ORIGINAL

NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION C

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. W-02527A-09-0201

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| IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES WATER DIVISION INC. FOR A RATE INCREASE | DOCKET NO. W-02527A-09- |

Graham County Utilities, Inc. ("GCU") in support of its application states as follows:

1. GCU is a nonprofit cooperative corporation that provides water service to approximately 1,200 customers in Graham County, Arizona.

2. GCU is a Class C Utility as defined by A.A.C. R14-2-103, filed herewith and incorporated by reference, are the Schedules, Direct Testimony of Mr. John V. Wallace and other materials in support of its application. GCU stipulates that Commission may use its original cost less depreciation rate base for determining a return on fair value in this application. GCU's rate relief is premised upon its Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC").

3. By this Application, GCU seeks a revenue increase of approximately 24 percent over current rates. The proposed revenue increase would produce a rate of return of 8.54 percent on its rate base of $2,398,139 and would yield an operating margin of $204,779 before interest expense.

4. The reasons underlying the Company's request for an overall 24 percent increase include GCEC's investment of over $1,000,000 in plant improvements and replacements since the June 30, 1997. Since its last test year GCU has incurred approximately

$250,000 in advances of funds from Graham County Electric Cooperative, Inc. ("GCEC") to fund its investments in plant improvements.

5. In GCU's last rate case, the Commission authorized a 17.24 percent increase in gross annual revenues based on a test year ending June 30, 1997 (Decision No. 61056, dated August 6, 1998).

6. For the 12 months ended September 30, 2008, the test year in this case, the present rates produced an operating margin of approximately $60,447 before interest expense on an adjusted test year basis.

7. GCU's proposed $144,000 increase in revenues produces a positive operating margin of $204,779 before interest expense.

8. Given the lower margins that GCU is experiencing every month and GCU's current negative financial position, GCU requests that the Commission process this application and enter a decision as soon as possible.

WHEREFORE, having fully stated its Application, GCU requests that the Commission enter its Order approving the requested rate increase, the new rates, fees and charges set forth in the Application.

Further communications and notices concerning this Docket should be directed to:

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RESPECTFULLY SUBMITTED this 27th day of April, 2009.

By _____

John V. Wallace
Grand Canyon State Electric Cooperative Assn., Inc.
Consultant for Graham County Utilities, Inc.

**Original** and thirteen (13) copies filed
this 27th day of April, 2009, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

KRISTEN K. MAYES, Chairman
GARY PIERCE
BOB STUMP
PAUL NEWMAN
SARAH KENNEDY

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| IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES WATER DIVISION INC. FOR A RATE INCREASE | ) ) ) ) ) | DOCKET NO. W-02527A-09- |

DIRECT

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY UTILITIES, INC.

WATER DIVISION

April 27. 2009

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## I. INTRODUCTION

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing testimony on behalf of Graham County Utilities, Inc. ("GCU" or "Cooperative").

Q. Please describe your professional qualifications and experience.

A. I have been the Director of Regulatory and Strategic Services since August 1, 2000. In this position, I am responsible for preparing rate, financial and other utility related analysis and testimony for the GCSECA member Arizona Electric Cooperatives. Before I accepted a position with GCSECA, I worked for the Arizona Corporation Commission ("ACC") for approximately 10 years. While working for the ACC, I held a number of positions within the Accounting and Rates Section of the Utilities Division of the ACC; the last of these positions was Manager, Revenue Requirements Analysis. In this capacity, I was responsible for managing six analysts and preparing staff reports and testimony on Certificate of Convenience and Necessity ("CC&N"), financing, rate and other utility matters. In addition to my work experience, I have a Masters Degree in Business Administration from the University of North Dakota.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the applicant, GCU Water Division. GCU Water Division is a nonprofit cooperative corporation that provides Water service to approximately 1,200 customers in Graham County, Arizona.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What exhibits are you sponsoring in this case?

A. In addition to the schedules attached to this testimony, I am responsible for the preparation of all the test year materials contained in GCU's filing, except for the historical financial statements prepared by GCU and the report of its Certified Public Accountants. I will be referring to these materials from time to time throughout my direct testimony.

Q. What areas does your testimony address?

A. My testimony addresses four primary areas: revenue requirements, cost of service and class revenue allocations, rate design.

Q. Please summarize your recommendations.

A. The main reason underlying the Company's request for an overall 23.94 percent increase in revenues is due to the fact that since it's last Test Year ending June 30, 1997, GCU has made over $1 million in plant improvements and replacements. In addition Graham County Electric Cooperative, Inc. ("GCEC") has completed its new office building so GCU is receiving an annual allocation of $15,050 of these costs. Since February of 2008, GCU has incurred $172,360 in inter-company payables due to GCEC to fund its investments in plant improvements. As a result, the amount of GCU's projected debt service payments (principle and interest) has increased significantly. GCU has also experienced increases in its other expenses such as salaries and benefits since its last Test Year. An increase of this magnitude is needed to eliminate negative margins produced by the current rates, to provide adequate interest and debt service coverage and to provide the internally generated cash flows required to support the utility's on-going operations and plant improvements.

Q. What is the relationship between GCU and GCEC?

A. GCEC manages the operations of GCU's Gas and Water Divisions pursuant to an operations and management agreement. GCEC and GCU Gas and Water are operated as separate and distinct entities from each other. Nevertheless, the same members (6 out of 9) serve on the Boards of Directors of both GCU and GCEC. GCU's employees have offices in GCEC's building. GCEC will also advance funds to GCU when necessary.

Q. Please explain Schedule A-2 of the filing.

A. Schedule A-2, summarizes operating results at present and proposed rates for the 12 months ended September 30, 2008, the test year in this case. The present rates produced an operating margin excluding interest expense of approximately $60,447 on an adjusted test year basis. The proposed $145,652 increase in revenues ($144,332 increase in Sales of Water plus $1,320 increase in Other Revenues) produces a positive operating margin of approximately $204,779.

Q. Do you view the indicated increase in revenues of approximately 24 percent at proposed rates as reasonable in this case?

A. Yes. Cooperatives' revenue requirements are normally determined by the level of operating expenses plus an additional amount of margin for interest coverage. GCU has used an Operating Times Interest Earned Ratio ("TIER") of 1.75 (Debt Service Coverage Ratio of 1.37) to determine the required level of revenues and revenue increase. Since GCU's amount of interest on long term debt has and will continue to increase from its previous Test Year amount, it is necessary for GCU to use an Operating TIER of 1.75 (DSC of 1.37) to set its revenue requirement. Finally, an Operating TIER of 1.75 is necessary to maintain and increase GCU's equity level eventually to 30 percent which has been required by the Commission Decision No. 69245, dated January 19, 2007.

Q. What factors besides its TIER did GCU use to determine its revenue requirement in this case?

A. GCU has determined its proposed revenue requirement by considering the amount of revenue necessary to maintain an Operating TIER of 1.75, to maintain a positive cash flow after operating expenses, to fund plant improvements and maintenance, to maintain its equity level and to fund contingencies. The requested increase in this case is reasonable given its recent history of negative margins, and the need to produce positive cash flows and maintain its equity level. GCU has considered and balanced these financial considerations with a reasonable overall increase in revenues for its members. Consistent with Decision No. 69245, GCU should be able to stabilize or perhaps steadily increase its equity ratio using an Operating TIER of 1.75 even given its forecast for higher margin losses in 2009.

Q. Please summarize your rate design recommendations.

A. Considering the Cost of Service Study ("COSS") prepared for the case and other factors, I have based the rate design on customer class increases such that the residential class receives approximately the same percentage of revenue increase as the approximately 24 percent overall increase in revenues, while the commercial and resale class receives an increase that is higher than the 24 percent overall increase in revenues.

I am recommending a $5.20 increase from $16.80 to $22.00 in the residential service availability charge and a $7.00 increase in the monthly minimum (service availability) charges for the commercial class and a $10.00 increase in the monthly minimum (service availability) charges for the resale customer class.

The per gallon charges for each class were increased to a level that would result in the residential class receiving approximately the same percentage of revenue increase as the approximately 24 percent overall increase in revenues, while the commercial and resale class receives an increase that is higher than the 24 percent overall increase in revenues.

I am recommending increases in the Establishment of Service charges for during and after business hours, adding a charge for Reconnection of Service after hours and increasing the return check charge. In addition, GCU is recommending that a $5 minimum late payment fee apply to reduce the number of delinquent bills.

The present and proposed rate and charges are detailed on Schedule H-3.

GCU recommends that the Commission approve its proposed line extension policy that eliminates the existing Advances in Aid of Construction and would treat all line extensions costs as a non-refundable Contributions in Aid of Construction similar to the GCU Gas Division proposed line extension policy.

Q. Is GCU requesting that the Commission process its application and enter a decision as soon possible?

A. Yes, it is. Given the amount of negative margins that GCU is experiencing every month and GCU's current negative financial position, GCU requests that the Commission process this application and enter a decision as soon as possible. GCU has purposefully limited the number of pro forma adjustments it has made in this case in an effort to limit the issues that may arise in processing its case.

## II. REVENUE REQUIREMENTS

Q. Please explain the original cost rate base (OCRB) calculation shown on Schedule B-1.

A. I am recommending that the Commission adopt an OCRB of $2,398,139 for GCU. In an effort to limit the potential issues that may arise during the processing of this case, I have limited the number of pro-forma adjustments to Rate Base and Plant-in-Service. I have made an adjustment increasing Net Plant-in-Service by a total of $255,755 by decreasing Accumulated Provision for Deprecation by a total $255,755 to reflect the Depreciation Rates approved in GCU's previous rate case (Decision No. 61056, dated August 6, 1998)

I have subtracted $8,540 of customer deposits from the rate base. I have added the construction work in progress that is currently Plant-in-Service, materials and supplies and prepayments to GCU's rate base.

Q. Why hasn't GCU included its Reconstruction Cost New less Depreciation (RCND) information (Schedules B-3 and B-4) in its application?

A. GCU stipulates that the Commission may use its original cost data for the calculation of a rate of return on fair value for this proceeding. Therefore, the RCND information contained on Schedules B-3 and B-4 is unnecessary for a determination in this matter.

Q. Please explain Schedule C-1 of the filing.

A. Schedule C-1 shows the actual and adjusted operating income statement for the test year. As described on Schedule C-2, actual test year results were adjusted as follows:

A. Adjustment A. eliminates the $24,407 of amortization of the acquisition adjustment associated with GCU's original purchase of the water system from the depreciation and amortization expenses. This adjustment was adopted in GCU's previous rate case Decision No. 61056, dated August 6, 1998.

B. Adjustment B. increased depreciation and amortization expense by $28,059 and $19,186 increase to Distribution Expense – Operations to allow depreciation and taxes on the Pima Water Development Project. This project was needed to comply with the Federal arsenic standard. By drilling new wells and adding a storage tank, GCU was able to blend new well water with existing well water to lower the level of arsenic in the water to below the Federal standard.

C. Adjustment C. decreased Interest Expense - LTD by $6,658 to annualize the interest on Pima Water Development Project.

D. Adjustment D. increases several expenses by a total of $6,197 to annualize increases in payroll, benefits and pensions costs.

E. Adjustment E. increases A&G expense by $15,050 to annualize GCU's allocation of the new office building.

F. Adjustment F. decreased Interest Expense-Other by $2,555 to account for the fact that GCU will be paying off the due to due from loan from GCEC. This adjustment also recognizes $14,901 of additional interest expense on the new long-term debt from CFC.

G. Adjustment G. increased Rate (Case) Related Expense by $4,000 for actual and estimated rate case expenses that will be incurred in the preparation and completion of this case. I have estimated the total amount of rate case expense of $12,000 in this case. I then amortized this expense over a three-year period given the projected growth in GCU's service territory and the associated plant investments. Based on these projections, GCU may need to file for a rate case in a few years.

H. Adjustment H. increased Other Water Revenues by $1,320 for increases to Service Charges and increased in Interest Income by $3,285 for GCU's proposed $5 minimum late charge.

I. Adjustment I. decreased depreciation and amortization expense by $28,617 to reflect the depreciation rates approved in Decision No. 61056.

These adjustments reduce operating margins for the test year by $15,594 resulting in adjusted operating margins of $60,447 before interest on long-term debt on Schedule C-1.

## III. COST OF SERVICE AND RATE DESIGN

Q. Why should water rates be based upon cost of service?

A. Cost of service is an important criterion in the development of revenues by class of consumer and the development of rates that will produce those revenues. If rates are not cost based, the inevitable results may create subsidies among the classes of consumers and consumers within a class. This is not only perceived as inequitable, but may result in distorted consumer decisions concerning the use of utility services. Other factors, such as customer class price sensitivity, continuity, simplicity and stability are valid considerations in the rate design process and had to be considered given GCU's circumstances.

Q. Did you prepare the class cost of service analysis contained in this filing?

A. Yes. The study was prepared to provide guidance in setting class revenue targets and designing the rates required to meet these targets. The costing methodology used is essentially the same as that used in GCU's last rate proceeding.

Q. Would you briefly describe the approach used to develop the study?

A. The basic method used in the study is commonly known as the embedded or average cost method as contrasted with the marginal cost method. This method, properly applied, produces a guide for ratemaking purposes.

The initial step was to establish, for costing purposes, consumer classes with similar usage characteristics. For the purposes of present rates these classes are: residential commercial, etc. The next step in the study was to classify all elements of rate base and operating expenses as production-related, usage or commodity-related or customer-related, etc. The results of this process are shown on Schedules G-3 through G-6. The final step in the analysis was to allocate rate base and operating expenses to each class of consumer. The results of these allocations are shown on Schedules G-1 and G-2. The class allocation factors used in the study are provided on Schedule G-7.

Q. Please summarize the results of your study.

A. The results of my study, at present and proposed rates, are summarized on Schedules G-1 and G-2, respectively. At present rates, the overall system rate of return (ROR) on rate base is 2.47 percent. All classes are producing positive returns. At present rates, the residential class has a return of 2.09 percent. The commercial class has a return of 5.58 percent. The resale class has a positive return of 3.25 percent.

Q. Typically the cost of service study is used as the basis to allocate revenues among customer classes. Did you use the cost of service study to allocate revenues to customer classes?

A. Yes. However, GCU's circumstances merit a deviation from strictly using the cost of service study to set rates for the reasons stated in my testimony.

Q. How did you allocate revenues to the customer classes?

A. I have based the rate design on customer class increases such that the residential receives approximately the same percentage of revenue increase as the approximately 24 percent overall increase in revenues, while the commercial and resale class receives an increase that is higher than the 24 percent overall increase in revenues. This is mainly due to maintaining the same per gallon charge for the residential and commercial classes. The residential class revenues were increased by 23.34 percent, and the commercial and resale classes revenues were increased by 28.29 and 26.92 percent, respectively, as shown on Schedule H-1.

Q. What monthly minimum system (service availability) charges are you recommending by customer class and why?

A. I am proposing increases to the present monthly minimum service charges for the various classes. I am recommending the residential class service availability charge be increased by 5.20 increase from $16.80 to $22.00 and a $7.00 increase in the monthly minimum (service availability) charges for the commercial class and a $10.00 increase in the monthly minimum (service availability) charges for the resale customer class.

I am recommending that remaining revenue requirement be collected by increasing the per gallon rates for each class. (Refer to Schedule H-3)

I am recommending the monthly service availability charges be increased because of the following reasons. The first is the majority of the GCU's distribution related costs are fixed and do not vary with the number of gallons used. The second reason is that using fixed charges to collect fixed costs helps to alleviate cash flow shortages and surpluses that result from a rate design that is heavily weighted toward a per gallon charge. Changes in the number of gallons sold after the Test Year due to weather and other factors can have a dramatic affect on a utilities' financial condition. GCU's fixed costs for serving each customer class are significantly higher than GCU's monthly minimum

service charges. In addition, GCU will collect a more even revenue stream during summer versus winter months.

Q. How were the per gallon charges determined in each customer class?

A. The commercial and resale classes receive a higher percentage of revenue increase than the approximately 24 percent overall increase in revenues and the residential class receives approximately the same increase as the overall increase in revenues of 24 percent. This is mainly due to maintaining the same per gallon charge for the residential and commercial classes.

Q. What per gallon rate is GCU recommending for the residential customer class?

A. I am recommending the per gallon rate for residential service be increased by $0.42 from $2.55 to $2.97. The monthly bill for a residential customer who uses approximately 9,000 gallons will increase by $8.98 (22.59%), from $39.75 to $48.73. Residential customers who use more (less) than 9,000 gallons per month will experience a lower (higher) percent increase due to the level of the higher percentage increase in the monthly service availability charge versus the gallon charge. (Refer to Schedule H4, Page 1 of 2.)

Q. What per gallon rate is GCU recommending for the commercial class?

A. I am recommending the per gallon rate for commercial service be increased by $0.42 from $2.55 to $2.97. Under GCU's proposed rates, the monthly bill for a commercial customer who uses approximately 15,000 gallons will increase by $13.30 (21.71%), from $61.25 to $74.55. Commercial customers who use more (less) than 15,000 gallons per month will experience a lower (higher) percent increase due to the level of the higher percentage increase in the monthly system charge versus the gallon charge. (Refer to Schedule H4, page 2 of 2.)

Q. What per gallon rate is GCU recommending for the resale class?

A. I am recommending the per gallon rate for resale service be increased by $0.44 from $1.51 to $1.95. Under GCU's proposed rates, the monthly bill for a resale customer who uses approximately 919,250 gallons will increase by $417.78 (29.05%), from $1,438.07 to $1,855.85. (Refer to bottom of Schedule H4, page 2 of 2.)

Q. What changes to service charges is GCU recommending?

A. I am recommending that the Establishment of Services charges for regular business hours be increased from $15 to $20, Establishment of Services after hours be increased from $22.50 to $50 and a new charge of $50.00 apply to reconnection after hours service calls. These service charges should be increased to reflect the increased costs (labor, materials, overheads, etc.) of providing those services.

GCU is also recommending that its insufficient funds check charge be increased from $20 to $25 to reflect the higher costs of such checks and to correspond to the Electric and Gas Department charges for NSF checks.

Finally, to decrease the number of delinquent bills, GCU is recommending a $5 minimum late payment charge be approved along with the current late charge of 1.5 % The $5 minimum charge or 1.5 % late charge, whichever is greater would be paid by all customers who do not pay their bills by the deadline. GCU does not believe that the current late charge of 1.5 % is high enough to deter customers from paying their bills late.

## IV. Line Extensions

Q. Please discuss GCU's line extension policy that was approved in Decision No. 58437 dated October 18, 1993.

A. In compliance with rate case Decision No. 58437, GCU filed a line extension policy that set the service line and meter installation charges for the various pipe sizes.

Q. Has GCU been following the line extension policy approved in Decision No. 58437 dated October 18, 1993 and charging the service line and meter installation charges approved in its last rate case Decision No. 61056

A. GCU discovered during the preparation of this rate case that its employees were not correctly following its line extension policy or charging the service line and meter installation charges approved in Decision No. 61056. GCU does not know the date that it began incorrectly charging customers for line extensions. Shortly after making this discovery, in January of 2009, GCU instructed all of its employees to begin following GCU's line extension policy that was approved in Decision No. 58437 and charging the service line and meter installation charges approved in Decision No. 61056.

Q. How have GCU's employees been treating line extensions?

A. Whenever a customer requested a service line or main line extension, an estimate was prepared that would recover a portion of the labor and material costs excluding the cost of the meter. Material cost was estimated for the line extension based on the number of feet and other material that will be used. A $0.91 per foot charge was also included to cover labor expense. A credit of $100 was given back to the customer on each line extension that was completed.

GCU believes that the $100 credit amount was the average cost of the extension at the point in time which it began to incorrectly charge customers for line extensions. Consequently, GCU has been charging customers a Contribution in aid of Construction ("CIAC") for a portion of the costs of a line extension that were over $100. Only customers with line extensions that cost more than $100 were affected by GCU not following its line extension policy.

Q. Does GCU know the date that it began to incorrectly charge its customers for line extensions?

A. GCU does not know the date that it began incorrectly charging customers for line extensions. Since the date of Decision No. 58437, GCU's number of customers has increased from approximately 800 to 1,200. Without reviewing hundreds of line extension estimates/agreements, GCU can not exactly determine the date it began to incorrectly charge, the total amount that customers have been over-charged or the amount each customer has been overcharged.

Q. Can GCU estimate the number of customers and the amounts that have been incorrectly charged for line extension costs since January 1, 2004?

A. Yes. GCU has this information in an electronic file. Before this date, if this information is available, it will most likely only be available from written records. GCU concluded that it would be reasonable to review the line extensions that had occurred after December 31, 2003.

Q. What is GCU's estimate of the number of customers and the amounts that have been incorrectly charged for line extension costs since its last test year?

A. GCU has estimated that since January 1, 2004, that it over-charged customers who needed line extensions by a total amount of $15,538. As of March 25, 2009, the amount of refunds due for main line extensions is $2,776, resulting in GCU overcharging its customers by a total of $18,314. Since January 1, 2004, GCU has completed approximately 100 line extensions. On average, approximately $173 is owed to approximately 90 individual customers/developers that were over-charged.

Q. Did GCU collect the complete cost of the line extension from the customers who were over-charged?

A. No it did not. Since January 1, 2004, GCU has only collected 31 percent of the costs associated with line extensions from customers and has had to fund additional line extension costs of $77,123 despite the fact that it over-charged customers for line extensions.

Q. What is the financial impact to GCU and members of having charged this $18,314 amount to customers who needed line extensions?

A. Regarding the financial impact to the existing customers that both did and did not have extensions, collecting a higher amount of the costs associated with line extensions has reduced the amount of debt that GCU must borrow by $18,314 which benefited all of GCU's existing customers that did and did not require line extensions. In addition, this $18,314 amount would have been considered plant in this case and would have depreciation expense and property taxes associated with it that all customers would pay through future rates.

Q. Is GCU able to refund the total amount to those customers that were over-charged since the date it began incorrectly charging customers for line extensions?

A. Without reviewing the hundreds of line extension estimates/agreements, GCU can not exactly determine the total amount and what should be refunded to each individual customer/developer that was over-charged. In some cases, GCU may have only charged a small amount over the $100 credit it gave to customers. More recent line extensions cost a significantly higher amount than older line extensions because of increases in material and labor charges. These factors make it unfair for GCU to refund an average/same amount to all customers who were overcharged. GCU would be refunding these amounts using the general funds of GCU which will further impact the cash-flows of GCU. GCU would also need to reclassify the amount over-charged from CIAC to

Plant-in-Service, calculate a depreciation component and borrow additional funds with an associated interest component for the refund that would be paid by all customers on this reclassified CIAC. All of these factors make it difficult for GCU to propose a refunding strategy for all customers who were overcharged that is reasonable and fair.

Q. In the future, what steps will be taken by the management of GCU to ensure all of the GCU's Tariffs and Rules and Regulations are being followed by GCU employees?

A. Once the Commission has made a determination in this case, GCU's management intends to hold a training event with its employees that will cover all of the GCU's Tariffs and Rules and Regulations. These training events will be held periodically and as new employees are hired.

Q. Has GCU recommended that the all Advances in Aid of Construction ("AIAC") be eliminated in its proposed line extension policy?

A. Yes it has. GCU recommends that the Commission approve its proposed line extension policy that eliminates all AIAC. This policy will require all new customers who need line extensions to pay the total cost of these extensions in the form of a CIAC. As discussed above, any line extension costs that are not recovered from customers who require line extensions will be recovered from all customers.

## V. HOOK UP FEES

Q. Has GCU analyzed and considered the use hook-up fees as a way to off-set the incremental costs associated with the customer growth in its service territory?

A. Yes, it has. GCU has analyzed several different levels of hook up fees and their effects on GCU's revenue requirement.

Q. Is GCU recommending the use hook-up fees as a way to off-set the incremental costs associated with the customer growth in its service territory?

A. Yes, it is. Between the years 2004 and 2008, GCU has experienced significant growth in number of customers. GCU has required the investment in resizing back bone plant like wells, pumps and storage to serve new developments and customers. In the future, the main portion of GCU's mains, service lines and meters will be recovered by GCU's proposed line extension policy. However the costs associated with expansion of GCU's back bone distribution system such as new wells, storage and pumps and resizing existing mains to serve new customers will primarily be recovered from existing not new customers. In conclusion, GCU has concluded that developers and customers should pay a portion of the new wells, storage and pumps and resizing existing mains costs associated serving new customers through a $500 hook-up fee. While GCU believes it could cost justify a hook-up fee greater than $500, it believes that given its proposed line extension policy in this case that developers and customers will already bear the additional cost of line extensions if the ACC approves GCU's recommendation to eliminate AIAC for line extensions.

Q. Does that conclude your direct testimony?

A. Yes, it does.

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| H-3-1 | GCU Proposed Rate Schedule |
| H-4 | Typical Bill Analysis |
| H-5 | Bill Count |
| | GCU PROPOSED RULES AND REGULATIONS |
| I. | RUS ANNUAL FORM 7 |
| | For Years Ended December 31, 1998 through December 31, 2008 |
| J. | REPORT OF CERTIFIED PUBLIC ACCOUNTANT |
| | For Years Ended September 30, 1998 through September 30, 2008 |

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM** **SCHEDULE A-1**

**COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS**

**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | ORIGINAL COST | |
|---|---|---|
| 1. ADJUSTED RATE BASE | 2,398,139 | ( a ) |
| 2. ADJUSTED OPERATING MARGINS | 60,447 | ( b ) |
| 3. CURRENT RATE OF RETURN | 2.52% | |
| 4. REQUIRED OPERATING MARGINS | 204,779 | |
| 5. REQUIRED RATE OF RETURN | 8.54% | |
| 6. OPERATING INCOME DEFICIENCY | 144,332 | |

| CUSTOMER CLASSIFICATION | PROJECTED REVENUE INCREASE DUE TO RATES | % DOLLAR INCREASE |
|---|---|---|
| RESIDENTIAL | 121,518 | 23.34% |
| COMMERCIAL | 13,684 | 28.29% |
| RESALE | 9,129 | 26.92% |
| **TOTALS** | **144,332** | **23.94%** |
| | ( c ) | ( c ) |

**SUPPORTING SCHEDULES:**

(a) B-1 (c) H-1

(b) C-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SCHEDULE A-2

SUMMARY RESULTS OF OPERATIONS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

| | PRIOR YEARS | | TEST YEAR ENDED 9/30/08 | | PROJECTED YEAR | |
|---|---|---|---|---|---|---|
| | ENDED 9/30/06 | ENDED 9/30/07 | ACTUAL | ADJUSTED | PRESENT | PROPOSED |
| | (a) | (a) | (a) | (b) | (c) | (c) |
| 1. Gross Revenues | 566,118 | 585,294 | 606,953 | 608,273 | 608,273 | 752,605 |
| 2. Revenue Deductions & Operating Exp. | 451,646 | 484,992 | 530,912 | 547,826 | 547,826 | 547,826 |
| 3. Operating Margins (before interest on LTD) | 114,472 | 100,302 | 76,041 | 60,447 | 60,447 | 204,779 |
| 4. Interest Expense - LTD | 76,445 | 67,694 | 108,791 | 117,034 | 117,034 | 117,034 |
| 5. Other Margins & Deductions | 16,164 | 10,959 | 7,674 | 10,959 | 10,959 | 10,959 |
| 6. Net Margins | 54,191 | 43,567 | (25,076) | (45,628) | (45,628) | 98,704 |
| 7. Loan Principle Payments | 84,587 | 89,183 | 94,627 | 99,097 | 99,097 | 99,097 |
| 8. Times Interest Earned (on operating margins) | 1.50 | 1.48 | 0.70 | 0.52 | 0.52 | 1.75 |
| 9. Debt Service Coverage (on operating margins) | 1.37 | 1.31 | 0.95 | 0.71 | 0.71 | 1.37 |

**SUPPORTING SCHEDULES:**

(a) E-2 (c) F-1
(b) C-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**

**SUMMARY OF CAPITAL STRUCTURE** **SCHEDULE A-3**

**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008** **PRO FORMA**

| | PRIOR YEARS | | TEST YEAR | YEAR |
|---|---|---|---|---|
| | 9/30/2006 | 9/30/2007 | 9/30/2008 | 9/30/2008 |
| | (a) | (a) | (a) | (b) |
| Short-Term Debt | - | - | - | - |
| Long-Term Debt | 1,216,795 | 1,890,113 | 2,005,664 | 2,024,141 |
| Total Debt | 1,216,795 | 1,890,113 | 2,005,664 | 2,024,141 |
| Margins And Equity | 213,767 | 257,334 | 232,258 | 232,258 |
| Total Capital | 1,430,562 | 2,147,447 | 2,237,922 | 2,256,399 |
| Capitalization Ratios: (%) | | | | |
| Short-Term Debt | 0.00% | 0.00% | 0.00% | 0.00% |
| Long-Term Debt | 85.06% | 88.02% | 89.62% | 89.71% |
| Total Debt | 85.06% | 88.02% | 89.62% | 89.71% |
| Margins And Equity | 14.94% | 11.98% | 10.38% | 10.29% |
| | 100.00% | 100.00% | 100.00% | 100.00% |
| Weighted Cost of Due to G.C.E. | 0.00% | 0.00% | 4.75% | 5.25% |
| Weighted Cost of Long-Term Debt | 5.56% | 5.86% | 4.89% | 4.83% |

**SUPPORTING SCHEDULES:**

( a ) E-1

( b ) D-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008** **SCHEDULE A-4**

| YEAR | CONSTRUCTION EXPENDITURES (a) | NET PLANT ADDITIONS (b) | GROSS UTILITY PLANT IN SERVICE |
|---|---|---|---|
| Test Year Ended 6/30/97 | | | 1,749,875 |
| Test Year Ended 9/30/97 | (5,737) | (5,737) | 1,744,138 |
| Test Year Ended 9/30/98 | 298,123 | 298,123 | 2,042,261 |
| Test Year Ended 9/30/99 | 252,526 | 252,526 | 2,294,787 |
| Test Year Ended 9/30/00 | 18,071 | 18,071 | 2,312,858 |
| Test Year Ended 9/30/01 | 8,997 | 8,997 | 2,321,855 |
| Test Year Ended 9/30/02 | 169,834 | 169,834 | 2,491,689 |
| Test Year Ended 9/30/03 | 36,512 | 36,512 | 2,528,201 |
| Test Year Ended 9/30/04 | 20,621 | 20,621 | 2,548,823 |
| Test Year Ended 9/30/05 | 36,701 | 36,701 | 2,585,524 |
| Test Year Ended 9/30/06 | 20,835 | 20,835 | 2,606,359 |
| Test Year Ended 9/30/07 | 131,464 | 131,464 | 2,737,823 |
| Test Year Ended 9/30/08 | 89,246 | 89,246 | 2,827,069 |
| Projected Test Year Ended 9/30/09 | 1,210,518 | 1,210,518 | 4,037,588 |
| Projected Test Year Ended 9/30/10 | 25,000 | 25,000 | 4,062,588 |
| Projected Test Year Ended 9/30/11 | 25,000 | 25,000 | 4,087,588 |

**SUPPORT SCHEDULES:**
( a ) F-3
( b ) E-5

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COMPARATIVE STATEMENT OF CASH FLOWS**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE A-5**

| | PRIOR YEAR 9/30/2006 (a) | PRIOR YEAR 9/30/2007 (a) | TEST YEAR 9/30/2008 (a) | PRESENT RATES (b) | PROJECTED PROPOSED RATES (b) |
|---|---|---|---|---|---|
| **CASH FLOWS** | | | | | |
| **FROM OPERATING ACTIVITIES:** | | | | | |
| Net Margins (Deficits) | 54,191 | 43,567 | (25,076) | (45,628) | 98,704 |
| Depreciation and Amortization | 106,303 | 105,982 | 117,105 | 117,105 | 117,105 |
| Capital Credits - Noncash | (7,960) | (1,906) | (1,192) | (1,192) | (1,192) |
| Deferred Charges | 3,430 | 3,429 | 3,430 | 3,430 | 3,430 |
| Accounts Receivable | 6,923 | (6,685) | 7,485 | 7,485 | 7,485 |
| Inventories and Other Current Assets | (30,342) | 11,500 | 7,835 | 7,835 | 7,835 |
| Payables and Accrued Expenses | 28,046 | (13,089) | 17,174 | 17,174 | 17,174 |
| Advances - Gas Department | 118,440 | (132,812) | 160,862 | 160,862 | 160,862 |
| Advances - GCEC | (2,229) | (40,155) | 109,291 | 176,794 | 18,083 |
| **FROM OPERATING ACTIVITIES:** | **276,802** | **(30,169)** | **396,914** | **443,865** | **429,486** |
| **FROM INVESTING ACTIVITIES** | | | | | |
| Additions to Plant/Purchase of Property | (204,251) | (634,732) | (512,839) | (512,839) | (512,839) |
| Patronage Capital Retirement - CFC | 12,469 | 6,866 | 7,550 | 7,550 | 7,550 |
| **FROM INVESTING ACTIVITIES** | **(191,782)** | **(627,866)** | **(505,289)** | **(505,289)** | **(505,289)** |
| **FROM FINANCING ACTIVITIES:** | | | | | |
| Payments on Note Payable - AEPCO | (22,000) | (22,000) | (20,166) | (20,166) | (20,166) |
| Payments on Long-Term Debt - CFC | (54,299) | (183,319) | (59,831) | (59,831) | (59,831) |
| Advances from USDA Rural Development | - | 893,722 | 206,278 | 206,278 | 206,278 |
| Payments on Other Long-Term Debt | (8,288) | (8,684) | (14,630) | (14,630) | (14,630) |
| Payment of Capital Credits | - | - | - | - | - |
| **FROM FINANCING ACTIVITIES:** | **(84,587)** | **679,719** | **111,651** | **111,651** | **111,651** |
| **INCREASE (DECREASE) IN CASH** | **433** | **21,684** | **3,276** | **50,227** | **35,848** |
| **CASH - BEGINNING OF YEAR** | **19,124** | **19,557** | **41,241** | **41,241** | **41,241** |
| **CASH - END OF YEAR** | **19,557** | **41,241** | **44,517** | **91,468** | **77,089** |

**SUPPORT SCHEDULES:**
( a ) E-3
( b ) F-2

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008** **SCHEDULE B-1**
**SUMMARY OF ORIGINAL COST**

| | ORIGINAL COST RATE BASE | |
|---|---|---|
| 1. GROSS UTILITY PLANT IN SERVICE | 3,402,418 | |
| 2. LESS: ACCUMULATED DEPRECIATION | (1,058,811) | ( a ) |
| 3. NET UTILITY PLANT IN SERVICE | 2,343,607 | ( a ) |
| LESS: | | |
| 4. CUSTOMERS' ADVANCES IN AID TO CONSTRUCTION | - | |
| 5. CONTRIBUTION IN AID TO CONSTRUCTION | - | |
| 6. ALLOWANCE FOR WORKING CAPITAL | 54,531 | ( b ) |
| 7. TOTAL RATE BASE | 2,398,139 | ( c ) |

**SUPPORTING SCHEDULES:**
( a ) B-2 ( b ) B-5

**RECAP SCHEDULES:**
( c ) A-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**ORIGINAL COST RATE BASE** **SCHEDULE B-2**
**PRO FORMA ADJUSTMENTS**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | ACTUAL AT END OF TEST YEAR 9/30/08 ( a ) | PRO FORMA ADJUSTMENTS 9/30/08 ( c ) | ADJUSTED AT END OF TEST YEAR 9/30/08 ( b ) |
|---|---|---|---|
| **INTANGIBLE PLANT:** | | | |
| NET PLANT | 37,708 | | 37,708 |
| **PRODUCTION** | | | - |
| GROSS PLANT | 578,444 | | 578,444 |
| ACCUMULATED DEPRECIATION | (409,386) | 10,220 | (399,165) |
| NET PLANT | **169,059** | **10,220** | **179,279** |
| **DISTRIBUTION:** | | | - |
| GROSS PLANT | 1,489,296 | | 1,489,296 |
| ACCUMULATED DEPRECIATION | (824,248) | 215,697 | (608,551) |
| NET PLANT | **665,049** | **215,697** | **880,746** |
| **GENERAL & INTANGIBLE** | | | - |
| GROSS PLANT | 111,451 | | 111,451 |
| ACCUMULATED DEPRECIATION | (80,952) | 29,857 | (51,095) |
| NET PLANT | **30,499** | **29,857** | **60,356** |
| **ACQUISITION ADJUSTMENT** | | | - |
| GROSS ADJUSTMENT | 610,168 | | 610,168 |
| ACCUMULATED AMORTIZATION | (463,727) | | (463,727) |
| NET ACQUISITION ADJUSTMENT | **146,441** | | **146,441** |
| **TOTAL** | | | - |
| GROSS PLANT | 2,827,068 | - | 2,827,068 |
| ACCUMULATED DEPRECIATION | (1,778,313) | 255,775 | (1,522,539) |
| NET PLANT | **1,048,755** | **255,775** | **1,304,529** |
| CWIP | 1,185,518 | | 1,185,518 |
| PER FORM 7 | **2,234,273** | **255,775** | **2,490,048** |
| **RATE BASE PLANT** | | | - |
| GROSS PLANT | 2,216,900 | - | 2,216,900 |
| ACCUMULATED DEPRECIATION | (1,314,586) | 255,775 | (1,058,811) |
| NET PLANT | 902,314 | 255,775 | 1,158,089 |
| CWIP | 1,185,518 | - | 1,185,518 |
| NET PLANT | **2,087,833** | **255,775** | **2,343,607** |
| **PROOF:** | | | |
| TOTAL PLANT PER FORM 7 | 4,012,586 | | 4,012,586 |
| LESS: ACQUISITION ADJUSTMENT | (610,168) | | (610,168) |
| LESS: ACCUMULATED DEPRECIATION | (1,778,313) | | (1,778,313) |
| ADD: ACCUMULATED AMORTIZATION | 463,727 | | 463,727 |
| ADD: ACCUMULATED DEPR. ADJUSTMENT | | 255,775 | 255,775 |
| **NET PLANT** | **2,087,833** | **255,775** | **2,343,607** |

**SUPPORT SCHEDULES:**
( a ) E-5
( c ) Adj.Depr Worksheet

**RECAP SCHEDULES:**
( b ) B-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RCNF RATE BASE PRO FORMA ADJUSTMENTS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE B-3

NOT APPLICABLE

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RCND BY MAJOR PLANT ACCOUNTS SCHEDULE B-4
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COMPUTATION OF WORKING CAPITAL** **SCHEDULE B-5**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | | |
|---|---|---|
| 1. CASH WORKING CAPITAL (1) | | |
| 2. MATERIALS AND SUPPLIES INVENTORIES | 51,158 | ( a ) |
| 3. PREPAYMENTS | 11,914 | ( a ) |
| 4. LESS CUSTOMER DEPOSITS | (8,540) | ( a ) |
| **4. TOTAL WORKING CAPITAL ALLOWANCE** | **54,531** | ( b ) |

