

ARIZONA 17 GRAHAM

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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, 2016 AND 2015**

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2016 and 2015, 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, 2016 and 2015, 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 electric plant, accumulated provision for depreciation and amortization, 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 21, 2016

FINANCIAL STATEMENTS

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
SEPTEMBER 30, 2016 AND 2015

ASSETS

	September 30,	
	2016	2015
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 49,231,726	\$ 49,378,434
Construction Work in Progress	112,449	61,478
	\$ 49,344,175	\$ 49,439,912
Less: Accumulated Provision for Depreciation	20,206,284	19,382,203
	\$ 29,137,891	\$ 30,057,709
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 11,416,685	\$ 10,724,373
Note Receivable - GC Utilities	669,189	759,989
	\$ 12,085,874	\$ 11,484,362
CURRENT ASSETS		
Cash - General	\$ 831,646	\$ 993,227
Accounts Receivable (Less allowance for uncollectibles of \$183,479 in 2016 and \$171,000 in 2015)	1,360,677	961,630
Accounts Receivable - Graham County Utilities, Inc.	1,152,747	812,707
Note Receivable - GC Utilities (Current Portion)	90,800	85,977
Materials and Supplies	829,434	803,483
Other Current and Accrued Assets	282,242	293,869
	\$ 4,547,546	\$ 3,950,893
DEFERRED CHARGES	\$ 138,583	\$ 161,834
TOTAL ASSETS	\$ 45,909,894	\$ 45,654,798

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 30,510	\$ 32,845
Patronage Capital	22,978,808	22,099,537
Other Equities	1,364	1,364
Accumulated Other Comprehensive Loss	(2,180,649)	(561,213)
	\$ 20,830,033	\$ 21,572,533
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 17,093,896	\$ 17,654,067
NRECA Past Service Retirement Cost Less Current Maturities		26,768
	\$ 17,093,896	\$ 17,680,835
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	\$ 2,691,771	\$ 1,184,781
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 560,000	\$ 531,850
Current Portion of APBO	191,573	86,901
Line of Credit Payable	800,000	200,000
Accounts Payable - Purchased Power	813,457	798,266
Accounts Payable - Other	214,873	779,262
Over-Recovered Fuel Cost	582,891	883,345
Accrued Taxes	436,216	421,259
Accrued Interest	51,180	45,551
Consumer Deposits and Prepayments	445,392	464,691
Accrued Compensated Absences	522,435	524,899
Other Current and Accrued Liabilities	119,518	181,877
	\$ 4,737,535	\$ 4,917,901
DEFERRED CREDITS	\$ 556,659	\$ 298,748
TOTAL EQUITIES AND LIABILITIES	\$ 45,909,894	\$ 45,654,798

