

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
Graham County 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, 2020 and 2019, 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, 2020 and 2019, 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.

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 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

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GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019**

ASSETS

| | September 30, | |
|---|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| UTILITY PLANT | | |
| Plant in Service | \$ 10,391,457 | \$ 9,862,404 |
| Construction Work in Progress | 319,773 | 165,170 |
| Plant Acquisition Adjustment | <u>1,025,652</u> | <u>1,025,652</u> |
| | \$ 11,736,882 | \$ 11,053,226 |
| Less: Accumulated Provision for Depreciation and Amortization | <u>7,159,227</u> | <u>6,873,827</u> |
| | <u>\$ 4,577,655</u> | <u>\$ 4,179,399</u> |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | <u>\$ 295,158</u> | <u>\$ 295,374</u> |
| CURRENT ASSETS | | |
| Cash - Restricted | \$ 89,699 | \$ 89,372 |
| Accounts Receivable (Less allowance for uncollectibles of \$58,009 in 2020 and \$58,005 in 2019) | 138,670 | 108,030 |
| Unbilled Revenue | 182,174 | 149,764 |
| Materials and Supplies | 244,814 | 174,574 |
| Other Current and Accrued Assets | <u>30,043</u> | <u>26,683</u> |
| Total Current Assets | <u>\$ 685,400</u> | <u>\$ 548,423</u> |
| DEFERRED CHARGES | <u>\$ 8,145</u> | <u>\$ 0</u> |
| TOTAL ASSETS | <u>\$ 5,566,358</u> | <u>\$ 5,023,196</u> |

EQUITIES AND LIABILITIES

| | | |
|--|---------------------|---------------------|
| MEMBERS' EQUITY | | |
| Memberships | \$ 29,550 | \$ 29,170 |
| Accumulated Deficits | <u>(818,624)</u> | <u>(768,701)</u> |
| | <u>\$ (789,074)</u> | <u>\$ (739,531)</u> |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes - Less Current Maturities | \$ 1,120,591 | \$ 1,190,944 |
| USDA Rural Development Note Payable - Less Current Maturities | 1,209,763 | 1,245,844 |
| Note Payable - Graham County Electric Coop - Less Current Maturities | <u>252,574</u> | <u>365,399</u> |
| | <u>\$ 2,582,928</u> | <u>\$ 2,802,187</u> |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | \$ 219,400 | \$ 207,500 |
| Accounts Payable - Other | 82,602 | 74,819 |
| Accounts Payable - Graham County Electric Coop | 3,028,270 | 2,243,502 |
| Overbilled Consumers Fuel Cost | 155,018 | 155,355 |
| Accrued Taxes | 78,987 | 80,518 |
| Customers' Deposits and Prepayments | 154,806 | 161,111 |
| Accrued Interest | 20,231 | 22,123 |
| Accrued Payroll | <u>33,190</u> | <u>15,612</u> |
| Total Current Liabilities | <u>\$ 3,772,504</u> | <u>\$ 2,960,540</u> |
| TOTAL EQUITIES AND LIABILITIES | <u>\$ 5,566,358</u> | <u>\$ 5,023,196</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, 2020 AND 2019**

