

**GRAHAM COUNTY UTILITIES, 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**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

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PIMA, ARIZONA**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

Board of Directors  
Graham County 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, 2018 and 2017, and the related statements of income (loss) and accumulated deficits, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Supplementary Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2018, on our consideration of the Cooperative's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Cooperative's internal control over financial reporting and compliance.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

November 27, 2018

## GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEETS  
SEPTEMBER 30, 2018 AND 2017

## ASSETS

	September 30,	
	2018	2017
UTILITY PLANT		
Plant in Service	\$ 9,566,732	\$ 9,371,905
Construction Work in Progress	14,983	7,091
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 10,607,367</u>	<u>\$ 10,404,648</u>
Less: Accumulated Provision for Depreciation and Amortization	6,602,014	6,329,012
	<u>\$ 4,005,353</u>	<u>\$ 4,075,636</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	<u>\$ 304,341</u>	<u>\$ 285,508</u>
CURRENT ASSETS		
Cash - Restricted	\$ 88,972	\$ 88,724
Accounts Receivable (Less allowance for uncollectibles of \$61,461 in 2018 and \$60,899 in 2017)	109,650	93,486
Materials and Supplies	144,373	142,791
Other Current and Accrued Assets	22,556	21,569
	<u>\$ 365,551</u>	<u>\$ 346,570</u>
DEFERRED CHARGES	<u>\$ 214</u>	<u>\$ 5,141</u>
TOTAL ASSETS	<u><u>\$ 4,675,459</u></u>	<u><u>\$ 4,712,855</u></u>

## EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,765	\$ 28,420
Accumulated Deficits	(739,598)	(470,939)
	<u>\$ (710,833)</u>	<u>\$ (442,519)</u>
LONG -TERM DEBT		
CFC Mortgage Notes - Less Current Maturities	\$ 1,256,837	\$ 1,317,830
USDA Rural Development Note Payable - Less Current Maturities	1,278,949	1,313,162
Note Payable - Graham County Electric Coop - Less Current Maturities	472,180	573,416
	<u>\$ 3,007,966</u>	<u>\$ 3,204,408</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 196,400	\$ 186,600
Accounts Payable - Other	102,218	85,709
Accounts Payable - Graham County Electric Coop	1,611,432	1,345,861
Overbilled Consumers Fuel Cost	200,535	75,091
Accrued Taxes	81,527	81,913
Customers' Deposits and Prepayments	152,945	151,969
Accrued Interest	20,456	19,364
Accrued Payroll	12,813	4,459
	<u>\$ 2,378,326</u>	<u>\$ 1,950,966</u>
TOTAL EQUITIES AND LIABILITIES	<u><u>\$ 4,675,459</u></u>	<u><u>\$ 4,712,855</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, 2018 AND 2017**

	September 30,	
	<u>2018</u>	<u>2017</u>
OPERATING REVENUES	\$ <u>3,683,003</u>	\$ <u>3,785,232</u>
OPERATING EXPENSES		
Purchased Gas	\$ 824,284	\$ 1,023,755
Power for Pumping	38,382	30,364
Operations	656,680	570,813
Maintenance	643,009	630,815
Consumer Accounts	463,596	439,272
Administrative and General	852,431	741,411
Depreciation and Amortization	273,003	270,472
Other Interest	51,738	41,423
Total Operating Expenses	\$ <u>3,803,123</u>	\$ <u>3,748,325</u>
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ (120,120)	\$ 36,907
Interest on Long-Term Debt	<u>173,729</u>	<u>183,730</u>
OPERATING LOSSES - AFTER FIXED CHARGES	\$ (293,849)	\$ (146,823)
Capital Credits	<u>24,708</u>	<u>8,211</u>
NET OPERATING LOSSES	\$ (269,141)	\$ (138,612)
NONOPERATING MARGINS		
Interest	<u>482</u>	<u>307</u>
NET LOSSES	\$ (268,659)	\$ (138,305)
ACCUMULATED DEFICITS - BEGINNING OF YEAR	<u>(470,939)</u>	<u>(332,634)</u>
ACCUMULATED DEFICITS - END OF YEAR	\$ <u><u>(739,598)</u></u>	\$ <u><u>(470,939)</u></u>

