

**ARIZONA 17 GRAHAM**

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**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, 2017 and 2016, 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, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Accompanying 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.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

December 1, 2017

**FINANCIAL STATEMENTS**

## GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS  
SEPTEMBER 30, 2017 AND 2016

## ASSETS

	September 30,	
	2017	2016
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 50,028,629	\$ 49,231,726
Construction Work in Progress	197,405	112,449
	<u>\$ 50,226,034</u>	<u>\$ 49,344,175</u>
Less: Accumulated Provision for Depreciation	21,658,032	20,206,284
	<u>\$ 28,568,002</u>	<u>\$ 29,137,891</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 12,142,992	\$ 11,416,685
Note Receivable - GC Utilities	573,416	669,189
	<u>\$ 12,716,408</u>	<u>\$ 12,085,874</u>
CURRENT ASSETS		
Cash - General	\$ 498,274	\$ 831,646
Accounts Receivable (Less allowance for uncollectibles of \$174,095 in 2017 and \$183,479 in 2016)	1,346,025	1,360,677
Accounts Receivable - Graham County Utilities, Inc.	1,345,861	1,152,747
Note Receivable - GC Utilities (Current Portion)	95,800	90,800
Materials and Supplies	805,069	829,434
Other Current and Accrued Assets	256,078	282,242
	<u>\$ 4,347,107</u>	<u>\$ 4,547,546</u>
DEFERRED CHARGES	\$ 373,715	\$ 138,583
TOTAL ASSETS	<u>\$ 46,005,232</u>	<u>\$ 45,909,894</u>

## EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 26,225	\$ 30,510
Patronage Capital	23,544,535	22,978,808
Other Equities	1,364	1,364
Accumulated Other Comprehensive Loss	(1,979,770)	(2,180,649)
	<u>\$ 21,592,354</u>	<u>\$ 20,830,033</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 16,499,286	\$ 17,093,896
	<u>\$ 16,499,286</u>	<u>\$ 17,093,896</u>
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,725,719	\$ 2,691,771
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 595,000	\$ 560,000
Current Portion of APBO	193,416	191,573
Line of Credit Payable	1,050,000	800,000
Accounts Payable - Purchased Power	865,928	910,088
Accounts Payable - Other	178,200	118,242
Over-Recovered Fuel Cost	294,797	582,891
Accrued Taxes	411,618	436,216
Accrued Interest	46,566	51,180
Consumer Deposits and Prepayments	364,261	445,392
Accrued Compensated Absences	497,498	522,435
Other Current and Accrued Liabilities	95,571	119,518
	<u>\$ 4,592,855</u>	<u>\$ 4,737,535</u>
DEFERRED CREDITS	\$ 595,018	\$ 556,659
TOTAL EQUITIES AND LIABILITIES	<u>\$ 46,005,232</u>	<u>\$ 45,909,894</u>

See accompanying notes to financial statements.

## GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND OTHER COMPREHENSIVE INCOME (LOSS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	Years Ended September 30,				Increase (Decrease)
	2017		2016		
	Amount	%	Amount	%	
<b>OPERATING REVENUES</b>					
Residential	\$ 8,330,966	49.9	\$ 8,887,529	50.5	\$ (556,563)
Irrigation	1,553,462	9.3	1,682,589	9.6	(129,127)
Commercial and Industrial	5,485,125	32.9	5,972,798	33.9	(487,673)
Public Street and Highway Lighting	29,124	0.2	11,957	0.1	17,167
Power Cost - Under (Over) Billed	288,094	1.7	300,454	1.7	(12,360)
Rent from Electric Property	213,485	1.3	219,946	1.2	(6,461)
Other Operating Revenues	787,431	4.7	525,960	3.0	261,471
Fuel Costs Over Recovered	\$ 16,687,687	100.0	\$ 17,601,233	100.0	\$ (913,546)
<b>OPERATING EXPENSES</b>					
Purchased Power	\$ 10,387,712	62.2	\$ 11,068,119	62.9	\$ (680,407)
Operation	684,590	4.1	819,179	4.7	(134,589)
Maintenance	1,521,056	9.1	1,323,084	7.5	197,972
Customer Accounts	697,886	4.2	784,979	4.5	(87,093)
Administrative and General	1,373,891	8.2	1,422,346	8.1	(48,455)
Depreciation and Amortization	1,420,759	8.5	1,404,514	8.0	16,245
Other Interest and Deductions	49,659	0.3	38,292	0.2	11,367
Total Operating Expenses	\$ 16,135,553	96.6	\$ 16,860,513	95.9	\$ (724,960)
<b>OPERATING MARGINS - Before</b>					
Fixed Charges	\$ 552,134	3.4	\$ 740,720	4.1	\$ (188,586)
<b>FIXED CHARGES</b>					
Interest on Long-Term Debt	975,166	5.8	1,004,371	5.7	(29,205)
<b>OPERATING LOSSES - After</b>					
Fixed Charges	\$ (423,032)	(2.4)	\$ (263,651)	(1.6)	\$ (159,381)
Other Capital Credits	844,106	5.1	809,859	4.6	34,247
<b>NET OPERATING MARGIN</b>	\$ 421,074	2.7	\$ 546,208	3.0	\$ (125,134)
<b>NONOPERATING MARGINS</b>					
Interest Income	\$ 90,895	0.5	\$ 89,690	0.5	\$ 1,205
Nonoperating Income	53,758	0.3	367,547	2.1	(313,789)
	\$ 144,653	0.8	\$ 457,237	2.6	\$ (312,584)
<b>NET MARGINS</b>	\$ 565,727	3.5	\$ 1,003,445	5.6	\$ (437,718)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Current Year APBO Valuation Adjustment			127,339		
Prior Service Cost	195,850		(1,797,901)		
Post-Retirement Benefit Amortization	5,029		51,126		
<b>COMPREHENSIVE INCOME</b>	\$ 766,606		\$ (615,991)		
Post-Retirement Benefit Obligation	(200,879)		1,619,436		
Patronage Capital Retired			(124,174)		
<b>PATRONAGE CAPITAL - BEGINNING OF YEAR</b>	22,978,808		22,099,537		
<b>PATRONAGE CAPITAL - END OF YEAR</b>	\$ 23,544,535		\$ 22,978,808		