| | September 30, | |
|---|----------------------------|----------------------------|
| | <u>2020</u> | <u>2019</u> |
| OPERATING REVENUES | | |
| Residential | \$ 3,266,468 | \$ 3,189,286 |
| Irrigation | 6,527 | 6,807 |
| Commercial and Industrial | 827,617 | 855,119 |
| Sales for Resale | 45,741 | 42,824 |
| Fuel Cost Under (Over) Billed | 1,015 | 48,157 |
| Unbilled Revenue | 32,410 | 9,743 |
| Other Operating Revenues | 64,105 | 62,805 |
| Total Operating Revenues | <u>\$ 4,243,883</u> | <u>\$ 4,214,741</u> |
| OPERATING EXPENSES | | |
| Purchased Gas | \$ 1,004,462 | \$ 1,039,997 |
| Purchased Power - Pumping | 39,272 | 37,122 |
| Operations | 616,443 | 639,668 |
| Maintenance | 703,044 | 731,853 |
| Consumer Accounts | 483,293 | 480,967 |
| Administrative and General | 945,899 | 945,344 |
| Depreciation and Amortization | 285,400 | 271,813 |
| Other Interest | 85,921 | 79,702 |
| Total Operating Expenses | <u>\$ 4,163,734</u> | <u>\$ 4,226,466</u> |
| OPERATING INCOME (LOSS) - BEFORE FIXED CHARGES | <u>\$ 80,149</u> | <u>\$ (11,725)</u> |
| Interest on Long-Term Debt | <u>153,011</u> | <u>165,536</u> |
| OPERATING LOSS - AFTER FIXED CHARGES | <u>\$ (72,862)</u> | <u>\$ (177,261)</u> |
| Capital Credits | <u>12,927</u> | <u>7,502</u> |
| NET OPERATING LOSS | <u>\$ (59,935)</u> | <u>\$ (169,759)</u> |
| NONOPERATING MARGINS | | |
| Interest | \$ 562 | \$ 635 |
| Ashcreek Water Management Fee | 9,450 | |
| Total Nonoperating Margins | <u>\$ 10,012</u> | <u>\$ 635</u> |
| NET LOSS | <u>\$ (49,923)</u> | <u>\$ (169,124)</u> |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | <u>(768,701)</u> | <u>(599,577)</u> |
| ACCUMULATED DEFICITS - END OF YEAR | <u><u>\$ (818,624)</u></u> | <u><u>\$ (768,701)</u></u> |

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

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

| | September 30, | |
|---|---------------|--------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$ (49,923) | \$ (169,124) |
| Adjustments to Reconcile Net Margins to Net Cash From Operating Activities | | |
| Depreciation and Amortization | 285,400 | 271,813 |
| Capital Credits | (12,927) | (7,502) |
| (Increase) Decrease | | |
| Accounts Receivable | (30,368) | 3,996 |
| Unbilled Revenue | (32,410) | (9,743) |
| Inventories and Other Current Assets | (73,600) | (34,328) |
| Deferred Charges | (8,145) | 214 |
| Increase (Decrease) | | |
| Over Billed Fuel Cost - Net | (337) | (45,180) |
| Payables and Accrued Expenses | 15,361 | (18,151) |
| Net Cash From Operating Activities | \$ 93,051 | \$ (8,005) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | \$ (683,656) | \$ (445,859) |
| Cash - Restricted | (327) | (400) |
| Investments in Associated Organizations | 13,143 | 16,469 |
| Net Cash From Investing Activities | \$ (670,840) | \$ (429,790) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt To CFC | \$ (65,953) | \$ (61,893) |
| Payments on Long-Term Debt To USDA | (34,581) | (31,605) |
| Payments on Notes Payable - GCE | (106,825) | (101,181) |
| Net Advances From - Graham County Electric Cooperative Memberships | 784,768 | 632,069 |
| Memberships | 380 | 405 |
| Net Cash From Financing Activities | \$ 577,789 | \$ 437,795 |
| 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 | \$ 145,068 | \$ 165,692 |
| 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, 2020, 57% of the Cooperative's 47 employees work under a collective bargaining agreement. The collective bargaining agreement will expire on June 30, 2022.

Gas and Water 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 therms and gallons are satisfied as therms and gallons are delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the therms and gallons delivered to the customer. The measurement of therms and gallons sales to customers is generally based on the reading of their meters, which occurs on a systematic basis four times a month.

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, 2020 and 2019, the Cooperative had estimated unbilled revenue of \$110,432 and \$96,766, respectively, in the gas department and \$71,742 and \$52,998, respectively, in the water department. This amount is included as a component of current assets on the balance sheets.

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, 2020 and 2019 the Cooperative was overbilled \$155,018, and \$155,355, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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'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 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 \$154,806 and \$161,111 at September 30, 2020 and 2019, respectively.

