

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditor's Report		1
Financial Statements		
Balance Sheets	Exhibit A	3
Statements of Income, Patronage Capital, and Other Comprehensive Income (Loss)	Exhibit B	4
Statements of Cash Flows	Exhibit C	5
Notes to Financial Statements		6
Supplementary Information		
Administrative and General Expenses	Schedule 1	18
Five Year Comparative Statement of Revenues and Expenses	Schedule 2	19
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		20

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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following schedules of administrative and general expenses, and five year comparative statement of revenues and expenses are presented for purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 27, 2018

FINANCIAL STATEMENTS

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017

ASSETS

	September 30,	
	2018	2017
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 50,992,151	\$ 50,028,629
Construction Work in Progress	633,323	197,405
	\$ 51,625,474	\$ 50,226,034
Less: Accumulated Provision for Depreciation	23,219,197	21,658,032
	\$ 28,406,277	\$ 28,568,002
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 12,723,926	\$ 12,142,992
Note Receivable - GC Utilities	472,199	573,416
	\$ 13,196,125	\$ 12,716,408
CURRENT ASSETS		
Cash - General	\$ 1,026,816	\$ 498,274
Accounts Receivable (Less allowance for uncollectibles of \$193,953 in 2018 and \$174,095 in 2017)	1,570,534	1,346,025
Accounts Receivable - Graham County Utilities, Inc.	1,611,432	1,345,861
Note Receivable - GC Utilities (Current Portion)	101,181	95,800
Materials and Supplies	806,103	805,069
Other Current and Accrued Assets	314,487	256,078
	\$ 5,430,553	\$ 4,347,107
DEFERRED CHARGES	\$ 606,241	\$ 373,715
TOTAL ASSETS	\$ 47,639,196	\$ 46,005,232

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 26,895	\$ 26,225
Patronage Capital	24,731,359	23,544,535
Other Equities (Deficits)	(12,429)	1,364
Accumulated Other Comprehensive Loss	(1,363,547)	(1,979,770)
	\$ 23,382,278	\$ 21,592,354
LONG-TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 15,866,837	\$ 16,499,286
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,362,756	\$ 2,725,719
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 632,000	\$ 595,000
Current Portion of APBO	172,514	193,416
Line of Credit Payable	1,600,000	1,050,000
Accounts Payable - Purchased Power	927,326	865,928
Accounts Payable - Other	130,089	178,200
Over-Recovered Fuel Cost	351,452	294,797
Accrued Taxes	411,710	411,618
Accrued Interest	52,006	46,566
Consumer Deposits and Prepayments	398,809	364,261
Accrued Compensated Absences	535,340	497,498
Other Current and Accrued Liabilities	131,109	95,571
	\$ 5,342,355	\$ 4,592,855
DEFERRED CREDITS	\$ 684,970	\$ 595,018
TOTAL EQUITIES AND LIABILITIES	\$ 47,639,196	\$ 46,005,232

