

GRAHAM COUNTY UTILITIES, 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

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

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PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
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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 Utilities, Inc.
Pima, Arizona

Report on the Financial Statements

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2019 and 2018, and the related statements of income (loss) and accumulated deficits, 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 Utilities, Inc. as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a 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 department financial statements 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

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GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEETS
 SEPTEMBER 30, 2019 AND 2018**

ASSETS

	September 30,	
	2019	2018
UTILITY PLANT		
Plant in Service	\$ 9,862,404	\$ 9,566,732
Construction Work in Progress	165,170	14,983
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 11,053,226	\$ 10,607,367
Less: Accumulated Provision for Depreciation and Amortization	<u>6,873,827</u>	<u>6,602,014</u>
	<u>\$ 4,179,399</u>	<u>\$ 4,005,353</u>
 OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	<u>\$ 295,374</u>	<u>\$ 304,341</u>
 CURRENT ASSETS		
Cash - Restricted	\$ 89,372	\$ 88,972
Accounts Receivable (Less allowance for uncollectibles of \$58,005 in 2019 and \$61,461 in 2018)	108,030	109,650
Unbilled Revenue	149,764	140,021
Materials and Supplies	174,574	144,373
Other Current and Accrued Assets	<u>26,683</u>	<u>22,556</u>
Total Current Assets	<u>\$ 548,423</u>	<u>\$ 505,572</u>
 DEFERRED CHARGES	<u>\$ 0</u>	<u>\$ 214</u>
 TOTAL ASSETS	<u><u>\$ 5,023,196</u></u>	<u><u>\$ 4,815,480</u></u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 29,170	\$ 28,765
Accumulated Deficits	<u>(768,701)</u>	<u>(599,577)</u>
	<u>\$ (739,531)</u>	<u>\$ (570,812)</u>
 LONG -TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 1,190,944	\$ 1,256,837
USDA Rural Development Note Payable - Less Current Maturities	1,245,844	1,278,949
Note Payable - Graham County Electric Coop - Less Current Maturities	<u>365,399</u>	<u>472,180</u>
	<u>\$ 2,802,187</u>	<u>\$ 3,007,966</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 207,500	\$ 196,400
Accounts Payable - Other	74,819	102,218
Accounts Payable - Graham County Electric Coop	2,243,502	1,611,432
Overbilled Consumers Fuel Cost	155,355	200,535
Accrued Taxes	80,518	81,527
Customers' Deposits and Prepayments	161,111	152,945
Accrued Interest	22,123	20,456
Accrued Payroll	<u>15,612</u>	<u>12,813</u>
Total Current Liabilities	<u>\$ 2,960,540</u>	<u>\$ 2,378,326</u>
 TOTAL EQUITIES AND LIABILITIES	<u><u>\$ 5,023,196</u></u>	<u><u>\$ 4,815,480</u></u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	September 30,	
	2019	2018
OPERATING REVENUES		
Residential	\$ 3,189,286	\$ 2,851,201
Irrigation	6,807	7,779
Commercial and Industrial	855,119	840,234
Sales for Resale	42,824	48,790
Fuel Cost Under (Over) Billed	48,157	(123,017)
Unbilled Revenue	9,743	(16,338)
Other Operating Revenues	62,805	58,016
Total Operating Revenues	<u>\$ 4,214,741</u>	<u>\$ 3,666,665</u>
OPERATING EXPENSES		
Purchased Gas	\$ 1,039,997	\$ 824,284
Power for Pumping	37,122	38,382
Operations	639,668	656,680
Maintenance	731,853	643,009
Consumer Accounts	480,967	463,596
Administrative and General	945,344	852,431
Depreciation and Amortization	271,813	273,003
Other Interest	79,702	51,738
Total Operating Expenses	<u>\$ 4,226,466</u>	<u>\$ 3,803,123</u>
OPERATING LOSS - BEFORE FIXED CHARGES	\$ (11,725)	\$ (136,458)
Interest on Long-Term Debt	<u>165,536</u>	<u>173,729</u>
OPERATING LOSS - AFTER FIXED CHARGES	\$ (177,261)	\$ (310,187)
Capital Credits	<u>7,502</u>	<u>24,708</u>
NET OPERATING LOSS	\$ (169,759)	\$ (285,479)
NONOPERATING MARGINS		
Interest	<u>635</u>	<u>482</u>
NET LOSS	\$ (169,124)	\$ (284,997)
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(599,577)	(470,939)
Restatement of Beginning Accumulated Deficits	<u> </u>	<u>156,359</u>
ACCUMULATED DEFICITS - END OF YEAR	<u>\$ (768,701)</u>	<u>\$ (599,577)</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