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

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

	September 30,	
	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (268,659)	\$ (138,305)
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation and Amortization	273,003	270,472
Capital Credits	(24,708)	(8,211)
Deferred Charges	4,927	3,998
Over Billed Fuel Cost - Net	125,444	(53,135)
Accounts Receivable	(15,104)	44,867
Inventories and Other Current Assets	(2,569)	(2,310)
Payables and Accrued Expenses	25,485	(18,737)
Net Payments From - Graham County Electric Cooperative	265,571	193,115
Net Cash From Operating Activities	<u>\$ 383,390</u>	<u>\$ 291,754</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (202,721)	\$ (120,511)
Cash - Restricted	(248)	(2,143)
Investments in Associated Organizations	5,875	11,134
Net Cash From Investing Activities	<u>\$ (197,094)</u>	<u>\$ (111,520)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt To CFC	\$ (58,092)	\$ (54,533)
Payments on Long-Term Debt To USDA	(32,712)	(31,334)
Payments on Notes Payable - GCE	(95,837)	(90,772)
Memberships	345	(3,595)
Net Cash From Financing Activities	<u>\$ (186,296)</u>	<u>\$ (180,234)</u>
<b>CHANGE IN CASH</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 173,729	\$ 183,730
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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, 2018, 62% of the Company's 47 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, 2018 and 2017, was estimated to be \$90,581 and \$99,473, respectively, in the gas department and \$49,440 and \$56,885, 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 years ended September 30, 2018 and 2017 the Cooperative was overbilled \$200,535, and \$75,091, respectively.

Effective July 1, 2018, the gas division of the Cooperative implemented new rates. The new rates were designed to result in an 11% increase in revenue through a change in the meter charge.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**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 \$152,945 and \$151,969 at September 30, 2018 and 2017, respectively.

**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, 2018 and 2017 was \$88,972 and \$88,724, respectively. The cash reserve fund was in compliance with funding requirements as of September 30, 2018.

**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 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.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**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.

**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,			
	2018			2017
	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		1,139,287	1,139,287	1,131,238
Distribution	5,204,698	946,747	6,151,445	5,976,517
General	256,501	119,827	376,328	364,478
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 5,505,137	\$ 4,061,595	\$ 9,566,732	\$ 9,371,905
Construction Work in Progress	3,742	11,241	14,983	7,091
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ <u>5,924,363</u>	\$ <u>4,683,004</u>	\$ <u>10,607,367</u>	\$ <u>10,404,648</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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

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

Depreciation accruals charged to expense for the periods ended September 30, 2018 and 2017, totaled \$273,003 and \$270,472, 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, 2018 and 2017, 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	\$ 415,484	\$ 610,168
Less: Amortization Prior Periods	<u>415,484</u>	<u>610,168</u>
Unamortized Adjustment	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of the following:

	September 30,	
	2018	2017
CFC		
Capital Term Certificates	\$ 126,494	\$ 128,340
Patronage Capital	133,674	129,646
Memberships	1,000	1,000
	<u>\$ 261,168</u>	<u>\$ 258,986</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	43,173	26,522
Total	<u>\$ 304,341</u>	<u>\$ 285,508</u>

**5. Deferred Charges**

Deferred charges consisted of the following:

	September 30,	
	2018	2017
Gas Department		
Stores Clearing	\$ 107	\$ 318
Unamortized Rate Case Expense		4,570
Water Department		
Stores Clearing	\$ 107	\$ 253
Total	<u>\$ 214</u>	<u>\$ 5,141</u>

**6. Memberships**

Memberships are comprised of the following:

	September 30,	
	2018	2017
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	22,695	22,435
Class C Memberships		
All Others Who Receive Service, \$5 Membership Fee, Entitled to One Vote Per Membership	1,070	985
	<u>\$ 28,765</u>	<u>\$ 28,420</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	(159,153)	(9,737)	(168,890)
2018 (Nine Months)	(215,576)	36,491	(179,085)
	\$ (1,058,246)	\$ 400,683	\$ (657,563)
Patronage Capital Retired		(82,035)	(82,035)
	<u>\$ (1,058,246)</u>	<u>\$ 318,648</u>	<u>\$ (739,598)</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, 2018 and 2017, 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,	
	2018	2017
Fixed - 7.45%	\$ 141,662	\$ 166,434
Fixed - 4.85%	258,920	272,904
Fixed - 7.00%	713,712	727,291
Fixed - 3.05%	204,443	210,201
	<u>\$ 1,318,737</u>	<u>\$ 1,376,830</u>
Less: Current Maturities	61,900	59,000
	<u>\$ 1,256,837</u>	<u>\$ 1,317,830</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$35,445. As of September 30, 2018, annual maturities of long-term debt due CFC for the next five years is as follows:

2019	\$ 61,900
2020	65,900
2021	70,300
2022	75,000
2023	66,100

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, 2018.

**9. USDA Rural Development Note Payable**

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

	September 30,	
	2018	2017
5.000% Note Maturing March, 2032	\$ 101,932	\$ 107,204
4.500% Note Maturing August, 2035	190,859	198,406
4.500% Note Maturing July, 2040	71,718	73,672
4.125% Note Maturing March, 2047	947,740	965,680
	<u>\$ 1,312,249</u>	<u>\$ 1,344,962</u>
Less: Current Maturities	33,300	31,800
	<u>\$ 1,278,949</u>	<u>\$ 1,313,162</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, 2018, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2019	\$	33,300
2020		34,800
2021		36,300
2022		37,900
2023		39,600

**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, 2018, the outstanding balance on the note is \$573,380. The annual maturities of the long-term debt due Graham County Electric for the next five years are as follows:

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

**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, 2018, 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>2018</u>	<u>2017</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>
 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>

**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 November 27, 2018, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

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

**Schedule 1**

**BALANCE SHEETS  
SEPTEMBER 30, 2018 AND 2017**

**ASSETS**

	September 30,	
	2018	2017
UTILITY PLANT		
Plant in Service	\$ 5,505,137	\$ 5,363,421
Construction Work in Progress	3,742	21,092
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 5,924,363</u>	<u>\$ 5,799,997</u>
Less: Accumulated Provision for Depreciation and Amortization	3,638,636	3,474,283
	<u>\$ 2,285,727</u>	<u>\$ 2,325,714</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 171,037	\$ 170,749
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$57,463 in 2018 and \$56,813 in 2017)	\$ 73,513	\$ 56,563
Materials and Supplies	85,394	76,145
Other Current and Accrued Assets	15,356	14,649
Total Current Assets	<u>\$ 174,263</u>	<u>\$ 147,357</u>
DEFERRED CHARGES	\$ 107	\$ 4,888
TOTAL ASSETS	<u>\$ 2,631,134</u>	<u>\$ 2,648,708</u>

**EQUITIES AND LIABILITIES**

MEMBERS' EQUITY		
Memberships	\$ 25,195	\$ 24,935
Accumulated Deficits	(1,058,246)	(747,657)
	<u>\$ (1,033,051)</u>	<u>\$ (722,722)</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,058,394	\$ 1,113,629
Note Payable - Graham County Electric Coop	472,180	573,416
	<u>\$ 1,530,574</u>	<u>\$ 1,687,045</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 157,100	\$ 148,800
Accounts Payable - Other	105,247	89,798
Accounts Payable - Graham County Electric Cooperative	1,451,722	1,161,599
Overbilled Consumers Fuel Cost	200,535	75,091
Accrued Taxes	51,996	50,925
Customers' Deposits and Prepayments	137,254	136,765
Accrued Interest	18,850	17,877
Accrued Payroll	10,907	3,530
Total Current Liabilities	<u>\$ 2,133,611</u>	<u>\$ 1,684,385</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,631,134</u>	<u>\$ 2,648,708</u>