See accompanying notes to financial statements.



## GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	September 30,	
	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 565,727	\$ 1,003,445
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities		
Depreciation and Amortization	1,583,989	1,574,210
Post-Retirement Benefit Amortization	351,405	94,728
Capital Credits Allocations	(844,106)	(809,859)
Deferred Charges	(235,132)	23,251
Deferred Credits	38,359	257,911
Fuel Costs Over (Under) Recovered	(288,094)	(300,454)
Accounts Receivable	14,652	(399,047)
Accounts Receivable/Payable - Graham County Utilities	(193,114)	(340,040)
Inventories and Prepaid Expenses	50,529	(14,324)
Payables and Accrued Expenses	(143,429)	(612,734)
Net Cash From Operating Activities	<u>\$ 900,786</u>	<u>\$ 477,087</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Utility Plant	\$ (1,022,672)	\$ (1,280,985)
Salvage Value and Other Credits Less Cost of Removal	8,572	626,593
Investments in Associated Organizations	117,799	117,547
Note Receivable - GC Utilities	90,773	85,977
Net Cash From Investing Activities	<u>\$ (805,528)</u>	<u>\$ (450,868)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CFC	\$ (559,610)	\$ (528,171)
Payments on Other Long-Term Debt		(30,618)
Advances from CFC Line of Credit	750,000	1,100,000
Payments on CFC Line of Credit	(500,000)	(500,000)
Payments on Behalf of Retirees	(114,735)	(102,502)
Patronage Capital Retirements		(124,174)
Memberships	(4,285)	(2,335)
Net Cash From Financing Activities	<u>\$ (428,630)</u>	<u>\$ (187,800)</u>
<b>CHANGE IN CASH EQUIVALENTS</b>	\$ (333,372)	\$ (161,581)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	831,646	993,227
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 498,274</u>	<u>\$ 831,646</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 975,166	\$ 1,004,085
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH FLOW INFORMATION:**

The adjustment for the application of Post-retirement benefit accounting requirements increased the accrued Post-retirement benefit liability by \$0 and \$1,670,562 and changed equities by the same amount for 2017 and 2016, respectively.

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 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, 2017, 64% of the Company's 44 employees work under a collective bargaining agreement. The collective bargaining agreement will expire on June 30, 2019.

**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 not accrued for power delivered but not billed at the end of each month. The unbilled revenue was estimated to be \$583,538 and \$592,989 at September 30, 2017 and 2016, respectively. A recent FASB pronouncement related to revenue recognition will require the Cooperative to recognize unbilled revenue in future financial statements. The requirement is effective for annual reporting periods beginning after December 15, 2018.

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.

**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 \$364,261 and \$445,392 at September 30, 2017 and 2016, 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, 2017, the principal balance owed on the mortgage note was \$1,376,830. 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 Electric Power Cooperative, 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 2017 and 2016, 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 2017 and 2016 are as follows:

	<u>FY 2017</u>	<u>FY 2016</u>
Final Allocation for 2016	\$ 730,589	\$
Final Allocation for 2015		<u>692,565</u>
	<u>\$ 730,589</u>	<u>\$ 692,565</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 2013.

