ 1,026,816</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 917,465</u>	<u>\$ 939,846</u>
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 sheet.

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, 2019, 60% 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.

Inventories

Materials and supplies inventories are valued at average unit cost.

Cash and Cash Equivalents

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

Electric Revenues

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

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is accrued for electric services delivered but not billed at the end of each month. As of September 30, 2019 and 2018, the Cooperative had estimated unbilled revenue of \$214,544 and \$185,421, respectively.

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, 2019 and 2018 the Cooperative was over-recovered by \$993,467 and \$351,452, 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 \$424,726 and \$398,809 at September 30, 2019 and 2018, 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, 2019, the principal balance owed on the mortgage note was \$1,256,844. 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. At the end of each year the Cooperative receives an estimated allocation from its generation and transmission (G&T) purchased power provider (Arizona G&T Cooperatives, Inc.). In accordance with the USOA, the Cooperative records this estimated amount as income. Any differences between the estimated amounts and actual final allocations are recorded in the following years. For the fiscal years ended 2019 and 2018, the actual final allocations from the prior calendar year were recorded and no estimate was recorded for the current year due to the timing of when the notice of the allocations were sent to the Cooperative.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The G&T patronage income recognized for the fiscal years 2019 and 2018 are as follows:

	<u>FY 2019</u>	<u>FY 2018</u>
Final Allocation for 2019	\$ 569,339	\$
Final Allocation for 2018		<u>585,748</u>
	<u>\$ 569,339</u>	<u>\$ 585,748</u>

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 2016.

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, 2019 and 2018.

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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Change in Accounting Principle

During 2019, the Cooperative changed its method of revenue recognition to accrue revenue earned, but not yet billed at the end of each period. The Cooperative believes the new revenue recognition method more accurately reflects periodic results of operations and its accrued revenue position as of September 30, 2019.

The effect of the change resulted in an increase in accrued utility revenues and operating revenues by \$29,123 and net margins by \$29,123 for the year ended September 30, 2019. The financial statements for the year ended September 30, 2018 have been retroactively restated for such change, which resulted in a decrease of accrued utility revenues and operating expenses by \$24,484 and a decrease of net margins by \$24,484 for the year ended September 30, 2018. Accrued utility revenues and October 1, 2017 beginning patronage capital have been increased by the amount of \$209,905 for the effect of the retrospective application of the new revenue recognition method.

	<u>2017</u>
Beginning Patronage Capital, Previously Reported	\$ 23,544,535
Prior Period Adjustment - Change in Accounting Principle	<u>209,905</u>
Beginning Patronage Capital, as Restated	<u>\$ 23,754,440</u>

3. Assets Pledged

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

4. Electric Plant

The major classes of electric plant are as follows:

	<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	4,644,548	4,637,722
Distribution Plant	39,429,166	38,326,126
General Plant	<u>8,208,320</u>	<u>8,025,243</u>
Total Electric Plant in Service	\$ 52,285,094	\$ 50,992,151
Construction Work in Progress	<u>418,312</u>	<u>633,323</u>
Total Electric Plant	<u>\$ 52,703,406</u>	<u>\$ 51,625,474</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019 and 2018, was \$1,565,553 and \$1,604,513, respectively, of which \$1,448,371 and \$1,453,690 was charged to depreciation and amortization expense and \$117,182 and \$150,823 allocated to other accounts, respectively.

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2019	2018
CFC		
Patronage Capital	\$ 793,659	\$ 749,922
Capital Term Certificates	649,901	652,831
Membership	1,000	1,000
	<u>\$ 1,444,560</u>	<u>\$ 1,403,753</u>
Arizona G&T Cooperatives, Inc.		
Patronage Capital	\$ 11,594,235	\$ 11,116,433
Membership	5	5
	<u>\$ 11,594,240</u>	<u>\$ 11,116,438</u>
Graham County Utilities, Inc.		
Membership	\$ 5,000	\$ 5,000
Federated Rural Electric Insurance Corporation		
Common Stock	\$ 156,956	\$ 153,191
Other	\$ 47,709	\$ 45,544
	<u>\$ 13,248,465</u>	<u>\$ 12,723,926</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Notes Receivable

Notes receivable consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Graham County Utilities, Inc.	\$ 472,199	\$ 573,380
Town of Pima	318,750	
Taylor Freeze	<u>73,020</u>	
	\$ 863,969	\$ 573,380
Less: Current Maturities	<u>204,800</u>	<u>101,181</u>
	<u>\$ 659,169</u>	<u>\$ 472,199</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. The Taylor Freeze funds are being drawn on an as needed and as requested basis up to \$500,000.