( 1 ) O&M EXPENSE 1/8

| CUSTOMER CLASSIFICATION | ALLOCATION TO RATE BASE |
|---|---|
| RESIDENTIAL | 45,086 |
| COMMERCIAL | 4,276 |
| RESALE | 5,169 |
| **TOTALS** | **54,531** |

**SUPPORT SCHEDULES:**
**( a ) E-1**

**RECAP SCHEDULES:**
**( b ) B-1**

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**ADJUSTED TEST YEAR INCOME STATEMENT** **SCHEDULE C-1**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TEST YEAR 9/30/2008 (a) | PRO FORMA ADJUSTMENTS (b) | ADJUSTED TEST YEAR | |
|---|---|---|---|---|
| **REVENUES** | | | | |
| SALES OF WATER | 602,983 | - | 602,983 | |
| OTHER WATER REVENUE | 3,970 | 1,320 | 5,290 | |
| | **606,953** | **1,320** | **608,273** | |
| **EXPENSES** | | | | |
| PUMPING WATER | 32,595 | - | 32,595 | |
| DISTRIBUTION EXPENSE - OPERATIONS | 37,693 | 20,109 | 57,801 | |
| DISTRIBUTION EXPENSE - MAINTENANCE | 149,947 | 2,640 | 152,586 | |
| CONSUMER ACCOUNTS EXPENSE | 55,169 | 1,458 | 56,628 | |
| ADMINISTRATIVE & GENERAL | 98,846 | 20,227 | 119,073 | |
| DEPRECIATION & AMORTIZATION | 117,105 | (24,965) | 92,140 | |
| TAX EXPENSE - PROPERTY | 20,216 | - | 20,216 | |
| TAX EXPENSE - OTHER | 13,521 | - | 13,521 | |
| INTEREST EXPENSE - OTHER | 5,820 | (2,555) | 3,265 | |
| | **530,912** | **16,914** | **547,826** | |
| OPERATING MARGINS | **76,041** | **(15,594)** | **60,447** | (c) |
| INTEREST EXPENSE - LTD | 108,791 | 8,243 | 117,034 | |
| **NON-OPERATING MARGINS** | | | | |
| INTEREST INCOME | 3,700 | 3,285 | 6,985 | |
| CAPITAL CREDITS | 3,974 | - | 3,974 | |
| | **7,674** | **3,285** | **10,959** | |
| **NET MARGINS** | **(25,076)** | **(20,552)** | **(45,628)** | |

**SUPPORT SCHEDULES:**
(a) E-2
(b) C-2

**RECAP SCHEDULES:**
(c) A-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**INCOME STATEMENT PRO FORMA ADJUSTMENTS**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE C-2**

| | PRO FORMA ADJUSTMENTS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | D | E | F | G | H | I | TOTAL (a) |
| **DESCRIPTION** | | | | | | | | | | |
| **REVENUES** | | | | | | | | | | |
| SALES OF WATER | | | | | | | | | | - |
| OTHER WATER REVENUE | | | | | | | | 1,320 | | 1,320 |
| | - | - | - | - | - | - | - | **1,320** | | **1,320** |
| **EXPENSES** | | | | | | | | | | - |
| PUMPING WATER | | | | | | | | | | - |
| DISTRIBUTION EXPENSE - OPERATIONS | | 19,186 | | 923 | | | | | | 20,109 |
| DISTRIBUTION EXPENSE - MAINTENANCE | | | | 2,640 | | | | | | 2,640 |
| CONSUMER ACCOUNTS EXPENSE | | | | 1,458 | | | | | | 1,458 |
| ADMINISTRATIVE & GENERAL | | | | 1,177 | 15,050 | | 4,000 | | | 20,227 |
| DEPRECIATION & AMORTIZATION | (24,407) | 28,059 | | | | | | | (28,617) | (24,965) |
| TAX EXPENSE - PROPERTY | | | | | | | | | | - |
| TAX EXPENSE - OTHER | | | | | | | | | | - |
| OTHER DEDUCTIONS | | | | | | | | | | - |
| INTEREST EXPENSE - OTHER | | | | | | (2,555) | | | | (2,555) |
| | **(24,407)** | **47,245** | **-** | **6,197** | **15,050** | **(2,555)** | **4,000** | **-** | **(28,617)** | **16,914** |
| **OPERATING MARGINS** | **24,407** | **(47,245)** | **-** | **(6,197)** | **(15,050)** | **2,555** | **(4,000)** | **1,320** | **28,617** | **(15,594)** |
| INTEREST EXPENSE - LTD | | | (6,658) | | | 14,901 | - | - | | 8,243 |
| NON-OPERATING MARGINS | | | | | | | | | | - |
| INTEREST INCOME | | | | | | | | 3,285 | | 3,285 |
| CAPITAL CREDITS | | | | | | | | | | - |
| **NET MARGINS** | **24,407** | **(47,245)** | **6,658** | **(6,197)** | **(15,050)** | **(12,346)** | **(4,000)** | **4,605** | **28,617** | **(20,552)** |

**SUPPORTING SCHEDULES:**

A - TO ELIMINATE AMORTIZATION ON ACQUITION ADJUSTMENT PER DECISION NO. 58437
B - TO RECORD DEPRECIATION AND TAXES ON PIMA WATER DEVELOPMENT
C - TO ANNUALIZE INTEREST ON PIMA WATER DEVELOPMENT
D - TO ADJUST FOR 3% SALARY INCREASE AND PAYROLL BENEFITS
E - TO ANNUALIZE RENT EXPENSE OF NEW OFFICE BUILDING
F - TO ANNUALIZE INTEREST ON NEW CFC CONSTRUCTION LOAN
G - TO ADJUST FOR ACTUAL AND ESTIMATED RATE CASE EXPENSE
H - TO RECORD INCREASE IN SERVICE CHARGES AND LATE CHARGES
I - TO ADJUST DEPRECIATION TO ACC RATES RECOMMENDED IN DECISION NO. 61056

**RECAP SCHEDULES:**

( a ) C-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR SCHEDULE C-3
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

NOT APPLICABLE - GCU IS A NON-PROFIT CORPORATION

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**SUMMARY COST OF CAPITAL** **SCHEDULE D-1**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | END OF ACTUAL TEST YEAR | | | 9/30/2008 |
|---|---|---|---|---|
| **INVESTED CAPITAL** | **AMOUNT (b)** | **%** | **COST RATE** | **COMPOSITE** |
| LONG-TERM DEBT ( a ) | 2,096,164 | 96.91% | 4.89% | 4.73% |
| DUE TO G.C.E. ( a ) | 66,942 | 3.09% | 4.75% | 0.15% |
| **TOTAL** | **2,163,106** | **100.00%** | | **4.88%** |

| | END OF PROJECTED YEAR | | | 9/30/2008 |
|---|---|---|---|---|
| INVESTED CAPITAL | **AMOUNT (b)** | **%** | **COST RATE** | **COMPOSITE** |
| LONG-TERM DEBT ( a ) | 2,024,141 | 98.06% | 4.83% | 4.73% |
| DUE TO G.C.E. ( a ) | 40,000 | 1.94% | 5.25% | 0.10% |
| **TOTAL** | **2,064,141** | **100.00%** | | **4.84%** |

**SUPPORTING SCHEDULES:**
( a ) D-2

**RECAP SCHEDULES:**
( b ) A-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

COST OF LONG-TERM AND SHORT-TERM DEBT

SCHEDULE D-2

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

| | END OF TEST YEAR | | | 10/1/07 to 9/30/08 END OF PROJECTED YEAR | | |
|---|---|---|---|---|---|---|
| | OUTSTANDING (b) | WEIGHTED INTEREST RATE | ANNUAL INTEREST | OUTSTANDING (a) | WEIGHTED INTEREST RATE | ANNUAL INTEREST |
| **LONG-TERM:** | | | | | | |
| CFC - FIXED RATE | 349,396 | 7.68% | 26,830 | 300,909 | 7.10% | 21,365 |
| CFC - VARIABLE RATE | 120,774 | 6.00% | 7,252 | 140,740 | 6.50% | 9,148 |
| AEPCO | 47,667 | | | 25,667 | | |
| FMHA - LOAN # 1 | 144,052 | 5.000% | 7,289 | 140,740 | 5.000% | 7,127 |
| FMHA - LOAN # 2 | 252,272 | 4.500% | 11,468 | 247,323 | 4.500% | 11,251 |
| FMHA - LOAN # 3 | 87,530 | 4.500% | 3,969 | 86,259 | 4.500% | 3,913 |
| FMHA - LOAN # 4 | 1,094,474 | 4.125% | 45,607 | 1,082,504 | 4.125% | 44,922 |
| **TOTAL LTD** | **2,096,164** | **5.00%** | **102,415** | **2,024,141** | | **97,726** |
| **CURRENT PORTION OF LONG-TERM DEBT** | **90,500** | | | | | |
| | **2,005,664** | | | | | |
| **TOTAL LTD** | **2,096,164** | | **102,415** | **2,024,141** | | **97,726** |
| **COST RATE** | | **4.89%** | | | **4.83%** | |
| **DUE TO G.C.E.** | **66,942** | **4.75%** | **1,844** | **40,000** | **5.25%** | **2,100** |
| **COST RATE** | | **4.75%** | | | **5.25%** | |

**SUPPORTING SCHEDULES:**

( b ) E-1

**RECAP SCHEDULES:**

( a ) D-1

SCHEDULE D-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COST OF PREFERRED STOCK
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

NOT APPLICABLE

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COST OF COMMON EQUITY
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE D-4

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COMPARATIVE BALANCE SHEET** **SCHEDULE E-1**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | | TEST YEAR ENDED 9/30/08 | PRIOR YEARS ENDED 9/30/07 | ENDED 9/30/06 |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| UTILITY PLANT IN SERVICE | | 2,827,069 | 2,737,823 | 2,606,359 |
| CONSTRUCTION WORK IN PROGRESS | | 1,185,518 | 761,925 | 258,657 |
| **TOTAL UTILITY PLANT** | ( a ) | **4,012,587** | **3,499,748** | **2,865,016** |
| ACCUMULATED DEPRECIATION | | 1,778,312 | 1,661,207 | 1,555,226 |
| **NET UTILITY PLANT** | | **2,234,275** | **1,838,541** | **1,309,790** |
| **INVESTMENTS IN ASSOCIATED ORGANIZATIONS** | | **107,506** | **113,864** | **118,824** |
| **CURRENT ASSETS:** | | | | |
| CASH | | 44,517 | 41,241 | 19,557 |
| ACCOUNTS RECEIVABLE (NET) | | 14,545 | 22,030 | 15,345 |
| ACCOUNTS RECEIVABLE - GAS DEPARTMENT | | - | 42,349 | 2,194 |
| ACCOUNTS RECEIVABLE GCEC | ( c ) | - | 160,862 | 28,050 |
| MATERIALS AND SUPPLIES | ( c ) | 51,158 | 54,926 | 68,020 |
| OTHER CURRENT AND ACCRUED ASSETS | ( c ) | 11,914 | 15,981 | 14,387 |
| **TOTAL CURRENT ASSETS** | | **122,133** | **337,389** | **147,553** |
| OTHER ASSETS - DEFERRED DEBITS | | 16,863 | 20,293 | 23,722 |
| **TOTAL ASSETS** | | **2,480,778** | **2,310,087** | **1,599,889** |
| **LIABILITIES AND EQUITY:** | | | | |
| MEMBERSHIPS | | 2,500 | 2,500 | 2,500 |
| PATRONAGE CAPITAL | | 229,758 | 254,834 | 211,267 |
| TOTAL EQUITY | ( b ) | **232,258** | **257,334** | **213,767** |
| **LONG-TERM DEBT** | | | | |
| CFC NOTES PAYABLE | | 422,570 | 471,401 | 656,020 |
| NOTE PAYABLE - AEPCO | | 25,667 | 45,834 | 67,834 |
| NOTE PAYABLE - USDA RURAL DEVELOPMENT | | 1,557,427 | 1,372,878 | 492,941 |
| **LONG-TERM DEBT** | ( b ) | **2,005,664** | **1,890,113** | **1,216,795** |
| **CURRENT LIABILITIES:** | | | | |
| CURRENT MATURITIES OF LONG-TERM DEBT | | 90,500 | 94,400 | 88,000 |
| ACCOUNTS PAYABLE - OTHER | | 54,940 | 37,062 | 49,780 |
| ACCOUNTS PAYABLE - G.C.E.C. | | 66,942 | - | - |
| ACCRUED TAXES | | 19,684 | 19,567 | 18,828 |
| CUSTOMERS' DEPOSITS AND PREPAYMENTS | ( c ) | 8,540 | 9,190 | 9,900 |
| ACCRUED INTEREST | | 2,250 | 2,421 | 2,663 |
| ACCRUED PAYROLL | | - | - | 156 |
| **TOTAL CURRENT LIABILITIES** | | **242,856** | **162,640** | **169,327** |
| **TOTAL LIABILITIES** | | **2,248,520** | **2,052,753** | **1,386,122** |
| **TOTAL EQUITY AND LIABILITIES** | | **2,480,778** | **2,310,087** | **1,599,889** |
| | | **(0)** | **-** | **-** |

**SUPPORT SCHEDULES:**
( a ) E-5

**RECAP SCHEDULES:**
( b ) A-3 ( c ) B-5

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COMPARATIVE INCOME STATEMENT** **SCHEDULE E-2**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TEST YEAR 9/30/2008 | PRIOR YEARS 9/30/2007 | ENDED 9/30/06 | |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| SALES OF WATER | 602,983 | 582,584 | 563,988 | |
| OTHER WATER REVENUE | 3,970 | 2,710 | 2,130 | |
| | **606,953** | **585,294** | **566,118** | **( b )** |
| **EXPENSES:** | | | | |
| COST OF WATER PRODUCTION | 32,595 | 40,810 | 27,050 | |
| DISTRIBUTION EXP. - OPER. | 37,693 | 50,335 | 41,278 | |
| DISTRIBUTION EXP. - MAINT. | 149,947 | 110,267 | 123,036 | |
| CONSUMER ACCOUNTS EXP. | 55,169 | 47,620 | 42,881 | |
| ADMIN. & GENERAL | 98,846 | 86,852 | 78,230 | |
| DEPRECIATION & AMORT. | 117,105 | 105,982 | 106,303 | |
| TAXES - PROPERTY | 20,216 | 19,306 | 19,720 | **( a )** |
| TAXES - OTHER | 13,521 | 12,141 | 9,087 | **( a )** |
| INTEREST EXPENSE - OTHER | 5,820 | 11,679 | 4,062 | |
| | **530,912** | **484,992** | **451,646** | **( b )** |
| OPERATING MARGINS | **76,041** | **100,302** | **114,472** | **( b )** |
| INTEREST EXPENSE - LTD | 108,791 | 67,694 | 76,445 | **( b )** |
| | **(32,750)** | **32,608** | **38,027** | |
| **NON-OPERATING MARGINS:** | - | - | - | |
| INTEREST INCOME | 3,700 | 4,607 | 8,204 | |
| CAPITAL CREDITS | 3,974 | 6,352 | 7,960 | |
| | **7,674** | **10,959** | **16,164** | **( b )** |
| **NET MARGINS** | **(25,076)** | **43,567** | **54,191** | **( b )** |

**SUPPORT SCHEDULES:**
( a ) E-8

**RECAP SCHEDULES:**
( b ) A-2 & C-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COMPARATIVE STATEMENT OF CASH FLOWS** **SCHEDULE E-3**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | PRIOR YEAR 9/30/2006 | PRIOR YEAR 9/30/2007 | TEST YEAR 9/30/2008 |
|---|---|---|---|
| **CASH FLOWS** | | | |
| **FROM OPERATING ACTIVITIES:** | | | |
| NET MARGINS (DEFICITS) | 54,191 | 43,567 | (25,076) |
| DEPRECIATION AND AMORTIZATION | 106,303 | 105,982 | 117,105 |
| CAPITAL CREDITS - NONCASH | (7,960) | (1,906) | (1,192) |
| DEFERRED CHARGES | 3,430 | 3,429 | 3,430 |
| ACCOUNTS RECEIVABLE | 6,923 | (6,685) | 7,485 |
| INVENTORIES AND OTHER CURRENT ASSETS | (30,342) | 11,500 | 7,835 |
| PAYABLES AND ACCRUED EXPENSES | 28,046 | (13,089) | 17,174 |
| ADVANCES - GAS DEPARTMENT | 118,440 | (132,812) | 160,862 |
| ADVANCES - GCEC | (2,229) | (40,155) | 109,291 |
| **TOTAL FROM OPERATIONS** | **276,802** | **(30,169)** | **396,914** |
| **FROM INVESTING ACTIVITIES** | | | |
| ADDITIONS TO PLANT/PURCHASE OF PROPERTY | (204,251) | (634,732) | (512,839) |
| PATRONAGE CAPITAL RETIREMENT - CFC | 12,469 | 6,866 | 7,550 |
| **TOTAL FROM INVESTING** | **(191,782)** | **(627,866)** | **(505,289)** |
| **FROM FINANCING:** | | | |
| PAYMMENTS ON NOTE PAYABLE - AEPCO | (22,000) | (22,000) | (20,166) |
| PAYMENTS ON LONG-TERM DEBT - CFC | (54,299) | (183,319) | (59,831) |
| ADVANCES FROM USDA RURAL DEVELOPMENT | - | 893,722 | 206,278 |
| PAYMENTS ON OTHER LONG-TERM DEBT | (8,288) | (8,684) | (14,630) |
| PAYMENT OF CAPITAL CREDITS | - | - | - |
| **TOTAL FROM FINANCING** | **(84,587)** | **679,719** | **111,651** |
| **INCREASE (DECREASE) IN CASH** | **433** | **21,684** | **3,276** |
| **CASH - BEGINNING OF YEAR** | **19,124** | **19,557** | **41,241** |
| **CASH - END OF YEAR** | **19,557** | **41,241** | **44,517** |

**RECAP SCHEDULES:**
A-5

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**STATEMENT OF CHANGE IN MEMBERS' EQUITY** **SCHEDULE E-4**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TOTAL MARGINS AND EQUITIES | |
|---|---|---|
| **BALANCE SEPTEMBER 30, 2000** | **52,728** | |
| NET EARNINGS (LOSS) | 42,354 | |
| PATRONAGE CAPITAL RETIRED | (46,670) | |
| **BALANCE SEPTEMBER 30, 2001** | **48,412** | |
| NET EARNINGS (LOSS) | 6,100 | |
| **BALANCE SEPTEMBER 30, 2002** | **54,512** | |
| NET EARNINGS (LOSS) | 50,332 | |
| **BALANCE SEPTEMBER 30, 2003** | **104,844** | |
| NET EARNINGS (LOSS) | 5,327 | |
| **BALANCE SEPTEMBER 30, 2004** | **110,171** | |
| NET EARNINGS (LOSS) | 46,905 | |
| **BALANCE SEPTEMBER 30, 2005** | **157,076** | |
| NET EARNINGS (LOSS) | 54,191 | ( b ) |
| **BALANCE SEPTEMBER 30, 2006** | **211,267** | ( a ) |
| NET EARNINGS (LOSS) | 43,567 | ( b ) |
| **BALANCE SEPTEMBER 30, 2007** | **254,834** | ( a ) |
| NET EARNINGS (LOSS) | (25,076) | ( b ) |
| **BALANCE SEPTEMBER 30, 2008** | **229,758** | ( a ) |

**SUPPORT SCHEDULES:**
( a ) E-1
( b ) E-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DETAIL OF UTILITY PLANT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE E-5

| | 6/30/1997 | NET ADDITIONS | 9/30/1997 | NET ADDITIONS | 9/30/1998 | NET ADDITIONS | 9/30/1999 | NET ADDITIONS | 9/30/2000 | NET ADDITIONS | 9/30/2001 | NET ADDITIONS | 9/30/2002 | NET ADDITIONS | 9/30/2003 | NET ADDITIONS | 9/30/2004 | NET ADDITIONS | 9/30/2005 | NET ADDITIONS | 9/30/2006 | NET ADDITIONS | 9/30/2007 | NET ADDITIONS | END OF TEST YEAR 9/30/2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **ACQUISITION ADJUSTMENT** | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | | **610,168** | - | **610,168** |
| **INTANGIBLE PLANT:** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 301 ORGANIZATION | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | - | 37,708 | | **37,708** |
| **SUBTOTAL INTANGIBLE** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** | **-** | **37,708** |
| **PRODUCTION PLANT** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 303 LAND & LAND RIGHTS | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | - | 16,007 | 6,500 | 22,507 | | **22,507** |
| 304 STRUCTURES & IMPROVEMENTS | 128,363 | - | 128,363 | 40,984 | 169,348 | 1,645 | 170,993 | - | 170,993 | - | 170,993 | 31,851 | 202,844 | - | 202,844 | - | 202,844 | 16,640 | 219,484 | (11,355) | 208,128 | - | 208,128 | | **208,128** |
| 307 WELLS & SPRINGS | 81,136 | (2,417) | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | - | 78,719 | 89,052 | 167,771 | | **167,771** |
| 311 PUMPING EQUIPMENT | 138,953 | - | 138,953 | - | 138,953 | - | 138,953 | - | 138,953 | - | 138,953 | 27,433 | 166,386 | 9,944 | 176,330 | - | 176,330 | - | 176,330 | - | 176,330 | 2,107 | 178,437 | 1,602 | **180,038** |
| **SUBTOTAL PRODUCTION** | **364,459** | **(2,417)** | **362,042** | **40,984** | **403,027** | **1,645** | **404,672** | **-** | **404,672** | **-** | **404,672** | **59,284** | **463,955** | **9,944** | **473,899** | **-** | **473,899** | **16,640** | **490,539** | **(11,355)** | **479,184** | **97,659** | **576,843** | **1,602** | **578,444** |
| **DISTRIBUTION PLANT** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 331 TRANSMISSION MAINS | 500,076 | (7,252) | 492,824 | 213,335 | 706,159 | 188,338 | 894,497 | - | 894,497 | - | 894,497 | 88,971 | 983,468 | - | 983,468 | - | 983,468 | - | 983,468 | - | 983,468 | - | 983,468 | | **983,468** |
| 333 SERVICES | 125,222 | (574) | 124,648 | 1,926 | 126,574 | 31,598 | 158,171 | 10,917 | 169,088 | 2,871 | 171,959 | 4,824 | 176,783 | 25,072 | 201,856 | 13,306 | 215,162 | 14,740 | 229,902 | 26,370 | 256,271 | 11,825 | 268,097 | 29,901 | **297,998** |
| 335 HYDRANTS | 9,625 | - | 9,625 | 4,891 | 14,516 | 23,830 | 38,346 | - | 38,346 | - | 38,346 | 2,365 | 40,711 | - | 40,711 | - | 40,711 | - | 40,711 | 2,699 | 43,410 | 13,593 | 57,003 | 5,461 | **62,464** |
| 370 METERS | 81,876 | 4,505 | 86,381 | 5,162 | 91,544 | 5,838 | 97,382 | 7,154 | 104,536 | 6,125 | 110,662 | 6,545 | 117,206 | (504) | 116,703 | 5,819 | 122,522 | 3,886 | 126,408 | 2,560 | 128,967 | 4,081 | 133,048 | 12,319 | **145,367** |
| **SUBTOTAL DISTRIBUTION** | **716,799** | **(3,320)** | **713,479** | **225,314** | **938,793** | **249,603** | **1,188,396** | **18,071** | **1,206,467** | **8,997** | **1,215,464** | **102,704** | **1,318,168** | **24,568** | **1,342,737** | **19,125** | **1,361,862** | **18,626** | **1,380,488** | **31,628** | **1,412,116** | **29,499** | **1,441,615** | **47,681** | **1,489,296** |
| **GENERAL PLANT** | | | | | | | | | | | | | | | | | | | | | | | | | |
| 345 POWER OPERATED EQUIPMENT | 16,854 | - | 16,854 | 31,825 | 48,679 | 1,277 | 49,956 | - | 49,956 | - | 49,956 | - | 49,956 | 2,000 | 51,956 | - | 51,956 | - | 51,956 | - | 51,956 | - | 51,956 | 38,591 | **90,547** |
| 394 TOOLS , SHOP & GARAGE EQUIPMENT | 3,886 | - | 3,886 | - | 3,886 | - | 3,886 | - | 3,886 | - | 3,886 | - | 3,886 | - | 3,886 | 1,496 | 5,383 | 1,435 | 6,818 | 562 | 7,380 | 4,306 | 11,686 | 1,372 | **13,058** |
| 397 COMMUNICATION EQUIPMENT | - | - | - | - | - | - | - | - | - | - | - | 7,846 | 7,846 | - | 7,846 | - | 7,846 | - | 7,846 | - | 7,846 | - | 7,846 | | **7,846** |
| **SUBTOTAL GENERAL** | **20,741** | **-** | **20,741** | **31,825** | **52,566** | **1,277** | **53,843** | **-** | **53,843** | **-** | **53,843** | **7,846** | **61,689** | **2,000** | **63,689** | **1,496** | **65,185** | **1,435** | **66,621** | **562** | **67,183** | **4,306** | **71,488** | **39,963** | **111,451** |
| **TOTAL PLANT IN SERVICE** | **1,749,875** | **(5,737)** | **1,744,138** | **298,123** | **2,042,261** | **252,526** | **2,294,787** | **18,071** | **2,312,858** | **8,997** | **2,321,855** | **169,834** | **2,491,689** | **36,512** | **2,528,201** | **20,621** | **2,548,823** | **36,701** | **2,585,524** | **20,835** | **2,606,359** | **131,464** | **2,737,822** | **89,246** | **2,827,068** |
| CWIP | 402,345 | (42,515) | 359,829 | (246,872) | 112,957 | (111,160) | 1,797 | 27,502 | 29,299 | 95,326 | 124,625 | (121,813) | 2,812 | (8,104) | (5,292) | 6,943 | 1,651 | 79,670 | 81,322 | 177,336 | 258,657 | 503,268 | 761,925 | 423,593 | **1,185,518** |
| **TOTAL NET PLANT** | **2,152,220** | **(48,253)** | **2,103,967** | **51,251** | **2,155,218** | **141,366** | **2,296,584** | **45,573** | **2,342,157** | **104,322** | **2,446,479** | **48,021** | **2,494,501** | **28,408** | **2,522,909** | **27,565** | **2,550,474** | **116,372** | **2,666,846** | **198,171** | **2,865,016** | **634,732** | **3,499,748** | **512,839** | **4,012,586** |
| **ACCUMULATED DEPRECIATION** | | | | | | | | | | | | | | | | | | | | | | | | | |
| PRODUCTION | 211,231 | 3,476 | 214,708 | 15,176 | 229,884 | 15,481 | 245,365 | 15,547 | 260,912 | 15,547 | 276,458 | 16,970 | 293,428 | 17,992 | 311,420 | 18,316 | 329,736 | 18,371 | 348,107 | 18,754 | 366,862 | 20,302 | 387,164 | 22,222 | **409,386** |
| TRANSMISSION | 221,505 | 4,977 | 226,482 | 3,837 | 230,319 | 28,246 | 258,565 | 35,780 | 294,345 | 35,780 | 330,125 | 38,746 | 368,870 | 39,339 | 408,209 | 39,339 | 447,548 | 39,339 | 486,887 | 39,339 | 526,225 | 39,339 | 565,564 | | **565,564** |
| DISTRIBUTION | 77,857 | 2,186 | 80,043 | 9,077 | 89,120 | 9,477 | 98,597 | 11,858 | 110,455 | 12,642 | 123,097 | 13,090 | 136,186 | 7,246 | 143,433 | 14,633 | 158,066 | 15,159 | 173,225 | 10,112 | 183,337 | 17,218 | 200,555 | 58,128 | **258,683** |
| GENERAL | 6,390 | 583 | 6,973 | 4,483 | 11,456 | 5,515 | 16,971 | 5,633 | 22,604 | 5,643 | 28,248 | 6,624 | 34,872 | 7,018 | 41,890 | 7,162 | 49,052 | 7,224 | 56,276 | 7,611 | 63,888 | 4,716 | 68,603 | 12,349 | **80,952** |
| **TOTAL** | **516,983** | **11,222** | **528,206** | **32,573** | **560,779** | **58,720** | **619,498** | **68,817** | **688,315** | **69,612** | **757,927** | **75,430** | **833,357** | **71,595** | **904,952** | **79,450** | **984,402** | **80,093** | **1,064,495** | **75,817** | **1,140,312** | **81,575** | **1,221,887** | **92,699** | **1,314,586** |
| **ACCUMULATED AMORTIZATION** | 189,152 | 6,102 | 195,254 | 24,407 | 219,660 | 24,407 | 244,067 | 24,407 | 268,474 | 24,407 | 292,880 | 24,407 | 317,287 | 24,407 | 341,694 | 24,407 | 366,100 | 24,407 | 390,507 | 24,407 | 414,914 | 24,407 | 439,320 | 24,407 | 463,727 |
| **TOTAL ACCUM. DEPREC. & AMORT.** | **706,135** | **17,324** | **723,459** | **56,979** | **780,439** | **83,126** | **863,565** | **93,224** | **956,789** | **94,019** | **1,050,808** | **99,836** | **1,150,644** | **96,002** | **1,246,646** | **103,856** | **1,350,502** | **104,500** | **1,455,002** | **100,223** | **1,555,226** | **105,982** | **1,661,207** | **117,106** | **1,778,313** |
| **NET PLANT** | **1,446,085** | **(65,577)** | **1,380,508** | **(5,728)** | **1,374,780** | **58,240** | **1,433,019** | **(47,651)** | **1,385,368** | **10,304** | **1,395,672** | **(51,815)** | **1,343,857** | **(67,594)** | **1,276,263** | **(76,292)** | **1,199,971** | **11,872** | **1,211,843** | **97,948** | **1,309,791** | **528,750** | **1,838,541** | **395,733** | **2,234,273** |
| **DEPRECIATION ADJUSTMENT** | | 2,904 | 2,904 | 15,778 | 18,682 | 17,308 | 35,990 | 21,595 | 57,585 | 21,733 | 79,318 | 24,085 | 103,403 | 24,684 | 128,088 | 24,948 | 153,036 | 25,355 | 178,391 | 25,662 | 204,053 | 23,104 | 227,157 | 28,617 | 255,775 |
| **NET PLANT AFTER DEPRECIATION ADJUST.** | **1,446,085** | **(62,673)** | **1,383,412** | **10,050** | **1,393,462** | **75,548** | **1,469,010** | **(26,056)** | **1,442,953** | **32,037** | **1,474,990** | **(27,730)** | **1,447,260** | **(42,910)** | **1,404,351** | **(51,344)** | **1,353,007** | **37,227** | **1,390,234** | **123,610** | **1,513,844** | **551,854** | **2,065,698** | **424,350** | **2,490,048** |

RECAP SCHEDULES:
A-4 B-2 E-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008



NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**OPERATING STATISTICS** **SCHEDULE E-7**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| ELECTRIC STATISTICS ( a ) | TEST YEAR ENDED 9/30/08 | PRIOR YEAR ENDED 9/30/07 | PRIOR YEAR ENDED 9/30/06 |
|---|---|---|---|
| **GALLONS SOLD** | | | |
| RESIDENTIAL | 118,257,900 | 110,693,600 | 109,930,400 |
| COMMERCIAL | 12,459,800 | 13,428,800 | 12,202,800 |
| SALES FOR RESALE | 21,662,300 | 23,970,000 | 19,229,400 |
| **TOTALS** | **152,380,000** | **148,092,400** | **141,362,600** |
| **AVERAGE NUMBER OF CUSTOMERS** | | | |
| RESIDENTIAL | 1,099 | 1,070 | 1,038 |
| COMMERCIAL | 69 | 67 | 66 |
| SALES FOR RESALE | 2 | 2 | 2 |
| **TOTALS** | **1,170** | **1,139** | **1,107** |
| **AVERAGE GALLONS USE** | | | |
| RESIDENTIAL | 107,605 | 103,420 | 105,872 |
| COMMERCIAL - SMALL | 180,577 | 200,430 | 183,962 |
| SALES FOR RESALE | 10,831,150 | 11,985,000 | 9,614,700 |
| **TOTALS** | **11,119,332** | **12,288,850** | **9,904,534** |
| **DOLLARS** | | | |
| RESIDENTIAL | 520,702 | 495,134 | 487,139 |
| COMMERCIAL - SMALL | 48,371 | 50,055 | 46,612 |
| SALES FOR RESALE | 33,910 | 37,395 | 30,236 |
| **TOTALS** | **602,983** | **582,584** | **563,986** |
| OTHER WATER REVENUE | 3,970 | 2,710 | 2,130 |
| **TOTAL REVENUE** | **606,953** | **585,294** | **566,116** |
| AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER | 474 | 463 | 469 |

**SUPPORTING SCHEDULES:**
**( a ) RUS FORM 7 FOR RESPECTIVE YEARS**

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**TAXES CHARGED TO OPERATIONS** **SCHEDULE E-8**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TEST YEAR 9/30/2008 | PRIOR YEAR 9/30/2007 | PRIOR YEAR 9/30/2006 | |
|---|---|---|---|---|
| PAYROLL & OTHER | 13,521 | 12,141 | 9,087 | ( a ) |
| PROPERTY | 20,216 | 19,306 | 19,720 | ( a ) |
| **TOTAL TAXES** | **33,737** | **31,447** | **28,806** | |

**RECAP SCHEDULES:**
( a ) E-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM

SCHEDULE E-9

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

NOTES TO FINANCIAL STATEMENTS

SEE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**PROJECTED INCOME STATEMENTS** **SCHEDULE F-1**
**PRESENT AND PROPOSED RATES**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TEST YEAR ENDED 9/30/08 | PROJECTED YEAR ENDED 9/30/08 PRESENT | PROPOSED |
|---|---|---|---|
| | (a) | (b) | (b) |
| **REVENUES:** | | | |
| SALES OF WATER | 602,983 | 602,983 | 747,315 |
| OTHER WATER REVENUE | 3,970 | 5,290 | 5,290 |
| | **606,953** | **608,273** | **752,605** |
| EXPENSES: | | | |
| PUMPING WATER | 32,595 | 32,595 | 32,595 |
| DISTRIBUTION EXP. - OPER. | 37,693 | 57,801 | 57,801 |
| DISTRIBUTION EXP. - MAINT | 149,947 | 152,586 | 152,586 |
| CONSUMER ACCOUNTS EXP | 55,169 | 56,628 | 56,628 |
| ADMIN. & GENERAL | 98,846 | 119,073 | 119,073 |
| DEPRECIATION & AMORT. | 117,105 | 92,140 | 92,140 |
| TAXES - PROPERTY | 20,216 | 20,216 | 20,216 |
| TAXES - OTHER | 13,521 | 13,521 | 13,521 |
| INTEREST EXPENSE - OTHEI | 5,820 | 3,265 | 3,265 |
| | **530,912** | **547,826** | **547,826** |
| **OPERATING MARGINS** | **76,041** | **60,447** | **204,779** |
| INTEREST EXPENSE - LTD | 108,791 | 117,034 | 117,034 |
| NON-OPERATING MARGINS: | | | |
| INTEREST INCOME | 3,700 | 6,985 | 6,985 |
| CAPITAL CREDITS | 3,974 | 3,974 | 3,974 |
| | **7,674** | **10,959** | **10,959** |
| NET MARGINS | **(25,076)** | **(45,628)** | **98,704** |

**SUPPORTING SCHEDULES:**
(a) E-2

**RECAP SCHEDULES:**
(b) A-2

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**PROJECTED STATEMENT OF CASH FLOWS** **SCHEDULE F-2**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | TEST YEAR 9/30/2008 (a) | PRESENT RATES (b) | PROJECTED PROPOSED RATES (b) |
|---|---|---|---|
| **CASH FLOWS** | | | |
| **FROM OPERATING ACTIVITIES:** | | | |
| Net Margins (Deficits) | (25,076) | (45,628) | 98,704 |
| Depreciation and Amortization | 117,105 | 117,105 | 117,105 |
| Capital Credits - Noncash | (1,192) | (1,192) | (1,192) |
| Deferred Charges | 3,430 | 3,430 | 3,430 |
| Accounts Receivable | 7,485 | 7,485 | 7,485 |
| Inventories and Other Current Assets | 7,835 | 7,835 | 7,835 |
| Payables and Accrued Expenses | 17,174 | 17,174 | 17,174 |
| Advances - Gas Department | 160,862 | 160,862 | 160,862 |
| Advances - GCEC | 109,291 | 176,794 | 18,083 |
| **FROM OPERATING ACTIVITIES:** | **396,914** | **443,865** | **429,486** |
| **FROM INVESTING ACTIVITIES** | | | |
| Additions to Plant/Purchase of Property | (512,839) | (512,839) | (512,839) |
| Patronage Capital Retirement - CFC | 7,550 | 7,550 | 7,550 |
| **FROM INVESTING ACTIVITIES** | **(505,289)** | **(505,289)** | **(505,289)** |
| **FROM FINANCING:** | | | |
| Advances from AEPCO | - | - | - |
| Payments on Note Payable - AEPCO | (20,166) | (20,166) | (20,166) |
| Payments on Long-Term Debt - CFC | (59,831) | (59,831) | (59,831) |
| Advances from USDA Rural Development | 206,278 | 206,278 | 206,278 |
| Payments on Other Long-Term Debt | (14,630) | (14,630) | (14,630) |
| Payment of Capital Credits | - | - | - |
| **FROM FINANCING ACTIVITIES:** | **111,651** | **111,651** | **111,651** |
| **INCREASE (DECREASE) IN CASH** | **3,276** | **50,227** | **35,848** |
| **CASH - BEGINNING OF YEAR** | **41,241** | **41,241** | **41,241** |
| **CASH - END OF YEAR** | **44,517** | **91,468** | **77,089** |

**SUPPORT SCHEDULES:**
(a) E-3

**RECAP SCHEDULES:**
(b) A-5

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**PROJECTED CONSTRUCTION REQUIREMENTS** **SCHEDULE F-3**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | ACTUAL TEST YEAR ENDED | PROJECTED YEAR ENDED | | |
|---|---|---|---|---|
| **PROPERTY CLASSIFICATION:** | **YEAR ENDED 9/30/08** | **YEAR ENDED 9/30/09** | **YEAR ENDED 9/30/10** | **YEAR ENDED 9/30/11** |
| PRODUCTION PLANT | 1,602 | 4,000 | 4,000 | 4,000 |
| DISTRIBUTION PLANT | 47,681 | 18,000 | 18,000 | 18,000 |
| GENERAL PLANT | 39,963 | 3,000 | 3,000 | 3,000 |
| CWIP - PIMA WATER PROJECT | | 1,185,518 | | |
| **TOTAL PLANT ( a )** | **89,246** | **1,210,518** | **25,000** | **25,000** |

