

GRAHAM COUNTY UTILITIES, 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

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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 (Loss) and Accumulated Deficits	Exhibit B	4
Statements of Cash Flows	Exhibit C	5
Notes to Financial Statements		6
Accompanying Information		
Individual Department – Financial Statements		
Gas Department		
Balance Sheets	Schedule 1	15
Statements of Income (Loss) and Accumulated Deficits	Schedule 2	16
Statements of Cash Flows	Schedule 3	17
Water Department		
Balance Sheets	Schedule 4	18
Statements of Income (Loss) and Accumulated Margins	Schedule 5	19
Statements of Cash Flows	Schedule 6	20
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		22
Schedule of Findings and Responses		24

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
Graham County Utilities, Inc.
Pima, Arizona

Report on the Financial Statements

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2017 and 2016, and the related statements of income and accumulated margins (deficits) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2017, on our consideration of the Cooperative's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Cooperative's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

December 1, 2017

-3-
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016**

ASSETS

	September 30,	
	2017	2016
UTILITY PLANT		
Plant in Service	\$ 9,371,905	\$ 9,272,787
Construction Work in Progress	7,091	(14,302)
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 10,404,648	\$ 10,284,137
Less: Accumulated Provision for Depreciation and Amortization	<u>6,329,012</u>	<u>6,058,540</u>
	<u>\$ 4,075,636</u>	<u>\$ 4,225,597</u>
 OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	<u>\$ 285,508</u>	<u>\$ 288,431</u>
 CURRENT ASSETS		
Cash - Restricted	\$ 88,724	\$ 86,581
Accounts Receivable (Less allowance for uncollectibles of \$60,899 in 2017 and \$46,942 in 2016)	93,486	138,353
Materials and Supplies	142,791	139,877
Other Current and Accrued Assets	<u>21,569</u>	<u>22,173</u>
Total Current Assets	<u>\$ 346,570</u>	<u>\$ 386,984</u>
 DEFERRED CHARGES	<u>\$ 5,141</u>	<u>\$ 9,139</u>
 TOTAL ASSETS	<u><u>\$ 4,712,855</u></u>	<u><u>\$ 4,910,151</u></u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,420	\$ 32,015
Accumulated Deficits	<u>(470,939)</u>	<u>(332,634)</u>
	<u>\$ (442,519)</u>	<u>\$ (300,619)</u>
 LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,317,830	\$ 1,377,363
USDA Rural Development Note Payable Less Current Maturities	1,313,162	1,345,796
Note Payable - Graham County Electric Coop	<u>573,416</u>	<u>669,218</u>
	<u>\$ 3,204,408</u>	<u>\$ 3,392,377</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 186,600	\$ 175,270
Accounts Payable - Other	85,709	114,700
Accounts Payable - Graham County Electric Coop	1,345,861	1,152,746
Overbilled Consumers Fuel Cost	75,091	128,226
Accrued Taxes	81,913	80,541
Customers' Deposits and Prepayments	151,969	145,087
Accrued Interest	19,364	19,130
Accrued Payroll	<u>4,459</u>	<u>2,693</u>
Total Current Liabilities	<u>\$ 1,950,966</u>	<u>\$ 1,818,393</u>
 TOTAL EQUITIES AND LIABILITIES	<u><u>\$ 4,712,855</u></u>	<u><u>\$ 4,910,151</u></u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	September 30,	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES	\$ <u>3,785,232</u>	\$ <u>3,897,702</u>
OPERATING EXPENSES		
Purchased Gas	\$ 1,023,755	\$ 1,072,163
Power for Pumping	30,364	26,110
Operations	570,813	614,539
Maintenance	630,815	702,514
Consumer Accounts	439,272	463,444
Administrative and General	741,411	717,934
Depreciation and Amortization	270,472	265,442
Other Interest	41,423	33,758
Total Operating Expenses	\$ <u>3,748,325</u>	\$ <u>3,895,904</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 36,907	\$ 1,798
Interest on Long-Term Debt	<u>183,730</u>	<u>191,348</u>
OPERATING LOSSES - AFTER FIXED CHARGES	\$ (146,823)	\$ (189,550)
Capital Credits	<u>8,211</u>	<u>10,705</u>
NET OPERATING LOSSES	\$ (138,612)	\$ (178,845)
NONOPERATING MARGINS		
Interest	<u>307</u>	<u>297</u>
NET LOSSES	\$ (138,305)	\$ (178,548)
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(332,634)</u>	<u>(154,086)</u>
ACCUMULATED DEFICITS - END OF YEAR	\$ <u><u>(470,939)</u></u>	\$ <u><u>(332,634)</u></u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