7. Inventories

Inventories consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Construction Materials	\$ 523,662	\$ 469,750
Spare Transformer	<u>336,353</u>	<u>336,353</u>
	<u>\$ 860,015</u>	<u>\$ 806,103</u>

8. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	\$ 103,331	\$ 103,331
Right of Way Lease	18,196	23,942
Post Retirement Benefit Regulatory Asset	738,675	473,675
Other Deferred Charges	<u>125</u>	<u>5,293</u>
	<u>\$ 860,327</u>	<u>\$ 606,241</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

9. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 53.36% (excluding Accumulated Other Comprehensive loss) or 51.02% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$3,986 and \$0 were made during the years ended September 30, 2019 and 2018.

10. Patronage Capital

	September 30,	
	<u>2019</u>	<u>2018</u>
Assignable (9 Months Ended September 30)	\$ 1,531,331	\$ 1,326,844
Net Margins (Prior to 1971)	1,556,645	1,556,645
Assignable (12 Months Ended December 31)	1,145,501	
Assigned	<u>23,073,768</u>	<u>22,887,124</u>
	\$ 27,307,245	\$ 25,770,613
Less: Retired	1,067,724	1,063,738
Add: Unassigned Unbilled Revenue	<u>209,905</u>	<u>209,905</u>
	<u>\$ 26,449,426</u>	<u>\$ 24,916,780</u>

11. Other Equities (Deficits)

Other Equities (Deficits) consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Prior Year Operating Losses	\$ (200,437)	\$ (13,793)
Retired Capital Credits Gain	3,530	1,364
	<u>\$ (196,907)</u>	<u>\$ (12,429)</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

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,	
				2019	2018
9002's	7.45%	04/01/29	Construction	\$ 282,676	\$ 302,469
9003-001	7.45%	07/01/30	Construction	297,126	314,582
9004-001	7.70%	06/30/30	Construction	308,185	326,001
9005-001	7.45%	06/30/30	Construction	297,125	314,582
9006-001	7.45%	06/30/30	Construction	304,164	322,034
9007-001	7.35%	06/30/30	Construction	403,817	427,696
9008's	7.40%	06/30/32	Construction	562,281	587,980
9009's	6.85%	06/30/33	Construction	1,355,666	1,413,306
9009-003	7.90%	06/30/33	Construction	1,425,720	1,481,251
9009-004	4.95%	06/30/33	Construction	611,989	642,374
9009-005	4.00%	06/30/33	Construction	613,759	646,632
9009-006	6.25%	06/30/33	Construction	268,162	280,142
9009-007	6.70%	06/30/33	Construction	237,105	247,312
9010-001	6.90%	12/31/38	Construction	809,806	829,407
9010-002	7.10%	09/30/34	Construction	2,231,038	2,311,949
9010-003	6.40%	06/30/38	Construction	795,354	816,732
9010-004	4.65%	03/31/37	Construction	392,815	407,061
9010-005	4.40%	12/31/38	Construction	769,005	793,914
9010-006	3.80%	12/31/38	Construction	760,643	787,002
9010-007	4.00%	09/30/38	Construction	753,451	779,464
9010-008	4.45%	12/31/38	Construction	394,337	407,037
9010-009	5.30%	12/31/38	Construction	778,475	804,954
9010-010	4.20%	12/31/38	Construction	643,447	664,762
9011-001	4.85%	12/31/40	Construction	575,037	590,194
				\$ 15,871,183	\$ 16,498,837
Less: Current Maturities				664,000	632,000
				<u>\$ 15,207,183</u>	<u>\$ 15,866,837</u>

All of the notes are fixed rate notes.