**SUPPORTING SCHEDULES:**

**RECAP SCHEDULES:**
( a ) A-4

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**ASSUMPTIONS USED IN DEVELOPING PROJECTIONS**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE F-4**

**AT PRESENT AND PROPOSED RATES - SCHEDULE F-1**

| | PER GENERAL LEDGER | PER DECISION NO. 61056 |
|---|---|---|
| STAFFING LEVELS | 4 | |
| WAGE INCREASES THROUGH | 7/1/2011 | |
| NRECA RETIREMENT COST RATE - % OF GROSS PAYROLL | 18.96% | |
| DEPRECIATION RATES TRANSMISSION PLANT | 4.00% | 3.61% |
| DEPRECIATION RATES DISTRIBUTION PLANT | 4.00% | 3.61% |
| CONSTRUCTION EXPENDITURES - SCHEDULE F-3 | | |

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COST OF SERVICE SUMMARY - PRESENT RATES** **SCHEDULE G-1**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | REVENUES | OTHER REVENUE | TOTAL REVENUE | EXPENSES | OPERATING MARGINS | RATE BASE | RATE OF RETURN - % |
|---|---|---|---|---|---|---|---|
| RESIDENTIAL | 520,702 | 3,428 | 524,130 | 482,265 | 41,865 | 2,001,217 | 2.09% |
| COMMERCIAL | 48,371 | 318 | 48,690 | 38,255 | 10,435 | 186,842 | 5.58% |
| RESALE | 33,910 | 223 | 34,133 | 27,306 | 6,827 | 210,079 | 3.25% |
| **TOTALS** | **602,983** | **3,970** | **606,953** | **547,826** | **59,127** | **2,398,138** | **2.47%** |
| | ( a ) | | | ( b ) | | ( c ) | |

**SUPPORTING SCHEDULES:**
( a ) H-1
( b ) G-4
( c ) G-3

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**COST OF SERVICE SUMMARY - PROPOSED RATES** **SCHEDULE G-2**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| | REVENUES | OTHER REVENUE | TOTAL REVENUE | EXPENSES | OPERATING MARGINS | RATE BASE | RATE OF RETURN - % |
|---|---|---|---|---|---|---|---|
| RESIDENTIAL | 642,220 | 4,546 | 646,766 | 482,265 | 164,501 | 2,001,217 | 8.22% |
| COMMERCIAL | 62,056 | 439 | 62,495 | 38,255 | 24,240 | 186,842 | 12.97% |
| RESALE | 43,039 | 305 | 43,344 | 27,306 | 16,038 | 210,079 | 7.63% |
| **TOTALS** | **747,315** | **5,290** | **752,605** | **547,826** | **204,779** | **2,398,138** | **8.54%** |

**SUPPORTING S** **( a )** **( b )** **( c )**

( a ) H-1
( b ) G-4
( c ) G-3

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
RATE BASE ALLOCATION TO CLASS OF SERVICE
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-3

| CLASS OF SERVICE | TOTAL | | PRODUCTION | | CUSTOMER DISTRIBUTION | | CWIP | | GENERAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| | (a) | (a) | (b) | (c) | (b) | (c) | (b) | (c) | (b) | (c) |
| RESIDENTIAL | 2,001,217 | 83.45% | 144,083 | 77.61% | 890,246 | 92.10% | 920,048 | 77.61% | 46,840 | 77.61% |
| COMMERCIAL | 186,842 | 7.79% | 15,181 | 8.18% | 69,789 | 7.22% | 96,937 | 8.18% | 4,935 | 8.18% |
| RESALE | 210,079 | 8.76% | 26,393 | 14.22% | 6,573 | 0.68% | 168,533 | 14.22% | 8,580 | 14.22% |
| **TOTAL** | **2,398,138** | **100.00%** | **185,657** | **100.00%** | **966,608** | **100.00%** | **1,185,518** | **100.00%** | **60,356** | **100.00%** |

**SUPPORTING SCHEDULES:**
(b) G-5
(c) G-7

**RECAP SCHEDULES:**
(a) G-1 & G-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
EXPENSE ALLOCATION TO CLASS OF SERVICE
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-4

| CLASS OF SERVICE | TOTAL | | CUSTOMER DISTRIBUTION | | COST OF PUMPING W/ FIXED COSTS | | | | ALL OTHER | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| | (a) | (a) | (b) | (c) | (b) | (c) | (b) | (c) | (b) | (c) |
| RESIDENTIAL | 482,265 | 88.03% | 143,281 | 93.90% | 25,296 | 77.61% | 93,760 | 83.45% | 219,928 | 87.87% |
| COMMERCIAL | 38,255 | 6.98% | 9,045 | 5.93% | 2,665 | 8.18% | 8,754 | 7.79% | 17,791 | 7.11% |
| RESALE | 27,306 | 4.98% | 260 | 0.17% | 4,634 | 14.22% | 9,842 | 8.76% | 12,570 | 5.02% |
| **TOTAL** | **547,826** | **100.00%** | **152,586** | **100.00%** | **32,595** | **100.00%** | **112,356** | **100.00%** | **250,289** | **100.00%** |

**SUPPORTING SCHEDULES:**
( b ) G-6
( c ) G-7

**RECAP SCHEDULES:**
( a ) G-1 & G-2

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DISTRIBUTION OF RATE BASE BY FUNCTION
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE G-5

| | TOTAL $ | % | CWIP | PRODUCTION | DISTRIBUTION | WORKING CAPITAL | INTANGIBLES | GENERAL |
|---|---|---|---|---|---|---|---|---|
| PRODUCTION | 1,399,106 | 58.34% | 1,185,518 | 179,279 | | 27,931 | 6,377 | |
| DISTRIBUTION | 938,050 | 39.12% | | | 880,746 | 25,973 | 31,331 | |
| GENERAL PLANT | 60,983 | 2.54% | | | | 627 | | 60,356 |
| **TOTAL PLANT ( a )** | **2,398,138** | **100.00%** | **1,185,518** | **179,279** | **880,746** | **54,531** | **37,708** | **60,356** |

**RECAP SCHEDULES:**

( a ) G-3

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**DISTRIBUTION OF EXPENSES BY FUNCTION**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE G-6**

| CLASS OF SERVICE | TOTAL | | CUSTOMER DISTRIBUTION | | PRODUCTION | | FIXED COSTS | | CUSTOMER | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % | $ | % | $ | % |
| **EXPENSES** | (a) | (a) | (b) | (c) | (b) | (c) | (b) | (c) | (b) | (c) |
| COST OF WATER PRODUCTION | 32,595 | | | | 32,595 | 100.0% | | | | |
| DISTRIBUTION EXPENSE - O&M | 210,388 | | 152,586 | 72.5% | | | | | 57,801 | 27.5% |
| CONSUMER ACCOUNTS EXPENSE | 56,628 | | | | | | | | 56,628 | 100.0% |
| ADMINISTRATIVE & GENERAL | 119,073 | | | | | | | | 119,073 | 100.0% |
| DEPRECIATION & AMORTIZATION | 92,140 | | | | | | 92,140 | 100.0% | | |
| TAX EXPENSE | 33,737 | | | | | | 20,216 | 59.9% | 13,521 | 40.1% |
| INTEREST EXPENSE - OTHER | 3,265 | | | | | | | | 3,265 | 100.0% |
| **EXPENSES - MEMBERS (a)** | **547,826** | **100.0%** | **152,586** | **27.9%** | **32,595** | **5.9%** | **112,356** | **20.5%** | **250,289** | **45.7%** |

**RECAP SCHEDULES:**
(a) G-4

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DEVELOPMENT OF ALLOCATION FACTORS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008



**A. BASED ON NUMBER OF CUSTOMERS:**

| CLASS OF SERVICE | NUMBER OF CUSTOMERS | ALLOCATION FACTOR % |
|---|---|---|
| RESIDENTIAL | 1,102 | 93.90% |
| COMMERCIAL | 70 | 5.93% |
| RESALE | 2 | 0.17% |
| **TOTALS** | **1,174** | **100.00%** |

**B. BASED ON TOTAL GALLONS USAGE:**

| CLASS OF SERVICE | TOTAL GALLONS | ALLOCATION FACTOR % |
|---|---|---|
| RESIDENTIAL | 118,257,900 | 77.61% |
| COMMERCIAL | 12,459,800 | 8.18% |
| RESALE | 21,662,300 | 14.22% |
| **TOTALS** | **152,380,000** | **100.00%** |

**C. BASED ON COMBINED AVERAGE:**

| CLASS OF SERVICE | GALLONS FACTOR % | # OF CUST FACTOR % | PLANT FACTOR % | COMBINED AVERAGE |
|---|---|---|---|---|
| RESIDENTIAL | 77.61% | 93.90% | 92.10% | 87.87% |
| COMMERCIAL | 8.18% | 5.93% | 7.22% | 7.11% |
| RESALE | 14.22% | 0.17% | 0.68% | 5.02% |
| **TOTALS** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
DEVELOPMENT OF ALLOCATION FACTORS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008



**D. BASED ON RELATIVE COST OF SERVICES & METERS INSTALLED:**

| | | |
|---|---|---|
| **TOTAL PLANT IN SERVICE** | | 4,012,586 |
| **LESS: ACQUISITION ADJUSTMENT** | 610,168 | |
| **ACCUMULATED AMORTIZATION ON ACQUITION ADJ** | (463,727) | 146,441 |
| LESS: ACCUMULATED DEPRECIATION | 1,778,313 | |
| ADD: ACCUMULATED DEPRECIATION ADJUSTMENT | (255,775) | 1,522,539 |
| **NET PLANT** | | **2,343,607** |

**BALANCE OF NET PLANT**

**RELATIVE CURRENT COST OF SERVICE INSTALLATION & METER:**

| CLASS OF SERVICE | AVG. # OF CONSUMERS | COST OF INSTALLATION | TOTAL COST $1,000 | FACTOR % |
|---|---|---|---|---|
| RESIDENTIAL | 1,102 | 370 | 408 | 92.10% |
| COMMERCIAL | 70 | 465 | 32 | 7.22% |
| RESALE | 2 | 1,650 | 3 | 0.68% |
| **TOTAL** | **1,174** | | **443** | **100.00%** |

**RESULTANT ALLOCATION FACTORS:**

| CLASS OF SERVICE | NET PLANT DISTRIBUTION | ALLOCATION FACTOR % |
|---|---|---|
| RESIDENTIAL | 2,158,446 | 92.10% |
| COMMERCIAL | 169,290 | 7.22% |
| RESALE | 15,871 | 0.68% |
| **TOTAL** | **2,343,607** | **100.00%** |

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**SUMMARY OF REVENUES BY CUSTOMER CLASS** **SCHEDULE H-1**
**PRESENT AND PROPOSED RATES**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008** **PROPOSED**

| | REVENUES IN TEST YEAR PRESENT (a) | PROPOSED (a) | INCREASE AMOUNT (b) | % (b) |
|---|---|---|---|---|
| RESIDENTIAL | 520,702 | 642,220 | 121,518 | 23.34% |
| COMMERCIAL | 48,371 | 62,056 | 13,684 | 28.29% |
| RESALE | 33,910 | 43,039 | 9,129 | 26.92% |
| **TOTAL** | **602,983** | **747,315** | **144,332** | **23.94%** |

**SUPPORTING SCHEDULES:**

(a) H-2

**RECAP SCHEDULE:**

(b) A-1

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
ANALYSIS OF REVENUE BY DETAILED CLASS

SCHEDULE H-2

TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

| CLASS OF SERVICE | ANNUAL AVERAGES CUSTOMERS | GALLONS | REVENUES PRESENT (a) | PROPOSED (a) | INCREASE AMOUNT (a) | PERCENT (a) |
|---|---|---|---|---|---|---|
| **RESIDENTIAL :** | | | | | | |
| SCHEDULE A | 1,102 | 107,288 | 520,702 | 642,220 | 121,518 | 23.34% |
| **COMMERCIAL :** | | | | | | |
| SCHEDULE B | 70 | 179,063 | 48,371 | 62,056 | 13,684 | 28.29% |
| **RESALE** | | | | | | |
| SCHEDULE | 2 | 21,662,300 | 33,910 | 43,039 | 9,129 | 26.92% |
| **TOTAL** | **1,174** | **21,948,651** | **602,983** | **747,315** | **144,332** | **23.94%** |

**RECAP SCHEDULES:**

(a) H-1

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**CHANGES IN REPRESENTATIVE RATE SCHEDULES** **SCHEDULE H-3**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**

| RATE SCHEDULE | BLOCK | RATES PRESENT (a) | RATES PROPOSED (b) | $ CHANGE | % CHANGE |
|---|---|---|---|---|---|
| **RESIDENTIAL** | | | | | |
| A | ALL GALLONS | 2.55 | 2.97 | 0.42 | 16.47% |
| | SERVICE AVAILABILITY | 16.80 | 22.00 | 5.20 | 30.95% |
| **COMMERCIAL** | | | | - | |
| B & C | ALL GALLONS | 2.55 | 2.97 | 0.42 | 16.47% |
| | SERVICE AVAILABILITY | 23.00 | 30.00 | 7.00 | 30.43% |
| **RESALE** | | | | | |
| CG | ALL GALLONS | 1.51 | 1.95 | 0.44 | 29.38% |
| | SERVICE AVAILABILITY | 50.00 | 60.00 | 10.00 | 20.00% |
| **SERVICE CHARGES** | | | | | |
| Establishment of Service - Regular Hours | | 15.00 | 20.00 | 5.00 | 33.33% |
| Establishment of Service - After Hours | | 22.50 | 50.00 | 27.50 | 122.22% |
| Reconnection of Service - Regular Hours | | 20.00 | 20.00 | - | 0.00% |
| Reconnection of Service - After Hours | | 0.00 | 50.00 | 50.00 | N/A |
| After Hours Service Calls - Consumer Caused | | 70.00 | 70.00 | - | 0.00% |
| Meter Reread Charge (If Correct) | | 10.00 | 10.00 | - | 0.00% |
| Meter Test Fee (If Correct) | | 20.00 | 20.00 | - | 0.00% |
| Insufficient Funds Check Charge | | 20.00 | 25.00 | 5.00 | 25.00% |
| Interest Rate on Customer Deposits | | 6 % | 6 % | | |
| Late Payment (Per Month & Per Total Bill) | | 1.5 % | 1.5% with $5 minimum | | |
| Reestablishment (Within 12 Months) | | ** | ** | | |

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

**SUPPORTING SCHEDULES:**
( a ) TARIFF SCHEDULES EFFECTIVE 9/1/98 - DECISION NO. 61056
( b ) H-3-1 PROPOSED TARIFF SCHEDULES

Schedule H-3-1

**GRAHAM COUNTY UTILITIES, INC.**

**PROPOSED RATE SCHEDULE**

**WATER DIVISION**

Effective Date:

**Service Line and Meter Installation Charges:**

| | |
|---|---|
| 5/8" X 3/4" Meter | * |
| 3/4" Meter | * |
| 1" Meter | * |
| 1 1/4" Meter | * |
| 1 1/2" Meter | * |
| 2" Meter | * |
| 3" Meter | * |
| 4" Meter | * |

*All Service Line and Meter Installation Charges will be based on actual cost and will be non-refundable Contributions in Aid of Construction

**Monthly Rates:**

Service Availability Charge:
Per Month, Per Customer.

| | | |
|---|---|---|
| 5/8" X 3/4" Meter | $ | 22.00 |
| 3/4" Meter | $ | 24.00 |
| 1" Meter | $ | 26.00 |
| 1 1/2" Meter | $ | 30.00 |
| 2" Meter | $ | 60.00 |

Plus Usage Charge:
Per each 1,000 gallons regardless of meter size or class of customer. $ 2.97

**Service Charges:**

| | | |
|---|---|---|
| Establishment of Service - Regular Hours | $ | 20.00 |
| Establishment of Service - After Hours | $ | 50.00 |
| Reconnection of Service - Regular Hours | $ | 20.00 |
| Reconnection of Service - After Hours | $ | 50.00 |
| After Hours Service Calls - Consumer Caused | $ | 70.00 |
| Meter Reread Charge (If Correct) | $ | 10.00 |
| Meter Test Fee (If Correct) | $ | 20.00 |
| Insufficient Funds Check Charge | $ | 25.00 |
| Interest Rate on Customer Deposits | | 6 % |
| Late Payment (Per Month & Per Total Bill) | | 1.5% with $5 minimum |
| Reestablishment (Within 12 Months) | | ** |

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

**Security Deposits:**

Per A.C.R.R. R14-2-403B

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008



| RESIDENTIAL | MONTHLY 1000 GALLONS | MONTHLY BILL PRESENT | MONTHLY BILL PROPOSED | $ INCREASE | % INCREASE |
|---|---|---|---|---|---|
| | 0 | 16.80 | 22.00 | 5.20 | 30.95% |
| | 1000 | 19.35 | 24.97 | 5.62 | 29.04% |
| | 2000 | 21.90 | 27.94 | 6.04 | 27.58% |
| | 3000 | 24.45 | 30.91 | 6.46 | 26.42% |
| | 4000 | 27.00 | 33.88 | 6.88 | 25.48% |
| | 5000 | 29.55 | 36.85 | 7.30 | 24.70% |
| | 6000 | 32.10 | 39.82 | 7.72 | 24.05% |
| | 7000 | 34.65 | 42.79 | 8.14 | 23.49% |
| | 8000 | 37.20 | 45.76 | 8.56 | 23.01% |
| | 9000 | 39.75 | 48.73 | 8.98 | 22.59% |
| | 10000 | 42.30 | 51.70 | 9.40 | 22.22% |
| | 11000 | 44.85 | 54.67 | 9.82 | 21.90% |
| | 12000 | 47.40 | 57.64 | 10.24 | 21.60% |
| | 13000 | 49.95 | 60.61 | 10.66 | 21.34% |
| | 14000 | 52.50 | 63.58 | 11.08 | 21.10% |
| | 15000 | 55.05 | 66.55 | 11.50 | 20.89% |
| | 20000 | 67.80 | 81.40 | 13.60 | 20.06% |
| | 25000 | 80.55 | 96.25 | 15.70 | 19.49% |
| | 30000 | 93.30 | 111.10 | 17.80 | 19.08% |
| | 35000 | 106.05 | 125.95 | 19.90 | 18.76% |
| | 40000 | 118.80 | 140.80 | 22.00 | 18.52% |
| | 45000 | 131.55 | 155.65 | 24.10 | 18.32% |
| | 50000 | 144.30 | 170.50 | 26.20 | 18.16% |
| Average Usage | 8,941 | | | | |

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE H-4


| COMMERCIAL | MONTHLY 1000 GALLONS | MONTHLY BILL PRESENT | MONTHLY BILL PROPOSED | $ INCREASE | % INCREASE |
|---|---|---|---|---|---|
| | 0 | 23.00 | 30.00 | 7.00 | 30.43% |
| | 1,000 | 25.55 | 32.97 | 7.42 | 29.04% |
| | 2,000 | 28.10 | 35.94 | 7.84 | 27.90% |
| | 3,000 | 30.65 | 38.91 | 8.26 | 26.95% |
| | 4,000 | 33.20 | 41.88 | 8.68 | 26.14% |
| | 5,000 | 35.75 | 44.85 | 9.10 | 25.45% |
| | 6,000 | 38.30 | 47.82 | 9.52 | 24.86% |
| | 7,000 | 40.85 | 50.79 | 9.94 | 24.33% |
| | 8,000 | 43.40 | 53.76 | 10.36 | 23.87% |
| | 9,000 | 45.95 | 56.73 | 10.78 | 23.46% |
| | 10,000 | 48.50 | 59.70 | 11.20 | 23.09% |
| | 11,000 | 51.05 | 62.67 | 11.62 | 22.76% |
| | 12,000 | 53.60 | 65.64 | 12.04 | 22.46% |
| | 13,000 | 56.15 | 68.61 | 12.46 | 22.19% |
| | 14,000 | 58.70 | 71.58 | 12.88 | 21.94% |
| | 15,000 | 61.25 | 74.55 | 13.30 | 21.71% |
| | 20,000 | 74.00 | 89.40 | 15.40 | 20.81% |
| | 25,000 | 86.75 | 104.25 | 17.50 | 20.17% |
| | 30,000 | 99.50 | 119.10 | 19.60 | 19.70% |
| | 35,000 | 112.25 | 133.95 | 21.70 | 19.33% |
| | 40,000 | 125.00 | 148.80 | 23.80 | 19.04% |
| | 45,000 | 137.75 | 163.65 | 25.90 | 18.80% |
| | 50,000 | 150.50 | 178.50 | 28.00 | 18.60% |
| | 75,000 | 214.25 | 252.75 | 38.50 | 17.97% |
| | 100,000 | 278.00 | 327.00 | 49.00 | 17.63% |
| RESALE | 919,250 | 1,438.07 | 1,855.85 | 417.78 | 29.05% |

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**
**BILL COUNT**
**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008**



**RESIDENTIAL**

| BLOCK | NUMBER OF BILLS | GALLONS BY BLOCK | CUMULATIVE BILLS NUMBER | CUMULATIVE BILLS % OF TOTAL | CUMULATIVE GALLONS USAGE AMOUNT | CUMULATIVE GALLONS USAGE % OF TOTAL |
|---|---|---|---|---|---|---|
| MIN | 1,264 | 390,600 | 1,264 | 9.56% | 390,600 | 0.33% |
| 1,000 | 827 | 1,299,300 | 2,091 | 15.81% | 1,689,900 | 1.43% |
| 2,000 | 1,000 | 2,588,700 | 3,091 | 23.37% | 4,278,600 | 3.62% |
| 3,000 | 1,179 | 4,185,800 | 4,270 | 32.28% | 8,464,400 | 7.16% |
| 4,000 | 1,144 | 5,194,500 | 5,414 | 40.93% | 13,658,900 | 11.55% |
| 5,000 | 1,101 | 6,087,800 | 6,515 | 49.26% | 19,746,700 | 16.70% |
| 6,000 | 968 | 6,328,000 | 7,483 | 56.57% | 26,074,700 | 22.05% |
| 7,000 | 813 | 6,137,400 | 8,296 | 62.72% | 32,212,100 | 27.24% |
| 8,000 | 709 | 6,060,400 | 9,005 | 68.08% | 38,272,500 | 32.36% |
| 9,000 | 575 | 5,472,500 | 9,580 | 72.43% | 43,745,000 | 36.99% |
| 10,000 | 500 | 5,266,700 | 10,080 | 76.21% | 49,011,700 | 41.44% |
| 11,000 | 403 | 4,645,500 | 10,483 | 79.25% | 53,657,200 | 45.37% |
| 12,000 | 331 | 4,139,500 | 10,814 | 81.76% | 57,796,700 | 48.87% |
| 13,000 | 293 | 3,973,300 | 11,107 | 83.97% | 61,770,000 | 52.23% |
| 14,000 | 231 | 3,353,500 | 11,338 | 85.72% | 65,123,500 | 55.07% |
| 15,000 | 752 | 12,999,600 | 12,090 | 91.40% | 78,123,100 | 66.06% |
| 20,000 | 396 | 8,845,900 | 12,486 | 94.40% | 86,969,000 | 73.54% |
| 25,000 | 255 | 6,932,900 | 12,741 | 96.33% | 93,901,900 | 79.40% |
| 30,000 | 131 | 4,201,200 | 12,872 | 97.32% | 98,103,100 | 82.96% |
| 35,000 | 91 | 3,402,000 | 12,963 | 98.00% | 101,505,100 | 85.83% |
| 40,000 | 63 | 2,666,600 | 13,026 | 98.48% | 104,171,700 | 88.09% |
| 45,000 | 48 | 2,288,800 | 13,074 | 98.84% | 106,460,500 | 90.02% |
| 50,000 | 153 | 11,797,400 | 13,227 | 100.00% | 118,257,900 | 100.00% |
| | **13,227** | **118,257,900** | | | | |

| | |
|---|---|
| AVERAGE NUMBER OF CUSTOMERS | **1,102** |
| AVERAGE GALLONS CONSUMPTION PER YEAR | **107,288** |
| MEDIAN ANNUAL CONSUMPTION (GALLONS) | **67,250** |

GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM
BILL COUNT
TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008
COMMERCIAL



| BLOCK | NUMBER OF BILLS | GALLONS BY BLOCK | CUMULATIVE BILLS NUMBER | CUMULATIVE BILLS % OF TOTAL | CUMULATIVE GALLONS USAGE AMOUNT | CUMULATIVE GALLONS USAGE % OF TOTAL |
|---|---|---|---|---|---|---|
| MIN | 270 | 69,700 | 270 | 32.34% | 69,700 | 0.56% |
| 1,000 | 57 | 87,500 | 327 | 39.16% | 157,200 | 1.26% |
| 2,000 | 36 | 91,700 | 363 | 43.47% | 248,900 | 2.00% |
| 3,000 | 31 | 110,500 | 394 | 47.19% | 359,400 | 2.88% |
| 4,000 | 33 | 148,800 | 427 | 51.14% | 508,200 | 4.08% |
| 5,000 | 36 | 200,900 | 463 | 55.45% | 709,100 | 5.69% |
| 6,000 | 30 | 197,500 | 493 | 59.04% | 906,600 | 7.28% |
| 7,000 | 22 | 166,800 | 515 | 61.68% | 1,073,400 | 8.61% |
| 8,000 | 21 | 179,200 | 536 | 64.19% | 1,252,600 | 10.05% |
| 9,000 | 17 | 161,000 | 553 | 66.23% | 1,413,600 | 11.35% |
| 10,000 | 14 | 147,800 | 567 | 67.90% | 1,561,400 | 12.53% |
| 11,000 | 12 | 138,700 | 579 | 69.34% | 1,700,100 | 13.64% |
| 12,000 | 12 | 151,300 | 591 | 70.78% | 1,851,400 | 14.86% |
| 13,000 | 14 | 188,900 | 605 | 72.46% | 2,040,300 | 16.38% |
| 14,000 | 9 | 131,400 | 614 | 73.53% | 2,171,700 | 17.43% |
| 15,000 | 41 | 725,900 | 655 | 78.44% | 2,897,600 | 23.26% |
| 20,000 | 35 | 781,300 | 690 | 82.63% | 3,678,900 | 29.53% |
| 25,000 | 29 | 798,800 | 719 | 86.11% | 4,477,700 | 35.94% |
| 30,000 | 15 | 481,500 | 734 | 87.90% | 4,959,200 | 39.80% |
| 35,000 | 14 | 531,000 | 748 | 89.58% | 5,490,200 | 44.06% |
| 40,000 | 11 | 462,200 | 759 | 90.90% | 5,952,400 | 47.77% |
| 45,000 | 12 | 577,800 | 771 | 92.34% | 6,530,200 | 52.41% |
| OVER 50000 | 64 | 5,929,600 | 835 | 100.00% | 12,459,800 | 100.00% |
| | **835** | **12,459,800** | | | | |

| | | |
|---|---|---|
| AVERAGE NUMBER OF CUSTOMERS | **70** | |
| **AVERAGE GALLONS CONSUMPTION PER YEAR** | **179,063** | 14,921.92 |
| MEDIAN ANNUAL CONSUMPTION GALLONS) | **74,400** | |

**GRAHAM COUNTY UTILITIES, INC. - WATER SYSTEM**

**BILL COUNT** **SCHEDULE H-5**

**TEST FISCAL YEAR ENDED SEPTEMBER 30, 2008** 

**RESALE**

| BLOCK | NUMBER OF BILLS | 1000 GALLONS BY BLOCK | CUMULATIVE BILLS NUMBER | CUMULATIVE BILLS % OF TOTAL | CUMULATIVE 1000 GALLONS USAGE AMOUNT | CUMULATIVE 1000 GALLONS USAGE % OF TOTAL |
|---|---|---|---|---|---|---|
| RESALE | 24 | 21,662 | 24 | 100% | 21,662 | 100% |

| | |
|---|---|
| AVERAGE NUMBER OF CUSTOMERS | **2** |
| AVERAGE GALLONS CONSUMPTION PER YEAR | **10,831,150** |
| MEDIAN ANNUAL CONSUMPTION (GALLONS) | **10,831,150** |

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

WATER DIVISION

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RULES AND REGULATIONS

In Accordance With
Arizona Corporation Commission

**Definitions**

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. "Advance in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement the value of which may be refundable.
2. "Applicant." A person requesting the utility to supply water service.
3. "Application." A request to the utility for water service, as distinguished from an inquiry as to the availability or charges for such service.
4. "Arizona Corporation Commission." The regulatory authority of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
5. "Billing month." The period between any two regular readings of the utility's meters at approximately 30 day intervals.
6. "Billing period." The time interval between two consecutive meter readings that are taken for billing purposes.
7. "Commodity charge." The unit of cost per billed usage, as set forth in the utility's tariffs.
8. "Contributions in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement and/or service connection tariff the value of which are not refundable.
9. "Customer." The person or entity in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in his name regardless of the identity of the actual user of the service.
10. "Customer charge." The amount the customers must pay the utility for the availability of water service, excluding any water used, as specified in the utility's tariffs.
11. "Day." Calendar day.
12. "Distribution main." A water main of the utility from which service connections may be extended to customers.
13. "Interruptible water service." Water service that is subject to interruption or curtailment.
14. "Main extension." The mains and ancillary equipment necessary to extend the existing water distribution system to provide service to additional customers.
15. "Master meter." A meter for measuring or recording the flow of water at a single location where said water is transported through an underground piping system to tenants or occupants for their individual consumption.
16. "Meter." The instrument for measuring and indicating or recording the volume of water that has passed through it.
17. "Meter tampering." A situation where a meter has been illegally altered. Common examples are meter bypassing, use of magnets to slow the meter recording, and broken meter seals.
18. "Minimum charge." The amount the customer must pay for the availability of water service, including an amount of usage, as specified in the utility's tariffs.
19. "Minimum delivery pressure." 20 pounds per square inch gauge at the meter or point of delivery.
20. "Permanent customer." A customer who is a tenant or owner of a service location who applies for and receives water service.
21. "Permanent service." Service which, in the opinion of the utility, is of a permanent and established character. The use of water may be continuous, intermittent, or seasonal in nature.
22. "Person." Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.
23. "Point of delivery." The point where facilities owned, leased, or under license by a customer connect to the utility's pipes or at the outlet side of the meter.
24. "Premises." All of the real property and apparatus employed in a single enterprise on an integral parcel of land undivided by public streets, alleys or railways.
25. "Residential subdivision development." Any tract of land which has been divided into four or more contiguous lots for use for the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.
26. "Residential use." Service to customers using water for domestic purposes such as personal consumption, water heating, cooking, and other residential uses and includes use in apartment buildings, mobile home parks, and other multiunit residential buildings.
27. "Rules." The regulations set forth in the tariffs which apply to the provision of water service.
28. "Service area." The territory in which the utility has been granted a Certificate of Convenience and Necessity and is authorized by the Commission to provide water service.
29. "Service establishment charge." The charge as specified in the utility's tariffs which covers the cost of establishing a new account.
30. "Service line." A water line that transports water from a common source (normally a distribution main) of supply to the customer's point of delivery.

31. "Service reconnect charge." The charge as specified in the utility's tariffs which must be paid by the customer prior to reestablishment of water service each time the water is disconnected for nonpayment or whenever service is discontinued for failure otherwise to comply with the utility's fixed rules.
32. "Service reestablishment charge." A charge as specified in the utility's tariffs for service at the same location where the same customer had ordered a service disconnection within the preceding 12-month period.
33. "Single family dwelling." A house, an apartment, a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as a permanent home.
34. "Tariffs." The documents filed with the Commission which list the services and products offered by the water company and which set forth the terms and conditions and a schedule of the rates and charges for those services and products.
35. "Temporary service." Service to premises or enterprises which are temporary in character, or where it is known in advance that the service will be of limited duration. Service which, in the opinion of the utility, is for operations of a speculative character is also considered temporary service.
36. "Utility." The public service corporation providing water service to the public in compliance with state law. Also referred to as Graham County Utilities, Inc. or GCU.

## PART I. Certificate of Convenience and Necessity for water utilities; abandonments

**A.** On October 15, 1989, the Arizona Corporation Commission approved the transfer of the Certificate of Convenience and Necessity to operate as a water distribution utility in Graham County previously held by City Utilities Company to Graham County Utilities, Inc., effective November 1, 1989.

**B.** Application for discontinuance or abandonment of utility service
1. Any utility proposing to discontinue or abandon utility service currently in use by the public shall prior to such action obtain authority therefor from the Commission.
2. The utility shall include in the application, studies of past, present and prospective customer use of the subject service, plant or facility as is necessary to support the application.
3. An application shall not be required to remove individual facilities where a customer has requested service discontinuance.

**C.** Additions/extensions to outside existing Certificates of Convenience and Necessity
1. Each utility which proposes to extend utility service to a location not within its certificated service area, but located in a non-certificated area contiguous to its certificated service area, shall prior to the extension of service, notify the Commission of such service extension. Such notifications shall be in writing and shall be verified and shall set forth, at a minimum, the number of persons or entities proposed to be served by such service extension, their location in relation to the certificated area of the utility and a statement of the utility that the service extension is to a non-certificated area which is contiguous to its certificated area. Where emergency service is required to be provided to a customer in a non-certificated area contiguous to the utility certificated area the utility shall advise the Commission simultaneously of such extension and the written notification shall set forth the nature and extent of the emergency.
2. For purpose of this rule the following definition of "contiguous" is: Contiguous -- Common, ordinary and approved meaning. In actual close contact; touching; bounded or traversed by.

**D.** Membership
4. A membership application card shall be signed acknowledging the customer's agreement to pay the required membership fee plus any applicable taxes and to observe such lawful rules, regulations, polices, rates and schedules of the non-profit corporation as are now in force or may hereafter be in force and as are filed and approved by the Commission.
5. In addition to the provisions of these Rules, each member shall be bound by the Articles of Incorporation and By-Laws of the corporation as the same may be amended from time to time.
6. The membership fee and any service connection charge shall be non-transferable.
7. No customer may hold more than one membership and a personal membership shall be held jointly by both husband and wife unless specified to the contrary in writing by both spouses or unless the corporation is given satisfactory evidence that the property of a spouse which is to receive service is the sole and separate property of such spouse.

## PART II. Establishment of service

**A.** Information from new applicants
1. A utility may obtain the following minimum information from each new applicant for service:
   a. Name or names of applicant(s).
   b. Service address or location and telephone number

c. Billing address/telephone number, if different than service address.
d. Address where service was provided previously.
e. Date applicant will be ready for service.
f. Indication of whether premises have been supplied with utility service previously.
g. Purpose for which service is to be used.
h. Indication of whether applicant is owner or tenant of or agent for the premises.
i. Information concerning the usage and demand requirements of the customers.
j. Type and kind of life-support equipment, if any, used by the customer.

2. Each utility may require a new applicant for service to appear at the utility's designated place of business to produce proof of identity and sign the utility's application form.
3. Where service is requested by two or more individuals the utility shall have the right to collect the full amount owed to the utility from any one of the applicants.

**B.** Deposits

1. A utility may require a deposit from any new applicant for service.
2. ~~The utility shall issue a nonnegotiable receipt to the applicant for the deposit. The inability of the customer to~~ produce such a receipt shall in no way impair his right to receive a refund of the deposit which is reflected on the utility's records.
3. Interest on deposits shall be calculated annually at an interest rate filed by the utility and approved by the Commission in a tariff proceeding. In the absence of such, the interest rate shall be 6%.
4. Interest shall be credited to the customer's bill annually.
5. Residential deposits shall be refunded within 30 days after:
   a. 12 consecutive months of service without being delinquent in the payment of utility bills provided the utility may reestablish the deposit if the customer becomes delinquent in the payment of bills two or more times within a 12-consecutive-month period.
   b. Upon discontinuance of service when the customer has paid all outstanding amounts due the utility.
6. A separate deposit may be required for each meter installed.
7. The amount of a deposit required by the utility shall be determined according to the following terms:
   a. Residential customer deposits shall not exceed two times the average residential class bill as evidenced by the utility's most recent annual report filed with the Commission.
   b. Nonresidential customer deposits shall not exceed 2 1/2 times that customer's estimated maximum monthly bill.
   c. The utility may review the customer's usage after service has been connected and adjust the deposit amount based upon the customer's actual usage.
8. Upon discontinuance of service, the deposit may be applied by the utility toward settlement of the customer's bill.

**C.** Grounds for refusal of service. A utility may refuse to establish service if any of the following conditions exist:

1. The applicant has an outstanding amount due for the same class of utility service with the utility and the applicant is unwilling to make arrangements with the utility for payment.
2. A condition exists which in the utility's judgment is unsafe or hazardous to the applicant, the general population, or the utility's personnel or facilities.
3. Refusal by the applicant to provide the utility with a deposit.
4. Customer is known to be in violation of the utility's tariffs filed with the Commission or of the Commission's rules and regulations.
5. Failure of the customer to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the customer and which have been specified by the utility as a condition for providing service.
6. Applicant falsifies his or her identity for the purpose of obtaining service.

**D.** Service establishments, re-establishments or reconnection charge

1. A utility may make a charge as approved by the Commission for the establishment, reestablishment, or reconnection of utility services.
2. Should service be established during a period other than regular working hours at the customer's request, the customer may be required to pay an after-hour charge for the service connection. Where the utility scheduling will not permit service establishment on the same day requested, the customer can elect to pay the after-hour charge for establishment that day.
3. For the purpose of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install a meter, read a meter, or turn the service on.

**E.** Temporary service

1. Applicants for temporary service may be required to pay the utility, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one month, the applicant may also be required to advance a sum of money equal to the estimated bill for service.
3. Where the duration of service is to exceed one month, the applicant may also be required to meet the deposit requirements of the utility.
4. If at any time during the term of the agreement for service the character of a temporary customer's operations changes so that in the opinion of the utility the customer is classified as permanent, the terms of the utility's main extension rules shall apply.

**F.** Master Metering
1. Mobile Home Parks – New Construction/Expansion
   a. Graham County Utilities, Inc. shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion is individually metered. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection tariff.
   b. Permanent residential mobile home parks for the purpose of this Rule shall mean mobile home parks ~~where, in the opinion of Graham County Utilities, Inc., the average length of stay for an occupant is a~~ minimum of six months.
   c. For the purpose of this Rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this Rule.

## PART III. Minimum customer information requirements

**A.** Information for residential customers
1. Each utility shall make available upon customer request not later than 60 days from the date of request a concise summary of the rate schedule applied for by such customer. The summary shall include the following:
   a. Monthly minimum or customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable.
   b. Rate blocks, where applicable.
   c. Any adjustment factor(s) and method of calculation.
2. The utility shall to the extent practical identify the tariff most advantageous to the customer and notify the customer of such prior to service commencement.
3. In addition, a utility shall make available upon customer request not later than 60 days from the date of request a copy of the Commission's rules and regulations governing:
   a. Deposits
   b. Terminations of service
   c. Billing and collection
   d. Complaint handling.
4. Each utility upon written request of a customer shall transmit a concise statement of actual consumption by such customer for each billing period during the prior 12 months unless such data is not reasonably ascertainable.
5. Each utility shall inform all new customers of their rights to obtain the information specified above.