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

	September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (138,305)	\$ (178,548)
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization	270,472	265,442
Capital Credits	(8,211)	(10,705)
Deferred Charges	3,998	4,570
(Over) Under Billed Fuel Cost - Net	(53,135)	86,981
Accounts Receivable	44,867	(50,760)
Inventories and Other Current Assets	(2,310)	11,600
Payables and Accrued Expenses	(18,737)	(42,611)
Net Payments From - Graham County Electric Cooperative	193,115	340,040
Net Cash From Operating Activities	\$ 291,754	\$ 426,009
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (120,511)	\$ (254,493)
Cash - Restricted	(2,143)	(5,692)
Investments in Associated Organizations	11,134	2,015
Net Cash From Investing Activities	\$ (111,520)	\$ (258,170)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt To CFC	\$ (54,533)	\$ (52,077)
Payments on Long-Term Debt To USDA	(31,334)	(29,849)
Payments on Notes Payable - GCE	(90,772)	(85,978)
Memberships	(3,595)	65
Net Cash From Financing Activities	\$ (180,234)	\$ (167,839)
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 183,730	\$ 191,348
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Basis of Accounting

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

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

Labor Agreements

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

Operating Revenues

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

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2017 and 2016, was estimated to be \$99,473 and \$75,827, respectively, in the gas department and \$56,885 and \$50,688, respectively, in the water department. 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 include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the year ended September 30, 2017 the Cooperative was overbilled \$75,091, and for September 30, 2016, the Cooperative was overbilled \$128,226.

Group Concentration of Credit Risk

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$151,969 and \$145,087 at September 30, 2017 and 2016, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Patronage Capital Certificates

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

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash – General.

Restricted Cash

As part of its agreement for loan funding from USDA Rural Development, the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2017 and 2016 was \$88,724 and \$86,581, respectively. The cash reserve fund was in compliance with funding requirements as of September 30, 2017.

Federal Income Tax Status

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

The Cooperative has adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax position will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 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 collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

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

3. Utility Plant and Depreciation

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

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

Major classes of utility plant are summarized as follows:

	September 30,			
	2017			2016
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,795,519	1,795,519	1,795,519
Transmission		1,131,238	1,131,238	1,119,615
Distribution	5,074,386	999,557	6,073,943	5,987,120
General	245,097	21,955	267,052	266,380
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 5,363,421	\$ 4,008,484	\$ 9,371,905	\$ 9,272,787
Construction Work in Progress	21,092	(14,001)	7,091	(14,302)
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	<u>\$ 5,799,997</u>	<u>\$ 4,604,651</u>	<u>\$ 10,404,648</u>	<u>\$ 10,284,137</u>

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

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Depreciation accruals charged to expense for the periods ended September 30, 2017 and 2016, totaled \$270,472 and \$265,442, respectively.

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to depreciation and amortization expense is \$16,620 in the gas department and \$24,407 in the water department. For the years ended September 30, 2017 and 2016, the amortization of the acquisition adjustment was \$0 and \$0, respectively.

The plant acquisition costs and related provision for amortization at September 30, 2017, are summarized as follows:

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

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2017</u>	<u>2016</u>
CFC		
Capital Term Certificates	\$ 128,340	\$ 131,378
Patronage Capital	129,646	129,531
Memberships	<u>1,000</u>	<u>1,000</u>
	\$ 258,986	\$ 261,909
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>26,522</u>	<u>26,522</u>
Total	<u><u>\$ 285,508</u></u>	<u><u>\$ 288,431</u></u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	<u>2017</u>	<u>2016</u>
Gas Department		
Stores Clearing	\$ 318	\$
Unamortized Rate Case Expense	<u>4,570</u>	<u>9,139</u>
Water Department		
Stores Clearing	\$ <u>253</u>	\$ <u>0</u>
Total	\$ <u><u>5,141</u></u>	\$ <u><u>9,139</u></u>

6. Memberships

Memberships are comprised of the following:

	September 30,	
	<u>2017</u>	<u>2016</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., Entitled to One Vote	\$ 5,000	\$ 5,000
Class B Memberships		
All Qualified Members of Graham County Electric Cooperative, Inc., \$5 Membership Fee Entitled to One Vote per Membership	22,435	22,345
Class C Memberships		
All Others Who Receive Service, \$5 Membership Fee, Entitled to One Vote Per Membership	<u>985</u>	<u>4,670</u>
	\$ <u><u>28,420</u></u>	\$ <u><u>32,015</u></u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Deficits