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, 2016 AND 2015

	Years Ended September 30,				Increase (Decrease)
	2016		2015		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 8,887,529	50.5	\$ 8,860,390	51.5	\$ 27,139
Irrigation	1,682,589	9.6	1,365,163	7.9	317,426
Commercial and Industrial	5,972,798	33.9	6,225,720	36.2	(252,922)
Public Street and Highway Lighting	11,957	0.1	11,490	0.1	467
Power Cost - Under (Over) Billed	300,454	1.7	57,669	0.3	242,785
Rent from Electric Property	219,946	1.2	220,284	1.3	(338)
Other Operating Revenues	525,960	3.0	449,540	2.6	76,420
Fuel Costs Over Recovered	\$ 17,601,233	100.0	\$ 17,190,256	99.9	\$ 410,977
OPERATING EXPENSES					
Purchased Power	\$ 11,068,119	62.9	\$ 10,643,735	61.9	\$ 424,384
Operation	819,179	4.7	911,692	5.3	(92,513)
Maintenance	1,323,084	7.5	1,473,806	8.6	(150,722)
Customer Accounts	784,979	4.5	754,613	4.4	30,366
Administrative and General	1,422,346	8.1	1,398,062	8.1	24,284
Depreciation and Amortization	1,404,514	8.0	1,382,890	8.0	21,624
Other Interest and Deductions	38,292	0.2	26,808	0.2	11,484
Total Operating Expenses	\$ 16,860,513	95.9	\$ 16,591,606	96.5	\$ 268,907
OPERATING MARGINS - Before Fixed Charges	\$ 740,720	4.1	\$ 598,650	3.4	\$ 142,070
FIXED CHARGES					
Interest on Long-Term Debt	1,004,371	5.7	1,027,704	6.0	(23,333)
OPERATING MARGIN (LOSS) - After Fixed Charges	\$ (263,651)	(1.6)	\$ (429,054)	(2.6)	\$ 165,403
Other Capital Credits	809,859	4.6	771,178	4.5	38,681
NET OPERATING MARGIN	\$ 546,208	3.0	\$ 342,124	1.9	\$ 204,084
NONOPERATING MARGINS					
Interest Income	\$ 89,690	0.5	\$ 96,175	0.6	\$ (6,485)
Nonoperating Income	367,547	2.1	52,380	0.3	315,167
	\$ 457,237	2.6	\$ 148,555	0.9	\$ 308,682
NET MARGINS	\$ 1,003,445	5.6	\$ 490,679	2.8	\$ 512,766
OTHER COMPREHENSIVE INCOME (LOSS)					
Current Year APBO Valuation Adjustment	(1,651,553)		(8,488)		
Post-retirement Benefit Amortization	32,117		53,392		
COMPREHENSIVE INCOME	\$ (615,991)		\$ 535,583		
Post-retirement Benefit Obligation	1,619,436		(44,904)		
Patronage Capital Retired	(124,174)		(190,005)		
PATRONAGE CAPITAL - BEGINNING OF YEAR	22,099,537		21,798,863		
PATRONAGE CAPITAL - END OF YEAR	\$ 22,978,808		\$ 22,099,537		

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,003,445	\$ 490,679
Adjustments to Reconcile Net Income to Net Cash		
From Operating Activities		
Depreciation and Amortization	1,574,210	1,546,096
Post-retirement Benefits	94,728	98,411
Capital Credits - Non Cash	(809,859)	(771,178)
Deferred Charges	23,251	(78,010)
Deferred Credits	257,911	47,063
Fuel Costs Over (Under) Recovered	(300,454)	(57,669)
Accounts Receivable	(399,047)	24,869
Accounts Receivable/Payable - Graham County Utilities	(340,040)	42,507
Inventories and Prepaid Expenses	(14,324)	(27,335)
Payables and Accrued Expenses	(612,734)	584,536
Net Cash From Operating Activities	<u>\$ 477,087</u>	<u>\$ 1,899,969</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,280,985)	\$ (2,003,215)
Cost of Removal Less Than (in Excess of) Salvage		
Value and Other Credits	626,593	(159,301)
Investments in Associated Organizations	117,547	472,730
Note Receivable - GC Utilities	85,977	81,435
Net Cash From Investing Activities	<u>\$ (450,868)</u>	<u>\$ (1,608,351)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt to CFC	\$ (528,171)	\$ (499,555)
Payments on Other Long-Term Debt	(30,618)	(3,558)
Advances from CFC Line of Credit	1,100,000	200,000
Payments on CFC Line of Credit	(500,000)	
Payments on Behalf of Retirees	(102,502)	(91,421)
Patronage Capital Retirements	(124,174)	(190,005)
Memberships	(2,335)	430
Net Cash From Financing Activities	<u>\$ (187,800)</u>	<u>\$ (584,109)</u>
CHANGE IN CASH EQUIVALENTS	\$ (161,581)	\$ (292,491)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	993,227	1,285,718
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 831,646</u>	<u>\$ 993,227</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 1,004,085	\$ 1,029,972
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from Arizona Electric Power Cooperative, Inc. of which the Cooperative is a member/owner. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

Although the Cooperative is no longer an RUS borrower, its accounting records are maintained in accordance with the RUS Uniform System of Accounts (USOA) as prescribed for RUS electric borrowers.

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.

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 \$592,989 and \$844,160 at September 30, 2016 and 2015, 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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$445,392 and \$464,691 at September 30, 2016 and 2015, 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, 2026, and September 30, 2031. At September 30, 2016, the principal balance owed on the mortgage note was \$1,431,363. 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 2016 and 2015, 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.