**B.** Information required due to changes in tariffs
1. Each utility shall transmit to affected customers by the most economic means available a concise summary of any change in the utility's tariffs affecting those customers.
2. This information shall be transmitted to the affected customer within 60 days of the effective date of the change.

## PART IV. Service connections and establishments

**A.** Priority and timing of service establishments
1. After an applicant has complied with the utility's application and deposit requirements and has been accepted for service by the utility, the utility shall schedule that customer for service connection and/or establishment.
2. Service establishments shall be scheduled for completion within five working days of the date the customer has been accepted for service, except in those instances when the customer requests service establishment beyond the five working day limitation.
3. When the utility has made arrangements to meet with a customer for service establishment purposes and the utility or the customer cannot make the appointment during the prearranged time, the utility shall reschedule the service establishment to the satisfaction of both parties.
4. Each utility shall schedule service establishment appointments within a maximum range of four hours during normal working hours, unless another time-frame is mutually acceptable to the utility and the customer.

5. Service establishments shall be made only by qualified utility service personnel.
6. For the purposes of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install or read a meter or turn the service on.

**B.** Service lines
(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. An applicant for service shall be responsible for the cost of installing all customer piping up to the meter.
2. An applicant shall be responsible for all labor, material, and overhead costs of the new service as a non-refundable contribution in aid of construction.
3. Where service is being provided for the first time, the customer shall provide and maintain a private cutoff valve within 18 inches of the meter on the customer's side of the meter, and the utility shall provide a like valve on the utility's side of such meter.
4. The Company may install its meter at the property line or, at the Company's option, on the customer's property in a location mutually agreed upon.
5. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
6. The customer's lines or piping must be installed in such a manner as to prevent cross-connection or backflow.
7. Each utility shall file a tariff for service and meter installations for Commission review and approval.

**C.** Easements and rights-of-way
1. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure that customer's proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
2. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

## PART V. Main extension agreements

**A.** General requirements
(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. Each utility shall file for Commission approval a main extension tariff which incorporates the provisions of this rule and specifically defines the conditions governing main extensions.
2. Upon request by an applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be paid by said applicant.
3. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the utility to proceed with construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimate. Subdividers providing the utility with approved plats shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
4. All main extension agreements requiring payment by the applicant shall be in writing and signed by each party.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

**B.** Minimum written agreement requirements
1. Each main extension agreement shall, at a minimum, include the following information:

a. Name and address of applicant(s)
b. Proposed service address or location
c. Description of requested service
d. Description and sketch of the requested main extension
e. A cost estimate to include materials, labor, and other costs as necessary
f. Payment terms
g. A concise explanation of any refunding provisions, if applicable. The refunding provisions shall be as follows:
   I. Where the number of potential services has been determined by final plats.
      1. Each subsequent hookup on the line extension after the first customer shall pay a percentage equal to the total cost estimate divided by the number of lots. This amount shall then be refunded to the first customer provided it has not been five years since the time of payment as outlined in rule C-5.
   II. Where the number of potential services is not readily available and must be estimated by the Cooperative.
      1. Each subsequent hookup on the line extension after the first customer shall pay a percentage of the original cost as determined by the distance from the main to the service location. This amount shall then be refunded equally between the prior customers provided it has not been five years since the time of payment as outlined in rule C-5.
h. The utility's estimated start date and completion date for construction of the main extension
i. A summary of the results of the economic feasibility analysis performed by the utility to determine the amount of advance required from the applicant for the proposed main extension.

2. Each applicant shall be provided with a copy of the written main extension agreement.

**C.** Main and Service line extension requirements. Each main line extension shall include the following provisions:
1. GCU does not provide a free footage allowance. The applicant shall be responsible for all material, labor, and overhead costs of the main line extension.
2. Line extension measurement shall be along the route of construction required.
3. The timing and methodology by which the utility will refund any aid to construction as additional customers are served off the main extension. The customer may request an annual survey to determine if additional customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally paid.
4. All aid to construction shall be non-interest bearing.
5. All refunding provisions are null and void after five years from the date of payment of the contribution in aid of construction.

**D.** Extensions For Residential Subdivision Developments and Mobile Home Parks
1. Extensions to the Perimeter of Duly Recorded Real Estate Subdivisions and Mobile Home Parks.
   a. Water main extensions will generally be made when mutually agreed upon by the Company and the applicant in areas where the Company does maintain existing facilities for its operating convenience.
   b. The Applicant shall provide at his expense the trenching, backfilling (including any imported backfill required), compaction, repaving and earth-work in preparation for installation of facilities. At its option, the Company may elect, at the applicants expense, to perform the necessary activities to fulfill the applicants responsibility hereunder provided the expense to the applicant is equal or less than that which would otherwise be borne.
2. Extensions Within Duly Recorded Real Estate Subdivisions and Mobile Home Parks
   a. Distribution facilities will be constructed by the Company within a duly recorded subdivision or mobile home park in advance of application for service by permanent customers after the Company and the Developer of said subdivision or mobile home park have entered into a written contract which provides for net construction costs to be paid as contributions in aid of construction. Net construction costs shall be all costs furnished by the Company to install such facilities and meters and regulators required including all material, labor, and overhead costs.
   b. Rights-of-way and easements suitable to the Company must be furnished by the developer at no cost to the Company and in reasonable time to meet service requirements. No facilities shall be installed until the final grades have been established and furnished to the Company. In addition, the easement strips, alleys and streets must be graded to within six (6) inches of final grade by the developer before the Company will commence construction and must be maintained by the developer during construction.
3. There is no free Main and Service Line Extension Footage for Residential Subdivision Developments and Mobile Home Parks.
4. Residential Subdivision Developments and Mobile Home Parks shall be excluded from any refunding provisions.

**E.** Residential subdivision development and permanent mobile home parks. Each utility shall submit as a part of its main extension tariff separate provisions for residential subdivision developments and permanent mobile home parks.

**F.** Ownership of facilities. Any facilities installed hereunder shall be the sole property of the utility.

**G.** All agreements entered into under this rule shall be evidenced by a written statement, and signed by the Company and the parties paying the funds as contributions in aid of construction under this rule or the duly authorized agents of each.

**H.** The size, design, type and quality of materials of the system, installed under this rule location in the ground and the manner of installation, shall be specified by the Company, and shall be in accord with the requirements of the Commission or other public agencies having authority therein. The Company may install main extensions of any diameter meeting the requirements of the Commission or any other public agencies having authority over the construction and operation of the water system and mains, except individual main extensions, shall comply with ~~and conform to the following minimum specifications:~~

1. 150 p.s.i. working pressure rating and
2. 6" standard diameter.

However, single residential customer contributions in aid of construction shall not exceed the reasonable cost of construction of the 6-inch diameter main extension.

**I.** All pipelines, valves, fittings, wells, tanks or other facilities installed under this rule shall be the sole property of the Company, and parties making contributions in aid of construction under this rule shall have no right, title or interest in any such facilities.

**J.** The Company shall schedule all new requests for main extension agreements, and for service under main extension agreements, promptly and in the order received.

**K.** An applicant for service seeking to enter into a main extension agreement may request that the utility include on a list of contractors from whom bids will be solicited, the name(s) of any bonded contractor(s), provided that all bids shall be submitted by the bid date stipulated by the utility. If a lower bid is thus obtained or if a bid is obtained at an equal price and with a more appropriate time of performance, and if such bid contemplates conformity with the Company's requirements and specifications, the Company shall be required to meet the terms and conditions of the bid proffered, or to enter into a construction contract with the contractor proffering such bid. Performance bond in the total amount of the contract may be required by the utility from the contractor prior to construction.

**L.** Any discounts obtained by the utility from contracts terminated under this rule shall be accounted for by credits to the appropriate account dominated as Contributions in Aid of Construction.

## PART VI. Provision of service

**A.** Utility responsibility. Each utility shall be responsible for providing potable water to the customer's point of delivery.

**B.** Customer responsibility

1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.

**C.** Continuity of service. Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:

1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
2. Intentional service interruptions to make repairs or perform routine maintenance
3. Curtailment.

**D.** Service interruptions

1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.
4. When a utility plans to interrupt service for more than four hours to perform necessary repairs or maintenance, the utility shall attempt to inform affected customers at least 24 hours in advance of the scheduled date and estimated duration of the service interruption. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the customers of the utility.
5. The Commission shall be notified of interruptions in service affecting the entire system or any major division thereof. The interruption of service and cause shall be reported within four hours after the responsible representative of the utility becomes aware of said interruption by telephone to the Commission and followed by a written report to the Commission.

**E.** Minimum delivery pressure. Each utility shall maintain a minimum standard delivery pressure of 20 pounds per square inch gauge (PSIG) at the customer's meter or point of delivery.

**F.** Construction standards. Each utility shall construct all facilities in accordance with the guidelines established by the state Department of Health Services.

**G.** Curtailment. In the event that the availability of service is so restricted due to severe supply shortages or service curtailments and a reduction of service on a proportionate basis to all customer classes will not maintain the integrity of the total system; priority will first be given to those customers and/or customer classes where health, safety and welfare would be adversely affected.

## PART VII. Meter reading

**A.** Frequency. Each meter shall be read monthly on as close to the same day as practical.

**B.** Measuring of service

1. All water delivered by the utility shall be billed upon the basis of metered volume sales except that the utility may, at its option, provide a fixed charge schedule for the following:
   a. Temporary service where the water use can be readily estimated
   b. Public and private fire protection service
   c. Water used for street sprinkling and sewer flushing, when provided for by contract between the utility and the municipality or other local governmental authority
   d. Other fixed charge schedules as shall be submitted to and approved by the Commission.
2. When there is more than one meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.

**C.** Customer requested retreads

1. Each utility shall at the request of a customer reread the customer's meter within 10 working days after such request by the customer.
2. Any rereads shall be charged to the customer at a rate on file and approved by the Commission, provided that the original reading was not in error.
3. When a reading is found to be in error, the reread shall be at no charge to the customer.

**D.** Access to customer premises. Each utility shall have the right of safe ingress to and egress from the customer's premises at all reasonable hours for any purpose reasonably connected with the utility's property used in furnishing service and the exercise of any and all rights secured to it by law or these rules.

**E.** Meter testing and maintenance program. Each utility shall establish a regular program of meter testing taking into account the following factors:

1. Size of meter
2. Age of meter
3. Consumption
4. Characteristics of water.
   a. Graham County Utilities, Inc. will do routine testing, maintenance and replacement of meters and will file and annual report with the Commission summarizing the results for that year showing:
      ii. Total number of meters, by size, tested, at company initiative or upon customer request.
      iii. Number of meters tested which were outside the acceptable error allowance + or – 3%.

**F.** ~~Customer requested meter tests. A utility shall test a meter upon customer request and each utility shall be~~ authorized to charge the customer for such meter test according to the tariff on file and approved by the Commission. However, if the meter is found to be in error by more than 3%, no meter testing fee will be charged to the customer.

## PART VIII. Billing and collection

**A.** Frequency and estimated bills

1. Each utility shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than 25 days or more than 35 days.
2. If the utility is unable to read the meter on the scheduled meter read date, the utility will estimate the consumption for the billing period giving consideration to the following factors where applicable:
   a. The customer's usage during the same month of the previous year
   b. The amount of usage during the preceding month.
3. After the second consecutive month of estimating the customer's bill for reasons other than severe weather, the utility will attempt to secure an accurate reading of the meter.
4. Failure on the part of the customer to comply with a reasonable request by the utility for access to its meter may lead to the discontinuance of service.
5. Estimated bills will be issued only under the following conditions:
   a. Failure of a customer who read his own meter to deliver his meter reading card to the utility in accordance with the requirements of the utility billing cycle.
   b. Severe weather conditions which prevent the utility from reading the meter.
   c. Circumstances that make it dangerous or impossible to read the meter, i.e., locked gates, blocked meters, vicious or dangerous animals, etc.
6. Each bill based on estimated usage will indicate that it is an estimated bill.

**B.** Combining meters, minimum bill information

1. Each meter at a customer's premises will be considered separately for billing purposes, and the readings of two or more meters will not be combined.
2. Each bill for residential service will contain the following minimum information:
   a. Date and meter reading at the start of billing period or number of days in the billing period.
   b. Previous month's meter reading
   c. Billed usage
   d. Utility telephone number
   e. Customer's name
   f. Service account number (if available)
   g. Amount due and due date
   h. Past due amount (where appropriate)
   i. Adjustment factor, where applicable
   j. Other approved tariff charges.

**C.** Billing terms

1. All bills for utility services are due and payable when rendered. Any payment not received within 15 days from the date the bill was rendered shall be considered past due.
2. For purposes of this rule, the date a bill is rendered may be evidenced by:
   a. The postmark date
   b. The mailing date:

i. Certified mail
ii. Certificate of mailing.

c. The billing date shown on the bill (however, the billing date will not differ from the postmark or mailing date by more than two (2) days.)

3. All past due bills for utility service are due and payable within ten (10) days. Any payment not received within this time frame will be considered delinquent.
4. All delinquent bills for which payment has not been received within five (5) days shall be subject to the provisions of the utility's termination procedures as set forth in R14-2-410.
5. All payments shall be made at or mailed to the office of the utility or to the utility's duly authorized representative.

**D.** Applicable tariffs, prepayment, failure to receive, commencement date, taxes

1. Each customer shall be billed under the applicable tariff indicated in the customer's application for service.
2. Each utility shall make provisions for advance payment for utility services.
3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent nor relieve the customer of his obligations therein.
4. Charges for service commence when the service is installed and connection made, whether used or not.
5. In addition to the collection of regular rates, each utility may collect from its customers a proportionate share of any privilege, sales or use tax.

**E.** Meter error corrections

1. If any meter after testing is found to be more than 3% in error, either fast or slow, proper correction between 3% and the amount of the error shall be made of previous readings and adjusted bills shall be rendered according to the following terms:
   a. For the period of three months immediately preceding the removal of such meter from service for test or from the time the meter was in service since last tested, but not exceeding three months since the meter shall have been shown to be in error by such test, or
   b. From the date the error occurred, if the date of the cause can be definitely fixed.
2. No adjustment shall be made by the utility except to the customer last served by the meter tested.

**F.** Insufficient funds (NSF) checks

1. A utility shall be allowed to recover a fee, as approved by the Commission for each instance where a customer tenders payment for utility service with an insufficient funds check.
2. When the utility is notified by the customer's bank that there are insufficient funds to cover the check tendered for utility service, the utility may require the customer to make payment in cash, by money order, certified check, or other means which guarantee the customer's payment to the utility.
3. A customer who tenders an insufficient check shall in no way be relieved of the obligation to render payment to the utility under the original terms of the bill nor defer the utility's provision for termination of service for nonpayment of bills.

**G.** Deferred payment plan

1. Each utility may, prior to termination, offer to qualifying residential customers a deferred payment plan for the customer to retire unpaid bills for utility service.
2. Each deferred payment agreement entered into by the utility and the customer due to the customer's inability to pay an outstanding bill in full shall provide that service will not be discontinued if:
   a. Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement.
   b. Customer agrees to pay all future bills for utility service in accordance with the billing and collection tariffs of the utility.
   c. Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments over a period not to exceed six months.
3. For the purposes of determining a reasonable installment payment schedule under these rules, the utility and the customer shall give consideration to the following conditions:
   a. Size of the delinquent account
   b. Customer's ability to pay
   c. Customer's payment history
   d. Length of time that the debt has been outstanding
   e. Circumstances which resulted in the debt being outstanding
   f. Any other relevant factors related to the circumstances of the customer.
4. Any customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the utility's scheduled termination date for nonpayment of bills; customer failure to execute a deferred

payment agreement prior to the scheduled termination date shall not prevent the utility from discontinuing service for nonpayment.

5. Deferred payment agreements may be in writing and may be signed by the customer and an authorized utility representative.
6. A deferred payment agreement may include a finance charge as approved by the Commission in a tariff proceeding.
7. If a customer has not fulfilled the terms of a deferred payment agreement, the utility shall have the right to disconnect service pursuant to the utility's termination of service rules and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

**H.** Change of occupancy

1. Not less than three working days advance notice must be given in person, in writing, or by telephone at the utility's office to discontinue service or to change occupancy.
2. The outgoing party shall be responsible for all utility services provided and/or consumed up to the scheduled turn-off date.

**I.** Levelized Billing Plan

1. Graham County Utilities, Inc. may, at its option, offer its residential customers a levelized billing plan.
2. Upon a customer's request, the Company will prepare an estimate of the levelized billing for a twelve-month period based upon:
   a. Customer's actual consumption history, which may be adjusted for abnormal conditions such as weather variations.
   b. Estimate and consumption based on the customer's anticipated load requirements.
   c. Tariff schedules applicable.
3. Graham County Utilities, Inc. will provide the customer a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a customer's monthly utility bill, and the Company's right to adjust the customer's billing for any variation between estimated billing and actual billing.
4. For those customers being billed under a levelized billing plan, Graham County Utilities, Inc. shall show, at a minimum, the following information on the customer's monthly bill:
   a. Actual consumption.
   b. Amount due for actual consumption.
   c. Levelized billing amount due.
   d. Accumulated variation in actual versus levelized billing amount.
5. Graham County Utilities, Inc. may adjust the customer's levelized billing in the event the estimate of the customer's usage and/or cost should vary significantly from the customer's actual usage and/or cost. Such review to adjust the amount of the levelized billing may be initiated by the Company or the customer.

## PART IX. Termination of service

**A.** Nonpermissible reasons to disconnect service. A utility may not disconnect service for any of the reasons stated below:

1. Delinquency in payment for services rendered to a prior customer at the premises where service is being provided, except in the instance where the prior customer continues to reside on the premises.
2. Failure of the customer to pay for services or equipment which are not regulated by the Commission.
3. Nonpayment of a bill related to another class of service.
4. Failure to pay for a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the customer agrees to pay over a reasonable period of time.

**B.** Termination of service without notice

1. Utility service may be disconnected without advance written notice under the following conditions:
   a. The existence of an obvious hazard to the safety or health of the consumer or the general population.
   b. The utility has evidence of meter tampering or fraud.
   c. Unauthorized resale or use of utility services.
   d. Failure of a customer to comply with the curtailment procedures imposed by a utility during supply shortages.
2. The utility shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the utility.
3. Each utility shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one year and shall be available for inspection by the Commission.

**C.** Termination of service with notice

1. A utility may disconnect service to any customer for any reason stated below provided the utility has met the notice requirements established by the Commission:
   a. Customer violation of any of the utility's tariffs filed with the Commission and/or violation of the Commission's rules and regulations.
   b. Failure of the customer to pay a delinquent bill for utility service.
   c. Failure to meet or maintain the utility's credit and deposit requirements.
   d. Failure of the customer to provide the utility reasonable access to its equipment and property.
   e. Customer breach of a written contract for service between the utility and customer.
   f. When necessary for the utility to comply with an order of any governmental agency having such jurisdiction.
2. Each utility shall maintain a record of all terminations of service with notice. This record shall be maintained for one year and be available for Commission inspection.

**D.** Termination notice requirements
1. No utility shall terminate service to any of its customers without providing advance written notice to the customer of the utility's intent to disconnect service, except under those conditions specified where advance written notice is not required.
2. Such advance written notice shall contain, at a minimum, the following information:
   a. The name of the person whose service is to be terminated and the address where service is being rendered.
   b. The Commission rule or regulation that was violated and explanation thereof or the amount of the bill which the customer has failed to pay in accordance with the payment policy of the utility, if applicable.
   c. The date on or after which service may be terminated.
   d. A statement advising the customer to contact the utility at a specific address or phone number for information regarding any deferred payment or other procedures which the utility may offer or to work out some other mutually agreeable solution to avoid termination of the customer's service.
   e. A statement advising the customer that the utility's stated reason for the termination of services may be disputed by contacting the utility at a specific address or phone number, advising the utility of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the utility in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the utility shall retain the option to terminate service.

**E.** Timing of terminations with notice
1. Each utility shall be required to give at least 5 days advance written notice prior to the termination date.
2. Such notice shall be considered to be given to the customer when a copy thereof is left with the customer or posted first class in the United States mail, addressed to the customer's last known address.
3. If after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the utility for the payment thereof or in the case of a violation of the utility's rules the customer has not satisfied the utility that such violation has ceased, the utility may then terminate service on or after the day specified in the notice without giving further notice.
4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the utility.
5. The utility shall have the right (but not the obligation) to remove any or all of its property installed on the customer's premises upon the termination of service.

**F.** Landlord/tenant rule. In situations where service is rendered at an address different from the mailing address of the bill or where the utility knows that a landlord/tenant relationship exists and that the landlord is the customer of the utility, and where the landlord as a customer would otherwise be subject to disconnection of service, the utility may not disconnect service until the following actions have been taken:
1. Where it is feasible to so provide service, the utility, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the utility may disconnect service pursuant to the rules.
2. A utility shall not attempt to recover from a tenant or condition service to a tenant with the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

## PART X. Administrative and Hearing Requirements

**A.** Customer service complaints
1. Each utility shall make a full and prompt investigation of all service complaints made by its customers, either directly or through the Commission.
2. The utility shall respond to the complainant and/or the Commission representative within five working days as to the status of the utility investigation of the complaint.

3. The utility shall notify the complainant and/or the Commission representative of the final disposition of each complaint. Upon request of the complainant or the Commission representative, the utility shall report the findings of its investigation in writing.
4. The utility shall inform the customer of his right of appeal to the Commission.
5. Each utility shall keep a record of all written service complaints received which shall contain, at a minimum, the following data:
   a. Name and address of the complainant
   b. Date and nature of the complaint
   c. Disposition of the complaint
   d. A copy of any correspondence between the utility, the customer, and/or the Commission.

   This record shall be maintained for a minimum period of one year and shall be available for inspection by the Commission.

**B.** Customer Bill Disputes

1. Any water customer who disputes a portion of a bill rendered for water service will pay the undisputed ~~portion of the bill and notify Graham County Utilities, Inc. designated representative that such unpaid amount~~ is in dispute prior to the delinquent date of the bill.
2. Upon receipt of the customer notice of dispute, the Company will:
   a. Notify the customer within five (5) working days of the receipt of a written dispute notice.
   b. Initiate a prompt investigation as to the source of the dispute.
   c. Withhold disconnection of service until the investigation is completed and the customer is informed of the results. Upon request of the customer Graham County Utilities, Inc. will report the results of the investigation in writing.
   d. Inform the customer of his right of appeal to the Commission.
3. Once the customer has received the results of the investigation, the customer will submit payment within five (5) working days to the utility for any disputed amounts. Failure to make full payment will be grounds for termination of service.

**C.** Commission Resolution of Service and/or Bill Disputes

1. In the event a customer and Graham County Utilities, Inc. cannot resolve a service and/or bill dispute, the customer will file a written statement of dissatisfaction with the Commission.
2. Within thirty (30) days of the receipt of written statement of customer dissatisfaction related to a service or bill dispute, a designated representative of the Commission will endeavor to resolve the dispute by correspondence and/or telephone with Graham County Utilities, Inc. and the customer. If resolution of the dispute is not achieved within twenty (20) days of the Commission representative's initial effort, the Commission will hold and informal hearing to arbitrate the resolution of the dispute. The informal hearing will be governed by the following rules:
   a. Each party may be represented by legal counsel, if desired.
   b. All such informal hearings may be recorded or held in the presence of a stenographer.
   c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties.
   d. All parties and the commission's representative will be given the opportunity for cross-examination of the various parties.
   e. The Commission's representative will render a written decision to all parties within five (5) working days after the date of the informal hearing. Such written decision of the arbitrator is not binding on any of the parties and the parties will still have the right to make a formal complaint to the Commission.
3. Graham County Utilities, Inc. may implement normal termination procedures if the customer fails to pay all bills rendered during the resolution of the dispute by the Commission.
4. A record is maintained of written statements of dissatisfaction and their resolution for a minimum of one (1) year and are available for Commission inspection.

**D.** Notice by utility of responsible officer or agent

1. Each utility shall file with the Commission a written statement containing the name, address (business, residence and post office) and telephone numbers (business and residence) of the onsite manager of its operations.
2. Each utility shall give notice, by filing a written statement with the Commission, of any change in the information required herein within five days from the date of any such change.

**E.** Time-frames for processing applications for Certificates of Convenience and Necessity

1. This rule prescribes time-frames for the processing of any application for a Certificate of Convenience and Necessity issued by the Arizona Corporation Commission pursuant to this Article. These time-frames shall apply to applications filed on or after the effective date of this rule.

2. Within 30 calendar days after receipt of an application for a new Certificate of Convenience and Necessity, or to amend or change the status of any existing Certificate of Convenience and Necessity, staff shall notify the applicant, in writing, that the application is either administratively complete or deficient. If the application is deficient, the notice shall specify all deficiencies.
3. Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.
4. After receipt of a corrected application, staff shall notify the applicant within 30 calendar days if the corrected application is either administratively complete or deficient. The time-frame for administrative completeness review shall be suspended from the time the notice of deficiency is issued until staff determines that the application is complete.
5. Within 150 days after an application is deemed administratively complete, the Commission shall approve or reject the application.
6. For purposes of A.R.S. § 41-1072 et seq., the Commission has established the following time-frames:
   a. Administrative completeness review time-frame: 30 calendar days,
   b. Substantive review time-frame: 150 calendar days,
   c. Overall time-time: 180 calendar days.
7. If an applicant requests, and is granted, an extension or continuance, the appropriate time-frames shall be tolled from the date of the request during the duration of the extension or continuance.
8. During the substantive review time-frame, the Commission may, upon its own motion or that of any interested party to the proceeding, request a suspension of the time- frame rules.

**F.** Accounts and records

1. Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.
2. Each utility shall maintain its books and records in conformity with the NARUC Uniform Systems of Accounts for Class A, B, C and D Water Utilities.
3. A utility shall produce or deliver in this state any or all of its formal accounting records and related documents requested by the Commission. It may, at its option, provide verified copies of original records and documents.
4. All utilities shall submit an annual report to the Commission on a form prescribed by it. The annual report shall be filed on or before the 15th day of April for the preceding calendar year.
5. All utilities shall file with the Commission a copy of all reports required by the Securities and Exchange Commission.
6. All utilities shall file with the Commission a copy of all annual reports required by the Federal Energy Regulatory Commission.

**G.** Maps. All utilities shall file with the Commission a map or maps clearly setting forth the location and extent of the area or areas they hold under approved certificates of convenience and necessity, in accordance with the Cadastral (Rectangular) Survey of the United States Bureau of Land Management, or by metes and bounds with a starting point determined by the aforesaid Cadastral Survey.

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2008 |

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1-29-09

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M Lucas — 1-29-09

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 595,714 | 606,676 | 619,524 | 42,787 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 40,387 | 24,545 | 45,273 | - |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 70,983 | 57,784 | 75,931 | 5,002 |
| 6. Distribution Expense - Maintenance | 117,026 | 159,814 | 132,866 | 15,399 |
| 7. Consumer Accounts Expense | 51,309 | 59,152 | 58,962 | 4,856 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 86,664 | 111,864 | 96,695 | 14,157 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 366,370 | 413,159 | 409,727 | 39,413 |
| 12. Depreciation and Amortization Expense | 108,298 | 117,516 | 117,332 | 9,853 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 93,297 | 100,752 | 110,161 | 12,034 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 4,042 | 6,966 | 8,205 | 773 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 572,007 | 638,393 | 645,426 | 62,073 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 23,707 | (31,717) | (25,901) | (19,285) |
| 21. Non Operating Margins - Interest | 6,577 | 1,450 | 3,956 | 12 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 6,352 | 3,974 | 6,352 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 36,636 | (26,292) | (15,593) | (19,274) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 29 | 23 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,125 | 1,148 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC. WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING December 31, 2008 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,835,775 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 1,199,438 | 27. Patronage Capital | 245,534 |
| 3. Total Utility Plant (1 + 2) | 4,035,214 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,807,827 | 29. Operating Margins - Current Year | (31,717) |
| 5. Net Utility Plant (3 -4) | 2,227,386 | 30. Non Operating Margins | 5,424 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 221,741 |
| 8. Invest in Assoc Org - General Funds | 107,506 | 33. Long-Term Debt RUS (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 2,091,016 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 107,506 | 35 Total Long-Term Debt(33 + 34) | 2,091,016 |
| 13. Cash - General Funds | 44,557 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 116,028 |
| 15. Special Deposits | - | 38. Consumers Deposits | 8,435 |
| 16. Temporary Investments | - | 39. Other Current & Accrued Liabilites | 28,023 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 152,487 |
| 18. Accounts Receivable - Sales of Water | 5,938 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 58,290 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 5,561 | 35 + 40 thru 42) | 2,465,244 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 114,346 | Balance Beginning of Year | 502,326 |
| 24. Deferred Debits | 16,006 | Amounts Received This Year (Net) | 46,563 |
| 25. Total Assets & Other Debits (5+12+23+24) | 2,465,244 | TOTAL Contributions in Aid of Construction | 548,889 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 1,123 | 7,036,100 | 36,617 | 118,144,500 | 522,688 |
| 2. COMM & INDUSTRIAL | 71 | 679,300 | 3,143 | 12,017,400 | 47,463 |
| 3. SALES FOR RESALE | 2 | 1,799,300 | 2,817 | 20,864,500 | 32,705 |
| 4. TOTAL WATER SALES | 1,196 | 9,514,700 | 42,577 | 151,026,400 | 602,856 |
| 5. OTHER WATER REVENUE | | | 210 | | 3,820 |
| 6. TOTAL | 1,196 | 9,514,700 | 42,787 | 151,026,400 | 606,676 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 11,253,500 | 162,606,100 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 1,738,800 | 11,579,700 |
| 3. TOTAL | 11,253,500 | 162,606,100 | 8. % SYSTEM LOSS | 15.45% | 7.12% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 9,514,700 | 151,026,400 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2007 |

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1-25-08

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M Lee — 1-25-08

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS** — DECEMBER

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 566,658 | 595,714 | 593,572 | 48,514 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 29,802 | 40,387 | 34,273 | 8,050 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 62,866 | 70,983 | 66,112 | 4,101 |
| 6. Distribution Expense - Maintenance | 130,226 | 117,026 | 133,887 | 11,917 |
| 7. Consumer Accounts Expense | 46,264 | 51,309 | 55,399 | 4,225 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 82,991 | 86,664 | 89,818 | 5,455 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 352,149 | 366,370 | 379,490 | 33,748 |
| 12. Depreciation and Amortization Expense | 106,569 | 108,298 | 125,145 | 9,724 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 75,884 | 93,297 | 88,448 | 25,337 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 4,116 | 4,042 | 9,204 | 333 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 538,718 | 572,007 | 602,286 | 69,142 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 27,940 | 23,707 | (8,714) | (20,628) |
| 21. Non Operating Margins - Interest | 6,258 | 6,577 | 2,855 | 873 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 7,960 | 6,352 | 7,960 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 42,157 | 36,636 | 2,101 | (19,754) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 25 | 29 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,096 | 1,125 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2007 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,797,683 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 948,094 | 27. Patronage Capital | 208,898 |
| 3. Total Utility Plant (1 + 2) | 3,745,777 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,690,312 | 29. Operating Margins - Current Year | 23,707 |
| 5. Net Utility Plant (3 -4) | 2,055,465 | 30. Non Operating Margins | 12,929 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 248,034 |
| 8. Invest in Assoc Org - General Funds | 114,134 | 33. Long-Term Debt RUS (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 2,168,509 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 114,134 | 35 Total Long-Term Debt(33 + 34) | 2,168,509 |
| 13. Cash - General Funds | 32,891 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 25,526 |
| 15. Special Deposits | - | 38. Consumers Deposits | 8,915 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 37,465 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 71,906 |
| 18. Accounts Receivable - Sales of Water | 196,067 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 56,430 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 12,509 | 35 + 40 thru 42) | 2,488,449 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 299,415 | Balance Beginning of Year | 244,806 |
| 24. Deferred Debits | 19,435 | Amounts Received This Year (Net) | 257,520 |
| 25. Total Assets & Other Debits (5+12+23+24) | 2,488,449 | TOTAL Contributions in Aid of Construction | 502,326 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 1,087 | 9,165,300 | 41,118 | 114,071,600 | 505,246 |
| 2. COMM & INDUSTRIAL | 68 | 980,300 | 3,865 | 13,339,100 | 50,008 |
| 3. SALES FOR RESALE | 2 | 2,053,800 | 3,201 | 23,894,300 | 37,280 |
| 4. TOTAL WATER SALES | 1,157 | 12,199,400 | 48,184 | 151,305,000 | 592,534 |
| 5. OTHER WATER REVENUE | | | 330 | | 3,180 |
| 6. TOTAL | 1,157 | 12,199,400 | 48,514 | 151,305,000 | 595,714 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 12,876,900 | 160,708,400 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 677,500 | 9,403,400 |
| 3. TOTAL | 12,876,900 | 160,708,400 | 8. % SYSTEM LOSS | 5.26% | 5.85% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 12,199,400 | 151,305,000 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2006 |

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Bourney — 1/26/07

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M Lisse — 1-26-07

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 565,794 | 566,658 | 571,788 | 45,593 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 25,361 | 29,802 | 29,165 | - |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 65,623 | 62,866 | 68,418 | 5,241 |
| 6. Distribution Expense - Maintenance | 132,739 | 130,226 | 136,971 | 17,166 |
| 7. Consumer Accounts Expense | 42,107 | 46,264 | 43,262 | 3,648 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 82,893 | 82,991 | 86,728 | 7,420 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 348,723 | 352,149 | 364,544 | 33,475 |
| 12. Depreciation and Amortization Expense | 104,872 | 106,569 | 118,281 | 8,930 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 77,207 | 75,884 | 74,580 | 6,076 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,888 | 4,116 | 3,907 | 340 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 534,691 | 538,718 | 561,312 | 48,821 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 31,104 | 27,940 | 10,476 | (3,227) |
| 21. Non Operating Margins - Interest | 9,530 | 6,258 | 4,239 | 42 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 6,609 | 7,960 | 6,609 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 47,242 | 42,157 | 21,324 | (3,186) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 11 | 25 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,071 | 1,096 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2006 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,612,064 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 299,419 | 27. Patronage Capital | 166,740 |
| 3. Total Utility Plant (1 + 2) | 2,911,484 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,582,014 | 29. Operating Margins - Current Year | 27,940 |
| 5. Net Utility Plant (3 -4) | 1,329,470 | 30. Non Operating Margins | 14,217 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 211,398 |
| 8. Invest in Assoc Org - General Funds | 119,094 | 33. Long-Term Debt RUS (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 1,282,943 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 119,094 | 35 Total Long-Term Debt(33 + 34) | 1,282,943 |
| 13. Cash - General Funds | 18,163 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 53,737 |
| 15. Special Deposits | - | 38. Consumers Deposits | 10,650 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 16,118 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 80,505 |
| 18. Accounts Receivable - Sales of Water | 11,386 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 60,898 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 11,452 | 35 + 40 thru 42) | 1,574,845 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 103,416 | Balance Beginning of Year | 223,356 |
| 24. Deferred Debits | 22,865 | Amounts Received This Year (Net) | 21,450 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,574,845 | TOTAL Contributions in Aid of Construction | 244,806 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 1,064 | 8,032,800 | 38,237 | 109,011,100 | 485,923 |
| 2. COMM & INDUSTRIAL | 67 | 962,200 | 3,754 | 12,246,700 | 46,794 |
| 3. SALES FOR RESALE | 2 | 2,174,000 | 3,383 | 20,212,200 | 31,720 |
| 4. TOTAL WATER SALES | 1,133 | 11,169,000 | 45,373 | 141,470,000 | 564,438 |
| 5. OTHER WATER REVENUE | | | 220 | | 2,220 |
| 6. TOTAL | 1,133 | 11,169,000 | 45,593 | 141,470,000 | 566,658 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 12,715,700 | 153,310,000 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 1,546,700 | 11,840,000 |
| 3. TOTAL | 12,715,700 | 153,310,000 | 8. % SYSTEM LOSS | 12.16% | 7.72% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 11,169,000 | 141,470,000 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>December 31, 2005 |

38,442

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE: 1/27/06

Steve M Lee — SIGNATURE OF MANAGER — DATE: 1-27-06

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 555,846 | 565,794 | 558,486 | 44,304 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 26,344 | 25,361 | 29,408 | - |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 66,795 | 65,623 | 66,066 | 4,889 |
| 6. Distribution Expense - Maintenance | 153,382 | 132,739 | 137,805 | 9,182 |
| 7. Consumer Accounts Expense | 42,156 | 42,107 | 43,561 | 3,591 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 84,749 | 82,893 | 86,274 | 5,643 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 373,427 | 348,723 | 363,114 | 23,306 |
| 12. Depreciation and Amortization Expense | 104,110 | 104,872 | 118,503 | 8,854 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 77,233 | 77,207 | 81,615 | 6,395 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,898 | 3,888 | 3,901 | 286 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 558,668 | 534,691 | 567,133 | 38,840 |
| 20. Patronage Capital & Operating Margins (1 - 19) | (2,822) | 31,104 | (8,647) | 5,464 |
| 21. Non Operating Margins - Interest | 3,975 | 9,530 | 9,204 | 802 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 6,614 | 6,609 | 6,614 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 7,767 | 47,242 | 7,171 | 6,266 |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 12 | 11 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,060 | 1,071 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT<br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>MONTH ENDING<br>December 31, 2005 |
|---|---|

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,580,160 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 90,417 | 27. Patronage Capital | 119,498 |
| 3. Total Utility Plant (1 + 2) | 2,670,577 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,475,444 | 29. Operating Margins - Current Year | 31,104 |
| 5. Net Utility Plant (3 -4) | 1,195,132 | 30. Non Operating Margins | 16,138 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 169,240 |
| 8. Invest in Assoc Org - General Funds | 123,603 | 33. Long-Term Debt RUS (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 1,368,648 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 123,603 | 35 Total Long-Term Debt(33 + 34) | 1,368,648 |
| 13. Cash - General Funds | 17,698 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 12,311 |
| 15. Special Deposits | - | 38. Consumers Deposits | 8,980 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 16,080 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 37,370 |
| 18. Accounts Receivable - Sales of Water | 156,910 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 46,416 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 7,686 | 35 + 40 thru 42) | 1,575,258 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 230,228 | Balance Beginning of Year | 204,141 |
| 24. Deferred Debits | 26,294 | Amounts Received This Year (Net) | 19,215 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,575,258 | TOTAL Contributions in Aid of Construction | 223,356 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 1,034 | 7,941,900 | 37,424 | 110,918,000 | 485,656 |
| 2. COMM & INDUSTRIAL | 67 | 989,300 | 3,793 | 12,880,400 | 47,983 |
| 3. SALES FOR RESALE | 2 | 1,832,500 | 2,867 | 19,148,600 | 30,114 |
| 4. TOTAL WATER SALES | 1,103 | 10,763,700 | 44,084 | 142,947,000 | 563,754 |
| 5. OTHER WATER REVENUE | | | 220 | | 2,040 |
| 6. TOTAL | 1,103 | 10,763,700 | 44,304 | 142,947,000 | 565,794 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 12,431,700 | 143,339,600 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 1,668,000 | 392,600 |
| 3. TOTAL | 12,431,700 | 143,339,600 | 8. % SYSTEM LOSS | 13.42% | 0.27% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 10,763,700 | 142,947,000 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