Patronage Capital Certificates

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

Materials and Supplies

Materials and supplies inventories which consist of construction materials and supplies 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.

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, 2020 and 2019 was \$89,699 and \$89,372, respectively. The cash reserve fund was in compliance with funding requirements as of September 30, 2020.

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.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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 collection ability. 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 Utilities, Inc. or Graham County Electric Cooperative, Inc. are allocated to each entity on a pro rata share of the entity's meters as a percentage of total meters for all entities.

2. Assets Pledged

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

3. 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.

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, | | | |
|---|---------------------|---------------------|----------------------|----------------------|
| | 2020 | | | 2019 |
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | \$ 42,522 | \$ 37,708 | \$ 80,230 | \$ 80,230 |
| Production | | 1,796,546 | 1,796,546 | 1,795,519 |
| Transmission | | 1,172,138 | 1,172,138 | 1,149,990 |
| Distribution | 5,680,301 | 1,148,044 | 6,828,345 | 6,371,698 |
| General | 354,960 | 135,315 | 490,275 | 441,044 |
| Land and Land Rights | 1,416 | 22,507 | 23,923 | 23,923 |
| Total Plant in Service | \$ 6,079,199 | \$ 4,312,258 | \$ 10,391,457 | \$ 9,862,404 |
| Construction Work in Progress | 71,940 | 247,833 | 319,773 | 165,170 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | <u>\$ 6,566,623</u> | <u>\$ 5,170,259</u> | <u>\$ 11,736,882</u> | <u>\$ 11,053,226</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, 2020 and 2019, totaled \$285,400 and \$271,813, respectively.

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, 2020 and 2019, the amortization of the acquisition adjustment was \$0 and \$0, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2020, 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>\$ 0</u> | <u>\$ 0</u> |

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | <u>September 30,</u> | |
|--|----------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| CFC | | |
| Capital Term Certificates | \$ 122,424 | \$ 124,525 |
| Patronage Capital | 123,889 | 126,676 |
| Memberships | <u>1,000</u> | <u>1,000</u> |
| | \$ 247,313 | \$ 252,201 |
| Graham County Electric Cooperative, Inc. | | |
| Patronage Capital | <u>47,845</u> | <u>43,173</u> |
| Total | <u>\$ 295,158</u> | <u>\$ 295,374</u> |

5. Materials and Supplies

Materials and supplies consisted of the following:

| | <u>September 30,</u> | |
|-----------------|----------------------|-------------------|
| | <u>2020</u> | <u>2019</u> |
| Gas Materials | \$ 144,115 | \$ 90,735 |
| Water Materials | <u>100,699</u> | <u>83,839</u> |
| | <u>\$ 244,814</u> | <u>\$ 174,574</u> |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

6. Deferred Charges

Deferred charges consisted of the following:

| | September 30, | |
|-----------|-----------------|-------------|
| | 2020 | 2019 |
| Rate Case | \$ <u>8,145</u> | \$ <u>0</u> |

7. Memberships

Memberships consisted of the following:

| | September 30, | |
|---|------------------|------------------|
| | 2020 | 2019 |
| 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 | 23,350 | 23,025 |
| Class C Memberships | | |
| All Others Who Receive Service, \$5 Membership | | |
| Fee, Entitled to One Vote Per Membership | <u>1,200</u> | <u>1,145</u> |
| | \$ <u>29,550</u> | \$ <u>29,170</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 | 59,315 | (58,510) | 805 |
| 2020 (Nine Months) | (223,001) | 2,081 | (220,920) |
| | \$ (1,206,982) | \$ 248,337 | \$ (958,645) |
| Patronage Capital Retired | | | 0 |
| Unassigned Unbilled Revenue | 90,582 | 49,439 | 140,021 |
| | <u>\$ (1,116,400)</u> | <u>\$ 297,776</u> | <u>\$ (818,624)</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, 2020 and 2019, 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, | |
|--------------------------|---------------------|---------------------|
| | 2020 | 2019 |
| Fixed - 7.45% | \$ 86,281 | \$ 114,993 |
| Fixed - 4.85% | 228,846 | 244,246 |
| Fixed - 7.00% | 683,557 | 699,157 |
| Fixed - 3.05% | 192,207 | 198,448 |
| | <u>\$ 1,190,891</u> | <u>\$ 1,256,844</u> |
| Less: Current Maturities | 70,300 | 65,900 |
| | <u>\$ 1,120,591</u> | <u>\$ 1,190,944</u> |