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

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,126	62,250
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010	(239,276)	(5,043)	(244,319)
2011	119,105	45,681	164,786
2012	(46,026)	30,447	(15,579)
2013	34,295	48,926	83,221
2014	40,980	11,588	52,568
2015	(81,747)	26,006	(55,741)
2016	(157,676)	753	(156,923)
2017 Nine Months	(64,140)	(15,176)	(79,316)
	\$ (747,657)	\$ 358,753	\$ (388,904)
Patronage Capital Retired	(82,035)	(82,035)	(82,035)
	<u>\$ (747,657)</u>	<u>\$ 276,718</u>	<u>\$ (470,939)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2017 and 2016, no retirements of patronage capital were made.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

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

	September 30,	
	2017	2016
Fixed - 7.45%	\$ 166,434	\$ 189,443
Fixed - 4.85%	272,904	286,229
Fixed - 7.00%	727,291	739,960
Fixed - 3.05%	210,201	215,731
	<u>\$ 1,376,830</u>	<u>\$ 1,431,363</u>
Less: Current Maturities	59,000	54,000
	<u>\$ 1,317,830</u>	<u>\$ 1,377,363</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$35,450. As of September 30, 2017, annual maturities of long-term debt due CFC for the next five years is as follows:

2018	\$ 59,000
2019	63,000
2020	66,000
2021	70,000
2022	75,000

The loan agreement with CFC contains provisions requiring a Debt Service Coverage (DSC) requirement of 1.15. This debt covenant was not met as of September 30, 2017.

9. USDA Rural Development Note Payable

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

	September 30,	
	2017	2016
5.000% Note Maturing March, 2032	\$ 107,204	\$ 112,222
4.500% Note Maturing August, 2035	198,406	205,626
4.500% Note Maturing July, 2040	73,672	75,541
4.125% Note Maturing March, 2047	965,680	982,907
	<u>\$ 1,344,962</u>	<u>\$ 1,376,296</u>
Less: Current Maturities	31,800	30,500
	<u>\$ 1,313,162</u>	<u>\$ 1,345,796</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2017, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2018	\$	31,800
2019		33,300
2020		34,800
2021		36,300
2022		37,900

10. Note Payable - Graham County Electric

During the year ended September 30, 2014, the Cooperative received loan funds from Graham County Electric Cooperative, Inc. in the amount of \$1,000,000 with a term of ten years at an interest rate of 5.44%. As of September 30, 2017, the outstanding balance on the note is \$669,216. The annual maturities of the long-term debt due Graham County Electric for the next five years are as follows:

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

11. CIAC Refund Due

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The original balance to be refunded is \$226,765 for the gas division and \$15,536 in the water division. As of September 30, 2017, the balance remaining to be refunded is \$60,418 for the gas division and \$0 for the water division. This liability is reflected in Accounts Payable – Other on these financial statements.

12. Related Parties

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

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Balances between the two Cooperatives are summarized as follows:

	September 30,	
	<u>2017</u>	<u>2016</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (1,345,861)	\$ (1,152,746)
Loan Payable (Current and Long-Term)	<u>(669,216)</u>	<u>(759,989)</u>
Total	<u>\$ (2,015,077)</u>	<u>\$ (1,912,735)</u>
 Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,345,861	\$ 1,152,746
Note Receivable (Current and Long-Term)	<u>669,216</u>	<u>759,989</u>
Total	<u>\$ 2,015,077</u>	<u>\$ 1,912,735</u>

13. Litigation and Contingencies

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

14. Subsequent Events

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

15. Rate Case

The Cooperative currently has a rate case sitting before the Arizona Corporation Commission, requesting an 11% increase in the meter charge.