Form 7 This is a computer generated facsimile 

| FINANCIAL AND STATISTICAL REPORT<br><br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543<br>MONTH ENDING<br>December 31, 2004 |
|---|---|

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/27/05

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M Lines — 1-27-05

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 567,503 | 555,846 | 571,590 | 41,061 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 25,388 | 26,344 | 26,695 | - |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 58,271 | 66,795 | 59,489 | 5,053 |
| 6. Distribution Expense - Maintenance | 128,067 | 153,382 | 146,282 | 8,147 |
| 7. Consumer Accounts Expense | 40,476 | 42,156 | 41,622 | 3,082 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 70,611 | 84,749 | 71,660 | 6,143 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 322,813 | 373,427 | 345,748 | 22,425 |
| 12. Depreciation and Amortization Expense | 102,905 | 104,110 | 105,325 | 8,716 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 80,220 | 77,233 | 84,907 | 6,452 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,998 | 3,898 | 4,000 | 324 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 509,936 | 558,668 | 539,980 | 37,918 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 57,568 | (2,822) | 31,610 | 3,143 |
| 21. Non Operating Margins - Interest | 4,587 | 3,975 | 10,111 | 640 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 7,369 | 6,614 | 7,368 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 69,524 | 7,767 | 49,089 | 3,783 |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 13 | 12 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,048 | 1,060 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles (5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT<br><br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>MONTH ENDING<br>December 31, 2004 |
|---|---|

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,548,822 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 5,104 | 27. Patronage Capital | 111,731 |
| 3. Total Utility Plant (1 + 2) | 2,553,926 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,376,652 | 29. Operating Margins - Current Year | (2,822) |
| 5. Net Utility Plant (3 -4) | 1,177,274 | 30. Non Operating Margins | 10,589 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 121,998 |
| 8. Invest in Assoc Org - General Funds | 128,248 | 33. Long-Term Debt RUS (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 1,450,000 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 128,248 | 35 Total Long-Term Debt(33 + 34) | 1,450,000 |
| 13. Cash - General Funds | 17,430 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 5,469 |
| 15. Special Deposits | - | 38. Consumers Deposits | 7,655 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 15,263 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 28,387 |
| 18. Accounts Receivable - Sales of Water | 207,846 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 32,403 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 5,942 | 35 + 40 thru 42) | 1,600,385 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 265,139 | Balance Beginning of Year | 193,793 |
| 24. Deferred Debits | 29,724 | Amounts Received This Year (Net) | 10,348 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,600,385 | TOTAL Contributions in Aid of Construction | 204,141 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 1,007 | 7,033,200 | 34,699 | 108,727,000 | 475,295 |
| 2. COMM & INDUSTRIAL | 64 | 937,700 | 3,635 | 13,800,500 | 49,988 |
| 3. SALES FOR RESALE | 2 | 1,634,000 | 2,567 | 17,975,700 | 28,343 |
| 4. TOTAL WATER SALES | 1,073 | 9,604,900 | 40,901 | 140,503,200 | 553,626 |
| 5. OTHER WATER REVENUE | | | 160 | | 2,220 |
| 6. TOTAL | 1,073 | 9,604,900 | 41,061 | 140,503,200 | 555,846 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 9,724,800 | 152,477,500 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 119,900 | 11,974,300 |
| 3. TOTAL | 9,724,800 | 152,477,500 | 8. % SYSTEM LOSS | 1.23% | 7.85% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 9,604,900 | 140,503,200 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT<br><br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543<br>MONTH ENDING<br>DECEMBER 31, 2003 |
|---|---|

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/28/04

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M Lewis — 1-28-04

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 541,219 | 567,503 | 549,137 | 37,507 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 18,725 | 25,388 | 19,458 | 1,627 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 59,963 | 58,271 | 62,176 | 4,837 |
| 6. Distribution Expense - Maintenance | 177,365 | 128,067 | 166,568 | 5,640 |
| 7. Consumer Accounts Expense | 36,477 | 40,476 | 37,599 | 3,292 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 71,851 | 70,611 | 74,435 | 6,197 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 364,380 | 322,813 | 360,236 | 21,592 |
| 12. Depreciation and Amortization Expense | 101,337 | 102,905 | 100,088 | 8,632 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 85,069 | 80,220 | 84,989 | 6,369 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,969 | 3,998 | 4,251 | 322 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 554,755 | 509,936 | 549,564 | 36,915 |
| 20. Patronage Capital & Operating Margins (1 - 19) | (13,536) | 57,568 | (427) | 592 |
| 21. Non Operating Margins - Interest | 6,285 | 4,587 | 8,811 | 470 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 8,376 | 7,369 | 8,376 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 1,125 | 69,524 | 16,761 | 1,062 |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 17 | 13 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,035 | 1,035 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2003 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,531,039 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | (8,583) | 27. Patronage Capital | 42,208 |
| 3. Total Utility Plant (1 + 2) | 2,522,456 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,272,542 | 29. Operating Margins - Current Year | 57,568 |
| 5. Net Utility Plant (3 -4) | 1,249,915 | 30. Non Operating Margins | 11,956 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 114,231 |
| 8. Invest in Assoc Org - General Funds | 132,618 | 33. Long-Term Debt REA (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 1,527,305 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 132,618 | 35 Total Long-Term Debt(33 + 34) | 1,527,305 |
| 13. Cash - General Funds | 17,273 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 4,314 |
| 15. Special Deposits | - | 38. Consumers Deposits | 7,260 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 15,809 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 27,383 |
| 18. Accounts Receivable - Sales of Water | 190,250 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 35,254 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 8,938 | 35 + 40 thru 42) | 1,668,920 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 253,233 | Balance Beginning of Year | 157,539 |
| 24. Deferred Debits | 33,154 | Amounts Received This Year (Net) | 36,254 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,668,920 | TOTAL Contributions in Aid of Construction | 193,793 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 982 | 6,107,700 | 31,900 | 110,717,900 | 478,440 |
| 2. COMM & INDUSTRIAL | 63 | 748,900 | 3,136 | 16,331,100 | 56,569 |
| 3. SALES FOR RESALE | 2 | 1,457,600 | 2,301 | 19,288,200 | 30,275 |
| 4. TOTAL WATER SALES | 1,047 | 8,314,200 | 37,337 | 146,337,200 | 565,283 |
| 5. OTHER WATER REVENUE | | | 170 | | 2,220 |
| 6. TOTAL | 1,047 | 8,314,200 | 37,507 | 146,337,200 | 567,503 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 8,935,100 | 155,186,500 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 620,900 | 8,849,300 |
| 3. TOTAL | 8,935,100 | 155,186,500 | 8. % SYSTEM LOSS | 6.95% | 5.70% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 8,314,200 | 146,337,200 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2002 |

CERTIFICATION

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/29/03

SIGNATURE OF OFFICE/MANAGER OR ACCOUNTANT — DATE

Steve M Lin — 1-29-03

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | DECEMBER THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 505,034 | 541,219 | 499,032 | 42,556 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 17,674 | 18,725 | 17,965 | 1,664 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 64,044 | 59,963 | 67,429 | 4,322 |
| 6. Distribution Expense - Maintenance | 99,594 | 177,365 | 100,765 | 16,887 |
| 7. Consumer Accounts Expense | 38,613 | 36,477 | 40,515 | 3,220 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 67,015 | 71,851 | 70,268 | 5,169 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 286,939 | 364,380 | 296,942 | 31,263 |
| 12. Depreciation and Amortization Expense | 94,536 | 101,337 | 95,299 | 8,503 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 93,009 | 85,069 | 91,803 | 6,605 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,901 | 3,969 | 3,885 | 331 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 478,385 | 554,755 | 487,929 | 46,701 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 26,649 | (13,536) | 11,103 | (4,145) |
| 21. Non Operating Margins - Interest | 5,882 | 6,285 | 8,682 | 403 |
| 22. Allowance for Funds Used During Construction | - | - | - | - |
| 23. Non Operating Margins - Other | - | - | - | - |
| 24. Generation & Transmission Capital Credits | - | - | - | - |
| 25. Other Capital Credits and Patronage Dividends | 8,210 | 8,376 | 8,210 | - |
| 26. Extraordinary Items | - | - | - | - |
| 27. Patronage Capital or Margins (20 - 26) | 40,741 | 1,125 | 27,996 | (3,743) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 62 | 17 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 1,018 | 1,035 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles (5+6+7) | | |

| FINANCIAL AND STATISTICAL REPOR' | GRAHAM COUNTY UTILITIES, INC<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2002 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,495,634 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 2,653 | 27. Patronage Capital | 41,082 |
| 3. Total Utility Plant (1 + 2) | 2,498,286 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,176,149 | 29. Operating Margins - Current Year | (13,536) |
| 5. Net Utility Plant (3 -4) | 1,322,137 | 30. Non Operating Margins | 14,661 |
| 6. Nonutility Property _ Net | - | 31. Other Margins and Equities | - |
| 7. Invest in Assoc Org - Patronage Capital | - | 32. Total Margins & Equities (26 thru 31) | 44,708 |
| 8. Invest in Assoc Org - General Funds | 135,458 | 33. Long-Term Debt REA (Net) | - |
| 9. Invest in Assoc Org - Nongeneral Funds | - | (Payments - Unapplied $_____ | |
| 10. Other Investments | - | 34. Long-Term Debt - Other (net) | 1,600,846 |
| 11. Special Funds | - | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 135,458 | 35 Total Long-Term Debt(33 + 34) | 1,600,846 |
| 13. Cash - General Funds | 17,145 | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | - | 37. Accounts Payable | 13,084 |
| 15. Special Deposits | - | 38. Consumers Deposits | 9,025 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 15,603 |
| 17. Notes Receivable - Net | - | 40. Total Current & Accrued Liab (36 thru 39) | 37,713 |
| 18. Accounts Receivable - Sales of Water | 125,184 | 41. Deferred Credits | - |
| 19. Accounts Receivable - Net Other | - | 42. Miscellaneous Operating Reserves | - |
| 20. Materials & Supplies - Water & Other | 37,663 | 43. Total Liabilities & Other Credits (32 + | - |
| 21. Prepayments | 7,578 | 35 + 40 thru 42) | 1,683,266 |
| 22. Other Current & Accrued Assets | - | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 189,088 | Balance Beginning of Year | 154,629 |
| 24. Deferred Debits | 36,583 | Amounts Received This Year (Net) | 2,910 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,683,266 | TOTAL Contributions in Aid of Construction | 157,539 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 975 | 7,582,700 | 35,672 | 97,541,720 | 465,089 |
| 2. COMM & INDUSTRIAL | 61 | 1,171,400 | 4,224 | 13,599,500 | 49,920 |
| 3. SALES FOR RESALE | 1 | 1,609,300 | 2,480 | 15,563,600 | 24,139 |
| 4. TOTAL WATER SALES | 1,037 | 10,363,400 | 42,376 | 126,704,820 | 539,149 |
| 5. OTHER WATER REVENUE | | | 180 | | 2,070 |
| 6. TOTAL | 1,037 | 10,363,400 | 42,556 | 126,704,820 | 541,219 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 11,101,500 | 151,272,500 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 738,100 | 24,567,680 |
| 3. TOTAL | 11,101,500 | 151,272,500 | 8. % SYSTEM LOSS | 6.65% | 16.24% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 10,363,400 | 126,704,820 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2001 |

CERTIFICATION

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/22/02
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Steve M. Lines — 1/22/02
SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS** — DECEMBER

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 507,571 | 505,034 | 516,448 | 40,309 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 17,805 | 17,674 | 19,002 | 1,471 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 62,570 | 64,044 | 63,422 | 4,723 |
| 6. Distribution Expense - Maintenance | 87,421 | 99,594 | 97,516 | 14,856 |
| 7. Consumer Accounts Expense | 38,268 | 38,613 | 40,796 | 3,245 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 79,960 | 67,015 | 83,964 | 5,585 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 286,025 | 286,939 | 304,699 | 29,880 |
| 12. Depreciation and Amortization Expense | 93,425 | 94,536 | 97,419 | 8,302 |
| 13. Tax Expense - Property | - | - | | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 94,146 | 93,009 | 94,836 | 6,958 |
| 16. Interest Charged to Construction - Credi | - | - | - | - |
| 17. Interest Expense - Other | 3,703 | 3,901 | 3,698 | 328 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 477,300 | 478,385 | 500,653 | 45,468 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 30,271 | 26,649 | 15,796 | (5,159) |
| 21. Non Operating Margins - Interest | 8,813 | 5,882 | 9,194 | 1,182 |
| 22. Allowance for Funds Used During Construction | | | | |
| 23. Non Operating Margins - Other | | | | |
| 24. Generation & Transmission Capital Credits | | | | |
| 25. Other Capital Credits and Patronage Dividends | 7,844 | 8,210 | 7,844 | - |
| 26. Extraordinary Items | | | | |
| 27. Patronage Capital or Margins (20 - 26) | 46,927 | 40,741 | 32,833 | (3,977) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLAN**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 20 | 62 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 956 | 1,018 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPOR | GRAHAM COUNTY UTILITIES, INC<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2001 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,464,913 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 2,187 | 27. Patronage Capital | 342 |
| 3. Total Utility Plant (1 + 2) | 2,467,100 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 1,074,812 | 29. Operating Margins - Current Year | 26,649 |
| 5. Net Utility Plant (3 -4) | 1,392,288 | 30. Non Operating Margins | 14,092 |
| 6. Nonutility Property _ Net | | 31. Other Margins and Equities | |
| 7. Invest in Assoc Org - Patronage Capital | | 32. Total Margins & Equities (26 thru 31) | 43,582 |
| 8. Invest in Assoc Org - General Funds | 138,127 | 33. Long-Term Debt REA (Net) | |
| 9. Invest in Assoc Org - Nongeneral Funds | | (Payments - Unapplied $_____ | |
| 10. Other Investments | | 34. Long-Term Debt - Other (net) | 1,672,723 |
| 11. Special Funds | | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 138,127 | 35 Total Long-Term Debt(33 + 34) | 1,672,723 |
| 13. Cash - General Funds | | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | | 37. Accounts Payable | 9,881 |
| 15. Special Deposits | | 38. Consumers Deposits | 8,375 |
| 16. Temporary Investments | 18,466 | 39. Other Current & Accrued Liabilites | 17,623 |
| 17. Notes Receivable - Net | | 40. Total Current & Accrued Liab (36 thru 39) | 35,879 |
| 18. Accounts Receivable - Sales of Water | 126,931 | 41. Deferred Credits | |
| 19. Accounts Receivable - Net Other | | 42. Miscellaneous Operating Reserves | |
| 20. Materials & Supplies - Water & Other | 29,854 | 43. Total Liabilities & Other Credits (32 + | |
| 21. Prepayments | 6,506 | 35 + 40 thru 42) | 1,752,185 |
| 22. Other Current & Accrued Assets | | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 181,758 | Balance Beginning of Year | 151,796 |
| 24. Deferred Debits | 40,013 | Amounts Received This Year (Net) | 2,834 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,752,185 | TOTAL Contributions in Aid of Construction | 154,629 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 966 | 7,133,300 | 34,200 | 96,125,800 | 430,934 |
| 2. COMM & INDUSTRIAL | 58 | 883,700 | 3,383 | 12,252,100 | 44,687 |
| 3. SALES FOR RESALE | 1 | 1,699,900 | 2,617 | 17,372,600 | 26,833 |
| 4. TOTAL WATER SALES | 1,025 | 9,716,900 | 40,199 | 125,750,500 | 502,454 |
| 5. OTHER WATER REVENUE | | | 110 | | 2,580 |
| 6. TOTAL | 1,025 | 9,716,900 | 40,309 | 125,750,500 | 505,034 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 9,820,900 | 133,473,000 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 104,000 | 7,722,500 |
| 3. TOTAL | 9,820,900 | 133,473,000 | 8. % SYSTEM LOSS | 1.06% | 5.79% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 9,716,900 | 125,750,500 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 2000 |

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/24/01

**SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT** — **DATE**

Steve M. Jones — 1-25-01

**SIGNATURE OF MANAGER** — **DATE**

**PART A. STATEMENT OF OPERATIONS** — **DECEMBER**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 492,333 | 507,571 | 484,361 | 33,692 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 13,882 | 17,805 | 14,325 | 905 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 43,079 | 62,570 | 44,562 | 4,870 |
| 6. Distribution Expense - Maintenance | 85,635 | 87,421 | 90,639 | 11,232 |
| 7. Consumer Accounts Expense | 39,535 | 38,268 | 40,642 | 3,217 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 75,006 | 79,960 | 77,261 | 5,491 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 257,137 | 286,025 | 267,429 | 25,715 |
| 12. Depreciation and Amortization Expense | 85,670 | 93,425 | 90,380 | 7,833 |
| 13. Tax Expense - Property | - | - | - | - |
| 14. Tax Expense - Other | - | - | - | - |
| 15. Interest on Long-Term Debt | 93,091 | 94,146 | 94,520 | 7,756 |
| 16. Interest Charged to Construction - Credit | - | - | - | - |
| 17. Interest Expense - Other | 3,736 | 3,703 | 3,735 | 312 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 439,633 | 477,300 | 456,064 | 41,616 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 52,700 | 30,271 | 28,297 | (7,924) |
| 21. Non Operating Margins - Interest | 1,460 | 8,813 | 6,899 | |
| 22. Allowance for Funds Used During Construction | | | | |
| 23. Non Operating Margins - Other | | | | |
| 24. Generation & Transmission Capital Credits | | | | |
| 25. Other Capital Credits and Patronage Dividends | 8,096 | 7,844 | 8,096 | - |
| 26. Extraordinary Items | | | | |
| 27. Patronage Capital or Margins (20 - 26) | 62,256 | 46,927 | 43,292 | (7,924) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 18 | 20 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 936 | 956 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT<br><br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>MONTH ENDING<br>DECEMBER 31, 2000 |
|---|---|

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,316,315 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 147,885 | 27. Patronage Capital | 84 |
| 3. Total Utility Plant (1 + 2) | 2,464,200 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 980,276 | 29. Operating Margins - Current Year | 30,271 |
| 5. Net Utility Plant (3 -4) | 1,483,924 | 30. Non Operating Margins | 16,657 |
| 6. Nonutility Property _ Net | | 31. Other Margins and Equities | |
| 7. Invest in Assoc Org - Patronage Capital | | 32. Total Margins & Equities (26 thru 31) | 49,511 |
| 8. Invest in Assoc Org - General Funds | 140,586 | 33. Long-Term Debt REA (Net) | |
| 9. Invest in Assoc Org - Nongeneral Funds | | (Payments - Unapplied $_____ | |
| 10. Other Investments | | 34. Long-Term Debt - Other (net) | 1,673,615 |
| 11. Special Funds | | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 140,586 | 35 Total Long-Term Debt(33 + 34) | 1,673,615 |
| 13. Cash - General Funds | | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | | 37. Accounts Payable | 103,109 |
| 15. Special Deposits | | 38. Consumers Deposits | 5,300 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 14,131 |
| 17. Notes Receivable - Net | | 40. Total Current & Accrued Liab (36 thru 39) | 122,539 |
| 18. Accounts Receivable - Sales of Water | 144,063 | 41. Deferred Credits | |
| 19. Accounts Receivable - Net Other | | 42. Miscellaneous Operating Reserves | |
| 20. Materials & Supplies - Water & Other | 26,181 | 43. Total Liabilities & Other Credits (32 + | |
| 21. Prepayments | 5,951 | 35 + 40 thru 42) | 1,845,665 |
| 22. Other Current & Accrued Assets | | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 177,713 | Balance Beginning of Year | 135,101 |
| 24. Deferred Debits | 43,442 | Amounts Received This Year (Net) | 18,174 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,845,665 | TOTAL Contributions in Aid of Construction | 153,275 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 921 | 5,381,400 | 29,000 | 101,849,000 | 439,622 |
| 2. COMM & INDUSTRIAL | 59 | 428,300 | 2,211 | 10,535,000 | 40,048 |
| 3. SALES FOR RESALE | 1 | 1,490,800 | 2,301 | 16,762,100 | 25,911 |
| 4. TOTAL WATER SALES | 981 | 7,300,500 | 33,512 | 129,146,100 | 505,581 |
| 5. OTHER WATER REVENUE | | | 180 | | 1,990 |
| 6. TOTAL | 981 | 7,300,500 | 33,692 | 129,146,100 | 507,571 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 8,041,600 | 138,627,700 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 741,100 | 9,481,600 |
| 3. TOTAL | 8,041,600 | 138,627,700 | 8. % SYSTEM LOSS | 9.22% | 6.84% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 7,300,500 | 129,146,100 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT<br><br>Round ALL AMOUNTS to nearest dollar. | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543<br>MONTH ENDING<br>DECEMBER 31, 1999 |
|---|---|

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — 1/26/2000
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE

Nelson Peck — 1-26-2000
SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS** — DECEMBER

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 429,981 | 492,333 | 488,670 | 39,132 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 13,758 | 13,882 | 14,431 | 1,199 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 42,566 | 43,079 | 52,987 | 3,635 |
| 6. Distribution Expense - Maintenance | 68,337 | 85,635 | 86,259 | 10,968 |
| 7. Consumer Accounts Expense | 37,976 | 39,535 | 44,099 | 3,802 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 62,526 | 75,006 | 66,858 | 5,496 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 225,164 | 257,137 | 264,634 | 25,100 |
| 12. Depreciation and Amortization Expense | 82,675 | 85,670 | 84,944 | 7,763 |
| 13. Tax Expense - Property | | - | - | - |
| 14. Tax Expense - Other | (205) | | - | - |
| 15. Interest on Long-Term Debt | 101,584 | 93,091 | 108,813 | 7,812 |
| 16. Interest Charged to Construction - Credit | - | | - | |
| 17. Interest Expense - Other | 1,454 | 3,736 | 1,366 | 307 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 410,672 | 439,633 | 459,757 | 40,982 |
| 20. Patronage Capital & Operating Margins (1 - 19) | 19,309 | 52,700 | 28,913 | (1,851) |
| 21. Non Operating Margins - Interest | 636 | 1,460 | 1,590 | 637 |
| 22. Allowance for Funds Used During Construction | | | | |
| 23. Non Operating Margins - Other | | | | |
| 24. Generation & Transmission Capital Credits | | | | |
| 25. Other Capital Credits and Patronage Dividends | 11,529 | 8,096 | 11,529 | |
| 26. Extraordinary Items | | | | |
| 27. Patronage Capital or Margins (20 - 26) | 31,474 | 62,256 | 42,032 | (1,213) |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 39 | 18 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 918 | 936 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 1999 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,295,601 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | (8,996) | 27. Patronage Capital | (26,808) |
| 3. Total Utility Plant (1 + 2) | 2,286,606 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 886,851 | 29. Operating Margins - Current Year | 52,700 |
| 5. Net Utility Plant (3 -4) | 1,399,755 | 30. Non Operating Margins | 9,556 |
| 6. Nonutility Property _ Net | | 31. Other Margins and Equities | |
| 7. Invest in Assoc Org - Patronage Capital | | 32. Total Margins & Equities (26 thru 31) | 37,948 |
| 8. Invest in Assoc Org - General Funds | 142,915 | 33. Long-Term Debt REA (Net) | |
| 9. Invest in Assoc Org - Nongeneral Funds | | (Payments - Unapplied $_____ | |
| 10. Other Investments | | 34. Long-Term Debt - Other (net) | 1,686,851 |
| 11. Special Funds | | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 142,915 | 35 Total Long-Term Debt(33 + 34) | 1,686,851 |
| 13. Cash - General Funds | | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | | 37. Accounts Payable | 1,819 |
| 15. Special Deposits | | 38. Consumers Deposits | 4,150 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 12,581 |
| 17. Notes Receivable - Net | | 40. Total Current & Accrued Liab (36 thru 39) | 18,550 |
| 18. Accounts Receivable - Sales of Water | 122,285 | 41. Deferred Credits | |
| 19. Accounts Receivable - Net Other | | 42. Miscellaneous Operating Reserves | |
| 20. Materials & Supplies - Water & Other | 24,934 | 43. Total Liabilities & Other Credits (32 + | |
| 21. Prepayments | 5,071 | 35 + 40 thru 42) | 1,743,350 |
| 22. Other Current & Accrued Assets | | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 153,807 | Balance Beginning of Year | 119,307 |
| 24. Deferred Debits | 46,872 | Amounts Received This Year (Net) | 15,794 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,743,350 | TOTAL Contributions in Aid of Construction | 135,101 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 899 | 7,346,600 | 33,691 | 97,469,000 | 426,829 |
| 2. COMM & INDUSTRIAL | 56 | 804,800 | 3,149 | 10,546,800 | 40,106 |
| 3. SALES FOR RESALE | 1 | 1,384,800 | 2,141 | 16,980,600 | 23,398 |
| 4. TOTAL WATER SALES | 956 | 9,536,200 | 38,982 | 124,996,400 | 490,333 |
| 5. OTHER WATER REVENUE | | | 150 | | 2,000 |
| 6. TOTAL | 956 | 9,536,200 | 39,132 | 124,996,400 | 492,333 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 10,611,900 | 135,356,806 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 1,075,700 | 10,360,406 |
| 3. TOTAL | 10,611,900 | 135,356,806 | 8. % SYSTEM LOSS | 10.14% | 7.65% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 9,536,200 | 124,996,400 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM<br>PIMA, AZ 85543 |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 1998 |

**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

Russ Barney — SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT — DATE: 1/22/99

SIGNATURE OF MANAGER — DATE

**PART A. STATEMENT OF OPERATIONS** — DECEMBER

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | YEAR-TO-DATE BUDGET (c) | THIS MONTH (d) |
|---|---|---|---|---|
| 1. Operating Revenue and Patronage Capital | 397,476 | 429,981 | 462,152 | 33,330 |
| 2. Water Production Expense | - | - | - | - |
| 3. Cost of Water Production | 16,297 | 13,758 | 16,646 | 960 |
| 4. Transmission Expense | - | - | - | - |
| 5. Distribution Expense - Operations | 15,228 | 42,566 | 16,609 | 2,997 |
| 6. Distribution Expense - Maintenance | 74,621 | 68,337 | 75,254 | 5,945 |
| 7. Consumer Accounts Expense | 25,036 | 37,976 | 28,664 | 2,974 |
| 8. Customer Service and Informational Expense | - | - | - | - |
| 9. Sales Expense | - | - | - | - |
| 10. Administrative and General Expense | 86,367 | 62,526 | 87,321 | 4,071 |
| 11. Total Operation & Maintenance Expense (2 - 10) | 217,550 | 225,164 | 224,494 | 16,947 |
| 12. Depreciation and Amortization Expense | 69,213 | 82,675 | 72,281 | 6,916 |
| 13. Tax Expense - Property | 18,721 | - | 26,400 | - |
| 14. Tax Expense - Other | 5,776 | (205) | 5,966 | (17) |
| 15. Interest on Long-Term Debt | 121,725 | 101,584 | 134,862 | 8,402 |
| 16. Interest Charged to Construction - Credit | - | | - | - |
| 17. Interest Expense - Other | 305 | 1,454 | 913 | 306 |
| 18. Other Deductions | - | - | - | - |
| 19. Total Cost of Water Service (11 - 18) | 433,290 | 410,672 | 464,916 | 32,553 |
| 20. Patronage Capital & Operating Margins (1 - 19) | (35,814) | 19,309 | (2,764) | 776 |
| 21. Non Operating Margins - Interest | 398 | 636 | 664 | - |
| 22. Allowance for Funds Used During Construction | | | | |
| 23. Non Operating Margins - Other | | | | |
| 24. Generation & Transmission Capital Credits | | | | |
| 25. Other Capital Credits and Patronage Dividends | 12,322 | 11,529 | 12,321 | |
| 26. Extraordinary Items | | | | |
| 27. Patronage Capital or Margins (20 - 26) | (23,095) | 31,474 | 10,221 | 776 |

**PART B. DATA ON TRANSMISSION ND DISTRIBUTION PLANT**

| ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) | ITEM | YEAR-TO-DATE LAST YEAR (a) | YEAR-TO-DATE THIS YEAR (b) |
|---|---|---|---|---|---|
| 1. New Services Connected | 22 | 39 | | | |
| 2. Service Retired | | | 6. Miles Distribution | | |
| 3. Total Services in Place | 879 | 918 | | | |
| 4. Idle Services (Exclude Seasonal) | | | 8. Total Miles ( 5+6+7) | | |

| FINANCIAL AND STATISTICAL REPORT | GRAHAM COUNTY UTILITIES, INC.<br>WATER SYSTEM |
|---|---|
| Round ALL AMOUNTS to nearest dollar. | MONTH ENDING<br>DECEMBER 31, 1998 |

## PART C. BALANCE SHEET

| ASSETS AND OTHER DEBITS | | LIABILITIES AND OTHER CREDITS | |
|---|---|---|---|
| 1. Total Utility Plant in Service | 2,044,773 | 26. Memberships | 2,500 |
| 2. Construction Work in Progress | 190,163 | 27. Patronage Capital | (58,282) |
| 3. Total Utility Plant (1 + 2) | 2,234,935 | 28. Operating Margins - Prior Years | |
| 4. Accum. Provision for Depreciation & Amort. | 801,181 | 29. Operating Margins - Current Year | 19,309 |
| 5. Net Utility Plant (3 -4) | 1,433,755 | 30. Non Operating Margins | 12,165 |
| 6. Nonutility Property _ Net | | 31. Other Margins and Equities | |
| 7. Invest in Assoc Org - Patronage Capital | | 32. Total Margins & Equities (26 thru 31) | (24,308) |
| 8. Invest in Assoc Org - General Funds | 142,989 | 33. Long-Term Debt REA (Net) | |
| 9. Invest in Assoc Org - Nongeneral Funds | | (Payments - Unapplied $_____ | |
| 10. Other Investments | | 34. Long-Term Debt - Other (net) | 1,612,654 |
| 11. Special Funds | | (Payments - Unapplied $_____ | |
| 12. Total Other Property & Investments (6 thru 11) | 142,989 | 35 Total Long-Term Debt(33 + 34) | 1,612,654 |
| 13. Cash - General Funds | | 36. Notes Payable | - |
| 14. Cash - Construction Funds - Trustee | | 37. Accounts Payable | 62,561 |
| 15. Special Deposits | | 38. Consumers Deposits | 4,080 |
| 16. Temporary Investments | 1,518 | 39. Other Current & Accrued Liabilites | 11,522 |
| 17. Notes Receivable - Net | | 40. Total Current & Accrued Liab (36 thru 39 | 78,163 |
| 18. Accounts Receivable - Sales of Water | 7,445 | 41. Deferred Credits | |
| 19. Accounts Receivable - Net Other | | 42. Miscellaneous Operating Reserves | |
| 20. Materials & Supplies - Water & Other | 23,575 | 43. Total Liabilities & Other Credits (32 + | |
| 21. Prepayments | 5,137 | 35 + 40 thru 42) | 1,666,509 |
| 22. Other Current & Accrued Assets | | ESTIMATED CONSTRIBUTIONS IN AID TO CONSTRUCTION | |
| 23. Total Current & Accrued Assets (13 thru 22) | 37,675 | Balance Beginning of Year | 101,876 |
| 24. Deferred Debits | 52,090 | Amounts Received This Year (Net) | 17,431 |
| 25. Total Assets & Other Debits (5+12+23+24) | 1,666,509 | TOTAL Contributions in Aid of Construction | 119,307 |

## PART D. CONSUMER SALES AND REVENUE DATA

| CLASS OF SERVICE | THIS MONTH | | | YEAR TO DATE | |
|---|---|---|---|---|---|
| | NO. RECEIVING SERVICE | GALLONS SOLD | AMOUNT | GALLONS SOLD CUMULATIVE | AMOUNT CUMULATIVE |
| 1. RESIDENTIAL SALES | 892 | 5,542,500 | 28,952 | 94,947,100 | 376,174 |
| 2. COMM & INDUSTRIAL | 54 | 607,800 | 2,613 | 9,295,900 | 32,669 |
| 3. SALES FOR RESALE | 1 | 1,042,400 | 1,604 | 13,309,600 | 19,068 |
| 4. TOTAL WATER SALES | 947 | 7,192,700 | 33,170 | 117,552,600 | 427,911 |
| 5. OTHER WATER REVENUE | | | 160 | | 2,070 |
| 6. TOTAL | 947 | 7,192,700 | 33,330 | 117,552,600 | 429,981 |

## PART E. WATER STATISTICS

| ITEM | THIS MONTH | YEAR TO DATE | ITEM | THIS MONTH | YEAR TO DATE |
|---|---|---|---|---|---|
| 1. WATER PUMPED | 7,705,200 | 128,028,500 | 6. OFFICE USE | | |
| 2. | | | 7. UNACCOUNTED FOR | 512,500 | 10,475,900 |
| 3. TOTAL | 7,705,200 | 128,028,500 | 8. % SYSTEM LOSS | 6.65% | 8.18% |
| | | | 9. MAXIMUM DEMAND | | |
| 4. TOTAL SOLD | 7,192,700 | 117,552,600 | 10. MONTH WHEN MAXIMUM DEMAND OCCURRED | | |

# GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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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 AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2008 and 2007, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2008, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on 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 should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Graham County Utilities, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

**GRAHAM COUNTY UTILITIES, INC.**

**Exhibit A**

**BALANCE SHEET**
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**ASSETS**

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 5,814,817 | $ 5,405,462 |
| Construction Work in Progress | 1,287,278 | 779,909 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 8,127,747 | $ 7,211,023 |
| Less: Accumulated Provision for Depreciation and Amortization | 3,848,763 | 3,602,152 |
| | $ 4,278,984 | $ 3,608,871 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 243,099 | $ 253,219 |
| CURRENT ASSETS | | |
| Cash - General | $ 44,517 | $ 51,571 |
| Accounts Receivable (Less allowance for uncollectibles of $80,217 in 2008 and $59,203 in 2007) | 71,765 | 102,206 |
| Accounts Receivable - GCEC | | 26,193 |
| Underbilled Consumers Fuel Cost | 32,417 | |
| Materials and Supplies | 142,225 | 139,621 |
| Other Current and Accrued Assets | 32,475 | 51,933 |
| Total Current Assets | $ 323,399 | $ 371,524 |
| DEFERRED CHARGES | $ 35,878 | $ 44,219 |
| | $ 4,881,360 | $ 4,277,833 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 30,629 | $ 30,680 |
| Accumulated Margins | 355,541 | 488,992 |
| | $ 386,170 | $ 519,672 |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,536,299 | $ 1,693,208 |
| AEPCO Note Payable Less Current Maturities | 25,667 | 45,834 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 14,607 | 56,335 |
| USDA Rural Development Note Payable Less Current Maturities | 1,557,427 | 1,372,878 |
| | $ 3,134,000 | $ 3,168,255 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 238,628 | $ 217,761 |
| Accounts Payable - Other | 158,717 | 107,392 |
| Accounts Payable - Graham County Electric Coop | 817,693 | |
| Overbilled Consumers Fuel Cost | | 113,137 |
| Customers' Deposits and Prepayments | 75,810 | 79,065 |
| Accrued Taxes | 55,232 | 57,135 |
| Accrued Interest | 15,110 | 15,416 |
| Total Current Liabilities | $ 1,361,190 | $ 589,906 |
| | $ 4,881,360 | $ 4,277,833 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

### STATEMENT OF INCOME AND ACCUMULATED MARGINS
### FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| OPERATING REVENUES | $ 4,373,004 | $ 4,241,224 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 2,398,790 | $ 2,293,478 |
| Power for Pumping | 32,595 | 40,810 |
| Operations | 345,717 | 339,378 |
| Maintenance | 441,186 | 352,392 |
| Consumer Accounts | 334,466 | 290,383 |
| Administrative and General | 495,840 | 353,604 |
| Depreciation and Amortization | 246,611 | 223,187 |
| Other Interest | 35,768 | 27,458 |
| Total Operating Expenses | $ 4,330,973 | $ 3,920,690 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 42,031 | $ 320,534 |
| Interest on Long-Term Debt | 195,057 | 166,362 |
| OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES | $ (153,026) | $ 154,172 |
| Capital Credits | 14,142 | 15,724 |
| NET OPERATING MARGINS (LOSS) | $ (138,884) | $ 169,896 |
| NONOPERATING MARGINS | | |
| Interest | 5,433 | 7,295 |
| NET MARGINS (LOSS) | $ (133,451) | $ 177,191 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 488,992 | 311,801 |
| ACCUMULATED MARGINS - END OF YEAR | $ 355,541 | $ 488,992 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Loss) | $ (133,451) | $ 177,191 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 246,611 | 223,187 |
| Capital Credits - Noncash | (4,242) | (4,717) |
| Over/(Under)billed Fuel Cost | (145,554) | 36,328 |
| Deferred Charges | 8,341 | 8,340 |
| Accounts Receivable | 30,441 | (7,879) |
| Inventories and Other Current Assets | 16,853 | (12,411) |
| Payables and Accrued Expenses | 45,862 | (44,654) |
| Net Payments to (from) - Graham County Electric Cooperative | 843,886 | (101,954) |
| Net Cash Provided by Operating Activities | $ 908,747 | $ 273,431 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (916,725) | $ (818,808) |
| Investments in Associated Organizations | 14,362 | 14,015 |
| Net Cash Used in Investing Activities | $ (902,363) | $ (804,793) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Long-Term Debt from USDA | $ 206,278 | $ 893,722 |
| Payments on Note Payable to AEPCO | (20,166) | (22,000) |
| Payments on Long-Term Debt to CFC | (146,108) | (264,393) |
| Payments on Long-Term Debt to GCEC | (38,761) | (36,004) |
| Payments on Long-Term Debt to USDA | (14,630) | (8,684) |
| Memberships | (51) | 735 |
| Net Cash Provided by (Used in) Financing Activities | $ (13,438) | $ 563,376 |
| INCREASE (DECREASE) IN CASH | $ (7,054) | $ 32,014 |
| CASH - BEGINNING OF YEAR | 51,571 | 19,557 |
| CASH - END OF YEAR | $ 44,517 | $ 51,571 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 200,791 | $ 166,362 |
| 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.