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$35,445. As of September 30, 2020, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|------|-----------|
| 2021 | \$ 70,300 |
| 2022 | 75,000 |
| 2023 | 66,100 |
| 2024 | 46,600 |
| 2025 | 49,800 |

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, 2020 and 2019.

10. USDA Rural Development Note Payable

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

| | September 30, | |
|-----------------------------------|---------------------|---------------------|
| | 2020 | 2019 |
| 5.000% Note Maturing March, 2032 | \$ 90,902 | \$ 96,620 |
| 4.500% Note Maturing August, 2035 | 175,626 | 183,689 |
| 4.500% Note Maturing July, 2040 | 67,725 | 69,799 |
| 4.125% Note Maturing March, 2047 | 911,810 | 930,536 |
| | <u>\$ 1,246,063</u> | <u>\$ 1,280,644</u> |
| Less: Current Maturities | 36,300 | 34,800 |
| | <u>\$ 1,209,763</u> | <u>\$ 1,245,844</u> |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$6,091. As of September 30, 2020, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | | |
|------|----|--------|
| 2021 | \$ | 36,300 |
| 2022 | | 37,900 |
| 2023 | | 39,600 |
| 2024 | | 41,400 |
| 2025 | | 43,300 |

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, 2020, the outstanding balance on the note is \$365,374. The annual maturities of the long-term debt due Graham County Electric for the next five years are as follows:

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

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

14. Litigation, Commitments, and Contingencies

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

On September 1, 2020, the Cooperative entered into an intent to sale agreement to sell the Cooperative's Gas Assets to a prospective buyer for \$3,500,000. The members of the Cooperative approved the sale of the Gas Assets at the October 2020 annual meeting. As of the date of these financial statements, the sale is pending approval from the Arizona Corporation Commission.

On November 20, 2019, the Cooperative entered into an intent to purchase agreement to purchase substantially all of the assets of Ashcreek Water Company. On May 5, 2020, the Arizona Corporation Commission appointed the Cooperative as the Interim Manager of Ashcreek Water Company. As of the date of these financial statements, an agreement to purchase substantially all of the assets has not been approved by the Arizona Corporation Commission.

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 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.

15. 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 UTILITIES, INC.
GAS DEPARTMENT**

Schedule 1

**BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019**

ASSETS

| | September 30, | |
|--|----------------------------|----------------------------|
| | <u>2020</u> | <u>2019</u> |
| UTILITY PLANT | | |
| Plant in Service | \$ 6,079,199 | \$ 5,749,182 |
| Construction Work in Progress | 71,940 | 58,819 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | <u>\$ 6,566,623</u> | <u>\$ 6,223,485</u> |
| Less: Accumulated Provision for Depreciation and Amortization | 3,972,900 | 3,800,159 |
| | <u>\$ 2,593,723</u> | <u>\$ 2,423,326</u> |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | \$ 161,781 | \$ 165,359 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of \$54,949 in 2020 and \$54,518 in 2019) | \$ 62,325 | \$ 66,560 |
| Unbilled Revenue | 110,432 | 96,766 |
| Materials and Supplies | 144,115 | 90,735 |
| Other Current and Accrued Assets | 22,532 | 20,012 |
| Total Current Assets | <u>\$ 339,404</u> | <u>\$ 274,073</u> |
| DEFERRED CHARGES | <u>\$ 8,145</u> | <u>\$</u> |
| TOTAL ASSETS | <u><u>\$ 3,103,053</u></u> | <u><u>\$ 2,862,758</u></u> |