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, 2018 AND 2017

	Years Ended September 30,				Increase (Decrease)
	2018		2017		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 8,433,814	48.9	\$ 8,330,966	49.9	\$ 102,848
Irrigation	1,825,199	10.6	1,553,462	9.3	271,737
Commercial and Industrial	5,327,578	30.9	5,485,125	32.9	(157,547)
Public Street and Highway Lighting	25,677	0.1	29,124	0.2	(3,447)
Fuel Cost - Under (Over) Billed	(56,655)	(0.3)	288,094	1.7	(344,749)
Rent from Electric Property	231,058	1.3	213,485	1.3	17,573
Other Operating Revenues	1,469,364	8.5	787,431	4.7	681,933
Total Operating Revenues	\$ 17,256,035	100.0	\$ 16,687,687	100.0	\$ 568,348
OPERATING EXPENSES					
Purchased Power	\$ 10,469,264	60.7	\$ 10,387,712	62.2	\$ 81,552
Operation	696,285	4.0	684,590	4.1	11,695
Maintenance	1,245,787	7.2	1,521,056	9.1	(275,269)
Customer Accounts	652,330	3.8	697,886	4.2	(45,556)
Administrative and General	1,420,834	8.2	1,373,891	8.2	46,943
Depreciation and Amortization	1,453,690	8.4	1,420,759	8.5	32,931
Other Interest and Deductions	61,396	0.4	49,659	0.3	11,737
Total Operating Expenses	\$ 15,999,586	92.7	\$ 16,135,553	96.6	\$ (135,967)
OPERATING MARGINS - Before Fixed Charges	\$ 1,256,449	7.3	\$ 552,134	3.4	\$ 704,315
FIXED CHARGES					
Interest on Long-Term Debt	939,846	5.4	975,166	5.8	(35,320)
OPERATING MARGINS (LOSSES) - After Fixed Charges	\$ 316,603	1.9	\$ (423,032)	(2.4)	\$ 739,635
Other Capital Credits	706,429	4.1	844,106	5.1	(137,677)
NET OPERATING MARGINS	\$ 1,023,032	6.0	\$ 421,074	2.7	\$ 601,958
NONOPERATING MARGINS					
Interest Income	\$ 93,826	0.5	\$ 90,895	0.5	\$ 2,931
Nonoperating Income	56,174	0.3	53,758	0.3	2,416
	\$ 150,000	0.8	\$ 144,653	0.8	\$ 5,347
NET MARGINS	\$ 1,173,032	6.8	\$ 565,727	3.5	\$ 607,305
OTHER COMPREHENSIVE INCOME (LOSS)					
Transition Obligation	33,162				
Actuarial Gain	387,211				
Prior Service Cost	195,850		195,850		
Post-Retirement Benefit Amortization			5,029		
COMPREHENSIVE INCOME	\$ 1,789,255		\$ 766,606		
Post-Retirement Benefit Obligation	(616,223)		(200,879)		
Transfer of Operating Loss to Other Equities	13,792				
PATRONAGE CAPITAL - BEGINNING OF YEAR	23,544,535		22,978,808		
PATRONAGE CAPITAL - END OF YEAR	\$ 24,731,359		\$ 23,544,535		

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	September 30,	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,173,032	\$ 565,727
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities		
Depreciation and Amortization	1,604,513	1,583,989
Post-Retirement Benefit Amortization	100,500	114,735
Capital Credits Allocations	(706,429)	(844,106)
Deferred Charges	4,479	1,538
Deferred Credits	89,952	38,359
Fuel Costs Over (Under) Recovered	56,655	(288,094)
Accounts Receivable	(224,509)	14,652
Accounts Receivable/Payable - Graham County Utilities	(265,571)	(193,114)
Inventories and Prepaid Expenses	(59,443)	50,529
Payables and Accrued Expenses	126,747	(143,429)
Net Cash From Operating Activities	<u>\$ 1,899,926</u>	<u>\$ 900,786</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,399,440)	\$ (1,022,672)
Salvage Value and Other Credits Less Cost of Removal	(43,348)	8,572
Investments in Associated Organizations	125,495	117,799
Note Receivable - GC Utilities	95,836	90,773
Net Cash From Investing Activities	<u>\$ (1,221,457)</u>	<u>\$ (805,528)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to CFC	\$ (595,449)	\$ (559,610)
Advances from CFC Line of Credit	1,070,000	750,000
Payments on CFC Line of Credit	(520,000)	(500,000)
Payments on Behalf of Retirees	(105,148)	(114,735)
Memberships	670	(4,285)
Net Cash From Financing Activities	<u>\$ (149,927)</u>	<u>\$ (428,630)</u>
CHANGE IN CASH EQUIVALENTS	\$ 528,542	\$ (333,372)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	498,274	831,646
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,026,816</u>	<u>\$ 498,274</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 939,846	\$ 975,166
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 decreased the accrued Post-retirement benefit liability by \$420,373 and \$0 and changed equities by the same amount for 2018 and 2017, 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, 2018, 62% of the Company's 47 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 \$540,265 and \$583,538 at September 30, 2018 and 2017, 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 \$398,809 and \$364,261 at September 30, 2018 and 2017, 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, 2018, the principal balance owed on the mortgage note was \$1,318,737. 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 2018 and 2017, 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 2018 and 2017 are as follows:

	<u>FY 2018</u>	<u>FY 2017</u>
Final Allocation for 2018	\$ 585,748	\$
Final Allocation for 2017		<u>730,589</u>
	<u>\$ 585,748</u>	<u>\$ 730,589</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 2015.