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, 2017 and 2016.

**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.

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**2. Electric Plant**

The major classes of electric plant are as follows:

	September 30,	
	<u>2017</u>	<u>2016</u>
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	4,637,722	4,625,895
Distribution Plant	37,699,511	36,890,670
General Plant	<u>7,688,336</u>	<u>7,712,101</u>
Total Electric Plant in Service	\$ 50,028,629	\$ 49,231,726
Construction Work in Progress	<u>197,405</u>	<u>112,449</u>
Total Electric Plant	<u>\$ 50,226,034</u>	<u>\$ 49,344,175</u>

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

Transmission Plant	2.75%
Distribution Plant	2.94%

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

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

Depreciation and amortization for the years ended September 30, 2017 and 2016, was \$1,583,989 and \$1,574,210, respectively, of which \$1,420,759 and \$1,404,514 was charged to depreciation and amortization expense and \$163,230 and \$169,696 allocated to other accounts, respectively.

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**3. Investments in Associated Organizations**

Investments in associated organizations consisted of the following:

	September 30,	
	2017	2016
CFC		
Patronage Capital	\$ 703,416	\$ 656,435
Capital Term Certificates	655,587	658,171
Membership	1,000	1,000
	<u>\$ 1,360,003</u>	<u>\$ 1,315,606</u>
Arizona Electric Power Cooperative, Inc.		
Patronage Capital	\$ 10,593,091	\$ 9,921,045
Membership	5	5
	<u>\$ 10,593,096</u>	<u>\$ 9,921,050</u>
Graham County Utilities, Inc.		
Membership	\$ 5,000	\$ 5,000
Federated Rural Electric Insurance Corporation		
Common Stock	\$ 138,615	\$ 128,288
Other	\$ 46,278	\$ 46,741
	<u>\$ 12,142,992</u>	<u>\$ 11,416,685</u>

**4. Inventories**

	September 30,	
	2017	2016
Construction Materials	\$ 468,716	\$ 493,081
Spare Transformer	336,353	336,353
	<u>\$ 805,069</u>	<u>\$ 829,434</u>

**5. Deferred Charges**

Deferred charges consisted of the following:

	September 30,	
	2017	2016
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	\$ 103,331	\$ 103,331
Right of Way Lease	29,597	35,252
Post Retirement Benefit Regulatory Asset	236,670	
Other Deferred Charges	4,117	
	<u>\$ 373,715</u>	<u>\$ 138,583</u>

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

During 2017, the Cooperative was ordered by The Arizona Corporation Commission (ACC) to defer non-cash accruals related to the post-retirement benefit obligation. The ACC effectively place the Cooperative's accounting on the cash paid basis. These amounts will be deferred until actual expenditures are made.

**6. 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 51.24% (excluding Accumulated Other Comprehensive loss) or 46.93% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$0 and \$124,174 were made during the years ended September 30, 2017 and 2016.

**7. Patronage Capital**

	September 30,	
	2017	2016
Assignable (9 Months Ended September 30)	\$ 894,431	\$ 1,129,100
Assigned	23,713,842	22,913,446
	\$ 24,608,273	\$ 24,042,546
Less: Retired	1,063,738	1,063,738
	\$ 23,544,535	\$ 22,978,808