EQUITIES AND LIABILITIES

| | | |
|---|----------------------------|----------------------------|
| MEMBERS' EQUITY | | |
| Memberships | \$ 25,850 | \$ 25,525 |
| Accumulated Deficits | (1,116,400) | (1,067,605) |
| | <u>\$ (1,090,550)</u> | <u>\$ (1,042,080)</u> |
| LONG - TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | \$ 934,884 | \$ 998,696 |
| Note Payable - Graham County Electric Coop | 252,574 | 365,399 |
| | <u>\$ 1,187,458</u> | <u>\$ 1,364,095</u> |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | \$ 176,600 | \$ 166,500 |
| Accounts Payable - Other | 82,983 | 75,472 |
| Accounts Payable - Graham County Electric Cooperative | 2,370,646 | 1,919,885 |
| Overbilled Consumers Fuel Cost | 155,018 | 155,355 |
| Accrued Taxes | 48,239 | 50,003 |
| Customers' Deposits and Prepayments | 136,421 | 142,931 |
| Accrued Interest | 18,298 | 20,379 |
| Accrued Payroll | 17,940 | 10,218 |
| Total Current Liabilities | <u>\$ 3,006,145</u> | <u>\$ 2,540,743</u> |
| TOTAL EQUITIES AND LIABILITIES | <u><u>\$ 3,103,053</u></u> | <u><u>\$ 2,862,758</u></u> |

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

Schedule 2

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

| | September 30, | | Increase (Decrease) |
|--|-----------------------|-----------------------|------------------------|
| | 2020 | 2019 | |
| OPERATING REVENUES | | | |
| Residential | \$ 2,523,979 | \$ 2,506,600 | \$ 17,379 |
| Irrigation | 6,527 | 6,807 | (280) |
| Commercial and Industrial | 763,652 | 791,889 | (28,237) |
| Fuel Cost Under (Over) Billed | 1,015 | 48,157 | (47,142) |
| Unbilled Revenue | 13,666 | 6,185 | 7,481 |
| Other Operating Revenues | 27,968 | 37,239 | (9,271) |
| Total Operating Revenues | <u>\$ 3,336,807</u> | <u>\$ 3,396,877</u> | <u>\$ (60,070)</u> |
| OPERATING EXPENSES | | | |
| Purchased Gas | \$ 1,004,462 | \$ 1,039,997 | \$ (35,535) |
| Operations | 545,732 | 552,701 | (6,969) |
| Maintenance | 411,179 | 461,074 | (49,895) |
| Consumer Accounts | 380,606 | 382,280 | (1,674) |
| Administrative and General | 712,225 | 731,888 | (19,663) |
| Depreciation and Amortization | 172,741 | 161,523 | 11,218 |
| Other Interest | 71,424 | 71,085 | 339 |
| Total Operating Expenses | <u>\$ 3,298,369</u> | <u>\$ 3,400,548</u> | <u>\$ (102,179)</u> |
| OPERATING LOSS - Before Fixed Charges | <u>\$ 38,438</u> | <u>\$ (3,671)</u> | <u>\$ 42,109</u> |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | <u>90,933</u> | <u>100,245</u> | <u>(9,312)</u> |
| OPERATING LOSS - After Fixed Charges | <u>\$ (52,495)</u> | <u>\$ (103,916)</u> | <u>\$ 51,421</u> |
| Capital Credits | <u>3,700</u> | <u>3,976</u> | <u>(276)</u> |
| NET LOSS | <u>\$ (48,795)</u> | <u>\$ (99,940)</u> | <u>\$ 51,145</u> |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | <u>(1,067,605)</u> | <u>(967,665)</u> | |
| ACCUMULATED DEFICITS - END OF YEAR | <u>\$ (1,116,400)</u> | <u>\$ (1,067,605)</u> | |