ACCOMPANYING INFORMATION

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

Schedule 1

**BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016**

ASSETS

	September 30,	
	<u>2017</u>	<u>2016</u>
UTILITY PLANT		
Plant in Service	\$ 5,363,421	\$ 5,296,421
Construction Work in Progress	21,092	(41)
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 5,799,997</u>	<u>\$ 5,711,864</u>
Less: Accumulated Provision for Depreciation and Amortization	3,474,283	3,311,816
	<u>\$ 2,325,714</u>	<u>\$ 2,400,048</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 170,749	\$ 173,165
	<u>\$ 170,749</u>	<u>\$ 173,165</u>
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$56,813 in 2017 and \$43,306 in 2016)	\$ 56,563	\$ 100,040
Materials and Supplies	76,145	80,294
Other Current and Accrued Assets	14,649	16,630
Total Current Assets	<u>\$ 147,357</u>	<u>\$ 196,964</u>
DEFERRED CHARGES	\$ 4,888	\$ 9,139
	<u>\$ 4,888</u>	<u>\$ 9,139</u>
TOTAL ASSETS	<u>\$ 2,648,708</u>	<u>\$ 2,779,316</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 24,935	\$ 29,515
Accumulated Deficits	(747,657)	(643,280)
	<u>\$ (722,722)</u>	<u>\$ (613,765)</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,113,629	\$ 1,167,632
Note Payable - Graham County Electric Coop	573,416	669,218
	<u>\$ 1,687,045</u>	<u>\$ 1,836,850</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 148,800	\$ 138,770
Accounts Payable - Other	89,798	112,155
Accounts Payable - Graham County Electric Cooperative	1,161,599	977,564
Overbilled Consumers Fuel Cost	75,091	128,226
Accrued Taxes	50,925	50,658
Customers' Deposits and Prepayments	136,765	129,618
Accrued Interest	17,877	17,333
Accrued Payroll	3,530	1,907
Total Current Liabilities	<u>\$ 1,684,385</u>	<u>\$ 1,556,231</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,648,708</u>	<u>\$ 2,779,316</u>

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

Schedule 2

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	September 30,		Increase (Decrease)
	2017	2016	
OPERATING REVENUES			
Residential	\$ 2,140,026	\$ 2,317,597	\$ (177,571)
Irrigation	6,082	5,463	619
Commercial and Industrial	786,317	863,067	(76,750)
Fuel Cost Under (Over) Billed	53,542	(86,513)	140,055
Other Operating Revenues	37,427	35,389	2,038
Total Operating Revenues	\$ 3,023,394	\$ 3,135,003	\$ (111,609)
OPERATING EXPENSES			
Purchased Gas	\$ 1,023,755	\$ 1,072,163	\$ (48,408)
Operations	491,445	530,575	(39,130)
Maintenance	385,627	474,459	(88,832)
Customer Accounts	343,735	370,429	(26,694)
Administrative and General	571,561	564,077	7,484
Depreciation and Amortization	162,467	158,717	3,750
Other Interest	35,839	26,147	9,692
Total Operating Expenses	\$ 3,014,429	\$ 3,196,567	\$ (182,138)
OPERATING MARGIN (LOSS) - Before Fixed Charges	\$ 8,965	\$ (61,564)	\$ 70,529
FIXED CHARGES			
Interest on Long-Term Debt	117,694	125,604	(7,910)
OPERATING LOSSES - After Fixed Charges	\$ (108,729)	\$ (187,168)	\$ 78,439
Capital Credits	4,352	4,231	121
NET LOSSES	\$ (104,377)	\$ (182,937)	\$ 78,560
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(643,280)	(460,343)	
ACCUMULATED DEFICITS - END OF YEAR	\$ (747,657)	\$ (643,280)	

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

Schedule 3

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

	September 30,	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (104,377)	\$ (182,937)
Adjustments to Reconcile Net Margin to Net Cash		
From Operating Activities		
Depreciation and Amortization	162,467	158,717
Capital Credits	(4,352)	(4,231)
Deferred Charges	4,251	4,570
(Over) Under Billed Fuel Cost - Net	(53,135)	86,981
Accounts Receivable	43,477	(34,076)
Inventories and Other Current Assets	6,130	10,156
Payables and Accrued Expenses	(12,776)	(28,770)
Net Payments From - Graham County Electric Cooperative	184,035	329,891
Net Cash From Operating Activities	<u>\$ 225,720</u>	<u>\$ 340,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (88,133)	\$ (210,123)
Investments in Associated Organizations	6,768	1,624
Net Cash From Investing Activities	<u>\$ (81,365)</u>	<u>\$ (208,499)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (49,003)	\$ (45,889)
Payments on Notes Payable - GCE	(90,772)	(85,978)
Memberships	(4,580)	65
Net Cash From Financing Activities	<u>\$ (144,355)</u>	<u>\$ (131,802)</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 117,694</u>	<u>\$ 125,604</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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