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, 2008 and 2007, was estimated to be $58,032 and $68,146 in the gas department and $36,270 and $37,874 in the water department.

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, 2008 and 2007, the Cooperative was underbilled $32,417 and overbilled $113,137, respectively.

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 $75,810 and $79,065 at September 30, 2008 and 2007, 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.

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.

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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2008 | | | September 30, |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | 2007 Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 555,938 | 555,938 | 554,337 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 3,359,500 | 505,829 | 3,865,329 | 3,427,206 |
| General | 194,478 | 111,451 | 305,929 | 336,298 |
| Land and Land Rights | 1,416 | 22,507 | 23,923 | 23,923 |
| Total Plant in Service | $ 3,597,916 | $ 2,216,901 | $ 5,814,817 | $ 5,405,462 |
| Construction Work in Progress | 101,760 | 1,185,518 | 1,287,278 | 779,909 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 4,115,160 | $ 4,012,587 | $ 8,127,747 | $ 7,211,023 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2008 and 2007, totaled $246,611 and $223,187, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 expense is $16,619 in the gas department and $24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2008, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 299,149 | $ 439,320 |
| Current Year | 16,619 | 24,407 |
| | $ 315,768 | $ 463,727 |
| Unamortized Adjustment | $ 99,716 | $ 146,441 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 152,510 | $ 160,547 |
| Patronage Capital | 83,463 | 85,545 |
| Memberships | 1,000 | 1,000 |
| | $ 236,973 | $ 247,092 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 6,126 | $ 6,127 |
| | $ 243,099 | $ 253,219 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs | $ | $ 1,043 |
| Unamortized Debt Expense | 19,015 | 22,883 |
| | $ 19,015 | $ 23,926 |
| Water Department | | |
| Unamortized Debt Expense | $ 16,863 | $ 20,293 |
| | $ 35,878 | $ 44,219 |

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the years ended September 30, 2008 and 2007, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| 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 | 20,964 | 21,015 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 30,629 | $ 30,680 |

## 7. Accumulated Margins (Deficits)

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

| | Gas Department | Water Department | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| 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 Nine Months | (101,532) | (15,774) | (117,306) |
| | $ 125,783 | $ 311,793 | $ 437,576 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ 125,783 | $ 229,758 | $ 355,541 |

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 year ended September 30, 2008 and 2007, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| Fixed - 7.10% | $ 743,396 | $ 839,549 |
| Variable (4.90% in 2008, 7.05% in 2007) | 256,966 | 288,114 |
| Fixed - 7.45% | 323,387 | 335,228 |
| Fixed - 6.25% | 366,550 | 373,517 |
| | $ 1,690,299 | $ 1,836,408 |
| Less: Current Maturities | 154,000 | 143,200 |
| | $ 1,536,299 | $ 1,693,208 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $64,900. As of September 30, 2008, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|---|---|
| 2009 | 154,000 |
| 2010 | 164,400 |
| 2011 | 175,600 |
| 2012 | 187,500 |
| 2013 | 200,300 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2008 and 2007.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| 5.000% Note Maturing March, 2032 | $ 144,052 | $ 147,205 |
| 4.500% Note Maturing August, 2035 | 252,271 | 257,006 |
| 4.500% Note Maturing July, 2040 | 87,529 | 88,746 |
| 4.125% Note Maturing March, 2047 | 1,094,475 | 893,721 |
| | $ 1,578,327 | $ 1,386,678 |
| Less: Current Maturities | 20,900 | 13,800 |
| | $ 1,557,427 | $ 1,372,878 |

Principal and interest installments on the above notes are due monthly in amounts of $7,393. As of September 30, 2008, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2009 | 20,900 |
| 2010 | 21,900 |
| 2011 | 22,900 |
| 2012 | 23,900 |
| 2013 | 24,900 |

**10. Graham County Electric Note Payable**

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2008, is $56,335. Annual maturities due to Graham County Electric Cooperative for the next two years are as follows:

| | |
|---|---|
| 2009 | 41,728 |
| 2010 | 14,607 |

**11. AEPCO Note Payable**

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2008, is $47,667. Annual maturities due to AEPCO for the next three years are as follows:

| | |
|---|---|
| 2009 | 22,000 |
| 2010 | 22,000 |
| 2011 | 3,667 |

**12. Related Parties**

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two Cooperatives are summarized as follows:

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Payable | $ (820,100) | $ |
| Accounts Receivable | | 26,193 |
| Note Payable | (56,335) | (95,096) |
| Net Due to Affiliated Cooperative | $ (876,435) | $ (68,903) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 820,100 | $ |
| Accounts Payable | | (26,193) |
| Note Receivable | 56,335 | 95,096 |
| Net Due from Affiliated Cooperative | $ 876,435 | $ 68,903 |

## 13. Litigation

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

ACCOMPANYING INFORMATION

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## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

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

**Schedule 1**

**BALANCE SHEET**
**SEPTEMBER 30, 2008 AND 2007**

**ASSETS**

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 3,597,916 | $ 3,277,807 |
| Construction Work in Progress | 101,760 | 17,984 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 4,115,160 | $ 3,711,275 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,070,451 | 1,940,945 |
| | $ 2,044,709 | $ 1,770,330 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 135,593 | $ 139,355 |
| CURRENT ASSETS | | |
| Cash | $ | $ 10,330 |
| Accounts Receivable (Less allowance for uncollectibles of $65,606 in 2008 and $47,607 in 2007) | 57,220 | 80,176 |
| Underbilled Consumers Fuel Cost | 32,417 | |
| Materials and Supplies | 91,067 | 84,695 |
| Other Current and Accrued Assets | 20,562 | 35,952 |
| Total Current Assets | $ 201,266 | $ 211,153 |
| Deferred Charges | $ 19,015 | $ 23,926 |
| | $ 2,400,583 | $ 2,144,764 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 28,129 | $ 28,180 |
| Accumulated Deficits | 125,783 | 234,158 |
| | $ 153,912 | $ 262,338 |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 14,607 | $ 56,335 |
| CFC Mortgage Notes Less Current Maturities | 1,113,729 | 1,221,807 |
| | $ 1,128,336 | $ 1,278,142 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 148,128 | $ 123,361 |
| Accounts Payable - Other | 103,777 | 70,330 |
| Accounts Payable - Graham County Electric Cooperative | 750,751 | 16,156 |
| Accounts Payable - Water Department | | 160,862 |
| Overbilled Consumers Fuel Cost | | 113,137 |
| Accrued Taxes | 35,549 | 37,568 |
| Customers' Deposits and Prepayments | 67,270 | 69,875 |
| Accrued Interest | 12,860 | 12,995 |
| Total Current Liabilities | $ 1,118,335 | $ 604,284 |
| | $ 2,400,583 | $ 2,144,764 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 2

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,658,038 | $ 2,717,738 | $ (59,700) |
| Irrigation | 5,263 | 8,601 | (3,338) |
| Commercial and Industrial | 936,481 | 944,533 | (8,052) |
| Fuel Cost Under (Over) Billed | 144,749 | (37,223) | 181,972 |
| Other Operating Revenues | 21,520 | 22,280 | (760) |
| Total Operating Revenues | $ 3,766,051 | $ 3,655,929 | $ 110,122 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 2,398,790 | $ 2,293,478 | $ 105,312 |
| Operations | 285,961 | 266,967 | 18,994 |
| Maintenance | 285,370 | 237,776 | 47,594 |
| Customer Accounts | 276,124 | 239,796 | 36,328 |
| Administrative and General | 394,362 | 264,696 | 129,666 |
| Depreciation and Amortization | 129,506 | 117,205 | 12,301 |
| Other Interest | 29,948 | 16,670 | 13,278 |
| Total Operating Expenses | $ 3,800,061 | $ 3,436,588 | $ 363,473 |
| OPERATING MARGINS (LOSS) - Before Fixed Charges | $ (34,010) | $ 219,341 | $ (253,351) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 86,266 | 98,668 | (12,402) |
| OPERATING MARGINS (LOSS) - After Fixed Charges | $ (120,276) | $ 120,673 | $ (240,949) |
| Capital Credits | 10,168 | 9,372 | 796 |
| NET OPERATING MARGINS (LOSS) | $ (110,108) | $ 130,045 | $ (240,153) |
| NONOPERATING MARGINS | | | |
| Interest | 1,733 | 3,579 | (1,846) |
| NET MARGINS (LOSS) | $ (108,375) | $ 133,624 | $ (241,999) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 234,158 | 100,534 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 125,783 | $ 234,158 | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Loss) | $ (108,375) | $ 133,624 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 129,506 | 117,205 |
| Capital Credits - Noncash | (3,050) | (2,812) |
| Deferred Charges | 4,911 | 4,911 |
| Over/(Under)billed Fuel Cost - Net | (145,554) | 36,328 |
| Accounts Receivable | 22,956 | (1,194) |
| Inventories and Other Current Assets | 9,018 | (23,911) |
| Payables and Accrued Expenses | 28,688 | (31,566) |
| Net Payments to - Water Department | (160,862) | 132,812 |
| Net Payments to - Graham County Eelectric Cooperative | 734,595 | (61,799) |
| Net Cash Provided by Operating Activities | $ 511,833 | $ 303,598 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (403,886) | $ (184,075) |
| Investments in Associated Organizations | 6,812 | 7,150 |
| Net Cash Used in Investing Activities | $ (397,074) | $ (176,925) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (86,277) | $ (81,074) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (38,761) | (36,004) |
| Memberships | (51) | 735 |
| Net Cash Used in Financing Activities | $ (125,089) | $ (116,343) |
| INCREASE (DECREASE) IN CASH | $ (10,330) | $ 10,330 |
| CASH - BEGINNING OF YEAR | 10,330 | 0 |
| CASH - END OF YEAR | $ 0 | $ 10,330 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 92,006 | $ 98,668 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2008 AND 2007

### ASSETS

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 2,216,901 | $ 2,127,655 |
| Construction Work in Progress | 1,185,518 | 761,925 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 4,012,587 | $ 3,499,748 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,778,312 | 1,661,207 |
| | $ 2,234,275 | $ 1,838,541 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 107,506 | $ 113,864 |
| CURRENT ASSETS | | |
| Cash - General | $ 44,517 | $ 41,241 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $14,611 in 2008 and $11,596 in 2007) | 14,545 | 22,030 |
| Accounts Receivable - Graham County Electric Cooperative | | 42,349 |
| Accounts Receivable - Gas Department | | 160,862 |
| Materials and Supplies | 51,158 | 54,926 |
| Other Current and Accrued Assets | 11,914 | 15,981 |
| Total Current Assets | $ 122,134 | $ 337,389 |
| DEFERRED CHARGES | $ 16,863 | $ 20,293 |
| | $ 2,480,778 | $ 2,310,087 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 229,758 | 254,834 |
| | $ 232,258 | $ 257,334 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 422,570 | $ 471,401 |
| AEPCO Notes Payable Less Current Maturities | 25,667 | 45,834 |
| USDA Rural Development Notes Less Current Maturities | 1,557,427 | 1,372,878 |
| | $ 2,005,664 | $ 1,890,113 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 90,500 | $ 94,400 |
| Accounts Payable - Other | 54,940 | 37,062 |
| Accounts Payable - Graham County Electric Cooperative | 66,942 | |
| Accrued Taxes | 19,684 | 19,567 |
| Customers' Deposits and Prepayments | 8,540 | 9,190 |
| Accrued Interest | 2,250 | 2,421 |
| Total Current Liabilities | $ 242,856 | $ 162,640 |
| | $ 2,480,778 | $ 2,310,087 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 520,702 | $ 495,134 | $ 25,568 |
| Commercial and Industrial | 48,371 | 50,055 | (1,684) |
| Sales for Resale | 33,910 | 37,395 | (3,485) |
| Other Operating Revenues | 3,970 | 2,710 | 1,260 |
| Total Operating Revenues | $ 606,953 | $ 585,294 | $ 21,659 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 32,595 | $ 40,810 | $ (8,215) |
| Operations | 59,756 | 72,411 | (12,655) |
| Maintenance | 155,816 | 114,616 | 41,200 |
| Customer Accounts | 58,342 | 50,587 | 7,755 |
| Administrative and General | 101,478 | 88,907 | 12,571 |
| Depreciation and Amortization | 117,105 | 105,982 | 11,123 |
| Other Interest | 5,820 | 11,679 | (5,859) |
| Total Operating Expenses | $ 530,912 | $ 484,992 | $ 45,920 |
| OPERATING MARGINS - Before Fixed Charges | $ 76,041 | $ 100,302 | $ (24,261) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 108,791 | 67,694 | 41,097 |
| OPERATING MARGINS (LOSS) - After Fixed Charge | $ (32,750) | $ 32,608 | $ (65,358) |
| Capital Credits | 3,974 | 6,352 | (2,378) |
| NET OPERATING MARGINS (LOSS) | $ (28,776) | $ 38,960 | $ (67,736) |
| NONOPERATING MARGINS | | | |
| Interest | 3,700 | 4,607 | (907) |
| NET MARGINS (LOSS) | $ (25,076) | $ 43,567 | $ (68,643) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 254,834 | 211,267 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 229,758 | $ 254,834 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | September 30, 2008 | September 30, 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Loss) | $ (25,076) | $ 43,567 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 117,105 | 105,982 |
| Capital Credits - Noncash | (1,192) | (1,906) |
| Deferred Charges | 3,430 | 3,429 |
| Accounts Receivable | 7,485 | (6,685) |
| Inventories and Other Current Assets | 7,835 | 11,500 |
| Payables and Accrued Expenses | 17,174 | (13,089) |
| Net Advances from (to) - Gas Department | 160,862 | (132,812) |
| Net Payments from (to) - Graham County Electric Cooperative | 109,291 | (40,155) |
| Net Cash Provided by (Used in) Operating Activities | $ 396,914 | $ (30,169) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (512,839) | $ (634,732) |
| Investments in Associated Organizations | 7,550 | 6,866 |
| Net Cash Used in Investing Activities | $ (505,289) | $ (627,866) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Long-Term Debt from USDA | $ 206,278 | $ 893,722 |
| Payments on Note Payable to AEPCO | (20,166) | (22,000) |
| Payments on Long-Term Debt to CFC | (59,831) | (183,319) |
| Payments on Long-Term Debt to USDA | (14,630) | (8,684) |
| Net Cash Provided by Financing Activities | $ 111,651 | $ 679,719 |
| INCREASE IN CASH | $ 3,276 | $ 21,684 |
| CASH - BEGINNING OF YEAR | 41,241 | 19,557 |
| CASH - END OF YEAR | $ 44,517 | $ 41,241 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 108,785 | $ 67,694 |
| Federal Income Tax | $ 0 | $ 0 |

COMPLIANCE AND INTERNAL CONTROL SECTION

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## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008.

In connection with our audits nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

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## 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 *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Board of Directors
Graham County Utilities, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 3, 2008

FEDERAL FINANCIAL ASSISTANCE SECTION

**GRAHAM COUNTY UTILITIES, INC.**
**SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec.__510(a): **No**
7. Major programs include:
   10.760 – Water and Waste Disposal Systems for Rural Communities
   Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**
8. Low risk auditee: **No**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

# GRAHAM COUNTY UTILITIES, INC.
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED SEPTEMBER 30, 2008

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures and Indirect Costs |
|---|---|---|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | $ 837,241 |

# GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
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8215 NASHVILLE AVENUE
LUBBOCK, TEXAS 79423-1054

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2007 and 2006, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2007, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on 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 should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming a opinion on the financial statements of Graham County Utilities, Inc. and Subsidiary. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

## GRAHAM COUNTY UTILITIES, INC.

Exhibit A

### BALANCE SHEET
### FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

### ASSETS

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 5,405,462 | $ 5,086,880 |
| Construction Work in Progress | 779,909 | 279,683 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 7,211,023 | $ 6,392,215 |
| Less: Accumulated Provision for Depreciation and Amortization | 3,602,152 | 3,378,966 |
| | $ 3,608,871 | $ 3,013,249 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 253,219 | $ 262,517 |
| CURRENT ASSETS | | |
| Cash - General | $ 51,571 | $ 19,557 |
| Accounts Receivable (Less allowance for uncollectibles of $59,203 in 2007 and $68,188 in 2006) | 102,206 | 94,327 |
| Accounts Receivable - GCEC | 26,193 | |
| Materials and Supplies | 139,621 | 133,587 |
| Other Current and Accrued Assets | 51,933 | 45,556 |
| Total Current Assets | $ 371,524 | $ 293,027 |
| DEFERRED CHARGES | $ 44,219 | $ 52,559 |
| | $ 4,277,833 | $ 3,621,352 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 30,680 | $ 29,945 |
| Accumulated Margins | 488,992 | 311,801 |
| | $ 519,672 | $ 341,746 |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,693,208 | $ 1,965,600 |
| AEPCO Note Payable Less Current Maturities | 45,834 | 67,834 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 56,335 | 95,096 |
| USDA Rural Development Note Payable Less Current Maturities | 1,372,878 | 492,941 |
| | $ 3,168,255 | $ 2,621,471 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 217,761 | $ 201,904 |
| Accounts Payable - Other | 107,392 | 147,077 |
| Accounts Payable - Graham County Electric Coop | | 75,761 |
| Overbilled Consumers Fuel Cost | 113,137 | 76,809 |
| Customers' Deposits and Prepayments | 79,065 | 82,730 |
| Accrued Payroll | | 927 |
| Accrued Taxes | 57,135 | 55,329 |
| Accrued Interest | 15,416 | 17,598 |
| Total Current Liabilities | $ 589,906 | $ 658,135 |
| | $ 4,277,833 | $ 3,621,352 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| OPERATING REVENUES | $ 4,241,224 | $ 4,254,119 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 2,293,478 | $ 2,425,984 |
| Power for Pumping | 40,810 | 27,050 |
| Operations | 339,378 | 290,160 |
| Maintenance | 352,392 | 322,259 |
| Consumer Accounts | 290,383 | 264,277 |
| Administrative and General | 353,604 | 340,817 |
| Depreciation and Amortization | 223,187 | 216,916 |
| Other Interest | 27,458 | 29,838 |
| Total Operating Expenses | $ 3,920,690 | $ 3,917,301 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 320,534 | $ 336,818 |
| Interest on Long-Term Debt | 166,362 | 179,003 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 154,172 | $ 157,815 |
| Capital Credits | 15,724 | 16,936 |
| NET OPERATING MARGINS | $ 169,896 | $ 174,751 |
| NONOPERATING MARGINS | | |
| Interest | 7,295 | 12,237 |
| NET MARGINS | $ 177,191 | $ 186,988 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 311,801 | 124,813 |
| ACCUMULATED MARGINS - END OF YEAR | $ 488,992 | $ 311,801 |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 177,191 | $ 186,988 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 223,187 | 216,916 |
| Capital Credits - Noncash | (4,717) | (5,081) |
| Overbilled Fuel Cost | 36,328 | 308,844 |
| Deferred Charges | 8,340 | 8,341 |
| Accounts Receivable | (7,879) | 35,383 |
| Inventories and Other Current Assets | (12,411) | (25,261) |
| Payables and Accrued Expenses | (44,654) | 47,423 |
| Net Payments to (from) - Graham County Electric Cooperative | (101,954) | (238,672) |
| Net Cash Provided by Operating Activities | $ 273,431 | $ 534,881 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (818,808) | $ (356,165) |
| Investments in Associated Organizations | 14,015 | 13,179 |
| Net Cash Used in Investing Activities | $ (804,793) | $ (342,986) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Long-Term Debt from USDA | $ 893,722 | $ |
| Payments on Note Payable to AEPCO | (22,000) | (22,000) |
| Payments on Long-Term Debt to CFC | (264,393) | (128,230) |
| Payments on Long-Term Debt to GCEC | (36,004) | (33,444) |
| Payments on Long-Term Debt to USDA | (8,684) | (8,288) |
| Memberships | 735 | 500 |
| Net Cash Provided by (Used in) Financing Activities | $ 563,376 | $ (191,462) |
| INCREASE IN CASH | $ 32,014 | $ 433 |
| CASH - BEGINNING OF YEAR | 19,557 | 19,124 |
| CASH - END OF YEAR | $ 51,571 | $ 19,557 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 166,362 | $ 179,003 |
| 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.

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, 2007 and 2006, was estimated to be $68,146 and $72,243 in the gas department and $37,874 and $37,533 in the water department.

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, 2007 and 2006, the cooperative had overbilled of $113,137 and $76,809, respectively.

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 $79,065 and $82,730 at September 30, 2007 and 2006, respectively.

Patronage Capital Certificates

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

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

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.

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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2007 | | | September 30, |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | 2006 Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 554,337 | 554,337 | 463,178 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 3,118,398 | 308,808 | 3,427,206 | 3,238,369 |
| General | 115,471 | 220,827 | 336,298 | 304,212 |
| Land and Land Rights | 1,416 | 22,507 | 23,923 | 17,423 |
| Total Plant in Service | $ 3,277,807 | $ 2,127,655 | $ 5,405,462 | $ 5,086,880 |
| Construction Work in Progress | 17,984 | 761,925 | 779,909 | 279,683 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,711,275 | $ 3,499,748 | $ 7,211,023 | $ 6,392,215 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2007 and 2006, totaled $223,187 and $216,916, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a 25-year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2007, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 282,529 | $ 414,914 |
| Current Year | 16,619 | 24,407 |
| | $ 299,148 | $ 439,321 |
| Unamortized Adjustment | $ 116,336 | $ 170,847 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 160,547 | $ 168,238 |
| Patronage Capital | 85,545 | 87,152 |
| Memberships | 1,000 | 1,000 |
| | $ 247,092 | $ 256,390 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 6,127 | $ 6,127 |
| | $ 253,219 | $ 262,517 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs | $ 1,043 | $ 2,087 |
| Unamortized Debt Expense | 22,883 | 26,750 |
| | $ 23,926 | $ 28,837 |
| Water Department | | |
| Unamortized Debt Expense | $ 20,293 | $ 23,722 |
| | $ 44,219 | $ 52,559 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the years ended September 30, 2007 and 2006, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| 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 | 21,015 | 20,280 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 30,680 | $ 29,945 |

## 7. Accumulated Margins (Deficits)

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

| Calendar Year | Gas Department | Water Department | Total |
|---|---|---|---|
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| 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 Nine Months | 75,846 | 45,938 | 121,784 |
| | $ 234,158 | $ 336,869 | $ 571,027 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ 234,158 | $ 254,834 | $ 488,992 |

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 year ended September 30, 2007 and 2006, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| Fixed - 7.10% | $ 839,549 | $ 929,167 |
| Variable (7.05% in 2007, 7.30% in 2006) | 288,114 | 316,644 |
| Fixed - 7.45% | 335,228 | 473,294 |
| Fixed - 6.25% | 373,517 | 381,695 |
| | $ 1,836,408 | $ 2,100,800 |
| Less: Current Maturities | 143,200 | 135,200 |
| | $ 1,693,208 | $ 1,965,600 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $64,900. As of September 30, 2007, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|---|---|
| 2008 | $ 143,200 |
| 2009 | 153,600 |
| 2010 | 164,800 |
| 2011 | 176,800 |
| 2012 | 189,600 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2007 and 2006.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| 5.000% Note Maturing March, 2032 | $ 147,205 | $ 150,203 |
| 4.500% Note Maturing August, 2035 | 257,006 | 261,530 |
| 4.500% Note Maturing July, 2040 | 88,746 | 89,908 |
| 4.125% Note Maturing March, 2047 | 893,721 | |
| | $ 1,386,678 | $ 501,641 |
| Less: Current Maturities | 13,800 | 8,700 |
| | $ 1,372,878 | $ 492,941 |

Principal and interest installments on the above notes are due monthly in amounts of $6,496. As of September 30, 2007, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2008 | $ 13,800 |
| 2009 | 19,100 |
| 2010 | 20,000 |
| 2011 | 21,000 |
| 2012 | 21,900 |

Unadvanced loan funds of $206,279 are available to the cooperative on loan commitments from USDA Rural Development.

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2007, is $95,096. Annual maturities due to Graham County Electric Cooperative for the next three years are as follows:

| | |
|---|---|
| 2008 | $ 38,761 |
| 2009 | 41,728 |
| 2010 | 14,607 |

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2007, is $67,834. Annual maturities due to AEPCO for the next four years are as follows:

| | |
|---|---|
| 2008 | $ 22,000 |
| 2009 | 22,000 |
| 2010 | 22,000 |
| 2011 | 1,834 |

**12. Related Parties**

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Payable | $ | $ (75,761) |
| Accounts Receivable | 26,193 | |
| Note Payable | (95,096) | (131,100) |
| Net Due to Affiliated Cooperative | $ (68,903) | $ (206,861) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ | $ 75,761 |
| Accounts Payable | (26,193) | |
| Note Receivable | 95,096 | 131,100 |
| Net Due from Affiliated Cooperative | $ 68,903 | $ 206,861 |

**13. Litigation**

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

ACCOMPANYING INFORMATION

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## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2007 AND 2006

### ASSETS

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 3,277,807 | $ 3,090,689 |
| Construction Work in Progress | 17,984 | 21,026 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,711,275 | $ 3,527,199 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,940,945 | 1,823,740 |
| | $ 1,770,330 | $ 1,703,459 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 139,355 | $ 143,693 |
| CURRENT ASSETS | | |
| Cash | $ 10,330 | $ |
| Accounts Receivable (Less allowance for uncollectibles of $47,607 in 2007 and $54,700 in 2006) | 80,176 | 78,982 |
| Materials and Supplies | 84,695 | 65,567 |
| Other Current and Accrued Assets | 35,952 | 31,169 |
| Total Current Assets | $ 211,153 | $ 175,718 |
| Deferred Charges | $ 23,926 | $ 28,837 |
| | $ 2,144,764 | $ 2,051,707 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 28,180 | $ 27,445 |
| Accumulated Deficits | 234,158 | 100,534 |
| | $ 262,338 | $ 127,979 |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 56,335 | $ 95,096 |
| CFC Mortgage Notes Less Current Maturities | 1,221,807 | 1,309,580 |
| | $ 1,278,142 | $ 1,404,676 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 123,361 | $ 113,904 |
| Accounts Payable - Other | 70,330 | 97,297 |
| Accounts Payable - Graham County Electric Cooperative | 16,156 | 77,955 |
| Accounts Payable - Water Department | 160,862 | 28,050 |
| Overbilled Consumers Fuel Cost | 113,137 | 76,809 |
| Accrued Taxes | 37,568 | 36,501 |
| Customers' Deposits and Prepayments | 69,875 | 72,830 |
| Accrued Payroll | | 771 |
| Accrued Interest | 12,995 | 14,935 |
| Total Current Liabilities | $ 604,284 | $ 519,052 |
| | $ 2,144,764 | $ 2,051,707 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 2

## STATEMENT OF INCOME AND ACCUMULATED MARGINS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,717,738 | $ 2,901,626 | $ (183,888) |
| Irrigation | 8,601 | 27,473 | (18,872) |
| Commercial and Industrial | 944,533 | 1,055,917 | (111,384) |
| Fuel Cost Under (Over) Billed | (37,223) | (318,195) | 280,972 |
| Other Operating Revenues | 22,280 | 21,180 | 1,100 |
| Total Operating Revenues | $ 3,655,929 | $ 3,688,001 | $ (32,072) |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 2,293,478 | $ 2,425,984 | $ (132,506) |
| Operations | 266,967 | 227,275 | 39,692 |
| Maintenance | 237,776 | 195,706 | 42,070 |
| Customer Accounts | 239,796 | 219,205 | 20,591 |
| Administrative and General | 264,696 | 261,096 | 3,600 |
| Depreciation and Amortization | 117,205 | 110,613 | 6,592 |
| Other Interest | 16,670 | 32,387 | (15,717) |
| Total Operating Expenses | $ 3,436,588 | $ 3,472,266 | $ (35,678) |
| OPERATING MARGINS - Before Fixed Charges | $ 219,341 | $ 215,735 | $ 3,606 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 98,668 | 102,568 | (3,900) |
| OPERATING MARGINS - After Fixed Charges | $ 120,673 | $ 113,167 | $ 7,506 |
| Capital Credits | 9,372 | 8,976 | 396 |
| NET OPERATING MARGINS | $ 130,045 | $ 122,143 | $ 7,902 |
| NONOPERATING MARGINS | | | |
| Interest | 3,579 | 10,654 | (7,075) |
| NET MARGINS | $ 133,624 | $ 132,797 | $ 827 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 100,534 | (32,263) | |
| ACCUMULATED MARGINS - END OF YEAR | $ 234,158 | $ 100,534 | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 133,624 | $ 132,797 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 117,205 | 110,613 |
| Capital Credits - Noncash | (2,812) | (2,693) |
| Deferred Charges | 4,911 | 4,911 |
| Overbilled Fuel Cost - Net | 36,328 | 308,844 |
| Accounts Receivable | (1,194) | 28,460 |
| Inventories and Other Current Assets | (23,911) | 5,081 |
| Payables and Accrued Expenses | (31,566) | 19,377 |
| Net Payments to - Water Department | 132,812 | (118,440) |
| Net Payments to - Graham County Eelectric Cooperative | (61,799) | (236,443) |
| Net Cash Provided by Operating Activities | $ 303,598 | $ 252,507 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (184,075) | $ (151,914) |
| Investments in Associated Organizations | 7,150 | 6,282 |
| Net Cash Used in Investing Activities | $ (176,925) | $ (145,632) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (81,074) | $ (73,931) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (36,004) | (33,444) |
| Memberships | 735 | 500 |
| Net Cash Used in Financing Activities | $ (116,343) | $ (106,875) |
| INCREASE IN CASH | $ 10,330 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 10,330 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 98,668 | $ 102,568 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2007 AND 2006

### ASSETS

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 2,127,655 | $ 1,996,191 |
| Construction Work in Progress | 761,925 | 258,657 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 3,499,748 | $ 2,865,016 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,661,207 | 1,555,226 |
| | $ 1,838,541 | $ 1,309,790 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 113,864 | $ 118,824 |
| CURRENT ASSETS | | |
| Cash - General | $ 41,241 | $ 19,557 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $11,596 in 2007 and $13,488 in 2006) | 22,030 | 15,345 |
| Accounts Receivable - Graham County Electric Cooperative | 42,349 | 2,194 |
| Accounts Receivable - Gas Department | 160,862 | 28,050 |
| Materials and Supplies | 54,926 | 68,020 |
| Other Current and Accrued Assets | 15,981 | 14,387 |
| Total Current Assets | $ 337,389 | $ 147,553 |
| DEFERRED CHARGES | $ 20,293 | $ 23,722 |
| | $ 2,310,087 | $ 1,599,889 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 254,834 | 211,267 |
| | $ 257,334 | $ 213,767 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 471,401 | $ 656,020 |
| AEPCO Notes Payable Less Current Maturities | 45,834 | 67,834 |
| USDA Rural Development Notes Less Current Maturities | 1,372,878 | 492,941 |
| | $ 1,890,113 | $ 1,216,795 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 94,400 | $ 88,000 |
| Accounts Payable - Other | 37,062 | 49,780 |
| Accrued Taxes | 19,567 | 18,828 |
| Customers' Deposits and Prepayments | 9,190 | 9,900 |
| Accrued Payroll | | 156 |
| Accrued Interest | 2,421 | 2,663 |
| Total Current Liabilities | $ 162,640 | $ 169,327 |
| | $ 2,310,087 | $ 1,599,889 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 495,134 | $ 487,140 | $ 7,994 |
| Commercial and Industrial | 50,055 | 46,612 | 3,443 |
| Sales for Resale | 37,395 | 30,236 | 7,159 |
| Other Operating Revenues | 2,710 | 2,130 | 580 |
| Total Operating Revenues | $ 585,294 | $ 566,118 | $ 19,176 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 40,810 | $ 27,050 | $ 13,760 |
| Operations | 72,411 | 62,885 | 9,526 |
| Maintenance | 114,616 | 126,553 | (11,937) |
| Customer Accounts | 50,587 | 45,072 | 5,515 |
| Administrative and General | 88,907 | 79,721 | 9,186 |
| Depreciation and Amortization | 105,982 | 106,303 | (321) |
| Other Interest | 11,679 | 4,062 | 7,617 |
| Total Operating Expenses | $ 484,992 | $ 451,646 | $ 33,346 |
| OPERATING MARGINS - Before Fixed Charges | $ 100,302 | $ 114,472 | $ (14,170) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 67,694 | 76,445 | (8,751) |
| OPERATING MARGINS - After Fixed Charges | $ 32,608 | $ 38,027 | $ (5,419) |
| Capital Credits | 6,352 | 7,960 | (1,608) |
| NET OPERATING MARGINS | $ 38,960 | $ 45,987 | $ (7,027) |
| NONOPERATING MARGINS | | | |
| Interest | 4,607 | 8,204 | (3,597) |
| NET MARGINS | $ 43,567 | $ 54,191 | $ (10,624) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 211,267 | 157,076 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 254,834 | $ 211,267 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 43,567 | $ 54,191 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 105,982 | 106,303 |
| Capital Credits - Noncash | (1,906) | (2,388) |
| Deferred Charges | 3,429 | 3,430 |
| Accounts Receivable | (6,685) | 6,923 |
| Inventories and Other Current Assets | 11,500 | (30,342) |
| Payables and Accrued Expenses | (13,089) | 28,046 |
| Net Advances from (to) - Gas Department | (132,812) | 118,440 |
| Net Payments from (to) - Graham County Electric Cooperative | (40,155) | (2,229) |
| Net Cash Provided by (Used in) Operating Activities | $ (30,169) | $ 282,374 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (634,732) | $ (204,251) |
| Investments in Associated Organizations | 6,866 | 6,897 |
| Net Cash Used in Investing Activities | $ (627,866) | $ (197,354) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Long-Term Debt from USDA | $ 893,722 | $ |
| Payments on Note Payable to AEPCO | (22,000) | (22,000) |
| Payments on Long-Term Debt to CFC | (183,319) | (54,299) |
| Payments on Long-Term Debt to USDA | (8,684) | (8,288) |
| Net Cash Provided by (Used in) Financing Activities | $ 679,719 | $ (84,587) |
| INCREASE IN CASH | $ 21,684 | $ 433 |
| CASH - BEGINNING OF YEAR | 19,557 | 19,124 |
| CASH - END OF YEAR | $ 41,241 | $ 19,557 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 67,694 | $ 76,445 |
| Federal Income Tax | $ 0 | $ 0 |

COMPLIANCE AND INTERNAL CONTROL SECTION

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## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

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## 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 *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Directors
Graham County Utilities, Inc.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 15, 2007

# FEDERAL FINANCIAL ASSISTANCE SECTION

**GRAHAM COUNTY UTILITIES, INC.**
**SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec.__510(a): **No**
7. Major programs include:
   10.760 – Water and Waste Disposal Systems for Rural Communities
   Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**
8. Low risk auditee: **No**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

# GRAHAM COUNTY UTILITIES, INC.
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED SEPTEMBER 30, 2007

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures and Indirect Costs |
|---|---|---|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | $ 500,000.45 |

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

## AND

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2006 and 2005, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2006, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on 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 should be considered in assessing the results of our audits.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

# GRAHAM COUNTY UTILITIES, INC.

Exhibit A

## BALANCE SHEET
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

### ASSETS

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 5,086,880 | $ 4,917,312 |
| Construction Work in Progress | 279,683 | 131,696 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 6,392,215 | $ 6,074,660 |
| Less: Accumulated Provision for Depreciation and Amortization | 3,378,966 | 3,200,658 |
| | $ 3,013,249 | $ 2,874,002 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 262,517 | $ 270,615 |
| CURRENT ASSETS | | |
| Cash - General | $ 19,557 | $ 19,124 |
| Accounts Receivable (Less allowance for uncollectibles of $68,188 in 2006 and $40,641 in 2005) | 94,327 | 129,710 |
| Underbilled Consumer Fuel Cost | | 232,035 |
| Materials and Supplies | 133,587 | 122,733 |
| Other Current and Accrued Assets | 45,556 | 31,149 |
| Total Current Assets | $ 293,027 | $ 534,751 |
| DEFERRED CHARGES | $ 52,559 | $ 60,900 |
| | $ 3,621,352 | $ 3,740,268 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 29,945 | $ 29,445 |
| Accumulated Margins | 311,801 | 124,813 |
| | $ 341,746 | $ 154,258 |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,965,600 | $ 2,109,830 |
| AEPCO Note Payable Less Current Maturities | 67,834 | 89,834 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 95,096 | 131,100 |
| USDA Rural Development Note Payable Less Current Maturities | 492,941 | 501,629 |
| | $ 2,621,471 | $ 2,832,393 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 201,904 | $ 182,944 |
| Accounts Payable - Other | 147,077 | 103,853 |
| Accounts Payable - Graham County Electric Coop | 75,761 | 314,433 |
| Overbilled Consumers Fuel Cost | 76,809 | |
| Customers' Deposits and Prepayments | 82,730 | 75,160 |
| Accrued Payroll | 927 | 3,487 |
| Accrued Taxes | 55,329 | 59,291 |
| Accrued Interest | 17,598 | 14,449 |
| Total Current Liabilities | $ 658,135 | $ 753,617 |
| | $ 3,621,352 | $ 3,740,268 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

### STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
### FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| OPERATING REVENUES | $ 4,254,119 | $ 3,575,368 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 2,425,984 | $ 1,846,966 |
| Power for Pumping | 27,050 | 24,647 |
| Operations | 290,160 | 294,506 |
| Maintenance | 322,259 | 314,284 |
| Consumer Accounts | 264,277 | 235,543 |
| Administrative and General | 340,817 | 346,782 |
| Depreciation and Amortization | 216,916 | 210,726 |
| Other Interest | 40,885 | 36,889 |
| Total Operating Expenses | $ 3,928,348 | $ 3,310,343 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 325,771 | $ 265,025 |
| Interest on Long-Term Debt | 167,956 | 169,880 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 157,815 | $ 95,145 |
| Capital Credits | 16,936 | 14,840 |
| NET OPERATING MARGINS | $ 174,751 | $ 109,985 |
| NONOPERATING MARGINS | | |
| Interest | 12,237 | 16,851 |
| NET MARGINS | $ 186,988 | $ 126,836 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 124,813 | (2,023) |
| ACCUMULATED MARGINS - END OF YEAR | $ 311,801 | $ 124,813 |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 186,988 | $ 126,836 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 216,916 | 210,726 |
| Capital Credits - Noncash | (16,936) | (14,840) |
| Overbilled Fuel Cost | 308,844 | (308,570) |
| Deferred Charges | 8,341 | 5,702 |
| Accounts Receivable | 35,383 | (62,733) |
| Inventories and Other Current Assets | (25,261) | (20,299) |
| Payables and Accrued Expenses | 47,423 | 4,686 |
| Net Payments to (from) - Graham County Electric Cooperative | (238,672) | 493,166 |
| Net Cash Provided by Operating Activities | $ 523,026 | $ 434,674 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (356,165) | $ (274,887) |
| Investments in Associated Organizations | 25,034 | 22,226 |
| Net Cash Used in Investing Activities | $ (331,131) | $ (252,661) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (23,833) |
| Payments on Long-Term Debt to CFC | (128,230) | (119,280) |
| Payments on Long-Term Debt to GCEC | (33,444) | (31,065) |
| Payments on Long-Term Debt to USDA | (8,288) | (7,904) |
| Memberships | 500 | 285 |
| Net Cash Used in Financing Activities | $ (191,462) | $ (181,797) |
| INCREASE IN CASH | $ 433 | $ 216 |
| CASH - BEGINNING OF YEAR | 19,124 | 18,908 |
| CASH - END OF YEAR | $ 19,557 | $ 19,124 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid During the Rear for: | | |
| Interest on Long-Term Debt | $ 107,956 | $ 169,880 |
| 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.