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

**Schedule 2**

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED DEFICITS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	September 30,		Increase (Decrease)
	<u>2018</u>	<u>2017</u>	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,161,020	\$ 2,140,026	\$ 20,994
Irrigation	7,779	6,082	1,697
Commercial and Industrial	770,831	786,317	(15,486)
Fuel Cost Under (Over) Billed	(123,017)	53,542	(176,559)
Other Operating Revenues	37,316	37,427	(111)
Total Operating Revenues	<u>\$ 2,853,929</u>	<u>\$ 3,023,394</u>	<u>\$ (169,465)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 824,284	\$ 1,023,755	\$ (199,471)
Operations	571,266	491,445	79,821
Maintenance	411,896	385,627	26,269
Customer Accounts	371,298	343,735	27,563
Administrative and General	670,288	571,561	98,727
Depreciation and Amortization	164,354	162,467	1,887
Other Interest	46,102	35,839	10,263
Total Operating Expenses	<u>\$ 3,059,488</u>	<u>\$ 3,014,429</u>	<u>\$ 45,059</u>
<b>OPERATING MARGIN (LOSS) - Before Fixed Charges</b>	<u>\$ (205,559)</u>	<u>\$ 8,965</u>	<u>\$ (214,524)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>109,300</u>	<u>117,694</u>	<u>(8,394)</u>
<b>OPERATING LOSSES - After Fixed Charges</b>	<u>\$ (314,859)</u>	<u>\$ (108,729)</u>	<u>\$ (206,130)</u>
Capital Credits	<u>4,270</u>	<u>4,352</u>	<u>(82)</u>
<b>NET LOSSES</b>	<u>\$ (310,589)</u>	<u>\$ (104,377)</u>	<u>\$ (206,212)</u>
<b>ACCUMULATED DEFICITS - BEGINNING OF YEAR</b>	<u>(747,657)</u>	<u>(643,280)</u>	
<b>ACCUMULATED DEFICITS - END OF YEAR</b>	<u>\$ (1,058,246)</u>	<u>\$ (747,657)</u>	

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

Schedule 3

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

	September 30,	
	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (310,589)	\$ (104,377)
Adjustments to Reconcile Net Margin to Net Cash		
From Operating Activities		
Depreciation and Amortization	164,354	162,467
Capital Credits	(4,270)	(4,352)
Deferred Charges	4,781	4,251
Over Billed Fuel Cost - Net	125,444	(53,135)
Accounts Receivable	(16,950)	43,477
Inventories and Other Current Assets	(9,956)	6,130
Payables and Accrued Expenses	25,359	(12,776)
Net Payments From - Graham County Electric Cooperative	290,123	184,035
Net Cash From Operating Activities	<u>\$ 268,296</u>	<u>\$ 225,720</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (124,367)	\$ (88,133)
Investments in Associated Organizations	3,982	6,768
Net Cash From Investing Activities	<u>\$ (120,385)</u>	<u>\$ (81,365)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (52,334)	\$ (49,003)
Payments on Notes Payable - GCE	(95,837)	(90,772)
Memberships	260	(4,580)
Net Cash From Financing Activities	<u>\$ (147,911)</u>	<u>\$ (144,355)</u>
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 109,300	\$ 117,694
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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