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, 2018 and 2017.

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>2018</u>	<u>2017</u>
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	4,637,722	4,637,722
Distribution Plant	38,326,126	37,699,511
General Plant	<u>8,025,243</u>	<u>7,688,336</u>
Total Electric Plant in Service	\$ 50,992,151	\$ 50,028,629
Construction Work in Progress	<u>633,323</u>	<u>197,405</u>
Total Electric Plant	<u>\$ 51,625,474</u>	<u>\$ 50,226,034</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, 2018 and 2017, was \$1,604,513 and \$1,583,989, respectively, of which \$1,453,690 and \$1,420,759 was charged to depreciation and amortization expense and \$150,823 and \$163,230 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,	
	<u>2018</u>	<u>2017</u>
CFC		
Patronage Capital	\$ 749,922	\$ 703,416
Capital Term Certificates	652,831	655,587
Membership	<u>1,000</u>	<u>1,000</u>
	<u>\$ 1,403,753</u>	<u>\$ 1,360,003</u>
Arizona Electric Power Cooperative, Inc.		
Patronage Capital	\$ 11,116,433	\$ 10,593,091
Membership	<u>5</u>	<u>5</u>
	<u>\$ 11,116,438</u>	<u>\$ 10,593,096</u>
Graham County Utilities, Inc.		
Membership	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Federated Rural Electric Insurance Corporation		
Common Stock	<u>\$ 153,191</u>	<u>\$ 138,615</u>
Other	<u>\$ 45,544</u>	<u>\$ 46,278</u>
	<u><u>\$ 12,723,926</u></u>	<u><u>\$ 12,142,992</u></u>

4. Inventories

	September 30,	
	<u>2018</u>	<u>2017</u>
Construction Materials	\$ 469,750	\$ 468,716
Spare Transformer	<u>336,353</u>	<u>336,353</u>
	<u><u>\$ 806,103</u></u>	<u><u>\$ 805,069</u></u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2018</u>	<u>2017</u>
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	\$ 103,331	\$ 103,331
Right of Way Lease	23,942	29,597
Post Retirement Benefit Regulatory Asset	473,675	236,670
Other Deferred Charges	5,293	4,117
	<u>\$ 606,241</u>	<u>\$ 373,715</u>

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 placed 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 51.94% (excluding Accumulated Other Comprehensive loss) or 49.08% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$0 and \$0 were made during the years ended September 30, 2018 and 2017.

7. Patronage Capital

	September 30,	
	<u>2018</u>	<u>2017</u>
Assignable (9 Months Ended September 30)	\$ 1,351,328	\$ 894,431
Assigned	<u>24,443,769</u>	<u>23,713,842</u>
	\$ 25,795,097	\$ 24,608,273
Less: Retired	<u>1,063,738</u>	<u>1,063,738</u>
	<u>\$ 24,731,359</u>	<u>\$ 23,544,535</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Other Equities (Deficits)

	September 30,	
	2018	2017
Prior Year Operating Losses	\$ (13,793)	\$
Retired Capital Credits Gain	1,364	1,364
	<u>\$ (12,429)</u>	<u>\$ 1,364</u>

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

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,	
				2018	2017
9002 - 2&4	7.45%	04/01/29	Construction	\$ 302,469	\$ 320,853
9003	7.45%	07/01/30	Construction	314,582	330,797
9004	7.70%	06/30/30	Construction	326,001	342,509
9005	7.45%	06/30/30	Construction	314,582	330,797
9006	7.45%	06/30/30	Construction	322,034	338,632
9007	7.35%	06/30/30	Construction	427,696	449,897
9008 - 1&2	7.40%	06/30/32	Construction	587,980	611,862
9009 - 1&2	6.85%	06/30/33	Construction	1,413,306	1,467,160
9009 - 3	7.90%	06/30/33	Construction	1,481,251	1,532,604
9009 - 4	4.95%	06/30/33	Construction	642,374	674,838
9009 - 5	4.00%	06/30/33	Construction	646,632	678,222
9009 - 6	6.25%	06/30/33	Construction	280,142	291,401
9009 - 7	6.70%	06/30/33	Construction	247,312	256,863
9010 - 1	6.90%	12/31/38	Construction	829,407	847,712
9010 - 2	7.10%	09/30/34	Construction	2,311,949	2,387,360
9010 - 3	6.40%	06/30/38	Construction	816,732	836,796
9010 - 4	4.65%	03/31/37	Construction	407,061	420,663
9010 - 5	4.40%	12/31/38	Construction	793,914	817,756
9010 - 6	3.80%	12/31/38	Construction	787,002	812,382
9010 - 7	4.00%	09/30/38	Construction	779,464	804,461
9010 - 8	4.45%	12/31/38	Construction	407,037	419,188
9010 - 9	3.55%	12/31/38	Construction	804,954	831,687
9010 -10	4.20%	12/31/38	Construction	664,762	685,207
9011 - 1	4.85%	12/31/40	Construction	590,194	604,639
				<u>\$ 16,498,837</u>	<u>\$ 17,094,286</u>
Less: Current Maturities				632,000	595,000
				<u>\$ 15,866,837</u>	<u>\$ 16,499,286</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