The Cooperative has unadvanced loan funds available of \$0.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of September 30, 2019, annual maturities of long-term debt due CFC for the next five years are as follows:

2020	\$ 664,000
2021	706,000
2022	751,000
2023	799,000
2024	851,000

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,	
		2019	2018
0.00%	Rural Economic Development	\$ 318,750	\$ 0
0.00%	Rural Economic Development	500,059	0
		\$ 818,809	\$ 0
	Less: Current Maturities	98,000	0
		<u>\$ 720,809</u>	<u>\$ 0</u>

These are non-interest bearing notes with principal only payments due monthly. As of September 30, 2019, annual maturities of long-term debt due to the USDA for the next five years is as follows:

2020	\$ 98,000
2021	131,000
2022	131,000
2023	131,000
2024	74,000

14. Short-Term Borrowing

The Cooperative has a \$2,800,000 line of credit for short-term financing with CFC. There was \$700,000 and \$1,600,000 outstanding on this line of credit as of September 30, 2019 and 2018, respectively. As of September 30, 2019, the interest rate available on the line of credit is 3.35%.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

15. Deferred Credits

Deferred credits consisted of the following:

	September 30,	
	2019	2018
Unclaimed Memberships and Deposit Refunds	\$ 661	\$ 661
Sun Watts Energy Conservation Program	207,698	250,227
Energy Efficiency Program	507,290	434,082
	<u>\$ 715,649</u>	<u>\$ 684,970</u>

16. Litigation

There is no litigation pending against the Cooperative at September 30, 2019, that would have a material effect on the 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 2019 and 2018 represented less than five percent of the total contributions made to the RS Plan by all participating employers. RS Plan pension expense for the years ended September 30, 2019 and 2018 was \$1,004,707 and \$924,118, respectively. There have been no significant changes that affect the comparability of 2019 and 2018 contributions.

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, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$87,792 and \$81,912 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, consisted of the following components:

	September 30,	
	2019	2018
I) Components of Periodic Net Post-Retirement Benefit Cost		
Interest Cost	\$ 105,779	\$ 98,907
Service Cost	48,887	42,748
Amortization of Prior Service Cost	195,850	195,850
Net Post-Retirement Cost Transferred to Regulatory Asset	(265,000)	(237,005)
Pay-Go Differences True Up	36,526	
Total	<u>\$ 122,042</u>	<u>\$ 100,500</u>
II) Change In Accumulated Post-Retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 2,535,270	\$ 2,919,135
Interest Cost	105,779	98,907
Service Cost	48,887	42,748
Transfer of Prior Year Unrecognized Transition Obligation		(33,162)
Pay-Go Differences True Up	36,526	
Plan Amendments	(357,618)	
Actuarial (Gain) / Loss	343,249	(387,211)
Plan Participants' Contributions	22,948	20,722
Actual Benefits Paid	(139,118)	(125,869)
Net Post-Retirement Benefit Liability at Year End	<u>\$ 2,595,923</u>	<u>\$ 2,535,270</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,595,923	\$ 2,535,270
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,595,923</u>	<u>\$ 2,535,270</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ 176,407	\$ 172,514
Non Current Liability	2,419,516	2,362,756
Post-Retirement Benefits Other Than Pensions	<u>\$ 2,595,923</u>	<u>\$ 2,535,270</u>
V) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$	\$
Prior Service Cost	852,733	1,406,201
Unamortized Actuarial (Gain) Loss	300,595	(42,654)
Accumulated Other Comprehensive Loss	<u>\$ 1,153,328</u>	<u>\$ 1,363,547</u>

The information is based on the most recent USI Consulting Group valuation calculated as of October 1, 2019.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative funds the retiree health care premiums on a cash basis and in 2019 and 2018 paid \$116,170 and \$105,147, respectively, for retirees' health care coverage.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 2.91%. The assumed health care cost trend rate is 7.50% for 2019 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 \$2,916. 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:

2020	\$ 161,961
2021	180,352
2022	169,390
2023	182,088
2024	148,910
2025-2029	771,994

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. (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,	
	2019	2018
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 2,243,502	\$ 1,611,432
Note Receivable (Current and Long-Term)	472,199	573,380
Total	\$ 2,715,701	\$ 2,184,812
 Graham County Utilities, Inc.		
Accounts Payable	\$ (2,243,502)	\$ (1,611,432)
Loan Payable (Current and Long-Term)	(472,199)	(573,380)
Total	\$ (2,715,701)	\$ (2,184,812)

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, 2019, the outstanding balance on the note is \$472,199. The annual maturities of the note due to the Cooperative for the next four years are as follows:

2020	\$ 108,600
2021	112,800
2022	119,100
2023	131,699

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.