**Schedule 4**

**BALANCE SHEETS  
SEPTEMBER 30, 2018 AND 2017**

**ASSETS**

	September 30,	
	<u>2018</u>	<u>2017</u>
<b>UTILITY PLANT AT COST</b>		
Water Plant in Service	\$ 4,061,595	\$ 4,008,484
Construction Work in Progress	11,241	(14,001)
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,683,004</u>	<u>\$ 4,604,651</u>
Less: Accumulated Provision for Depreciation and Amortization	2,963,378	2,854,729
	<u>\$ 1,719,626</u>	<u>\$ 1,749,922</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 133,304	\$ 114,759
<b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 88,972	\$ 88,724
Accounts Receivable - Customers (Less allowance for uncollectibles of \$3,998 in 2018 and \$4,086 in 2017)	39,166	41,012
Materials and Supplies	58,979	66,646
Other Current and Accrued Assets	7,200	6,920
Total Current Assets	<u>\$ 194,317</u>	<u>\$ 203,302</u>
<b>DEFERRED CHARGES</b>	\$ 107	\$ 253
<b>TOTAL ASSETS</b>	<u>\$ 2,047,354</u>	<u>\$ 2,068,236</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 3,570	\$ 3,485
Accumulated Margins	318,648	276,718
	<u>\$ 322,218</u>	<u>\$ 280,203</u>
<b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 198,443	\$ 204,201
USDA Rural Development Notes Less Current Maturities	1,278,949	1,313,162
	<u>\$ 1,477,392</u>	<u>\$ 1,517,363</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 39,300	\$ 37,800
Accounts Payable - Graham County Electric Cooperative	159,710	184,262
Accrued Taxes	29,531	30,988
Customers' Deposits and Prepayments	15,691	15,204
Accrued Interest	1,606	1,487
Accrued Payroll	1,906	929
Total Current Liabilities	<u>\$ 247,744</u>	<u>\$ 270,670</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 2,047,354</u>	<u>\$ 2,068,236</u>

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

**Schedule 5**

**STATEMENTS OF INCOME (LOSS) AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	September 30,		Increase (Decrease)
	2018	2017	
<b>OPERATING REVENUES</b>			
Residential	\$ 690,181	\$ 636,823	\$ 53,358
Commercial and Industrial	69,403	61,499	7,904
Sales for Resale	48,790	48,167	623
Other Operating Revenues	20,700	15,349	5,351
Total Operating Revenues	\$ 829,074	\$ 761,838	\$ 67,236
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 38,382	\$ 30,364	\$ 8,018
Operations	85,414	79,368	6,046
Maintenance	231,113	245,188	(14,075)
Customer Accounts	92,298	95,537	(3,239)
Administrative and General	182,143	169,850	12,293
Depreciation and Amortization	108,649	108,005	644
Other Interest	5,636	5,584	52
Total Operating Expenses	\$ 743,635	\$ 733,896	\$ 9,739
<b>OPERATING MARGINS - Before Fixed Charges</b>	\$ 85,439	\$ 27,942	\$ 57,497
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	64,429	66,036	(1,607)
<b>OPERATING LOSSES - After Fixed Charges</b>	\$ 21,010	\$ (38,094)	\$ 59,104
Capital Credits	20,438	3,859	16,579
<b>NET OPERATING MARGIN (LOSS)</b>	\$ 41,448	\$ (34,235)	\$ 75,683
<b>NONOPERATING MARGINS</b>			
Interest	482	307	175
<b>NET MARGIN (LOSS)</b>	\$ 41,930	\$ (33,928)	\$ <u>75,858</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	276,718	310,646	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	\$ 318,648	\$ 276,718	

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

**Schedule 6**

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

	September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Loss)	\$ 41,930	\$ (33,928)
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	108,649	108,005
Capital Credits	(20,438)	(3,859)
Deferred Charges	146	(253)
Accounts Receivable	1,846	(592)
Inventories and Other Current Assets	7,387	(8,440)
Payables and Accrued Expenses	126	(3,979)
Net Payments From - Graham County Electric Cooperative	(24,552)	9,080
Net Cash From Operating Activities	<u>\$ 115,094</u>	<u>\$ 66,034</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Additions to Plant	\$ (78,354)	\$ (32,378)
Cash - Restricted	(248)	(2,143)
Investments in Associated Organizations	1,893	4,366
Net Cash From Investing Activities	<u>\$ (76,709)</u>	<u>\$ (30,155)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt To CFC	\$ (5,758)	\$ (5,530)
Payments on Long-Term Debt To USDA	(32,712)	(31,334)
Change in Memberships	85	985
Net Cash From Financing Activities	<u>\$ (38,385)</u>	<u>\$ (35,879)</u>
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u><u>0</u></u>	<u><u>0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 64,429	\$ 66,036
Federal Income Tax	<u>0</u>	<u>0</u>