The G & T patronage income recognized for the fiscal years 2016 and 2015 are as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
Final Allocation for 2015	\$ 692,565	\$
Final Allocation for 2014		<u>647,262</u>
	<u>\$ 692,565</u>	<u>\$ 647,262</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.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2012.

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, 2016 and 2015.

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.

2. Electric Plant

The major classes of electric plant are as follows:

	September 30,	
	2016	2015
Intangible Plant	\$ 3,060	\$ 3,060
Transmission Plant	4,625,895	4,615,076
Distribution Plant	36,890,670	37,424,087
General Plant	7,712,101	7,336,211
Total Electric Plant in Service	\$ 49,231,726	\$ 49,378,434
Construction Work in Progress	112,449	61,478
Total Electric Plant	\$ 49,344,175	\$ 49,439,912

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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

Transmission Plant	2.75%
Distribution Plant	2.94%

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

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

Depreciation and amortization for the years ended September 30, 2016 and 2015, was \$1,574,210 and \$1,546,096, respectively, of which \$1,404,514 and \$1,382,890 was charged to depreciation and amortization expense and \$169,696 and \$163,206 allocated to other accounts, respectively.

3. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2016	2015
CFC		
Patronage Capital	\$ 656,435	\$ 610,998
Capital Term Certificates	658,171	660,596
Membership	1,000	1,000
	<u>\$ 1,315,606</u>	<u>\$ 1,272,594</u>
Arizona Electric Power Cooperative, Inc.		
Patronage Capital	\$ 9,921,045	\$ 9,285,526
Membership	5	5
	<u>\$ 9,921,050</u>	<u>\$ 9,285,531</u>
Graham County Utilities, Inc.		
Membership	\$ 5,000	\$ 5,000
Federated Rural Electric Insurance Corporation		
Common Stock	\$ 128,288	\$ 113,277
Other	\$ 46,741	\$ 47,971
	<u>\$ 11,416,685</u>	<u>\$ 10,724,373</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

4. Inventories

Inventories consisted of construction materials and supplies and totaled \$493,081 and \$467,130, at September 30, 2016 and 2015, respectively. For both years, the Cooperative had a spare substation transformer in inventory valued at \$336,353.

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2016	2015
NRECA Retirement Plan Past Service Cost	\$	\$ 30,618
Engineering Costs (Maintenance Review, Long Range Plan, Sectionalizing Study, and Work Plan)	103,331	90,309
Right of Way Lease	35,252	40,907
	<u>\$ 138,583</u>	<u>\$ 161,834</u>

Deferred charges applicable to the National Rural Electric Cooperative Association (NRECA) retirement plan past service pension costs represent charges incurred to recognize employees' prior service. This was paid off during the year ended September 30, 2016.

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 50.12% (excluding Accumulated Other Comprehensive loss) or 45.37% (including Accumulated Other Comprehensive loss) of the total assets at balance sheet date. Capital credit retirements totaling \$124,174 and \$190,005 were made during the years ended September 30, 2016 and 2015.

7. Patronage Capital

	September 30,	
	2016	2015
Assignable (9 Months Ended September 30)	\$ 1,129,100	\$ 644,958
Assigned	22,913,446	22,394,143
	\$ 24,042,546	\$ 23,039,101
Less: Retired	1,063,738	939,564
	<u>\$ 22,978,808</u>	<u>\$ 22,099,537</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Other Equities