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

Schedule 3

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

| | September 30, | |
|---|---------------|--------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$ (48,795) | \$ (99,940) |
| Adjustments to Reconcile Net Margin to Net Cash | | |
| From Operating Activities | | |
| Depreciation and Amortization | 172,741 | 161,523 |
| Capital Credits | (3,700) | (3,976) |
| (Increase) Decrease | | |
| Accounts Receivable | 4,235 | 6,953 |
| Unbilled Revenue | (13,666) | (6,185) |
| Inventories and Other Current Assets | (55,900) | (9,997) |
| Deferred Charges | (8,145) | 107 |
| Increase (Decrease) | | |
| Overbilled Consumers Fuel Cost | (337) | (45,180) |
| Payables and Accrued Expenses | 4,878 | (25,250) |
| Net Cash From Operating Activities | \$ 51,311 | \$ (21,945) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | \$ (343,138) | \$ (299,122) |
| Investments in Associated Organizations | 7,278 | 9,654 |
| Net Cash From Investing Activities | \$ (335,860) | \$ (289,468) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | \$ (59,712) | \$ (55,898) |
| Payments on Notes Payable - GCE | (106,825) | (101,181) |
| Net Advances From - Graham County Electric Cooperative | 450,761 | 468,162 |
| Memberships | 325 | 330 |
| Net Cash From Financing Activities | \$ 284,549 | \$ 311,413 |
| 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 | \$ 90,933 | \$ 100,391 |
| Federal Income Tax | \$ 0 | \$ 0 |

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

Schedule 4

**BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019**

ASSETS

| | September 30, | |
|---|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| UTILITY PLANT AT COST | | |
| Water Plant in Service | \$ 4,312,258 | \$ 4,113,222 |
| Construction Work in Progress | 247,833 | 106,351 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | <u>\$ 5,170,259</u> | <u>\$ 4,829,741</u> |
| Less: Accumulated Provision for Depreciation and Amortization | 3,186,327 | 3,073,668 |
| | <u>\$ 1,983,932</u> | <u>\$ 1,756,073</u> |
| | | |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | \$ 133,377 | \$ 130,015 |
| | | |
| CURRENT ASSETS | | |
| Cash - Restricted | \$ 89,699 | \$ 89,372 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of \$3,060 in 2020 and \$3,487 in 2019) | 76,726 | 42,123 |
| Unbilled Revenue | 71,742 | 52,998 |
| Materials and Supplies | 100,699 | 83,839 |
| Other Current and Accrued Assets | 7,511 | 6,671 |
| Total Current Assets | <u>\$ 346,377</u> | <u>\$ 275,003</u> |
| | | |
| TOTAL ASSETS | <u>\$ 2,463,686</u> | <u>\$ 2,161,091</u> |

EQUITIES AND LIABILITIES

| | | |
|---|---------------------|---------------------|
| MEMBERS' EQUITY | | |
| Memberships | \$ 3,700 | \$ 3,645 |
| Accumulated Margins | 297,776 | 298,904 |
| | <u>\$ 301,476</u> | <u>\$ 302,549</u> |
| | | |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | \$ 185,707 | \$ 192,248 |
| USDA Rural Development Notes Less Current Maturities | 1,209,763 | 1,245,844 |
| | <u>\$ 1,395,470</u> | <u>\$ 1,438,092</u> |
| | | |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | \$ 42,800 | \$ 41,000 |
| Accounts Payable - Graham County Electric Cooperative | 657,624 | 323,617 |
| Accrued Taxes | 30,748 | 30,515 |
| Customers' Deposits and Prepayments | 18,385 | 18,180 |
| Accrued Interest | 1,933 | 1,744 |
| Accrued Payroll | 15,250 | 5,394 |
| Total Current Liabilities | <u>\$ 766,740</u> | <u>\$ 420,450</u> |
| | | |
| TOTAL EQUITIES AND LIABILITIES | <u>\$ 2,463,686</u> | <u>\$ 2,161,091</u> |