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

	September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (169,124)	\$ (284,997)
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization	271,813	273,003
Capital Credits	(7,502)	(24,708)
(Increase) Decrease		
Accounts Receivable	3,996	(15,104)
Unbilled Revenue	(9,743)	16,338
Inventories and Other Current Assets	(34,328)	(2,569)
Deferred Charges	214	4,927
Increase (Decrease)		
Over Billed Fuel Cost - Net	(45,180)	125,444
Payables and Accrued Expenses	(18,151)	25,485
Net Cash From Operating Activities	\$ (8,005)	\$ 117,819
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (445,859)	\$ (202,721)
Cash - Restricted	(400)	(248)
Investments in Associated Organizations	16,469	5,875
Net Cash From Investing Activities	\$ (429,790)	\$ (197,094)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt To CFC	\$ (61,893)	\$ (58,092)
Payments on Long-Term Debt To USDA	(31,605)	(32,712)
Payments on Notes Payable - GCE	(101,181)	(95,837)
Net Advances From - Graham County Electric Cooperative Memberships	632,069	265,571
Memberships	405	345
Net Cash From Financing Activities	\$ 437,795	\$ 79,275
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 165,692	\$ 173,729
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

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.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is accrued for utility 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 \$96,766 and \$90,581, respectively, in the gas department and \$52,998 and \$49,440, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. As of September 30, 2019 and 2018 the Cooperative was overbilled \$155,355, and \$200,535, respectively.

Effective July 1, 2018, the gas division of the Cooperative implemented new rates. The new rates were designed to result in an 11% increase in revenue through a change in the meter charge.

Group Concentration of Credit Risk

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$161,111 and \$152,945 at September 30, 2019 and 2018, respectively.

Patronage Capital Certificates

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

Inventories

Inventories which consist of construction materials and supplies 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.

Restricted Cash

As part of its agreement for loan funding from USDA Rural Development, the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2019 and 2018 was \$89,372 and \$88,972, respectively. The cash reserve fund was in compliance with funding requirements as of September 30, 2019.

Federal Income Tax Status

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received 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 position 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 collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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 Utilities, Inc. or Graham County Electric Cooperative, 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. 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 that the new revenue recognition methods more accurately reflects periodic results of operations and its accrued revenue position at year end.

The effect of the change was to increase accrued utility revenues and operating revenues by \$9,743 and net margins by \$9,743 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 revenues by \$16,338 and a decrease of net margins by \$16,338 for the year ended September 30, 2018. Accrued utility revenues and October 1, 2017 beginning accumulated margins have been increased accordingly in the amount of \$156,359 for the effect of the retrospective application of the new revenue recognition method.

	2018 <u>Gas</u>	2018 <u>Water</u>	2018 <u>Total</u>
Beginning Accumulated Margins (Deficits), Previously Reported	\$ (747,657)	\$ 276,718	\$ (470,939)
Prior Period Adjustment - Change in Accounting Principle	<u>99,474</u>	<u>56,885</u>	<u>156,359</u>
Beginning Accumulated Margins (Deficits), as Restated	<u><u>\$ (648,183)</u></u>	<u><u>\$ 333,603</u></u>	<u><u>\$ (314,580)</u></u>

3. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

4. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2019		2018	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,795,519	1,795,519	1,795,519
Transmission		1,149,990	1,149,990	1,139,287
Distribution	5,391,521	980,177	6,371,698	6,151,445
General	313,723	127,321	441,044	376,328
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 5,749,182	\$ 4,113,222	\$ 9,862,404	\$ 9,566,732
Construction Work in Progress	58,819	106,351	165,170	14,983
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ <u>6,223,485</u>	\$ <u>4,829,741</u>	\$ <u>11,053,226</u>	\$ <u>10,607,367</u>

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.70% - 13.30%	10.00% - 20.00%

Depreciation accruals charged to expense for the periods ended September 30, 2019 and 2018, totaled \$271,813 and \$273,003, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to depreciation and amortization expense is \$16,620 in the gas department and \$24,407 in the water department. For the years ended September 30, 2019 and 2018, the amortization of the acquisition adjustment was \$0 and \$0, respectively.