All of the notes are fixed rate notes.

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

As of September 30, 2018, annual maturities of long-term debt due CFC for the next five years are as follows:

2019	\$ 632,000
2020	671,000
2021	713,000
2022	757,000
2023	805,000

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 \$1,600,000 and \$1,050,000 outstanding on this line of credit as of September 30, 2018 and 2017, respectively.

11. Deferred Credits

Deferred credits consisted of the following:

	September 30,	
	2018	2017
Unclaimed Memberships and Deposit Refunds	\$ 661	\$ 661
Sun Watts Energy Conservation Program	250,227	238,992
Energy Efficiency Program	434,082	355,365
	<u>\$ 684,970</u>	<u>\$ 595,018</u>

12. Litigation

There is no litigation pending against the Cooperative at September 30, 2018, 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 2018 and 2017 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 \$924,118 in 2018 and \$843,539 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 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, 2018 and 2017 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 \$81,912 and \$75,139 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, consisted of the following components:

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
I) Components of Periodic Net Post-Retirement Benefit Cost		
Interest Cost	\$ 98,907	\$ 105,187
Service Cost	42,748	45,339
Amortization of Prior Service Cost	195,850	195,850
Net Post-Retirement Cost Transferred to Regulatory Asset	(237,005)	(236,670)
Amortization of Actuarial Loss		5,029
Total	<u>\$ 100,500</u>	<u>\$ 114,735</u>
II) Change In Accumulated Post-Retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 2,919,135	\$ 2,883,344
Interest Cost	98,907	105,187
Service Cost	42,748	45,339
Transfer of Prior Year Unrecognized Transition Obligation	(33,162)	
Actuarial (Gain) / Loss	(387,211)	
Plan Participants' Contributions	20,722	2,142
Actual Benefits Paid	<u>(125,869)</u>	<u>(116,877)</u>
Net Post-Retirement Benefit Liability at Year End	<u>\$ 2,535,270</u>	<u>\$ 2,919,135</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,535,270	\$ 2,919,135
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,535,270</u>	<u>\$ 2,919,135</u>
IV) Amounts Recognized in the Balance Sheet		
Current Liability	\$ 172,514	\$ 193,416
Non Current Liability	<u>2,362,756</u>	<u>2,725,719</u>
Post-Retirement Benefits Other Than Pensions	<u>\$ 2,535,270</u>	<u>\$ 2,919,135</u>
V) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$	\$ 33,162
Prior Service Cost	1,406,201	1,602,051
Unamortized Actuarial (Gain) Loss	<u>(42,654)</u>	<u>344,557</u>
Accumulated Other Comprehensive Loss	<u>\$ 1,363,547</u>	<u>\$ 1,979,770</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, 2018.

The Cooperative funds the retiree health care premiums on a cash basis and in 2018 and 2017 paid \$105,147 and \$114,735, respectively, for retirees' health care coverage.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 4.17%. The assumed health care cost trend rate is 6.50% for 2018 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 \$0. 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:

2019	\$ 161,961
2020	180,352
2021	169,390
2022	182,088
2023	148,910
2024-2028	771,994

14. Related Parties

The Cooperative is represented on the Board of Directors of Arizona G&T Cooperatives, purchasing all of its electric power and transmission requirements from Arizona Electric Power Cooperative, Inc. (AEPKO). Margins earned by Arizona G&T Cooperatives have been allocated to the Cooperative, and are reflected under investments in associated organizations on the balance sheet.