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, 2006 and 2005, was estimated to be $72,243 and $72,052 in the gas department and $37,533 and $39,983 in the water department, respectively.

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, 2006 and 2005, the cooperative had overbilled (underbilled) of $318,195 and $(300,362), respectively.

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 $82,730 and $75,160 at September 30, 2006 and 2005, respectively.

Patronage Capital Certificates

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

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

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.

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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2006 | | | September 30, 2005 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 464,181 | 464,181 | 475,536 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 2,941,387 | 296,982 | 3,238,369 | 3,064,798 |
| General | 105,364 | 197,845 | 303,209 | 295,857 |
| Land and Land Rights | 1,416 | 16,007 | 17,423 | 17,423 |
| Total Plant in Service | $ 3,090,689 | $ 1,996,191 | $ 5,086,880 | $ 4,917,312 |
| Construction Work in Progress | 21,026 | 258,657 | 279,683 | 131,696 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,527,199 | $ 2,865,016 | $ 6,392,215 | $ 6,074,660 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2006 and 2005, totaled $216,916 and $210,726, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2006, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 265,910 | $ 390,507 |
| Current Year | 16,619 | 24,407 |
| | $ 282,529 | $ 414,914 |
| Unamortized Adjustment | $ 132,955 | $ 195,254 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 168,238 | $ 175,093 |
| Patronage Capital | 87,152 | 88,395 |
| Memberships | 1,000 | 1,000 |
| | $ 256,390 | $ 264,488 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 6,127 | $ 6,127 |
| | $ 262,517 | $ 270,615 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs | $ 2,087 | $ 3,130 |
| Unamortized Debt Expense | 26,750 | 30,618 |
| | $ 28,837 | $ 33,748 |
| Water Department | | |
| Unamortized Debt Expense | $ 23,722 | $ 27,152 |
| | 23,722 | 27,152 |
| | $ 52,559 | $ 60,900 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the years ended September 30, 2006 and 2005, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| 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 | 20,280 | 19,780 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 29,945 | $ 29,445 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 7. Accumulated Margins (Deficits)

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

| | Gas Department | Water Department | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| 2003 | (5,764) | 69,524 | 63,760 |
| 2004 | 62,759 | 7,767 | 70,526 |
| 2005 | 92,446 | 47,242 | 139,688 |
| 2006 Nine Months | 84,023 | 44,528 | 128,551 |
| | $ 100,534 | $ 293,302 | $ 393,836 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ 100,534 | $ 211,267 | $ 311,801 |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2006 and 2005, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| Fixed - 7.10% | $ 929,167 | $ 1,012,695 |
| Variable (7.30% in 2006, 5.85% in 2005) | 316,644 | 342,776 |
| Fixed - 7.45% | 473,294 | 483,510 |
| Fixed - 4.30% | 381,695 | 390,049 |
| | $ 2,100,800 | $ 2,229,030 |
| Less: Current Maturities | 135,200 | 119,200 |
| | $ 1,965,600 | $ 2,109,830 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $64,900. As of September 30, 2006, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|---|---|
| 2007 | $ 135,200 |
| 2008 | 145,000 |
| 2009 | 155,300 |
| 2010 | 166,600 |
| 2011 | 178,500 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 150,203 | $ 153,056 |
| 4.5% Note Maturing August 2035 | 261,530 | 265,855 |
| 4.5% Note Maturing July 2040 | 89,908 | 91,024 |
| | $ 501,641 | $ 509,935 |
| Less: Current Maturities | 8,700 | 8,306 |
| | $ 492,941 | $ 501,629 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2006, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2007 | $ 8,700 |
| 2008 | 9,100 |
| 2009 | 9,500 |
| 2010 | 10,000 |
| 2011 | 10,500 |

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2006, is $131,100. Annual maturities due to Graham County Electric Cooperative for the next four years are as follows:

| | |
|---|---|
| 2007 | $ 36,004 |
| 2008 | 38,800 |
| 2009 | 41,700 |
| 2010 | 14,596 |

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2006, is $89,834. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2007 | $ 22,000 |
| 2008 | 22,000 |
| 2009 | 22,000 |
| 2010 | 22,000 |
| 2011 | 1,834 |

**12. Related Parties**

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Payable | $ (75,766) | $ (314,433) |
| Note Payable | (131,100) | (164,544) |
| Net Due to Affiliated Cooperative | $ (206,866) | $ (478,977) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 75,766 | $ 164,544 |
| Note Receivable | 131,100 | 314,433 |
| Net Due from Affiliated Cooperative | $ 206,866 | $ 478,977 |

## 13. Litigation

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

## ACCOMPANYING INFORMATION

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CERTIFIED PUBLIC ACCOUNTANTS
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1623 10TH STREET
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## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2006 AND 2005

### ASSETS

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 3,090,689 | $ 2,941,956 |
| Construction Work in Progress | 21,026 | 50,374 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,527,199 | $ 3,407,814 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,823,740 | 1,745,656 |
| | $ 1,703,459 | $ 1,662,158 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 143,693 | $ 147,282 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $54,700 in 2006 and $31,111 in 2005) | $ 78,982 | $ 107,442 |
| Underbilled Consumers Fuel Cost | | 232,035 |
| Materials and Supplies | 65,567 | 78,458 |
| Other Current and Accrued Assets | 31,169 | 23,359 |
| Total Current Assets | $ 175,718 | $ 441,294 |
| Deferred Charges | $ 28,837 | $ 33,748 |
| | $ 2,051,707 | $ 2,284,482 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 27,445 | $ 26,945 |
| Accumulated Margins (Deficits) | 100,534 | (32,263) |
| | $ 127,979 | $ (5,318) |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 95,096 | $ 131,100 |
| CFC Mortgage Notes Less Current Maturities | 1,309,580 | 1,391,511 |
| | $ 1,404,676 | $ 1,522,611 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 113,904 | $ 103,344 |
| Accounts Payable - Other | 97,297 | 82,796 |
| Accounts Payable - Graham County Electric Cooperative | 77,955 | 314,398 |
| Accounts Payable - Water Department | 28,050 | 146,490 |
| Overbilled Consumers Fuel Cost | 76,809 | |
| Accrued Taxes | 36,501 | 38,682 |
| Customers' Deposits and Prepayments | 72,830 | 66,480 |
| Accrued Payroll | 771 | 2,878 |
| Accrued Interest | 14,935 | 12,121 |
| Total Current Liabilities | $ 519,052 | $ 767,189 |
| | $ 2,051,707 | $ 2,284,482 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 2**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,901,626 | $ 2,047,559 | $ 854,067 |
| Irrigation | 27,473 | 13,332 | 14,141 |
| Commercial and Industrial | 1,055,917 | 629,413 | 426,504 |
| Fuel Cost Under (Over) Billed | (318,195) | 300,362 | (618,557) |
| Other Operating Revenues | 21,180 | 19,700 | 1,480 |
| Total Operating Revenues | $ 3,688,001 | $ 3,010,366 | $ 677,635 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 2,425,984 | $ 1,846,966 | $ 579,018 |
| Operations | 227,275 | 229,205 | (1,930) |
| Maintenance | 195,706 | 182,330 | 13,376 |
| Customer Accounts | 219,205 | 194,397 | 24,808 |
| Administrative and General | 261,096 | 261,449 | (353) |
| Depreciation and Amortization | 110,613 | 106,226 | 4,387 |
| Other Interest | 43,444 | 33,002 | 10,442 |
| Total Operating Expenses | $ 3,483,323 | $ 2,853,575 | $ 629,748 |
| OPERATING MARGINS - Before Fixed Charges | $ 204,678 | $ 156,791 | $ 47,887 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 91,511 | 92,640 | (1,129) |
| OPERATING MARGINS - After Fixed Charges | $ 113,167 | $ 64,151 | $ 49,016 |
| Capital Credits | 8,976 | 7,453 | 1,523 |
| NET OPERATING MARGINS | $ 122,143 | $ 71,604 | $ 50,539 |
| NONOPERATING MARGINS | | | |
| Interest | 10,654 | 8,327 | 2,327 |
| NET MARGINS | $ 132,797 | $ 79,931 | $ 52,866 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (32,263) | (112,194) | |
| ACCUMULATED MARGINS (DEFICITS) - END OF YEAR | $ 100,534 | $ (32,263) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 132,797 | $ 79,931 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 110,613 | 106,226 |
| Capital Credits - Noncash | (8,976) | (7,453) |
| Deferred Charges | 4,911 | 2,273 |
| Overbilled Fuel Cost - Net | 308,844 | (308,570) |
| Accounts Receivable | 28,460 | (52,066) |
| Inventories and Other Current Assets | 5,081 | (5,889) |
| Payables and Accrued Expenses | 19,377 | (218) |
| Net Payments to - Water Department | (118,440) | 116,017 |
| Net Payments to - Graham County Eelectric Cooperative | (236,443) | 316,933 |
| Net Cash Provided by Operating Activities | $ 246,224 | $ 247,184 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (151,914) | $ (158,515) |
| Investments in Associated Organizations | 12,565 | 10,989 |
| Net Cash Used in Investing Activities | $ (139,349) | $ (147,526) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (73,931) | $ (68,878) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (33,444) | (31,065) |
| Memberships | 500 | 285 |
| Net Cash Used in Financing Activities | $ (106,875) | $ (99,658) |
| INCREASE IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Year for: | | |
| Interest on Long-Term Debt | $ 91,511 | $ 92,640 |
| Federal Income Tax | $ 0 | $ 0 |

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

**Schedule 4**

**BALANCE SHEET**
**SEPTEMBER 30, 2006 AND 2005**

**ASSETS**

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,996,191 | $ 1,975,356 |
| Construction Work in Progress | 258,657 | 81,322 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,865,016 | $ 2,666,846 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,555,226 | 1,455,002 |
| | $ 1,309,790 | $ 1,211,844 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 118,824 | $ 123,333 |
| CURRENT ASSETS | | |
| Cash - General | $ 19,557 | $ 19,124 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $13,488 in 2006 and $9,530 in 2005) | 15,345 | 22,268 |
| Accounts Receivable - Graham County Electric Cooperative | 2,194 | |
| Accounts Receivable - Gas Department | 28,050 | 146,490 |
| Materials and Supplies | 68,020 | 44,275 |
| Other Current and Accrued Assets | 14,387 | 7,790 |
| Total Current Assets | $ 147,553 | $ 239,947 |
| DEFERRED CHARGES | $ 23,722 | $ 27,152 |
| | $ 1,599,889 | $ 1,602,276 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 211,267 | 157,076 |
| | $ 213,767 | $ 159,576 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 656,020 | $ 718,319 |
| AEPCO Notes Payable Less Current Maturities | 67,834 | 89,834 |
| USDA Rural Development Notes Less Current Maturities | 492,941 | 501,629 |
| | $ 1,216,795 | $ 1,309,782 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 88,000 | $ 79,600 |
| Accounts Payable - Other | 49,780 | 21,057 |
| Accounts Payable - Related Parties | | 35 |
| Accrued Taxes | 18,828 | 20,609 |
| Customers' Deposits and Prepayments | 9,900 | 8,680 |
| Accrued Payroll | 156 | 609 |
| Accrued Interest | 2,663 | 2,328 |
| Total Current Liabilities | $ 169,327 | $ 132,918 |
| | $ 1,599,889 | $ 1,602,276 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 487,140 | $ 484,743 | $ 2,397 |
| Commercial and Industrial | 46,612 | 48,192 | (1,580) |
| Sales for Resale | 30,236 | 29,907 | 329 |
| Other Operating Revenues | 2,130 | 2,160 | (30) |
| Total Operating Revenues | $ 566,118 | $ 565,002 | $ 1,116 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 27,050 | $ 24,647 | $ 2,403 |
| Operations | 62,885 | 65,301 | (2,416) |
| Maintenance | 126,553 | 131,954 | (5,401) |
| Customer Accounts | 45,072 | 41,146 | 3,926 |
| Administrative and General | 79,721 | 85,333 | (5,612) |
| Depreciation and Amortization | 106,303 | 104,500 | 1,803 |
| Other Interest | 4,062 | 3,887 | 175 |
| Total Operating Expenses | $ 451,646 | $ 456,768 | $ (5,122) |
| OPERATING MARGINS - Before Fixed Charges | $ 114,472 | $ 108,234 | $ 6,238 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 76,445 | 77,240 | (795) |
| OPERATING MARGINS - After Fixed Charges | $ 38,027 | $ 30,994 | $ 7,033 |
| Capital Credits | 7,960 | 7,387 | 573 |
| NET OPERATING MARGINS | $ 45,987 | $ 38,381 | $ 7,606 |
| NONOPERATING MARGINS | | | |
| Interest | 8,204 | 8,524 | (320) |
| NET MARGINS | $ 54,191 | $ 46,905 | $ 7,286 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 157,076 | 110,171 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 211,267 | $ 157,076 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

| | September 30, 2006 | September 30, 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 54,191 | $ 46,905 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 106,303 | 104,500 |
| Capital Credits - Noncash | (7,960) | (7,387) |
| Deferred Charges | 3,430 | 3,429 |
| Accounts Receivable | 6,923 | (10,667) |
| Inventories and Other Current Assets | (30,342) | (14,410) |
| Payables and Accrued Expenses | 28,046 | 4,904 |
| Net Advances from (to) - Gas Department | 118,440 | (116,017) |
| Net Payments from (to) - Graham County Electric Cooperative | (2,229) | 176,233 |
| Net Cash Provided by Operating Activities | $ 276,802 | $ 187,490 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (204,251) | $ (116,372) |
| Investments in Associated Organizations | 12,469 | 11,237 |
| Net Cash Used in Investing Activities | $ (191,782) | $ (105,135) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (23,833) |
| Payments on Long-Term Debt to CFC | (54,299) | (50,402) |
| Payments on Long-Term Debt to USDA | (8,288) | (7,904) |
| Net Cash Used in Financing Activities | $ (84,587) | $ (82,139) |
| INCREASE IN CASH | $ 433 | $ 216 |
| CASH - BEGINNING OF YEAR | 19,124 | 18,908 |
| CASH - END OF YEAR | $ 19,557 | $ 19,124 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid During the Rear for: | | |
| Interest on Long-Term Debt | $ 16,445 | $ 77,240 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
PHONE: (806) 747-3806
FAX: (806) 747-3815
1623 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
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## 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 *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

November 1, 2006

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

## AND

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
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1623 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2005 and 2004, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2005, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on 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 should be considered in assessing the results of our audits.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

# GRAHAM COUNTY UTILITIES, INC.

Exhibit A

## BALANCE SHEET
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

### ASSETS

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 4,917,312 | $ 4,770,688 |
| Construction Work in Progress | 131,696 | 3,433 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 6,074,660 | $ 5,799,773 |
| Less: Accumulated Provision for Depreciation and Amortization | 3,200,658 | 2,989,932 |
| | $ 2,874,002 | $ 2,809,841 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 270,615 | $ 278,018 |
| CURRENT ASSETS | | |
| Cash - General | $ 19,124 | $ 18,908 |
| Accounts Receivable (Less allowance for uncollectibles of $40,641 in 2005 and $29,177 in 2004) | 129,710 | 66,977 |
| Underbilled Consumer Fuel Cost | 232,035 | |
| Accounts Receivable - Graham County Electric Cooperative | | 178,723 |
| Materials and Supplies | 122,733 | 95,296 |
| Other Current and Accrued Assets | 31,149 | 38,287 |
| Total Current Assets | $ 534,751 | $ 398,191 |
| DEFERRED CHARGES | $ 60,900 | $ 66,602 |
| | $ 3,740,268 | $ 3,552,652 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 29,445 | $ 29,160 |
| Accumulated Margins (Deficits) | 124,813 | (2,023) |
| | $ 154,258 | $ 27,137 |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,109,830 | $ 2,229,111 |
| AEPCO Note Payable Less Current Maturities | 89,834 | 111,834 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 131,100 | 164,544 |
| USDA Rural Development Note Payable Less Current Maturities | 501,629 | 509,939 |
| | $ 2,832,393 | $ 3,015,428 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 182,944 | $ 181,998 |
| Accounts Payable - Other | 103,853 | 105,646 |
| Accounts Payable - Graham County Electric Coop | 314,433 | |
| Overbilled Consumers Fuel Cost | | 76,535 |
| Customers' Deposits and Prepayments | 75,160 | 71,205 |
| Accrued Payroll | 3,487 | |
| Accrued Taxes | 59,291 | 62,378 |
| Accrued Interest | 14,449 | 12,325 |
| Total Current Liabilities | $ 753,617 | $ 510,087 |
| | $ 3,740,268 | $ 3,552,652 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

### STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
### FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| OPERATING REVENUES | $ 3,575,368 | $ 3,294,237 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 1,846,966 | $ 1,629,487 |
| Power for Pumping | 24,647 | 33,811 |
| Operations | 294,506 | 299,383 |
| Maintenance | 314,284 | 348,767 |
| Consumer Accounts | 235,543 | 247,596 |
| Administrative and General | 346,782 | 318,822 |
| Depreciation and Amortization | 210,726 | 207,495 |
| Other Interest | 36,889 | 30,437 |
| Total Operating Expenses | $ 3,310,343 | $ 3,115,798 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 265,025 | $ 178,439 |
| Interest on Long-Term Debt | 169,880 | 161,691 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 95,145 | $ 16,748 |
| Capital Credits | 14,840 | 12,417 |
| NET OPERATING MARGINS | $ 109,985 | $ 29,165 |
| NONOPERATING MARGINS | | |
| Interest | 16,851 | 7,194 |
| NET MARGINS | $ 126,836 | $ 36,359 |
| ACCUMULATED (DEFICITS) - BEGINNING OF YEAR | (2,023) | (38,382) |
| ACCUMULATED MARGINS (DEFICITS) - END OF YEAR | $ 124,813 | $ (2,023) |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 126,836 | $ 36,359 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 210,726 | 207,495 |
| Capital Credits - Noncash | (14,840) | (12,417) |
| Overbilled Fuel Cost | (308,570) | (389,707) |
| Deferred Charges | 5,702 | 10,239 |
| Accounts Receivable | (62,733) | 2,202 |
| Inventories and Other Current Assets | (20,299) | 12,494 |
| Payables and Accrued Expenses | 4,686 | 27,572 |
| Net Payments to (from) - Graham County Electric Cooperative | 493,166 | (24,780) |
| Net Cash Provided by (Used in) Operating Activities | $ 434,674 | $ (130,543) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (274,887) | $ (131,175) |
| Investments in Associated Organizations | 22,226 | 23,094 |
| Net Cash Used in Investing Activities | $ (252,661) | $ (108,081) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from CFC | $ | $ 400,000 |
| Payments on Note Payable to AEPCO | (23,833) | (20,168) |
| Payments on Long-Term Debt to CFC | (119,280) | (105,248) |
| Payments on Long-Term Debt to GCEC | (31,065) | (28,856) |
| Payments on Long-Term Debt to USDA | (7,904) | (7,549) |
| Memberships | 285 | 600 |
| Net Cash Provided by (Used in) Financing Activities | $ (181,797) | $ 238,779 |
| INCREASE IN CASH | $ 216 | $ 155 |
| CASH - BEGINNING OF YEAR | 18,908 | 18,753 |
| CASH - END OF YEAR | $ 19,124 | $ 18,908 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 169,880 | $ 177,338 |
| 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. 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.

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, 2005 and 2004, was estimated to be $72,216 and $46,755 in the gas department and $39,979 and $32,921 in the water department, respectively.

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, 2005 and 2004, the cooperative had overbilled (underbilled) of $(232,035) and $76,535, respectively.

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 $75,160 and $71,205 at September 30, 2005 and 2004, respectively.

Patronage Capital Certificates

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

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

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.

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 collectibility. 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2005 | | | September 30, 2004 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 475,536 | 475,536 | 457,892 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 2,794,186 | 270,612 | 3,064,798 | 2,943,485 |
| General | 103,832 | 192,025 | 295,857 | 288,190 |
| Land and Land Rights | 1,416 | 16,007 | 17,423 | 17,423 |
| Total Plant in Service | $ 2,941,956 | $ 1,975,356 | $ 4,917,312 | $ 4,770,688 |
| Construction Work in Progress | 50,374 | 81,322 | 131,696 | 3,433 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,407,814 | $ 2,666,846 | $ 6,074,660 | $ 5,799,773 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2005 and 2004, totaled $210,726 and $207,495, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2005, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,485 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 249,291 | $ 366,100 |
| Current Year | 16,619 | 24,407 |
| | $ 265,910 | $ 390,507 |
| Unamortized Adjustment | $ 149,575 | $ 219,661 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 175,093 | $ 181,168 |
| Patronage Capital | 88,395 | 90,502 |
| Memberships | 1,000 | 1,000 |
| | $ 264,488 | $ 272,670 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 6,127 | $ 5,348 |
| | $ 270,615 | $ 278,018 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs | $ 3,130 | $ 1,535 |
| Unamortized Debt Expense | 30,618 | 34,485 |
| | $ 33,748 | $ 36,020 |
| Water Department | | |
| Unamortized Debt Expense | $ 27,152 | $ 30,582 |
| | 27,152 | 30,582 |
| | $ 60,900 | $ 66,602 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the years ended September 30, 2005 and 2004, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| 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 | 19,780 | 19,495 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 29,445 | $ 29,160 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 7. Accumulated Margins (Deficits)

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

| Calendar Year | Gas Department | Water Department | Total |
|---|---|---|---|
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| 2003 | (5,764) | 69,524 | 63,760 |
| 2004 | 62,759 | 7,767 | 70,526 |
| 2005 Nine Months | 43,672 | 37,579 | 81,251 |
| | $ (32,263) | $ 239,111 | $ 206,848 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ (32,263) | $ 157,076 | $ 124,813 |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2005 and 2004, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| Fixed - 7.10% | $ 1,012,695 | $ 1,090,547 |
| Variable (5.85% in 2005, 3.70% in 2004) | 342,776 | 366,713 |
| Fixed - 7.45% | 483,510 | 492,999 |
| Fixed - 4.30% | 390,049 | 398,052 |
| | $ 2,229,030 | $ 2,348,311 |
| Less: Current Maturities | 119,200 | 119,200 |
| | $ 2,109,830 | $ 2,229,111 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $64,900. As of September 30, 2005, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|---|---|
| 2006 | $ 119,200 |
| 2007 | 126,900 |
| 2008 | 135,100 |
| 2009 | 143,900 |
| 2010 | 153,200 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 153,056 | $ 155,770 |
| 4.5% Note Maturing August 2035 | 265,855 | 269,989 |
| 4.5% Note Maturing July 2040 | 91,024 | 92,080 |
| | $ 509,935 | $ 517,839 |
| Less: Current Maturities | 8,306 | 7,900 |
| | $ 501,629 | $ 509,939 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2005, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2006 | $ 8,306 |
| 2007 | 8,700 |
| 2008 | 9,100 |
| 2009 | 9,500 |
| 2010 | 10,000 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2005, is $164,544. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 2006 | $ 33,444 |
| 2007 | 36,000 |
| 2008 | 38,800 |
| 2009 | 41,700 |
| 2010 | 14,600 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2005, is $111,834. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2006 | $ 22,000 |
| 2007 | 22,000 |
| 2008 | 22,000 |
| 2009 | 22,000 |
| 2010 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Receivable (Payable) | $ (314,433) | $ 178,723 |
| Note Payable | (164,544) | (195,609) |
| Net Due to Affiliated Cooperative | $ (478,977) | $ (16,886) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable (Payable) | $ 314,433 | $ (178,723) |
| Note Receivable | 164,544 | 195,609 |
| Net Due from Affiliated Cooperative | $ 478,977 | $ 16,886 |

**13. Litigation**

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

## ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2005 AND 2004

### ASSETS

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,941,956 | $ 2,832,033 |
| Construction Work in Progress | 50,374 | 1,782 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,407,814 | $ 3,249,299 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,745,656 | 1,639,430 |
| | $ 1,662,158 | $ 1,609,869 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 147,282 | $ 150,818 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $31,111 in 2005 and $21,324 in 2004) | $ 107,442 | $ 55,376 |
| Underbilled Consumers Fuel Cost | 232,035 | |
| Accounts Receivable - GCEC | | 2,535 |
| Materials and Supplies | 78,458 | 67,202 |
| Other Current and Accrued Assets | 23,359 | 28,726 |
| Total Current Assets | $ 441,294 | $ 153,839 |
| Deferred Charges | $ 33,748 | $ 36,021 |
| | $ 2,284,482 | $ 1,950,547 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 26,945 | $ 26,660 |
| Accumulated Deficits | (32,263) | (112,194) |
| | $ (5,318) | $ (85,534) |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 131,100 | $ 164,544 |
| CFC Mortgage Notes Less Current Maturities | 1,391,511 | 1,460,389 |
| | $ 1,522,611 | $ 1,624,933 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 103,344 | $ 100,965 |
| Accounts Payable - Other | 82,796 | 85,897 |
| Accounts Payable - Graham County Electric Cooperative | 314,398 | |
| Accounts Payable - Water Department | 146,490 | 30,473 |
| Overbilled Consumers Fuel Cost | | 76,535 |
| Accrued Taxes | 38,682 | 43,692 |
| Customers' Deposits and Prepayments | 66,480 | 63,370 |
| Accrued Payroll | 2,878 | |
| Accrued Interest | 12,121 | 10,216 |
| Total Current Liabilities | $ 767,189 | $ 411,148 |
| | $ 2,284,482 | $ 1,950,547 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 2**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,047,559 | $ 1,785,736 | $ 261,823 |
| Irrigation | 13,332 | 24,286 | (10,954) |
| Commercial and Industrial | 629,413 | 513,134 | 116,279 |
| Fuel Cost Overbilled | 19,700 | 22,230 | (2,530) |
| Other Operating Revenues | 300,362 | 391,697 | (91,335) |
| Total Operating Revenues | $ 3,010,366 | $ 2,737,083 | $ 273,283 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 1,846,966 | $ 1,629,487 | $ 217,479 |
| Operations | 229,205 | 233,323 | (4,118) |
| Maintenance | 182,330 | 196,831 | (14,501) |
| Customer Accounts | 194,397 | 204,843 | (10,446) |
| Administrative and General | 261,449 | 236,883 | 24,566 |
| Depreciation and Amortization | 106,226 | 103,638 | 2,588 |
| Other Interest | 33,002 | 26,536 | 6,466 |
| Total Operating Expenses | $ 2,853,575 | $ 2,631,541 | $ 222,034 |
| OPERATING MARGINS - Before Fixed Charges | $ 156,791 | $ 105,542 | $ 51,249 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 92,640 | 84,185 | 8,455 |
| OPERATING MARGINS - After Fixed Charges | $ 64,151 | $ 21,357 | $ 42,794 |
| Capital Credits | 7,453 | 6,581 | 872 |
| NET OPERATING MARGINS | $ 71,604 | $ 27,938 | $ 43,666 |
| NONOPERATING MARGINS | | | |
| Interest | 8,327 | 3,094 | 5,233 |
| NET MARGINS | $ 79,931 | $ 31,032 | $ 48,899 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (112,194) | (143,226) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (32,263) | $ (112,194) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 79,931 | $ 31,032 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 106,226 | 103,638 |
| Capital Credits - Noncash | (7,453) | (6,581) |
| Deferred Charges | 2,273 | 6,049 |
| Overbilled Fuel Cost - Net | (308,570) | (389,707) |
| Accounts Receivable | (52,066) | (428) |
| Inventories and Other Current Assets | (5,889) | 4,652 |
| Payables and Accrued Expenses | (218) | 21,946 |
| Net Payments to - Water Department | 116,017 | 23,190 |
| Net Payments to - Graham County Eelectric Cooperative | 316,933 | (15,304) |
| Net Cash Provided by (Used in) Operating Activities | $ 247,184 | $ (221,513) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (158,515) | $ (103,611) |
| Investments in Associated Organizations | 10,989 | 11,839 |
| Net Cash Used in Investing Activities | $ (147,526) | $ (91,772) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from CFC | $ | $ 400,000 |
| Payments on Long-Term Debt - CFC | (68,878) | (58,459) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (31,065) | (28,856) |
| Memberships | 285 | 600 |
| Net Cash Provided by (Used in) Financing Activities | $ (99,658) | $ 313,285 |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 92,640 | $ 99,830 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2005 AND 2004

### ASSETS

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,975,356 | $ 1,938,655 |
| Construction Work in Progress | 81,322 | 1,651 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,666,846 | $ 2,550,474 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,455,002 | 1,350,502 |
| | $ 1,211,844 | $ 1,199,972 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 123,333 | $ 127,200 |
| CURRENT ASSETS | | |
| Cash - General | $ 19,124 | $ 18,908 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $9,530 in 2005 and $7,853 in 2004) | 22,268 | 11,601 |
| Accounts Receivable - Gas Department | 146,490 | 30,473 |
| Accounts Receivable - Graham County Electric Cooperative | | 176,188 |
| Materials and Supplies | 44,275 | 28,094 |
| Other Current and Accrued Assets | 7,790 | 9,561 |
| Total Current Assets | $ 239,947 | $ 274,825 |
| DEFERRED CHARGES | $ 27,152 | $ 30,581 |
| | $ 1,602,276 | $ 1,632,578 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 157,076 | 110,171 |
| | $ 159,576 | $ 112,671 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 718,319 | $ 768,722 |
| AEPCO Notes Payable Less Current Maturities | 89,834 | 111,834 |
| USDA Rural Development Notes Less Current Maturities | 501,629 | 509,939 |
| | $ 1,309,782 | $ 1,390,495 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 79,600 | $ 81,033 |
| Accounts Payable - Other | 21,057 | 19,749 |
| Accounts Payable - Related Parties | 35 | |
| Accrued Taxes | 20,609 | 18,686 |
| Customers' Deposits and Prepayments | 8,680 | 7,835 |
| Accrued Payroll | 609 | |
| Accrued Interest | 2,328 | 2,109 |
| Total Current Liabilities | $ 132,918 | $ 129,412 |
| | $ 1,602,276 | $ 1,632,578 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 484,743 | $ 474,991 | $ 9,752 |
| Commercial and Industrial | 48,192 | 50,980 | (2,788) |
| Sales for Resale | 29,907 | 29,053 | 854 |
| Other Operating Revenues | 2,160 | 2,130 | 30 |
| Total Operating Revenues | $ 565,002 | $ 557,154 | $ 7,848 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 24,647 | $ 33,811 | $ (9,164) |
| Operations | 65,301 | 66,060 | (759) |
| Maintenance | 131,954 | 151,936 | (19,982) |
| Customer Accounts | 41,146 | 42,753 | (1,607) |
| Administrative and General | 85,333 | 81,939 | 3,394 |
| Depreciation and Amortization | 104,500 | 103,856 | 644 |
| Other Interest | 3,887 | 3,902 | (15) |
| Total Operating Expenses | $ 456,768 | $ 484,257 | $ (27,489) |
| OPERATING MARGINS - Before Fixed Charges | $ 108,234 | $ 72,897 | $ 35,337 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 77,240 | 77,506 | (266) |
| OPERATING MARGINS (DEFICIT) - After Fixed Charges | $ 30,994 | $ (4,609) | $ 35,603 |
| Capital Credits | 7,387 | 5,836 | 1,551 |
| NET OPERATING MARGINS (DEFICIT) | $ 38,381 | $ 1,227 | $ 37,154 |
| NONOPERATING MARGINS | | | |
| Interest | 8,524 | 4,100 | 4,424 |
| NET MARGINS | $ 46,905 | $ 5,327 | $ 41,578 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 110,171 | 104,844 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 157,076 | $ 110,171 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 46,905 | $ 5,327 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 104,500 | 103,857 |
| Capital Credits - Noncash | (7,387) | (5,836) |
| Deferred Charges | 3,429 | 4,190 |
| Accounts Receivable | (10,667) | 2,630 |
| Inventories and Other Current Assets | (14,410) | 7,842 |
| Payables and Accrued Expenses | 4,904 | 5,627 |
| Net Advances from/(to) - Gas Department | (116,017) | (23,190) |
| Net Payments from/(to) - Graham County Electric Cooperative | 176,233 | (9,476) |
| Net Cash Provided by Operating Activities | $ 187,490 | $ 90,971 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (116,372) | $ (27,564) |
| Investments in Associated Organizations | 11,237 | 11,254 |
| Net Cash Used in Investing Activities | $ (105,135) | $ (16,310) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (23,833) | $ (20,168) |
| Payments on Long-Term Debt to CFC | (50,402) | (46,789) |
| Payments on Long-Term Debt to USDA | (7,904) | (7,549) |
| Net Cash Used in Financing Activities | $ (82,139) | $ (74,506) |
| INCREASE IN CASH | $ 216 | $ 155 |
| CASH - BEGINNING OF YEAR | 18,908 | 18,753 |
| CASH - END OF YEAR | $ 19,124 | $ 18,908 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 77,240 | $ 77,508 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
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1623 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2005, and have issued our report thereon dated October 27, 2005.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
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1623 10TH STREET
LUBBOCK, TEXAS 79401-2685

## 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 *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated October 27, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 27, 2005

# GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2004 and 2003, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2004, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on 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 should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit A**

## BALANCE SHEET
## FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

### ASSETS

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 4,770,688 | $ 4,650,377 |
| Construction Work in Progress | 3,433 | (7,432) |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 5,799,773 | $ 5,668,597 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,989,932 | 2,782,437 |
| | $ 2,809,841 | $ 2,886,160 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 278,018 | $ 288,694 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,908 | $ 18,753 |
| Accounts Receivable (Less allowance for uncollectibles of $29,177 in 2004 and $19,819 in 2003) | 66,977 | 69,179 |
| Accounts Receivable - Graham County Electric Cooperative | 178,723 | 153,943 |
| Materials and Supplies | 95,296 | 95,844 |
| Other Current and Accrued Assets | 38,287 | 50,233 |
| Total Current Assets | $ 398,191 | $ 387,952 |
| DEFERRED CHARGES | $ 66,602 | $ 76,841 |
| | $ 3,552,652 | $ 3,639,647 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 29,160 | $ 28,560 |
| Accumulated Deficits | (2,023) | (38,382) |
| | $ 27,137 | $ (9,822) |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,229,111 | $ 1,952,458 |
| AEPCO Note Payable Less Current Maturities | 111,834 | 133,833 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 164,544 | 195,565 |
| USDA Rural Development Note Payable Less Current Maturities | 509,939 | 517,889 |
| | $ 3,015,428 | $ 2,799,745 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 181,998 | $ 159,500 |
| Accounts Payable - Other | 105,646 | 77,021 |
| Overbilled Consumers Fuel Cost | 76,535 | 466,242 |
| Customers' Deposits and Prepayments | 71,205 | 71,220 |
| Accrued Taxes | 62,378 | 64,080 |
| Accrued Interest | 12,325 | 11,661 |
| Total Current Liabilities | $ 510,087 | $ 849,724 |
| | $ 3,552,652 | $ 3,639,647 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

### STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
### FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| OPERATING REVENUES | $ 3,294,237 | $ 2,703,891 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 1,629,487 | $ 1,064,964 |
| Power for Pumping | 33,811 | 15,021 |
| Operations | 299,383 | 294,608 |
| Maintenance | 348,767 | 380,567 |
| Consumer Accounts | 247,596 | 239,862 |
| Administrative and General | 318,822 | 266,684 |
| Depreciation and Amortization | 207,494 | 203,926 |
| Other Interest | 30,438 | 37,405 |
| Total Operating Expenses | $ 3,115,798 | $ 2,503,037 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 178,439 | $ 200,854 |
| Interest on Long-Term Debt | 161,691 | 161,469 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 16,748 | $ 39,385 |
| Capital Credits | 12,417 | 14,078 |
| NET OPERATING MARGINS | $ 29,165 | $ 53,463 |
| NONOPERATING MARGINS | | |
| Interest | 7,194 | 5,655 |
| NET MARGINS | $ 36,359 | $ 59,118 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (38,382) | (97,500) |
| ACCUMULATED DEFICITS - END OF YEAR | $ (2,023) | $ (38,382) |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 36,359 | $ 59,118 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 207,495 | 204,229 |
| Capital Credits - Noncash | (12,417) | (14,078) |
| Overbilled Fuel Cost | (389,707) | 390,657 |
| Deferred Charges | 10,239 | 7,827 |
| Accounts Receivable | 2,202 | 34,341 |
| Inventories and Other Current Assets | 12,494 | (14,144) |
| Payables and Accrued Expenses | 27,572 | 9,564 |
| Net Payments to/(from) - Graham County Electric Cooperative | (24,780) | (372,050) |
| Net Cash Provided by (Used in) Operating Activities | $ (130,543) | $ 305,464 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (131,175) | $ (177,410) |
| Salvage Value of Plant Retired | | 4,070 |
| Investments in Associated Organizations | 23,094 | 19,303 |
| Net Cash Used in Investing Activities | $ (108,081) | $ (154,037) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from CFC | $ 400,000 | $ |
| Payments on Note Payable to AEPCO | (20,168) | (22,000) |
| Payments on Long-Term Debt to CFC | (105,248) | (95,899) |
| Payments on Long-Term Debt to GCEC | (28,856) | (26,804) |
| Payments on Long-Term Debt to USDA | (7,549) | (7,206) |
| Memberships | 600 | 570 |
| Net Cash Provided by (Used in) Financing Activities | $ 238,779 | $ (151,339) |
| INCREASE IN CASH | $ 155 | $ 88 |
| CASH - BEGINNING OF YEAR | 18,753 | 18,665 |
| CASH - END OF YEAR | $ 18,908 | $ 18,753 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 177,338 | $ 179,166 |
| 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. 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.

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, 2004 and 2003, was estimated to be $46,755 and $46,579 in the gas department and $32,921 and $35,636 in the water department, respectively.