The plant acquisition costs and related provision for amortization at September 30, 2019, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization Prior Periods	<u>415,484</u>	<u>610,168</u>
Unamortized Adjustment	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
CFC		
Capital Term Certificates	\$ 124,525	\$ 126,494
Patronage Capital	126,676	133,674
Memberships	<u>1,000</u>	<u>1,000</u>
	\$ 252,201	\$ 261,168
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>43,173</u>	<u>43,173</u>
Total	<u><u>\$ 295,374</u></u>	<u><u>\$ 304,341</u></u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

6. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Gas Department		
Stores Clearing	\$	\$ 107
Water Department		
Stores Clearing		107
Total	<u>\$ 0</u>	<u>\$ 214</u>

7. Memberships

Memberships consisted of the following:

	September 30,	
	<u>2019</u>	<u>2018</u>
Class A Memberships		
Graham County Electric Cooperative, Inc.,		
Entitled to One Vote	\$ 5,000	\$ 5,000
Class B Memberships		
All Qualified Members of Graham County Electric		
Cooperative, Inc., \$5 Membership Fee Entitled		
to One Vote per Membership	23,025	22,695
Class C Memberships		
All Others Who Receive Service, \$5 Membership		
Fee, Entitled to One Vote Per Membership	1,145	1,070
	<u>\$ 29,170</u>	<u>\$ 28,765</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Accumulated Deficits

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$	\$ 6,702
1990	(14,127)		(14,127)
1991	(91,410)		(91,410)
1992	(41,115)		(41,115)
1993	(64,937)		(64,937)
1994	(46,268)		(46,268)
1995	(172,043)		(172,043)
1996	(68,293)		(68,293)
1997	(65,806)		(65,806)
1998	225,309		225,309
1999	97,405		97,405
2000	1,467		1,467
2001	39,062	40,768	79,830
2002	61,124	1,126	62,250
2003	(5,764)	69,557	63,793
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)		(179,686)
2009	(400,801)		(400,801)
2010	(239,276)		(239,276)
2011	119,105		119,105
2012	(46,026)		(46,026)
2013	34,295	8,010	42,305
2014	40,980	11,588	52,568
2015	(81,747)	26,006	(55,741)
2016	(157,676)	754	(156,922)
2017	(159,153)	(9,454)	(168,607)
2018	(200,626)	22,609	(178,017)
2019 (Nine Months)	(121,075)	(58,860)	(179,935)
	\$ (1,164,371)	\$ 245,906	\$ (918,465)
Patronage Capital Retired			0
Unassigned Unbilled Revenue	96,766	52,998	149,764
	<u>\$ (1,067,605)</u>	<u>\$ 298,904</u>	<u>\$ (768,701)</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2019 and 2018, no patronage capital was retired.

9. Mortgage Notes - CFC

Following is a summary of long-term debt due CFC maturing between 2026 and 2040:

	September 30,	
	2019	2018
Fixed - 7.45%	\$ 114,993	\$ 141,662
Fixed - 4.85%	244,246	258,920
Fixed - 7.00%	699,157	713,712
Fixed - 3.05%	198,448	204,443
	<u>\$ 1,256,844</u>	<u>\$ 1,318,737</u>
Less: Current Maturities	65,900	61,900
	<u>\$ 1,190,944</u>	<u>\$ 1,256,837</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$35,445. As of September 30, 2019, annual maturities of long-term debt due CFC for the next five years is as follows:

2020	\$ 65,900
2021	70,300
2022	75,000
2023	66,100
2024	46,600

The loan agreement with CFC contains provisions requiring a Debt Service Coverage (DSC) requirement of 1.15. This debt covenant was not met as of September 30, 2019 and 2018.

10. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2019	2018
5.000% Note Maturing March, 2032	\$ 96,620	\$ 101,932
4.500% Note Maturing August, 2035	183,689	190,859
4.500% Note Maturing July, 2040	69,799	71,718
4.125% Note Maturing March, 2047	930,536	947,740
	<u>\$ 1,280,644</u>	<u>\$ 1,312,249</u>
Less: Current Maturities	34,800	33,300
	<u>\$ 1,245,844</u>	<u>\$ 1,278,949</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2019, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2020	\$	34,800
2021		36,300
2022		37,900
2023		39,600
2024		41,400

11. Note Payable - Graham County Electric

During the year ended September 30, 2014, the Cooperative received loan funds from Graham County Electric Cooperative, 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 long-term debt due Graham County Electric for the next five years are as follows:

2020	\$	106,800
2021		112,800
2022		119,100
2023		133,500
2024		0

12. CIAC Refund Due

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The original balance to be refunded is \$226,765 for the gas division and \$15,536 in the water division. As of September 30, 2019, the balance remaining to be refunded is \$60,418 for the gas division and \$0 for the water division. This liability is reflected in Accounts Payable – Other on these financial statements.

13. Related Parties

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on September 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Balances between the two Cooperatives are summarized as follows:

	September 30,	
	<u>2019</u>	<u>2018</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (2,243,502)	\$ (1,611,432)
Loan Payable (Current and Long-Term)	<u>(472,199)</u>	<u>(573,380)</u>
Total	<u>\$ (2,715,701)</u>	<u>\$ (2,184,812)</u>
 Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 2,243,502	\$ 1,611,432
Note Receivable (Current and Long-Term)	<u>472,199</u>	<u>573,380</u>
Total	<u>\$ 2,715,701</u>	<u>\$ 2,184,812</u>

14. Litigation and Contingencies

The Cooperative is not involved in any litigation that would materially affect the financial statements.

15. Subsequent Events

The Cooperative has evaluated subsequent events through November 20, 2019, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 1

**BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018**

ASSETS

	September 30,	
	<u>2019</u>	<u>2018</u>
UTILITY PLANT		
Plant in Service	\$ 5,749,182	\$ 5,505,137
Construction Work in Progress	58,819	3,742
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 6,223,485</u>	<u>\$ 5,924,363</u>
Less: Accumulated Provision for Depreciation and Amortization	3,800,159	3,638,636
	<u>\$ 2,423,326</u>	<u>\$ 2,285,727</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 165,359	\$ 171,037
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$54,518 in 2019 and \$57,463 in 2018)	\$ 66,560	\$ 73,513
Unbilled Revenue	96,766	90,581
Materials and Supplies	90,735	85,394
Other Current and Accrued Assets	20,012	15,356
Total Current Assets	<u>\$ 274,073</u>	<u>\$ 264,844</u>
DEFERRED CHARGES	<u>\$</u>	<u>\$ 107</u>
TOTAL ASSETS	<u>\$ 2,862,758</u>	<u>\$ 2,721,715</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 25,525	\$ 25,195
Accumulated Deficits	(1,067,605)	(967,665)
	<u>\$ (1,042,080)</u>	<u>\$ (942,470)</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 998,696	\$ 1,058,394
Note Payable - Graham County Electric Coop	365,399	472,180
	<u>\$ 1,364,095</u>	<u>\$ 1,530,574</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 166,500	\$ 157,100
Accounts Payable - Other	75,472	105,247
Accounts Payable - Graham County Electric Cooperative	1,919,885	1,451,722
Overbilled Consumers Fuel Cost	155,355	200,535
Accrued Taxes	50,003	51,996
Customers' Deposits and Prepayments	142,931	137,254
Accrued Interest	20,379	18,850
Accrued Payroll	10,218	10,907
Total Current Liabilities	<u>\$ 2,540,743</u>	<u>\$ 2,133,611</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,862,758</u>	<u>\$ 2,721,715</u>