**8. Other Equities**

	September 30,	
	2017	2016
Retired Capital Credits Gain	\$ 1,364	\$ 1,364

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9. 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,	
				2017	2016
9002 - 2&4	7.45%	04/01/29	Construction	\$ 320,853	\$ 337,930
9003	7.45%	07/01/30	Construction	330,797	345,857
9004	7.70%	06/30/30	Construction	342,509	357,804
9005	7.45%	06/30/30	Construction	330,797	345,857
9006	7.45%	06/30/30	Construction	338,632	354,050
9007	7.35%	06/30/30	Construction	449,897	470,538
9008 - 1&2	7.40%	06/30/32	Construction	611,862	634,055
9009 - 1&2	6.85%	06/30/33	Construction	1,467,160	1,517,478
9009 - 3	7.90%	06/30/33	Construction	1,532,604	1,580,092
9009 - 4	3.60%	06/30/33	Construction	674,838	706,159
9009 - 5	4.00%	06/30/33	Construction	678,222	708,580
9009 - 6	6.25%	06/30/33	Construction	291,401	301,984
9009 - 7	6.70%	06/30/33	Construction	256,863	265,800
9010 - 1	6.90%	12/31/38	Construction	847,712	864,806
9010 - 2	7.10%	09/30/34	Construction	2,387,360	2,457,648
9010 - 3	6.40%	06/30/38	Construction	836,796	855,625
9010 - 4	6.75%	03/31/37	Construction	420,663	432,229
9010 - 5	4.40%	12/31/38	Construction	817,756	840,577
9010 - 6	3.80%	12/31/38	Construction	812,382	836,820
9010 - 7	4.00%	09/30/38	Construction	804,461	828,483
9010 - 8	4.45%	12/31/38	Construction	419,188	430,813
9010 - 9	3.55%	12/31/38	Construction	831,687	857,492
9010 -10	4.20%	12/31/38	Construction	685,207	704,816
9011 - 1	4.85%	12/31/40	Construction	604,639	618,403
				<u>\$ 17,094,286</u>	<u>\$ 17,653,896</u>
Less: Current Maturities				<u>595,000</u>	<u>560,000</u>
				<u>\$ 16,499,286</u>	<u>\$ 17,093,896</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, 2017, annual maturities of long-term debt due CFC for the next five years are as follows:

2018	\$ 595,000
2019	632,000
2020	671,000
2021	713,000
2022	757,000

Substantially all assets are pledged as security for the long-term debt due CFC.

**10. Short-Term Borrowing**

The Cooperative has a \$2,800,000 line of credit for short-term financing with CFC. There was \$1,050,000 and \$800,000 outstanding on this line of credit as of September 30, 2017 and 2016, respectively.

The Cooperative has a \$50,000 business line of credit with JP Morgan Chase. There was \$0 outstanding on this line of credit as of September 30, 2017 and 2016. Subsequent to September 30, 2017 this line of credit was approved to be closed.

**11. Deferred Credits**

Deferred credits consisted of the following:

	September 30,	
	2017	2016
Unclaimed Memberships and Deposit Refunds	\$ 661	\$ 661
Sun Watts Energy Conservation Program	238,992	282,162
Energy Efficiency Program	355,365	273,836
	<u>\$ 595,018</u>	<u>\$ 556,659</u>

**12. Litigation**

There is no litigation pending against the Cooperative at September 30, 2017, that would have a material effect on the financial statements.

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**13. 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 2017 and 2016 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$843,539 in 2017 and \$906,997 in 2016. There have been no significant changes that affect the comparability of 2017 and 2016 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, 2017 and 2016 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the RS Plan and may change as a result of RS Plan experience.

The employees also participate in a 401(k) plan, a defined contribution plan provided through NRECA. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$75,139 and \$117,267 for the years ended September 30, 2017 and 2016, respectively. On October 1, 2016 the Cooperative reduced the employer contribution from 4% to 3%.

Benefits to Retirees

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

Summary of the Plan

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

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

Net periodic post-retirement medical care costs for years ending September 30, 2017 and 2016, consisted of the following components:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
I) Components of Periodic Net Post-Retirement Benefit Cost		
Interest Cost	\$ 105,187	\$ 43,602
Service Cost	45,339	
Amortization of Prior Service Cost	195,850	
Amortization of Actuarial Loss	<u>5,029</u>	<u>51,126</u>
Total	<u>\$ 351,405</u>	<u>\$ 94,728</u>
II) Change In Accumulated Post-Retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 2,883,344	\$ 1,271,682
Interest Cost	105,187	43,602
Service Cost	45,339	
Prior Service Cost		1,797,901
Actuarial (Gain) / Loss		(127,339)
Plan Participants' Contributions	2,142	1,426
Actual Benefits Paid	<u>(116,877)</u>	<u>(103,928)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 2,919,135</u>	<u>\$ 2,883,344</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,919,135	\$ 2,883,344
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,919,135</u>	<u>\$ 2,883,344</u>
IV) Amounts Recognized in the Balance Sheets		
Current Liability	\$ 193,416	\$ 191,573
Non Current Liability	<u>2,725,719</u>	<u>2,691,771</u>
Post-Retirement Benefits Other Than Pensions	<u>\$ 2,919,135</u>	<u>\$ 2,883,344</u>
V) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$ 33,162	\$ 33,162
Prior Service Cost	1,602,051	1,797,901
Unamortized Actuarial Loss	<u>344,557</u>	<u>349,586</u>
Accumulated Other Comprehensive Loss	<u>\$ 1,979,770</u>	<u>\$ 2,180,649</u>

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The information is based on the most recent USI Consulting Group valuation calculated as of October 1, 2016.