20. Subsequent Events

Subsequent to September 30, 2019, the Arizona Corporation Commission approved the Cooperative to draw a total of \$8,000,000 in loan funds for its construction work plan. The loan funds are expected to be advanced from CFC. Subsequent to September 30, 2019, the Cooperative's Board of Directors approved to increase the CFC line of credit to \$2,900,000

The Cooperative has evaluated subsequent events through November 20, 2019, 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, 2019 AND 2018

	September 30,		Increase (Decrease)
	2019	2018	
Administrative and General Salaries	\$ 507,273	\$ 447,376	\$ 59,897
Office Supplies and Expense	198,795	186,646	12,149
Outside Services Employed	58,923	32,466	26,457
Property Insurance	13,088	13,083	5
Injuries and Damages	69,108	68,683	425
Education and Training	244,736	248,359	(3,623)
Director's Fees and Education	131,962	96,158	35,804
Regulatory Commission Expense	34,969	26,945	8,024
Miscellaneous General Expense	182,692	182,257	435
Rents	15,830	15,102	728
Maintenance of General Plant	<u>103,651</u>	<u>103,759</u>	<u>(108)</u>
Total	<u>\$ 1,561,027</u>	<u>\$ 1,420,834</u>	<u>\$ 140,193</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2019	2018	2017*	2016*	2015*
OPERATING REVENUES					
Residential	\$ 8,434,079	\$ 8,433,814	\$ 8,330,966	\$ 8,887,529	\$ 8,860,390
Irrigation	1,645,288	1,825,199	1,553,462	1,682,589	1,365,163
Commercial and Industrial	5,111,255	5,327,578	5,485,125	5,972,798	6,225,720
Public Street and Highway Lighting	25,400	25,677	29,124	11,957	11,490
Fuel Cost - Under (Over) Billed	(642,015)	(56,655)	288,094	300,454	57,669
Unbilled Revenue	29,123	(24,484)			
Rent from Electric Property	268,506	231,058	213,485	219,946	220,284
Other Operating Revenues	1,719,418	1,469,364	787,431	525,960	449,540
Total Operating Revenues	\$ 16,591,054	\$ 17,231,551	\$ 16,687,687	\$ 17,601,233	\$ 17,190,256
OPERATING EXPENSES					
Purchased Power	\$ 9,286,269	\$ 10,469,264	\$ 10,387,712	\$ 11,068,119	\$ 10,643,735
Operation	713,441	696,285	684,590	819,179	911,692
Maintenance	1,443,920	1,245,787	1,521,056	1,323,084	1,473,806
Customer Accounts	654,196	652,330	697,886	784,979	754,613
Administrative and General	1,561,027	1,420,834	1,373,891	1,422,346	1,398,062
Depreciation and Amortization	1,448,370	1,453,690	1,420,759	1,404,514	1,382,890
Other Interest and Deductions	58,543	61,396	49,659	38,292	26,808
Total Operating Expenses	\$ 15,165,766	\$ 15,999,586	\$ 16,135,553	\$ 16,860,513	\$ 16,591,606
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,425,288	\$ 1,231,965	\$ 552,134	\$ 740,720	\$ 598,650
Interest - Long-Term Debt	917,465	939,846	975,166	1,004,371	1,027,704
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ 507,823	\$ 292,119	\$ (423,032)	\$ (263,651)	\$ (429,054)
Other Capital Credits	679,607	706,429	844,106	809,859	771,178
NET OPERATING MARGINS	\$ 1,187,430	\$ 998,548	\$ 421,074	\$ 546,208	\$ 342,124
NONOPERATING MARGINS	162,559	150,000	144,653	457,237	148,555
NET MARGINS	\$ 1,349,989	\$ 1,148,548	\$ 565,727	\$ 1,003,445	\$ 490,679

Note

The * for the fiscal years ended September 30, 2017, 2016, and 2015 denotes that unbilled revenue has been excluded for those years.