	September 30,	
	2016	2015
Retired Capital Credits Gain	\$ 1,364	\$ 1,364

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,	
				2016	2015
9002 - 2&4	7.45%	04/01/29	Construction	\$ 337,930	\$ 353,790
9003	7.45%	07/01/30	Construction	345,857	359,846
9004	7.70%	06/30/30	Construction	357,804	371,977
9005	7.45%	06/30/30	Construction	345,857	359,846
9006	7.45%	06/30/30	Construction	354,050	368,370
9007	7.35%	06/30/30	Construction	470,538	489,730
9008 - 1&2	7.40%	06/30/32	Construction	634,055	654,680
9009 - 1&2	6.85%	06/30/33	Construction	1,517,478	1,564,493
9009 - 3	7.90%	06/30/33	Construction	1,580,092	1,624,007
9009 - 4	3.60%	06/30/33	Construction	706,159	736,378
9009 - 5	4.00%	06/30/33	Construction	708,580	737,753
9009 - 6	6.25%	06/30/33	Construction	301,984	311,930
9009 - 7	6.70%	06/30/33	Construction	265,800	274,162
9010 - 1	6.90%	12/31/38	Construction	864,806	880,770
9010 - 2	7.10%	09/30/34	Construction	2,457,648	2,523,159
9010 - 3	6.40%	06/30/38	Construction	855,625	873,296
9010 - 4	6.75%	03/31/37	Construction	432,229	441,735
9010 - 5	4.40%	12/31/38	Construction	840,577	862,421
9010 - 6	3.80%	12/31/38	Construction	836,820	860,352
9010 - 7	4.00%	09/30/38	Construction	828,483	853,897
9010 - 8	4.45%	12/31/38	Construction	430,813	441,934
9010 - 9	3.55%	12/31/38	Construction	857,492	882,400
9010 -10	4.20%	12/31/38	Construction	704,816	723,621
9011 - 1	4.85%	12/31/40	Construction	618,403	631,520
				\$ 17,653,896	\$ 18,182,067
Less: Current Maturities				560,000	528,000
				<u>\$ 17,093,896</u>	<u>\$ 17,654,067</u>

All of the notes are fixed rate notes.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative has unadvanced loan funds available of \$9,000,000.

As of September 30, 2016, annual maturities of long-term debt due CFC for the next five years are as follows:

2017	\$ 560,000
2018	595,000
2019	632,000
2020	671,000
2021	712,000

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

10. Other Long-Term Debt

The Cooperative has elected to finance the cost of NRECA Retirement and Security Plan prior service benefits. The total cost, \$283,080 (including a 1997 tiered benefit buy-back of \$206,520), is to be paid over 30 years in annual payments including interest at the rate of 8%. The balance outstanding at September 30, 2016 and 2015 is \$0 and \$30,618, respectively.

11. Short-Term Borrowing

The Cooperative has a \$2,700,000 line of credit for short-term financing with CFC. There was \$800,000 and \$200,000 outstanding on this line of credit as of September 30, 2016 and 2015, 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, 2016 and 2015.

12. Deferred Credits

Deferred credits consisted of the following:

	September 30,	
	2016	2015
Unclaimed Memberships and Deposit Refunds	\$ 661	\$ 661
Sun Watts Energy Conservation Program	282,162	89,309
Energy Efficiency Program	273,836	208,778
	<u>\$ 556,659</u>	<u>\$ 298,748</u>

13. Litigation

There is no litigation pending against the Cooperative at September 30, 2016, that would have a material effect on the financial statements.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

14. 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 2016 and 2015 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 \$906,997 in 2016 and \$938,039 in 2015. There have been no significant changes that affect the comparability of 2016 and 2015 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, 2016 and 2015 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 \$117,267 and \$116,292 for the years ended September 30, 2016 and 2015, respectively.

Benefits to Retirees

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

Summary of the Plan

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

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, 2016 and 2015, consisted of the following components:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
I) Components of Periodic Net Post-retirement Benefit Cost		
Interest Cost	\$ 43,602	\$ 45,019
Amortization of Transition Obligation		18,856
Amortization of Actuarial Loss	<u>32,117</u>	<u>34,536</u>
Total	<u>\$ 75,719</u>	<u>\$ 98,411</u>
II) Change In Accumulated Post-retirement Benefit Obligation (APBO)		
APBO Balance at Beginning of Year	\$ 1,271,682	\$ 1,309,614
Interest Cost	43,602	45,019
Prior Service Cost	1,797,901	
Actuarial (Gain) / Loss	(127,339)	8,470
Actual Benefits Paid	<u>(102,502)</u>	<u>(91,421)</u>
Net Post-retirement Benefit Liability at Year End	<u>\$ 2,883,344</u>	<u>\$ 1,271,682</u>
III) Reconciliation of Funded Status		
APBO at Year End	\$ 2,883,344	\$ 1,271,682
Fair Value of Plan Assets at Year End		
Funded Status at Year End	<u>\$ 2,883,344</u>	<u>\$ 1,271,682</u>
IV) Amounts Recognized as Accumulated Other Comprehensive Loss		
Unrecognized Transition Obligation	\$	\$
Unamortized Actuarial Loss	<u>2,180,649</u>	<u>561,213</u>
Accumulated Other Comprehensive Loss	<u>\$ 2,180,649</u>	<u>\$ 561,213</u>

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 2016 and 2015 paid \$102,502 and \$91,421, respectively, for retirees' health care coverage.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 7.5% for 2016.