The Cooperative funds the retiree health care premiums on a cash basis and in 2017 and 2016 paid \$114,735 and \$102,502, respectively, for retirees' health care coverage.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 3.70%. The assumed health care cost trend rate is 7.00% for 2017 declining to 5.00% by 2021.

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 a net loss of \$3,875. 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 \$195,850.

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

2018	\$ 193,416
2019	180,352
2020	189,739
2021	202,868
2022	177,484
2023-2027	887,321

**14. Related Parties**

The Cooperative is represented on the Board of Directors of Arizona G&T Cooperatives, purchasing all of its electric power from Arizona Electric Power Cooperative, Inc. (AEPCO) and transmission requirements from Southwest Transmission Cooperative, Inc. (SWTC). 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 almost identical Boards of Directors with Graham County Utilities, Inc. (GCU). The Cooperative is a Class "A" Member of GCU, having paid a membership fee of \$5,000.

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

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2017</u>	<u>2016</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,345,860	\$ 1,152,746
Note Receivable (Current and Long-Term)	669,216	759,989
Total	<u>\$ 2,015,076</u>	<u>\$ 1,912,735</u>
 Graham County Utilities, Inc.		
Accounts Payable	\$ (1,345,860)	\$ (1,152,746)
Loan Payable (Current and Long-Term)	<u>(669,216)</u>	<u>(759,989)</u>
Total	<u>\$ (2,015,076)</u>	<u>\$ (1,912,735)</u>

During the year ended September 30, 2013, the Cooperative loaned funds to Graham County Utilities, Inc. in the amount of \$1,000,000 with a term of ten years at an interest rate of 5.44%. As of September 30, 2017, the outstanding balance on the note is \$669,216. The annual maturities of the note due to the Cooperative for the next five years are as follows:

2018	\$ 95,800
2019	101,200
2020	106,800
2021	112,800
2022	119,100

**15. 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.

**16. Subsequent Events**

The Cooperative has evaluated subsequent events through December 1, 2017, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 1

ADMINISTRATIVE AND GENERAL EXPENSES  
SEPTEMBER 30, 2017 AND 2016

	September 30,		Increase (Decrease)
	2017	2016	
Administrative and General Salaries	\$ 416,987	\$ 437,643	\$ (20,656)
Office Supplies and Expense	189,477	189,412	65
Outside Services Employed	77,876	48,800	29,076
Property Insurance	13,239	12,570	669
Injuries and Damages	66,502	66,154	348
Employee Pension and Benefits	247,279	253,891	(6,612)
Regulatory Commission Expense	40,524	37,840	2,684
Miscellaneous General Expense	202,693	240,017	(37,324)
Rents	22,028	23,943	(1,915)
Maintenance of General Plant	<u>97,286</u>	<u>112,076</u>	<u>(14,790)</u>
Total	<u>\$ 1,373,891</u>	<u>\$ 1,422,346</u>	<u>\$ (48,455)</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2017	2016	2015	2014	2013
OPERATING REVENUES	\$ 16,687,687	\$ 17,601,233	\$ 17,190,256	\$ 18,203,889	\$ 19,512,759
OPERATING EXPENSES					
Purchased Power	\$ 10,387,712	\$ 11,068,119	\$ 10,643,735	\$ 11,479,676	\$ 12,678,196
Operation	684,590	819,179	911,692	1,020,766	923,474
Maintenance	1,521,056	1,323,084	1,473,806	1,278,257	1,445,307
Customer Accounts	697,886	784,979	754,613	763,508	752,685
Administrative and General	1,373,891	1,422,346	1,398,062	1,223,866	1,192,515
Depreciation and Amortization	1,420,759	1,404,514	1,382,890	1,335,296	1,249,502
Other Interest and Deductions	49,659	38,292	26,808	34,479	24,961
Total Operating Expenses	\$ 16,135,553	\$ 16,860,513	\$ 16,591,606	\$ 17,135,848	\$ 18,266,640
OPERATING MARGINS - Before					
Fixed Charges	\$ 552,134	\$ 740,720	\$ 598,650	\$ 1,068,041	\$ 1,246,119
Interest - Long-Term Debt	975,166	1,004,371	1,027,704	1,047,246	1,094,561
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ (423,032)	\$ (263,651)	\$ (429,054)	\$ 20,795	\$ 151,558
Other Capital Credits	844,106	809,859	771,178	1,430,871	644,445
NET OPERATING MARGINS	\$ 421,074	\$ 546,208	\$ 342,124	\$ 1,451,666	\$ 796,003
NONOPERATING MARGINS	144,653	457,237	148,555	163,253	124,975
NET MARGINS	\$ 565,727	\$ 1,003,445	\$ 490,679	\$ 1,614,919	\$ 920,978