Schedule 4

**BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016**

ASSETS

	September 30,	
	<u>2017</u>	<u>2016</u>
UTILITY PLANT AT COST		
Water Plant in Service	\$ 4,008,484	\$ 3,976,366
Construction Work in Progress	(14,001)	(14,261)
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,604,651</u>	<u>\$ 4,572,273</u>
Less: Accumulated Provision for Depreciation and Amortization	2,854,729	2,746,724
	<u>\$ 1,749,922</u>	<u>\$ 1,825,549</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 114,759</u>	<u>\$ 115,266</u>
CURRENT ASSETS		
Cash - Restricted	\$ 88,724	\$ 86,581
Accounts Receivable - Customers (Less allowance for uncollectibles of \$4,086 in 2017 and \$3,636 in 2016)	41,012	40,420
Materials and Supplies	66,646	59,583
Other Current and Accrued Assets	6,920	5,543
Total Current Assets	<u>\$ 203,302</u>	<u>\$ 192,127</u>
DEFERRED CHARGES	<u>\$ 253</u>	<u>\$ 0</u>
TOTAL ASSETS	<u>\$ 2,068,236</u>	<u>\$ 2,132,942</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 3,485	\$ 2,500
Accumulated Margins	276,718	310,646
	<u>\$ 280,203</u>	<u>\$ 313,146</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 204,201	\$ 209,731
USDA Rural Development Notes Less Current Maturities	1,313,162	1,345,796
	<u>\$ 1,517,363</u>	<u>\$ 1,555,527</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 37,800	\$ 36,500
Accounts Payable - Other		4,652
Accounts Payable - Graham County Electric Cooperative	184,262	175,182
Accrued Taxes	30,988	29,883
Customers' Deposits and Prepayments	15,204	15,469
Accrued Interest	1,487	1,797
Accrued Payroll	929	786
Total Current Liabilities	<u>\$ 270,670</u>	<u>\$ 264,269</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,068,236</u>	<u>\$ 2,132,942</u>

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

Schedule 5

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	September 30,		Increase
	2017	2016	(Decrease)
OPERATING REVENUES			
Residential	\$ 636,823	\$ 632,244	\$ 4,579
Commercial and Industrial	61,499	70,034	(8,535)
Sales for Resale	48,167	48,968	(801)
Other Operating Revenues	15,349	11,453	3,896
Total Operating Revenues	\$ 761,838	\$ 762,699	\$ (861)
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 30,364	\$ 26,110	\$ 4,254
Operations	79,368	83,964	(4,596)
Maintenance	245,188	228,055	17,133
Customer Accounts	95,537	93,015	2,522
Administrative and General	169,850	153,857	15,993
Depreciation and Amortization	108,005	106,725	1,280
Other Interest	5,584	7,611	(2,027)
Total Operating Expenses	\$ 733,896	\$ 699,337	\$ 34,559
OPERATING MARGINS - Before Fixed Charges	\$ 27,942	\$ 63,362	\$ (35,420)
FIXED CHARGES			
Interest on Long-Term Debt	66,036	65,744	292
OPERATING LOSSES - After Fixed Charges	\$ (38,094)	\$ (2,382)	\$ (35,712)
Capital Credits	3,859	6,474	(2,615)
NET OPERATING MARGIN (LOSS)	\$ (34,235)	\$ 4,092	\$ (38,327)
NONOPERATING MARGINS			
Interest	307	297	10
NET MARGIN (LOSS)	\$ (33,928)	\$ 4,389	\$ (38,317)
ACCUMULATED MARGINS - BEGINNING OF YEAR	310,646	306,257	
ACCUMULATED MARGINS - END OF YEAR	\$ 276,718	\$ 310,646	

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

Schedule 6

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

	September 30,	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Loss)	\$ (33,928)	\$ 4,389
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	108,005	106,725
Capital Credits	(3,859)	(6,474)
Deferred Charges	(253)	
Accounts Receivable	(592)	(16,684)
Inventories and Other Current Assets	(8,440)	1,444
Payables and Accrued Expenses	(3,979)	(13,841)
Net Payments From - Graham County Electric Cooperative	9,080	10,149
Net Cash From Operating Activities	<u>\$ 66,034</u>	<u>\$ 85,708</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Additions to Plant	\$ (32,378)	\$ (44,370)
Cash - Restricted	(2,143)	(5,692)
Investments in Associated Organizations	4,366	391
Net Cash From Investing Activities	<u>\$ (30,155)</u>	<u>\$ (49,671)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt To CFC	\$ (5,530)	\$ (6,188)
Payments on Long-Term Debt To USDA	(31,334)	(29,849)
Change in Memberships	985	
Net Cash From Financing Activities	<u>\$ (35,879)</u>	<u>\$ (36,037)</u>
CHANGE IN CASH	<u>\$ 0</u>	<u>\$ 0</u>
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 66,036	\$ 65,744
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>