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

Schedule 5

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

| | September 30, | | Increase (Decrease) |
|--|---------------|-------------|------------------------|
| | 2020 | 2019 | |
| OPERATING REVENUES | | | |
| Residential | \$ 742,489 | \$ 682,686 | \$ 59,803 |
| Commercial and Industrial | 63,965 | 63,230 | 735 |
| Sales for Resale | 45,741 | 42,824 | 2,917 |
| Unbilled Revenue | 18,744 | 3,558 | 15,186 |
| Other Operating Revenues | 36,137 | 25,566 | 10,571 |
| Total Operating Revenues | \$ 907,076 | \$ 817,864 | \$ 89,212 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | \$ 39,272 | \$ 37,122 | \$ 2,150 |
| Operations | 70,711 | 86,967 | (16,256) |
| Maintenance | 291,865 | 270,779 | 21,086 |
| Consumer Accounts | 102,687 | 98,687 | 4,000 |
| Administrative and General | 233,674 | 213,456 | 20,218 |
| Depreciation and Amortization | 112,659 | 110,290 | 2,369 |
| Other Interest | 14,497 | 8,617 | 5,880 |
| Total Operating Expenses | \$ 865,365 | \$ 825,918 | \$ 39,447 |
| OPERATING MARGINS (LOSS) - Before Fixed Charges | \$ 41,711 | \$ (8,054) | \$ 49,765 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 62,078 | 65,291 | (3,213) |
| OPERATING MARGINS (LOSS) - After Fixed Charges | \$ (20,367) | \$ (73,345) | \$ 52,978 |
| Capital Credits | 9,227 | 3,526 | 5,701 |
| NET OPERATING MARGIN (LOSS) | \$ (11,140) | \$ (69,819) | \$ 58,679 |
| NONOPERATING MARGINS | | | |
| Interest | \$ 562 | \$ 635 | \$ (73) |
| Ashcreek Water Management Fee | 9,450 | | 9,450 |
| Total Nonoperating Margins | \$ 10,012 | \$ 635 | \$ 9,377 |
| NET MARGIN (LOSS) | \$ (1,128) | \$ (69,184) | \$ 68,056 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 298,904 | 368,088 | |
| ACCUMULATED MARGINS - END OF YEAR | \$ 297,776 | \$ 298,904 | |

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

Schedule 6

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

| | September 30, | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margin (Loss) | \$ (1,128) | \$ (69,184) |
| Adjustments to Reconcile Net Margins to Net Cash | | |
| From Operating Activities | | |
| Depreciation and Amortization | 112,659 | 110,290 |
| Capital Credits | (9,227) | (3,526) |
| (Increase) Decrease | | |
| Accounts Receivable | (34,603) | (2,957) |
| Unbilled Revenue | (18,744) | (3,558) |
| Inventories and Other Current Assets | (17,700) | (24,331) |
| Deferred Charges | | 107 |
| Increase (Decrease) | | |
| Payables and Accrued Expenses | 10,483 | 7,099 |
| Net Cash From Operating Activities | <u>\$ 41,740</u> | <u>\$ 13,940</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net Additions to Plant | \$ (340,518) | \$ (146,737) |
| Cash - Restricted | (327) | (400) |
| Investments in Associated Organizations | 5,865 | 6,815 |
| Net Cash From Investing Activities | <u>\$ (334,980)</u> | <u>\$ (140,322)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt To CFC | \$ (6,241) | \$ (5,995) |
| Payments on Long-Term Debt To USDA | (34,581) | (31,605) |
| Net Advances From - Graham County Electric Cooperative | 334,007 | 163,907 |
| Change in Memberships | 55 | 75 |
| Net Cash From Financing Activities | <u>\$ 293,240</u> | <u>\$ 126,382</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 | \$ 54,135 | \$ 65,301 |
| Federal Income Tax | <u>\$ 0</u> | <u>\$ 0</u> |