In addition, the Cooperative is related by having six out of nine directors from the Cooperative on the Board of Directors of Graham County Utilities, Inc. (GCU). The Cooperative is a Class "A" Member of GCU, having paid a membership fee of \$5,000.

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

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Balances between the two cooperatives are summarized as follows:

	September 30,	
	2018	2017
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,611,432	\$ 1,345,861
Note Receivable (Current and Long-Term)	<u>573,380</u>	<u>669,216</u>
Total	<u>\$ 2,184,812</u>	<u>\$ 2,015,077</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (1,611,432)	\$ (1,345,861)
Loan Payable (Current and Long-Term)	<u>(573,380)</u>	<u>(669,216)</u>
Total	<u>\$ (2,184,812)</u>	<u>\$ (2,015,077)</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, 2018, the outstanding balance on the note is \$573,380. The annual maturities of the note due to the Cooperative for the next five years are as follows:

2019	\$ 101,200
2020	106,800
2021	112,800
2022	119,100
2023	133,480

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

Subsequent to the close of the year the Cooperative was approved for a \$375,000 rural electric development loan.

The Cooperative has evaluated subsequent events through November 27, 2018, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 1

**ADMINISTRATIVE AND GENERAL EXPENSES
SEPTEMBER 30, 2018 AND 2017**

	September 30,		Increase (Decrease)
	2018	2017	
Administrative and General Salaries	\$ 447,376	\$ 416,987	\$ 30,389
Office Supplies and Expense	186,646	189,477	(2,831)
Outside Services Employed	32,466	77,876	(45,410)
Property Insurance	13,083	13,239	(156)
Injuries and Damages	68,683	66,502	2,181
Employee Pension and Benefits	316,456	247,279	69,177
Regulatory Commission Expense	26,945	40,524	(13,579)
Miscellaneous General Expense	210,318	202,693	7,625
Rents	15,102	22,028	(6,926)
Maintenance of General Plant	<u>103,759</u>	<u>97,286</u>	<u>6,473</u>
Total	<u>\$ 1,420,834</u>	<u>\$ 1,373,891</u>	<u>\$ 46,943</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2018	2017	2016	2015	2014
OPERATING REVENUES	\$ 17,256,035	\$ 16,687,687	\$ 17,601,233	\$ 17,190,256	\$ 18,203,889
OPERATING EXPENSES					
Purchased Power	\$ 10,469,264	\$ 10,387,712	\$ 11,068,119	\$ 10,643,735	\$ 11,479,676
Operation	696,285	684,590	819,179	911,692	1,020,766
Maintenance	1,245,787	1,521,056	1,323,084	1,473,806	1,278,257
Customer Accounts	652,330	697,886	784,979	754,613	763,508
Administrative and General	1,420,834	1,373,891	1,422,346	1,398,062	1,223,866
Depreciation and Amortization	1,453,690	1,420,759	1,404,514	1,382,890	1,335,296
Other Interest and Deductions	61,396	49,659	38,292	26,808	34,479
Total Operating Expenses	\$ 15,999,586	\$ 16,135,553	\$ 16,860,513	\$ 16,591,606	\$ 17,135,848
OPERATING MARGINS - Before					
Fixed Charges	\$ 1,256,449	\$ 552,134	\$ 740,720	\$ 598,650	\$ 1,068,041
Interest - Long-Term Debt	939,846	975,166	1,004,371	1,027,704	1,047,246
OPERATING MARGINS (LOSSES) - After					
Fixed Charges	\$ 316,603	\$ (423,032)	\$ (263,651)	\$ (429,054)	\$ 20,795
Other Capital Credits	706,429	844,106	809,859	771,178	1,430,871
NET OPERATING MARGINS	\$ 1,023,032	\$ 421,074	\$ 546,208	\$ 342,124	\$ 1,451,666
NONOPERATING MARGINS	150,000	144,653	457,237	148,555	163,253
NET MARGINS	\$ 1,173,032	\$ 565,727	\$ 1,003,445	\$ 490,679	\$ 1,614,919