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 2

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	September 30,		Increase (Decrease)
	2019	2018	
OPERATING REVENUES			
Residential	\$ 2,506,600	\$ 2,161,020	\$ 345,580
Irrigation	6,807	7,779	(972)
Commercial and Industrial	791,889	770,831	21,058
Fuel Cost Under (Over) Billed	48,157	(123,017)	171,174
Unbilled Revenue	6,185	(8,893)	15,078
Other Operating Revenues	37,239	37,316	(77)
Total Operating Revenues	<u>\$ 3,396,877</u>	<u>\$ 2,845,036</u>	<u>\$ 551,841</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,039,997	\$ 824,284	\$ 215,713
Operations	552,701	571,266	(18,565)
Maintenance	461,074	411,896	49,178
Customer Accounts	382,280	371,298	10,982
Administrative and General	731,888	670,288	61,600
Depreciation and Amortization	161,523	164,354	(2,831)
Other Interest	71,085	46,102	24,983
Total Operating Expenses	<u>\$ 3,400,548</u>	<u>\$ 3,059,488</u>	<u>\$ 341,060</u>
OPERATING LOSS - Before Fixed Charges	<u>\$ (3,671)</u>	<u>\$ (214,452)</u>	<u>\$ 210,781</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>100,245</u>	<u>109,300</u>	<u>(9,055)</u>
OPERATING LOSS - After Fixed Charges	<u>\$ (103,916)</u>	<u>\$ (323,752)</u>	<u>\$ 219,836</u>
Capital Credits	<u>3,976</u>	<u>4,270</u>	<u>(294)</u>
NET LOSS	<u>\$ (99,940)</u>	<u>\$ (319,482)</u>	<u>\$ 219,542</u>
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(967,665)	(747,657)	
Restatement of Beginning Accumulated Deficits		<u>99,474</u>	
ACCUMULATED DEFICITS - END OF YEAR	<u>\$ (1,067,605)</u>	<u>\$ (967,665)</u>	

**GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT**

Schedule 3

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

	September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (99,940)	\$ (319,482)
Adjustments to Reconcile Net Margin to Net Cash		
From Operating Activities		
Depreciation and Amortization	161,523	164,354
Capital Credits	(3,976)	(4,270)
(Increase) Decrease		
Accounts Receivable	6,953	(16,950)
Unbilled Revenue	(6,185)	8,893
Inventories and Other Current Assets	(9,997)	(9,956)
Deferred Charges	107	4,781
Increase Decrease		
Over Billed Fuel Cost - Net	(45,180)	125,444
Payables and Accrued Expenses	(25,250)	25,359
Net Cash From Operating Activities	\$ (21,945)	\$ (21,827)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (299,122)	\$ (124,367)
Investments in Associated Organizations	9,654	3,982
Net Cash From Investing Activities	\$ (289,468)	\$ (120,385)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (55,898)	\$ (52,334)
Payments on Notes Payable - GCE	(101,181)	(95,837)
Net Advances From - Graham County Electric Cooperative	468,162	290,123
Memberships	330	260
Net Cash From Financing Activities	\$ 311,413	\$ 142,212
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 100,391	\$ 109,300
Federal Income Tax	\$ 0	\$ 0