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 \$5,029. The amount of prior service cost that will be amortized from accumulated other comprehensive income 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:

2017	\$ 191,573
2018	193,416
2019	180,352
2020	189,739
2021	202,868
2022-2026	887,321

15. Related Parties

The Cooperative is represented on the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEP CO) and Southwest Transmission Cooperative, Inc. (SWTC), purchasing all of its electric power from AEP CO and transmission requirements from SWTC. Margins earned by AEP CO and SWTC 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,	
	2016	2015
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,152,746	\$ 812,706
Note Receivable (Current and Long-Term)	759,989	845,966
Total	\$ 1,912,735	\$ 1,658,672
 Graham County Utilities, Inc.		
Accounts Payable	\$ (1,152,746)	\$ (812,706)
Loan Payable (Current and Long-Term)	(759,989)	(845,966)
Total	\$ (1,912,735)	\$ (1,658,672)

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, 2016, the outstanding balance on the note is \$759,989. The annual maturities of the note due to the Cooperative for the next five years are as follows:

2017	\$ 90,800
2018	95,800
2019	101,200
2020	106,800
2021	112,800

16. 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, 2050.

17. Subsequent Events

The Cooperative has evaluated subsequent events through December 21, 2016, the date the financial statements were available to be issued.

ACCOMPANYING INFORMATION

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 1

ELECTRIC PLANT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Balance 10/1/2015	Additions and Transfers	Retirements	Balance 9/30/2016
Intangible Plant	\$ 3,060	\$ 0	\$ 0	\$ 3,060
Transmission Plant				
Land and Land Rights	\$ 7,253	\$	\$	\$ 7,253
Station Equipment	298,204			298,204
Poles and Fixtures	3,026,116	10,819		3,036,935
Overhead Conductors and Devices	1,283,503			1,283,503
Total	<u>\$ 4,615,076</u>	<u>\$ 10,819</u>	<u>\$ 0</u>	<u>\$ 4,625,895</u>
Distribution Plant				
Land and Land Rights	\$ 72,825	\$	\$	\$ 72,825
Station Equipment	10,555,146			10,555,146
Poles, Towers, and Fixtures	10,589,896	489,675	1,334,680	9,744,891
Overhead Conductors and Devices	4,476,277	92,665	1,680	4,567,262
Underground Conductors	548,322			548,322
Underground Conductors and Devices	792,903	25,282		818,185
Line Transformers	7,058,817	84,303	1,477	7,141,643
Services	1,709,510	34,758	522	1,743,746
Meters	1,405,938	77,463		1,483,401
Installations on Consumers' Premises	214,453	796		215,249
Total	<u>\$ 37,424,087</u>	<u>\$ 804,942</u>	<u>\$ 1,338,359</u>	<u>\$ 36,890,670</u>
General Plant				
Land and Land Rights	\$ 192,791	\$	\$	\$ 192,791
Structures and Improvements	2,804,076	17,688		2,821,764
Office Furniture and Equipment	94,650			94,650
Office Furniture and Equipment - Computer	310,063	11,439		321,502
Transportation	2,802,559	367,774	38,363	3,131,970
Store Equipment	2,587			2,587
Tools, Shop, and Garage Equipment	365,686	16,550		382,236
Laboratory Equipment	123,912			123,912
Power Operated Equipment	211,055			211,055
Communications Equipment	343,303	802		344,105
Miscellaneous Equipment	85,529			85,529
Total	<u>\$ 7,336,211</u>	<u>\$ 414,253</u>	<u>\$ 38,363</u>	<u>\$ 7,712,101</u>
Total Classified Plant in Service	\$ 49,378,434	\$ 1,230,014	\$ 1,376,722	\$ 49,231,726
Construction Work in Progress	61,478	50,971		112,449
	<u>\$ 49,439,912</u>	<u>\$ 1,280,985</u>	<u>\$ 1,376,722</u>	<u>\$ 49,344,175</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Balance</u> <u>10/1/2015</u>	<u>Depreciation</u> <u>Accruals</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2016</u>
Transmission Plant	\$ 1,287,318	\$ 123,139	\$ _____	\$ 1,410,457
Distribution Plant	\$ 13,514,090	\$ 1,075,702	\$ 717,706	\$ 13,872,086
General Plant	\$ 4,580,795	\$ 375,369	\$ 32,423	\$ 4,923,741
Total Classified Electric Plant in Service	\$ 19,382,203	\$ 1,574,210	\$ 750,129	\$ 20,206,284
Retirement Work in Progress	<u>0</u>	<u>_____</u>	<u>_____</u>	<u>0</u>
Total Accumulated Depreciation - Utility Plant	<u>\$ 19,382,203</u>	<u>\$ 1,574,210</u>	<u>\$ 750,129</u>	<u>\$ 20,206,284</u>

(1)

(2)

(1) Charged to Depreciation and Amortization Expense \$ 1,404,514
 Charged to Clearing and Other Accounts 169,696
\$ 1,574,210

(2) Cost of Units Retired \$ 1,376,722
 Less: Salvage and Other Credits in Excess of Cost of Removal (626,593)
\$ 750,129

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 3

**ADMINISTRATIVE AND GENERAL EXPENSES
SEPTEMBER 30, 2016 AND 2015**

	September 30,		Increase (Decrease)
	2016	2015	
Administrative and General Salaries	\$ 437,643	\$ 413,005	\$ 24,638
Office Supplies and Expense	189,412	175,560	13,852
Outside Services Employed	48,800	80,492	(31,692)
Property Insurance	12,570	12,819	(249)
Injuries and Damages	66,154	67,251	(1,097)
Employee Pension and Benefits	253,891	223,405	30,486
Regulatory Commission Expense	37,840	40,413	(2,573)
Miscellaneous General Expense	240,017	230,803	9,214
Rents	23,943	18,984	4,959
Maintenance of General Plant	<u>112,076</u>	<u>135,330</u>	<u>(23,254)</u>
Total	<u>\$ 1,422,346</u>	<u>\$ 1,398,062</u>	<u>\$ 24,284</u>

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Schedule 4

FIVE YEAR COMPARATIVE STATEMENT OF REVENUES AND EXPENSES

	Years Ended September 30,				
	2016	2015	2014	2013	2012
OPERATING REVENUES	\$ 17,601,233	\$ 17,190,256	\$ 18,203,889	\$ 19,512,759	\$ 20,729,165
OPERATING EXPENSES					
Purchased Power	\$ 11,068,119	\$ 10,643,735	\$ 11,479,676	\$ 12,678,196	\$ 13,689,984
Operation	819,179	911,692	1,020,766	923,474	828,957
Maintenance	1,323,084	1,473,806	1,278,257	1,445,307	1,218,848
Customer Accounts	784,979	754,613	763,508	752,685	683,440
Administrative and General	1,422,346	1,398,062	1,223,866	1,192,515	1,083,818
Depreciation and Amortization	1,404,514	1,382,890	1,335,296	1,249,502	1,215,345
Other Interest and Deductions	38,292	26,808	34,479	24,961	20,975
Total Operating Expenses	\$ 16,860,513	\$ 16,591,606	\$ 17,135,848	\$ 18,266,640	\$ 18,741,367
OPERATING MARGINS - Before Fixed Charges	\$ 740,720	\$ 598,650	\$ 1,068,041	\$ 1,246,119	\$ 1,987,798
Interest - Long-Term Debt	1,004,371	1,027,704	1,047,246	1,094,561	1,148,513
OPERATING MARGINS (LOSS) - After Fixed Charges	\$ (263,651)	\$ (429,054)	\$ 20,795	\$ 151,558	\$ 839,285
Other Capital Credits	809,859	771,178	1,430,871	644,445	242,923
NET OPERATING MARGINS	\$ 546,208	\$ 342,124	\$ 1,451,666	\$ 796,003	\$ 1,082,208
NONOPERATING MARGINS	457,237	148,555	163,253	124,975	139,682
NET MARGINS	\$ 1,003,445	\$ 490,679	\$ 1,614,919	\$ 920,978	\$ 1,221,890