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 4

**BALANCE SHEETS
SEPTEMBER 30, 2019 AND 2018**

ASSETS

	September 30,	
	<u>2019</u>	<u>2018</u>
UTILITY PLANT AT COST		
Water Plant in Service	\$ 4,113,222	\$ 4,061,595
Construction Work in Progress	106,351	11,241
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,829,741</u>	<u>\$ 4,683,004</u>
Less: Accumulated Provision for Depreciation and Amortization	3,073,668	2,963,378
	<u>\$ 1,756,073</u>	<u>\$ 1,719,626</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 130,015	\$ 133,304
CURRENT ASSETS		
Cash - Restricted	\$ 89,372	\$ 88,972
Accounts Receivable - Customers (Less allowance for uncollectibles of \$3,487 in 2019 and \$3,998 in 2018)	42,123	39,166
Unbilled Revenue	52,998	49,440
Materials and Supplies	83,839	58,979
Other Current and Accrued Assets	6,671	7,200
Total Current Assets	<u>\$ 275,003</u>	<u>\$ 243,757</u>
DEFERRED CHARGES	\$	\$ 107
TOTAL ASSETS	<u>\$ 2,161,091</u>	<u>\$ 2,096,794</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 3,645	\$ 3,570
Accumulated Margins	298,904	368,088
	<u>\$ 302,549</u>	<u>\$ 371,658</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 192,248	\$ 198,443
USDA Rural Development Notes Less Current Maturities	1,245,844	1,278,949
	<u>\$ 1,438,092</u>	<u>\$ 1,477,392</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 41,000	\$ 39,300
Accounts Payable - Graham County Electric Cooperative	323,617	159,710
Accrued Taxes	30,515	29,531
Customers' Deposits and Prepayments	18,180	15,691
Accrued Interest	1,744	1,606
Accrued Payroll	5,394	1,906
Total Current Liabilities	<u>\$ 420,450</u>	<u>\$ 247,744</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,161,091</u>	<u>\$ 2,096,794</u>

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 5

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	September 30,		Increase (Decrease)
	2019	2018	
OPERATING REVENUES			
Residential	\$ 682,686	\$ 690,181	\$ (7,495)
Commercial and Industrial	63,230	69,403	(6,173)
Sales for Resale	42,824	48,790	(5,966)
Unbilled Revenue	3,558	(7,445)	11,003
Other Operating Revenues	25,566	20,700	4,866
Total Operating Revenues	\$ 817,864	\$ 821,629	\$ (3,765)
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 37,122	\$ 38,382	\$ (1,260)
Operations	86,967	85,414	1,553
Maintenance	270,779	231,113	39,666
Customer Accounts	98,687	92,298	6,389
Administrative and General	213,456	182,143	31,313
Depreciation and Amortization	110,290	108,649	1,641
Other Interest	8,617	5,636	2,981
Total Operating Expenses	\$ 825,918	\$ 743,635	\$ 82,283
OPERATING MARGINS (LOSS) - Before Fixed Charges	\$ (8,054)	\$ 77,994	\$ (86,048)
FIXED CHARGES			
Interest on Long-Term Debt	65,291	64,429	862
OPERATING MARGINS (LOSS) - After Fixed Charges	\$ (73,345)	\$ 13,565	\$ (86,910)
Capital Credits	3,526	20,438	(16,912)
NET OPERATING MARGIN (LOSS)	\$ (69,819)	\$ 34,003	\$ (103,822)
NONOPERATING MARGINS			
Interest	635	482	153
NET MARGIN (LOSS)	\$ (69,184)	\$ 34,485	\$ <u>(103,669)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	368,088	276,718	
Restatement of Beginning Accumulated Margins	56,885	56,885	
ACCUMULATED MARGINS - END OF YEAR	\$ 298,904	\$ 368,088	

**GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT**

Schedule 6

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

	September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Loss)	\$ (69,184)	\$ 34,485
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	110,290	108,649
Capital Credits	(3,526)	(20,438)
(Increase) Decrease		
Accounts Receivable	(2,957)	1,846
Unbilled Revenue	(3,558)	7,445
Inventories and Other Current Assets	(24,331)	7,387
Deferred Charges	107	146
Increase (Decrease)		
Payables and Accrued Expenses	7,099	126
Net Cash From Operating Activities	<u>\$ 13,940</u>	<u>\$ 139,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Plant	\$ (146,737)	\$ (78,354)
Cash - Restricted	(400)	(248)
Investments in Associated Organizations	6,815	1,893
Net Cash From Investing Activities	<u>\$ (140,322)</u>	<u>\$ (76,709)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt To CFC	\$ (5,995)	\$ (5,758)
Payments on Long-Term Debt To USDA	(31,605)	(32,712)
Net Advances From - Graham County Electric Cooperative	163,907	(24,552)
Change in Memberships	75	85
Net Cash From Financing Activities	<u>\$ 126,382</u>	<u>\$ (62,937)</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 65,301	\$ 64,429
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>