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, 2004 and 2003, the cooperative had overbillings of $76,535 and $466,242, respectively.

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 6%. Deposits on hand totaled $71,205 and $71,220 at September 30, 2004 and 2003, 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.

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.

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 collectibility. 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2004 | | | September 30, 2003 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 457,892 | 457,892 | 457,892 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 2,687,612 | 255,873 | 2,943,485 | 2,835,348 |
| General | 100,484 | 187,706 | 288,190 | 276,016 |
| Land and Land Rights | 1,416 | 16,007 | 17,423 | 17,423 |
| Total Plant in Service | $ 2,832,034 | $ 1,938,654 | $ 4,770,688 | $ 4,650,377 |
| Construction Work in Progress | 1,782 | 1,651 | 3,433 | (7,432) |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,249,300 | $ 2,550,473 | $ 5,799,773 | $ 5,668,597 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2004 and 2003, totaled $166,469 and $162,900, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2004, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 232,671 | $ 341,694 |
| Current Year | 16,619 | 24,407 |
| | $ 249,290 | $ 366,101 |
| Unamortized Adjustment | $ 166,194 | $ 244,067 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 181,168 | $ 189,245 |
| Patronage Capital | 90,502 | 93,101 |
| Memberships | 1,000 | 1,000 |
| | $ 272,670 | $ 283,346 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 5,348 | $ 5,348 |
| | $ 278,018 | $ 288,694 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs | $ 1,535 | $ 2,146 |
| Clearing Accounts | | 1,571 |
| Unamortized Debt Expense | 34,485 | 38,353 |
| | $ 36,020 | $ 42,070 |
| Water Department | | |
| Unamortized Debt Expense | $ 30,582 | $ 34,011 |
| Clearing Accounts | | 760 |
| | $ 30,582 | $ 34,771 |
| | $ 66,602 | $ 76,841 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the years ended September 30, 2004 and 2003, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| 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 | 19,495 | 18,895 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 29,160 | $ 28,560 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 7. Accumulated Margins (Deficits)

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

| Calendar Year | Gas Department | Water Department | Total |
|---|---|---|---|
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| 2003 | (5,764) | 69,524 | 63,760 |
| Nine months of 2004 | 26,500 | (1,559) | 24,941 |
| | $ (112,194) | $ 192,206 | $ 80,012 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ (112,194) | $ 110,171 | $ (2,023) |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2004 and 2003, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Fixed - 7.10% | $ 1,090,547 | $ 1,163,108 |
| Variable (3.70% in 2004, 2.95% in 2003) | 366,713 | 388,638 |
| Fixed - 7.45% | 492,999 | 501,812 |
| Fixed - 4.30% | 398,052 | |
| | $ 2,348,311 | $ 2,053,558 |
| Less: Current Maturities | 119,200 | 101,100 |
| | $ 2,229,111 | $ 1,952,458 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $64,900. As of September 30, 2004, annual maturities of long-term debt due CFC for the next five years is as follows:

| | |
|---|---|
| 2005 | $ 119,200 |
| 2006 | 126,900 |
| 2007 | 135,100 |
| 2008 | 143,900 |
| 2009 | 153,200 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 155,770 | $ 158,350 |
| 4.5% Note Maturing August 2035 | 269,989 | 273,943 |
| 4.5% Note Maturing July 2040 | 92,080 | 93,096 |
| | $ 517,839 | $ 525,389 |
| Less: Current Maturities | 7,900 | 7,500 |
| | $ 509,939 | $ 517,889 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2004, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2005 | $ 7,900 |
| 2006 | 8,300 |
| 2007 | 8,700 |
| 2008 | 9,100 |
| 2009 | 9,500 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2004, is $195,609. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 2005 | $ 31,065 |
| 2006 | 33,444 |
| 2007 | 36,004 |
| 2008 | 38,761 |
| 2009 | 41,728 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2004, is $135,667. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2005 | $ 23,833 |
| 2006 | 22,000 |
| 2007 | 22,000 |
| 2008 | 22,000 |
| 2009 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Receivable (Payable) | $ 178,723 | $ 153,943 |
| Note Payable | (195,609) | (224,465) |
| Net Due to Affiliated Cooperative | $ (16,886) | $ (70,522) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable (Payable) | $ (178,723) | $ (153,943) |
| Note Receivable | 195,609 | 224,465 |
| Net Due from Affiliated Cooperative | $ 16,886 | $ 70,522 |

## 13. Litigation

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

ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2004 AND 2003

### ASSETS

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,832,033 | $ 2,732,344 |
| Construction Work in Progress | 1,782 | (2,140) |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,249,299 | $ 3,145,688 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,639,430 | 1,535,791 |
| | $ 1,609,869 | $ 1,609,897 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 150,818 | $ 156,076 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $21,324 in 2004 and $13,802 in 2003) | $ 55,376 | $ 54,948 |
| Accounts Receivable - GCEC | 2,535 | |
| Materials and Supplies | 67,202 | 62,905 |
| Other Current and Accrued Assets | 28,726 | 37,675 |
| Total Current Assets | $ 153,839 | $ 155,528 |
| Deferred Charges | $ 36,021 | $ 42,070 |
| | $ 1,950,547 | $ 1,963,571 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 26,660 | $ 26,060 |
| Accumulated Deficits | (112,194) | (143,226) |
| | $ (85,534) | $ (117,166) |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 164,544 | $ 195,565 |
| CFC Mortgage Notes Less Current Maturities | 1,460,389 | 1,133,448 |
| | $ 1,624,933 | $ 1,329,013 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 100,965 | $ 84,200 |
| Accounts Payable - Other | 85,897 | 66,014 |
| Accounts Payable - Graham County Electric Cooperative | | 12,769 |
| Accounts Payable - Water Department | 30,473 | 7,283 |
| Overbilled Consumers Fuel Cost | 76,535 | 466,242 |
| Accrued Taxes | 43,692 | 43,495 |
| Customers' Deposits and Prepayments | 63,370 | 62,145 |
| Accrued Interest | 10,216 | 9,576 |
| Total Current Liabilities | $ 411,148 | $ 751,724 |
| | $ 1,950,547 | $ 1,963,571 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 2

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 1,785,736 | $ 1,935,383 | $ (149,647) |
| Irrigation | 24,286 | 22,279 | 2,007 |
| Commercial and Industrial | 513,134 | 555,590 | (42,456) |
| Fuel Cost Overbilled | 22,230 | (387,328) | 409,558 |
| Other Operating Revenues | 391,697 | 23,870 | 367,827 |
| Total Operating Revenues | $ 2,737,083 | $ 2,149,794 | $ 587,289 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 1,629,487 | $ 1,064,964 | $ 564,523 |
| Operations | 233,323 | 236,280 | (2,957) |
| Maintenance | 196,831 | 235,845 | (39,014) |
| Customer Accounts | 204,843 | 200,011 | 4,832 |
| Administrative and General | 236,883 | 196,487 | 40,396 |
| Depreciation and Amortization | 103,638 | 101,411 | 2,227 |
| Other Interest | 26,536 | 33,368 | (6,832) |
| Total Operating Expenses | $ 2,631,541 | $ 2,068,366 | $ 563,175 |
| OPERATING MARGINS - Before Fixed Charges | $ 105,542 | $ 81,428 | $ 24,114 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 84,185 | 80,085 | 4,100 |
| OPERATING MARGINS - After Fixed Charges | $ 21,357 | $ 1,343 | $ 20,014 |
| Capital Credits | 6,581 | 6,709 | (128) |
| NET OPERATING MARGINS | $ 27,938 | $ 8,052 | $ 19,886 |
| NONOPERATING MARGINS | | | |
| Interest | 3,094 | 734 | 2,360 |
| NET MARGINS | $ 31,032 | $ 8,786 | $ 22,246 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (143,226) | (152,012) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (112,194) | $ (143,226) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 3

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 31,032 | $ 8,786 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 103,638 | 101,714 |
| Capital Credits - Noncash | (6,581) | (6,709) |
| Deferred Charges | 6,049 | 5,157 |
| Overbilled Fuel Cost - Net | (389,707) | 390,657 |
| Accounts Receivable | (428) | 30,675 |
| Inventories and Other Current Assets | 4,652 | (9,372) |
| Payables and Accrued Expenses | 21,946 | 7,131 |
| Net Payments to - Water Department | 23,190 | (114,094) |
| Net Payments to - Graham County Eelectric Cooperative | (15,304) | (206,275) |
| Net Cash Provided by (Used in) Operating Activities | $ (221,513) | $ 207,670 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (103,611) | $ (142,489) |
| Salvage Value of Plant Retired | | 4,070 |
| Investments in Associated Organizations | 11,839 | 9,447 |
| Net Cash Used in Investing Activities | $ (91,772) | $ (128,972) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from CFC | $ 400,000 | $ |
| Payments on Long-Term Debt - CFC | (58,459) | (52,464) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (28,856) | (26,804) |
| Memberships | 600 | 570 |
| Net Cash Provided by (Used in) Financing Activities | $ 313,285 | $ (78,698) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 99,830 | $ 97,782 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2004 AND 2003

### ASSETS

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,938,655 | $ 1,918,033 |
| Construction Work in Progress | 1,651 | (5,292) |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,550,474 | $ 2,522,909 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,350,502 | 1,246,646 |
| | $ 1,199,972 | $ 1,276,263 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 127,200 | $ 132,618 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,908 | $ 18,753 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $7,853 in 2004 and $6,017 in 2003) | 11,601 | 14,231 |
| Accounts Receivable - Gas Department | 30,473 | 7,283 |
| Accounts Receivable - Graham County Electric Cooperative | 176,188 | 166,712 |
| Materials and Supplies | 28,094 | 32,939 |
| Other Current and Accrued Assets | 9,561 | 12,558 |
| Total Current Assets | $ 274,825 | $ 252,476 |
| DEFERRED CHARGES | $ 30,581 | $ 34,771 |
| | $ 1,632,578 | $ 1,696,128 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 110,171 | 104,844 |
| | $ 112,671 | $ 107,344 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 768,722 | $ 819,010 |
| AEPCO Notes Payable Less Current Maturities | 111,834 | 133,833 |
| USDA Rural Development Notes Less Current Maturities | 509,939 | 517,889 |
| | $ 1,390,495 | $ 1,470,732 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 81,033 | $ 75,300 |
| Accounts Payable - Other | 19,749 | 11,007 |
| Accrued Taxes | 18,686 | 20,585 |
| Customers' Deposits and Prepayments | 7,835 | 9,075 |
| Accrued Interest | 2,109 | 2,085 |
| Total Current Liabilities | $ 129,412 | $ 118,052 |
| | $ 1,632,578 | $ 1,696,128 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 474,991 | $ 468,745 | $ 6,246 |
| Commercial and Industrial | 50,980 | 54,995 | (4,015) |
| Sales for Resale | 29,053 | 28,077 | 976 |
| Other Operating Revenues | 2,130 | 2,280 | (150) |
| Total Operating Revenues | $ 557,154 | $ 554,097 | $ 3,057 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 33,811 | $ 15,021 | $ 18,790 |
| Operations | 66,060 | 58,328 | 7,732 |
| Maintenance | 151,936 | 144,722 | 7,214 |
| Customer Accounts | 42,753 | 39,851 | 2,902 |
| Administrative and General | 81,939 | 70,197 | 11,742 |
| Depreciation and Amortization | 103,856 | 102,515 | 1,341 |
| Other Interest | 3,902 | 4,037 | (135) |
| Total Operating Expenses | $ 484,257 | $ 434,671 | $ 49,586 |
| OPERATING MARGINS - Before Fixed Charges | $ 72,897 | $ 119,426 | $ (46,529) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 77,506 | 81,384 | (3,878) |
| OPERATING MARGINS (DEFICIT) - After Fixed Charges | $ (4,609) | $ 38,042 | $ (42,651) |
| Capital Credits | 5,836 | 7,369 | (1,533) |
| NET OPERATING MARGINS (DEFICIT) | $ 1,227 | $ 45,411 | $ (44,184) |
| NONOPERATING MARGINS | | | |
| Interest | 4,100 | 4,921 | (821) |
| NET MARGINS | $ 5,327 | $ 50,332 | $ (45,005) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 104,844 | 54,512 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 110,171 | $ 104,844 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 5,327 | $ 50,332 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 103,857 | 102,515 |
| Capital Credits - Noncash | (5,836) | (7,369) |
| Deferred Charges | 4,190 | 2,670 |
| Accounts Receivable | 2,630 | 3,666 |
| Inventories and Other Current Assets | 7,842 | (4,772) |
| Payables and Accrued Expenses | 5,627 | 2,433 |
| Net Advances from/(to) - Gas Department | (23,190) | 114,094 |
| Net Payments from/(to) - Graham County Electric Cooperative | (9,476) | (165,775) |
| Net Cash Provided by Operating Activities | $ 90,971 | $ 97,794 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (27,564) | $ (34,921) |
| Investments in Associated Organizations | 11,254 | 9,856 |
| Net Cash Used in Investing Activities | $ (16,310) | $ (25,065) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (20,168) | $ (22,000) |
| Payments on Long-Term Debt to CFC | (46,789) | (43,435) |
| Payments on Long-Term Debt to USDA | (7,549) | (7,206) |
| Net Cash Used in Financing Activities | $ (74,506) | $ (72,641) |
| INCREASE IN CASH | $ 155 | $ 88 |
| CASH - BEGINNING OF YEAR | 18,753 | 18,665 |
| CASH - END OF YEAR | $ 18,908 | $ 18,753 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 77,508 | $ 81,384 |
| Federal Income Tax | $ 0 | $ 0 |

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' 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 *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 28, 2004

# GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2003 and 2002, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2003, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

## ASSETS

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 4,650,377 | $ 4,511,550 |
| Construction Work in Progress | (7,432) | 24,487 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 5,668,597 | $ 5,561,689 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,782,437 | 2,644,640 |
| | $ 2,886,160 | $ 2,917,049 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 288,694 | $ 293,919 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,753 | $ 18,665 |
| Accounts Receivable (Less allowance for uncollectibles of $19,819 in 2003 and $9,333 in 2002) | 69,179 | 103,520 |
| Accounts Receivable - Graham County Electric Cooperative | 153,943 | |
| Materials and Supplies | 95,844 | 88,963 |
| Other Current and Accrued Assets | 50,233 | 42,970 |
| Total Current Assets | $ 387,952 | $ 254,118 |
| DEFERRED CHARGES | $ 76,841 | $ 84,668 |
| | $ 3,639,647 | $ 3,549,754 |

## EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 28,560 | $ 27,990 |
| Accumulated Deficits | (38,382) | (97,500) |
| | $ (9,822) | $ (69,510) |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,952,458 | $ 2,055,657 |
| AEPCO Note Payable Less Current Maturities | 133,833 | 155,833 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 195,565 | 224,469 |
| USDA Rural Development Note Payable Less Current Maturities | 517,889 | 525,395 |
| | $ 2,799,745 | $ 2,961,354 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 159,500 | $ 149,800 |
| Accounts Payable - Graham County Electric Cooperative | | 218,107 |
| Accounts Payable - Other | 77,021 | 73,741 |
| Overbilled Consumers Fuel Cost | 466,242 | 75,585 |
| Customers' Deposits and Prepayments | 71,220 | 66,900 |
| Accrued Taxes | 64,080 | 63,925 |
| Accrued Interest | 11,661 | 9,852 |
| Total Current Liabilities | $ 849,724 | $ 657,910 |
| | $ 3,639,647 | $ 3,549,754 |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| OPERATING REVENUES | $ 2,703,891 | $ 3,216,329 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 1,064,964 | $ 1,580,613 |
| Power for Pumping | 15,021 | 21,143 |
| Operations | 294,608 | 284,294 |
| Maintenance | 380,567 | 404,744 |
| Consumer Accounts | 239,862 | 218,284 |
| Administrative and General | 266,684 | 270,751 |
| Depreciation and Amortization | 203,926 | 195,418 |
| Other Interest | 37,405 | 46,854 |
| Total Operating Expenses | $ 2,503,037 | $ 3,022,101 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 200,854 | $ 194,228 |
| Interest on Long-Term Debt | 161,469 | 172,405 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 39,385 | $ 21,823 |
| Capital Credits | 14,078 | 17,822 |
| NET OPERATING MARGINS | $ 53,463 | $ 39,645 |
| NONOPERATING MARGINS | | |
| Interest | 5,655 | 6,904 |
| NET MARGINS | $ 59,118 | $ 46,549 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (97,500) | (144,049) |
| ACCUMULATED DEFICITS - END OF YEAR | $ (38,382) | $ (97,500) |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

Exhibit C

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 59,118 | $ 46,549 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 204,229 | 196,024 |
| Capital Credits - Noncash | (14,078) | (17,822) |
| Overbilled Fuel Cost | 390,657 | 51,579 |
| Deferred Charges | 7,827 | 11,542 |
| Accounts Receivable | 34,341 | 8,668 |
| Inventories and Other Current Assets | (14,144) | 9,479 |
| Payables and Accrued Expenses | 9,564 | 21,750 |
| Net Payments to - Graham County Electric Cooperative | (372,050) | (48,750) |
| Net Cash Provided by Operating Activities | $ 305,464 | $ 279,019 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (177,410) | $ (157,962) |
| Salvage Value of Plant Retired | 4,070 | |
| Investments in Associated Organizations | 19,303 | 21,277 |
| Net Cash Used in Investing Activities | $ (154,037) | $ (136,685) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (22,000) |
| Payments on Long-Term Debt to CFC | (95,899) | (89,032) |
| Payments on Long-Term Debt to GCEC | (26,804) | (24,897) |
| Payments on Long-Term Debt to USDA | (7,206) | (6,883) |
| Memberships | 570 | 760 |
| Net Cash Used in Financing Activities | $ (151,339) | $ (142,052) |
| INCREASE IN CASH | $ 88 | $ 282 |
| CASH - BEGINNING OF YEAR | 18,665 | 18,383 |
| CASH - END OF YEAR | $ 18,753 | $ 18,665 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 179,166 | $ 192,009 |
| 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. 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.

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, 2003 and 2002, was estimated to be $46,579 and $53,469 in the gas department and $35,636 and $30,996 in the water department, respectively.

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, 2003 and 2002, the cooperative had overbillings of $466,242 and $75,585, respectively.

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 6%. Deposits on hand totaled $71,220 and $66,900 at September 30, 2003 and 2002, 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.

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.

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 collectibility. 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2003 | | | September 30, 2002 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 457,892 | 457,892 | 447,948 |
| Transmission | | 983,468 | 983,468 | 983,468 |
| Distribution | 2,592,782 | 242,566 | 2,835,348 | 2,717,310 |
| General | 95,624 | 180,392 | 276,016 | 265,171 |
| Land and Land Rights | 1,416 | 16,007 | 17,423 | 17,423 |
| Total Plant in Service | $ 2,732,344 | $ 1,918,033 | $ 4,650,377 | $ 4,511,550 |
| Construction Work in Progress | (2,140) | (5,292) | (7,432) | 24,487 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,145,688 | $ 2,522,909 | $ 5,668,597 | $ 5,561,689 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.80% | |
| Services | 4.10% | |
| Meters - Regulators | 2.60% | |
| Structures | 2.30% | |
| General | 6.7% - 13.3% | 10% - 20% |

Depreciation accruals charged to expense for the periods ended September 30, 2003 and 2002, totaled $162,900 and $154,392, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2003, are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 216,052 | $ 317,287 |
| Current Year | 16,619 | 24,407 |
| | $ 232,671 | $ 341,694 |
| Unamortized Adjustment | $ 182,813 | $ 268,474 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 189,245 | $ 193,622 |
| Patronage Capital | 93,101 | 95,739 |
| Memberships | 1,000 | 1,000 |
| | $ 283,346 | $ 290,361 |
| Graham County Electric Coooperative, Inc. | | |
| Patronage Capital | $ 5,348 | $ 3,558 |
| | $ 288,694 | $ 293,919 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs - In Progress | $ 2,146 | $ 5,007 |
| Clearing Accounts | 1,571 | |
| Unamortized Debt Expense | 38,353 | 42,220 |
| | $ 42,070 | $ 47,227 |
| Water Department | | |
| Unamortized Debt Expense | $ 34,011 | $ 37,441 |
| Clearing Accounts | 760 | |
| | $ 34,771 | $ 37,441 |
| | $ 76,841 | $ 84,668 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of $109,457. Amortization expense for the year ended September 30, 2003, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| 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 | 18,895 | 18,325 |
| Class C Memberships | | |
| All others who receive service, $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 28,560 | $ 27,990 |

## 7. Accumulated Margins (Deficits)

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

| Calendar Year | Gas Department | Water Department | Total |
|---|---|---|---|
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 | 1,125 | 62,249 |
| Nine months - 2003 | (10,296) | 62,638 | 52,342 |
| | $ (143,226) | $ 186,879 | $ 43,653 |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ (143,226) | $ 104,844 | $ (38,382) |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2003 and 2002, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014 to June 30, 2026:

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| Fixed - 7.10% | $ 1,163,108 | $ 1,230,738 |
| Variable (2.95% in 2003, 3.85% in 2002) | 388,638 | 408,720 |
| Fixed - 7.450% | 501,812 | 509,999 |
| | $ 2,053,558 | $ 2,149,457 |
| Less: Current Maturities | 101,100 | 93,800 |
| | $ 1,952,458 | $ 2,055,657 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $58,000. As of September 30, 2003, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 2004 | $ 101,100 |
| 2005 | 107,800 |
| 2006 | 115,100 |
| 2007 | 122,900 |
| 2008 | 131,100 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 158,350 | $ 160,805 |
| 4.5% Note Maturing August 2035 | 273,943 | 277,723 |
| 4.5% Note Maturing July 2040 | 93,096 | 94,067 |
| | $ 525,389 | $ 532,595 |
| Less: Current Maturities | 7,500 | 7,200 |
| | $ 517,889 | $ 525,395 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2003, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2004 | $ 7,500 |
| 2005 | 7,900 |
| 2006 | 8,300 |
| 2007 | 8,700 |
| 2008 | 9,100 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2003, is $224,465. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 2004 | $ 28,900 |
| 2005 | 31,000 |
| 2006 | 33,400 |
| 2007 | 36,000 |
| 2008 | 38,800 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2003, is $155,833. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2004 | $ 22,000 |
| 2005 | 22,000 |
| 2006 | 22,000 |
| 2007 | 22,000 |
| 2008 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, | |
|---|---|---|
| | 2003 | 2002 |
| Graham County Utilities, Inc. | | |
| Accounts Receivable (Payable) | $ 153,943 | $ (218,107) |
| Note Payable | (224,465) | (251,269) |
| Net Due to Affiliated Cooperative | $ (70,522) | $ (469,376) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable (Payable) | $ (153,943) | $ 218,107 |
| Note Receivable | 224,465 | 251,269 |
| Net Due from Affiliated Cooperative | $ 70,522 | $ 469,376 |

## 13. Litigation

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

ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2003 AND 2002

### ASSETS

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,732,344 | $ 2,630,029 |
| Construction Work in Progress | (2,140) | 21,675 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,145,688 | $ 3,067,188 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,535,791 | 1,493,996 |
| | $ 1,609,897 | $ 1,573,192 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 156,076 | $ 158,814 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $13,802 in 2003 and $3,181 in 2002) | $ 54,948 | $ 85,623 |
| Materials and Supplies | 62,905 | 58,992 |
| Other Current and Accrued Assets | 37,675 | 32,216 |
| Total Current Assets | $ 155,528 | $ 176,831 |
| Deferred Charges | $ 42,070 | $ 47,227 |
| | $ 1,963,571 | $ 1,956,064 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 26,060 | $ 25,490 |
| Accumulated Deficits | (143,226) | (152,012) |
| | $ (117,166) | $ (126,522) |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 195,565 | $ 224,469 |
| CFC Mortgage Notes Less Current Maturities | 1,133,448 | 1,189,912 |
| | $ 1,329,013 | $ 1,414,381 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 84,200 | $ 78,100 |
| Accounts Payable - Other | 66,014 | 64,605 |
| Accounts Payable - Graham County Electric Cooperative | 12,769 | 219,044 |
| Accounts Payable - Water Department | 7,283 | 121,377 |
| Overbilled Consumers Fuel Cost | 466,242 | 75,585 |
| Accrued Taxes | 43,495 | 43,695 |
| Customers' Deposits and Prepayments | 62,145 | 57,875 |
| Accrued Interest | 9,576 | 7,924 |
| Total Current Liabilities | $ 751,724 | $ 668,205 |
| | $ 1,963,571 | $ 1,956,064 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 2**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 1,935,383 | $ 2,077,067 | $ (141,684) |
| Irrigation | 22,279 | 20,950 | 1,329 |
| Commercial and Industrial | 555,590 | 603,353 | (47,763) |
| Fuel Cost Overbilled | (387,328) | (51,270) | (336,058) |
| Other Operating Revenues | 23,870 | 23,162 | 708 |
| Total Operating Revenues | $ 2,149,794 | $ 2,673,262 | $ (523,468) |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 1,064,964 | $ 1,580,613 | $ (515,649) |
| Operations | 236,280 | 225,412 | 10,868 |
| Maintenance | 235,845 | 231,821 | 4,024 |
| Customer Accounts | 200,011 | 181,856 | 18,155 |
| Administrative and General | 196,487 | 198,691 | (2,204) |
| Depreciation and Amortization | 101,411 | 95,582 | 5,829 |
| Other Interest | 33,368 | 42,875 | (9,507) |
| Total Operating Expenses | $ 2,068,366 | $ 2,556,850 | $ (488,484) |
| OPERATING MARGINS - Before Fixed Charges | $ 81,428 | $ 116,412 | $ (34,984) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 80,085 | 85,827 | (5,742) |
| OPERATING MARGINS - After Fixed Charges | $ 1,343 | $ 30,585 | $ (29,242) |
| Capital Credits | 6,709 | 9,446 | (2,737) |
| NET OPERATING MARGINS | $ 8,052 | $ 40,031 | $ (31,979) |
| NONOPERATING MARGINS | | | |
| Interest | 734 | 418 | 316 |
| NET MARGINS | $ 8,786 | $ 40,449 | $ (31,663) |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (152,012) | (192,461) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (143,226) | $ (152,012) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 8,786 | $ 40,449 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 101,714 | 96,188 |
| Capital Credits - Noncash | (6,709) | (9,446) |
| Deferred Charges | 5,157 | 8,077 |
| Overbilled Fuel Cost - Net | 390,657 | 51,579 |
| Accounts Receivable | 30,675 | 7,683 |
| Inventories and Other Current Assets | (9,372) | 17,169 |
| Payables and Accrued Expenses | 7,131 | 21,419 |
| Net Payments to - Water Department | (114,094) | (14,765) |
| Net Payments to - Graham County Eelectric Cooperative | (206,275) | (45,800) |
| Net Cash Provided by Operating Activities | $ 207,670 | $ 172,553 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (142,489) | $ (109,941) |
| Salvage Value of Plant Retired | 4,070 | |
| Investments in Associated Organizations | 9,447 | 10,232 |
| Net Cash Used in Investing Activities | $ (128,972) | $ (99,709) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (52,464) | $ (48,707) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (26,804) | (24,897) |
| Memberships | 570 | 760 |
| Net Cash Used in Financing Activities | $ (78,698) | $ (72,844) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 97,782 | $ 105,431 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

Schedule 4

## BALANCE SHEET
## SEPTEMBER 30, 2003 AND 2002

### ASSETS

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,918,033 | $ 1,881,521 |
| Construction Work in Progress | (5,292) | 2,812 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,522,909 | $ 2,494,501 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,246,646 | 1,150,644 |
| | $ 1,276,263 | $ 1,343,857 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 132,618 | $ 135,105 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,753 | $ 18,665 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $6,017 in 2003 and $6,152 in 2002) | 14,231 | 17,897 |
| Accounts Receivable - Gas Department | 7,283 | 121,377 |
| Accounts Receivable - Graham County Electric Cooperative | 166,712 | 937 |
| Materials and Supplies | 32,939 | 29,971 |
| Other Current and Accrued Assets | 12,558 | 10,754 |
| Total Current Assets | $ 252,476 | $ 199,601 |
| DEFERRED CHARGES | $ 34,771 | $ 37,441 |
| | $ 1,696,128 | $ 1,716,004 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 104,844 | 54,512 |
| | $ 107,344 | $ 57,012 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 819,010 | $ 865,745 |
| AEPCO Notes Payable Less Current Maturities | 133,833 | 155,833 |
| USDA Rural Development Notes Less Current Maturities | 517,889 | 525,395 |
| | $ 1,470,732 | $ 1,546,973 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 75,300 | $ 71,700 |
| Accounts Payable - Other | 11,007 | 9,136 |
| Accrued Taxes | 20,585 | 20,230 |
| Customers' Deposits and Prepayments | 9,075 | 9,025 |
| Accrued Interest | 2,085 | 1,928 |
| Total Current Liabilities | $ 118,052 | $ 112,019 |
| | $ 1,696,128 | $ 1,716,004 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

Schedule 5

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 468,745 | $ 465,218 | $ 3,527 |
| Commercial and Industrial | 54,995 | 50,855 | 4,140 |
| Sales for Resale | 28,077 | 24,874 | 3,203 |
| Other Operating Revenues | 2,280 | 2,120 | 160 |
| Total Operating Revenues | $ 554,097 | $ 543,067 | $ 11,030 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 15,021 | $ 21,143 | $ (6,122) |
| Operations | 58,328 | 58,882 | (554) |
| Maintenance | 144,722 | 172,923 | (28,201) |
| Customer Accounts | 39,851 | 36,428 | 3,423 |
| Administrative and General | 70,197 | 72,060 | (1,863) |
| Depreciation and Amortization | 102,515 | 99,836 | 2,679 |
| Other Interest | 4,037 | 3,979 | 58 |
| Total Operating Expenses | $ 434,671 | $ 465,251 | $ (30,580) |
| OPERATING MARGINS - Before Fixed Charges | $ 119,426 | $ 77,816 | $ 41,610 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 81,384 | 86,578 | (5,194) |
| OPERATING MARGINS (DEFICIT) - After Fixed Charges | $ 38,042 | $ (8,762) | $ 46,804 |
| Capital Credits | 7,369 | 8,376 | (1,007) |
| NET OPERATING MARGINS (DEFICIT) | $ 45,411 | $ (386) | $ 45,797 |
| NONOPERATING MARGINS | | | |
| Interest | 4,921 | 6,486 | (1,565) |
| NET MARGINS | $ 50,332 | $ 6,100 | $ 44,232 |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 54,512 | 48,412 | |
| ACCUMULATED MARGINS - END OF YEAR | $ 104,844 | $ 54,512 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

| | September 30, 2003 | September 30, 2002 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 50,332 | $ 6,100 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 102,515 | 99,836 |
| Capital Credits - Noncash | (7,369) | (8,376) |
| Deferred Charges | 2,670 | 3,465 |
| Accounts Receivable | 3,666 | 985 |
| Inventories and Other Current Assets | (4,772) | (7,690) |
| Payables and Accrued Expenses | 2,433 | 331 |
| Net Advances from - Gas Department | 114,094 | 14,765 |
| Net Payments to - Graham County Electric Cooperative | (165,775) | (2,950) |
| Net Cash Provided by Operating Activities | $ 97,794 | $ 106,466 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (34,921) | $ (48,021) |
| Investments in Associated Organizations | 9,856 | 11,045 |
| Net Cash Used in Investing Activities | $ (25,065) | $ (36,976) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (22,000) |
| Payments on Long-Term Debt to CFC | (43,435) | (40,325) |
| Payments on Long-Term Debt to USDA | (7,206) | (6,883) |
| Net Cash Used in Financing Activities | $ (72,641) | $ (69,208) |
| INCREASE IN CASH | $ 88 | $ 282 |
| CASH - BEGINNING OF YEAR | 18,665 | 18,383 |
| CASH - END OF YEAR | $ 18,753 | $ 18,665 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 81,384 | $ 86,578 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2003, and have issued our report thereon dated October 22, 2003.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

## REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2003, and have issued our report thereon dated October 22, 2003. We conducted our audit 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.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the boards of directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 22, 2003

# GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Swanson, Rogers, Gilbert & Mills, L.L.P.
Certified Public Accountants

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 · 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2002 and 2001, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2002, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit A**

## BALANCE SHEET
## SEPTEMBER 30, 2002 AND 2001

### ASSETS

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| **UTILITY PLANT** | | |
| Plant in Service | $ 4,511,550 | $ 4,198,332 |
| Construction Work in Progress | 24,487 | 179,742 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 5,561,689 | $ 5,403,726 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,644,640 | 2,448,615 |
| | $ 2,917,049 | $ 2,955,111 |
| **OTHER PROPERTY AND INVESTMENTS** | | |
| Investments in Associated Organizations | $ 293,919 | $ 297,374 |
| **CURRENT ASSETS** | | |
| Cash - General | $ 18,665 | $ 18,383 |
| Accounts Receivable (Less allowance for uncollectibles of $9,333 in 2002 and $5,909 in 2001) | 103,520 | 112,188 |
| Materials and Supplies | 88,963 | 104,425 |
| Other Current and Accrued Assets | 42,970 | 36,987 |
| Total Current Assets | $ 254,118 | $ 271,983 |
| **DEFERRED CHARGES** | $ 84,668 | $ 96,210 |
| | $ 3,549,754 | $ 3,620,678 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| **MEMBERS' EQUITY** | | |
| Memberships | $ 27,990 | $ 27,230 |
| Accumulated Deficits | (97,500) | (144,049) |
| | $ (69,510) | $ (116,819) |
| **LONG -TERM DEBT** | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,055,657 | $ 2,151,288 |
| AEPCO Note Payable Less Current Maturities | 155,833 | 177,833 |
| Graham County Electric Cooperative Note Payable Less Current Maturities | 224,469 | 251,266 |
| USDA Rural Development Note Payable Less Current Maturities | 525,395 | 534,249 |
| | $ 2,961,354 | $ 3,114,636 |
| **CURRENT LIABILITIES** | | |
| Current Maturities of Long-Term Debt | $ 149,800 | $ 139,330 |
| Accounts Payable - Graham County Electric Cooperative | 218,107 | 266,857 |
| Accounts Payable - Other | 73,741 | 59,817 |
| Overbilled Consumers Fuel Cost | 75,585 | 24,006 |
| Customers' Deposits and Prepayments | 66,900 | 61,285 |
| Accrued Taxes | 63,925 | 63,267 |
| Accrued Interest | 9,852 | 8,299 |
| Total Current Liabilities | $ 657,910 | $ 622,861 |
| | $ 3,549,754 | $ 3,620,678 |

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| OPERATING REVENUES | $ 3,216,329 | $ 3,820,037 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 1,580,613 | $ 2,232,832 |
| Power for Pumping | 21,143 | 17,476 |
| Operations | 284,294 | 282,152 |
| Maintenance | 404,744 | 303,539 |
| Consumer Accounts | 218,284 | 233,050 |
| Administrative and General | 270,751 | 246,882 |
| Depreciation and Amortization | 195,418 | 185,937 |
| Other Interest | 46,854 | 66,116 |
| Total Operating Expenses | $ 3,022,101 | $ 3,567,984 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 194,228 | $ 252,053 |
| Interest on Long-Term Debt | 172,405 | 188,369 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 21,823 | $ 63,684 |
| Capital Credits | 17,822 | 17,468 |
| NET OPERATING MARGINS | $ 39,645 | $ 81,152 |
| NONOPERATING MARGINS | | |
| Interest | 6,904 | 13,601 |
| NET MARGINS | $ 46,549 | $ 94,753 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (144,049) | (192,132) |
| PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT | | (46,670) |
| ACCUMULATED DEFICITS - END OF YEAR | $ (97,500) | $ (144,049) |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 46,549 | $ 94,753 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 196,024 | 186,543 |
| Capital Credits - Noncash | (17,822) | (17,468) |
| Under/ Overbilled Fuel Cost - Net Change | 51,579 | 135,836 |
| Deferred Charges | 11,542 | 5,711 |
| Accounts Receivable | 8,668 | (46,080) |
| Inventories and Other Current Assets | 9,479 | (24,410) |
| Payables and Accrued Expenses | 21,750 | (13,442) |
| Net Payments to - Graham County Electric Cooperative | (48,750) | (14,904) |
| Net Cash Provided by Operating Activities | $ 279,019 | $ 306,539 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (157,962) | $ (227,126) |
| Investments in Associated Organizations | 21,277 | 20,476 |
| Net Cash Used in Investing Activities | $ (136,685) | $ (206,650) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (20,167) |
| Payments on Long-Term Debt to CFC | (89,032) | (82,663) |
| Payments on Long-Term Debt to GCEC | (24,897) | (23,127) |
| Advances on Long-Term Debt from USDA | | 95,000 |
| Payments on Long-Term Debt to USDA | (6,883) | (5,692) |
| Payment of Capital Credits | | (46,670) |
| Memberships | 760 | 295 |
| Net Cash Used in Financing Activities | $ (142,052) | $ (83,024) |
| INCREASE IN CASH | $ 282 | $ 16,865 |
| CASH - BEGINNING OF YEAR | 18,383 | 1,518 |
| CASH - END OF YEAR | $ 18,665 | $ 18,383 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 192,009 | $ 239,293 |
| 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. 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.

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, 2002 and 2001, was estimated to be $53,469 and $52,394 in the gas department and $30,996 and $32,790 in the water department, respectively.

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, 2002 and 2001, the cooperative had overbillings of $75,585 and overbillings of $24,006, respectively.

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 6%. Deposits on hand totaled $66,900 and $61,285 at September 30, 2002 and 2001, 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.

Federal Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2002 | | | September 30, 2001 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 447,948 | 447,948 | 388,665 |
| Transmission | | 983,468 | 983,468 | 894,497 |
| Distribution | 2,499,816 | 217,494 | 2,717,310 | 2,572,547 |
| General | 86,275 | 178,896 | 265,171 | 245,295 |
| Land and Land Rights | 1,416 | 16,007 | 17,423 | 17,098 |
| Total Plant in Service | $ 2,630,029 | $ 1,881,521 | $ 4,511,550 | $ 4,198,332 |
| Construction Work in Progress | 21,675 | 2,812 | 24,487 | 179,742 |
| Utility Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 3,067,188 | $ 2,494,501 | $ 5,561,689 | $ 5,403,726 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.8% | |
| Services | 4.1% | |
| Meters - Regulators | 2.6% | |
| Structures | 2.3% | |
| General | 6.7%-13.3% | 10%-20% |

Depreciation accruals charged to expense for the periods ended September 30, 2002 and 2001, totaled $154,392 and $144,911, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2002, are summarized as follows:

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 199,433 | $ 292,880 |
| Current Year | 16,619 | 24,407 |
| | $ 216,052 | $ 317,287 |
| Unamortized Adjustment | $ 199,432 | $ 292,881 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 193,622 | $ 196,099 |
| Patronage Capital | 95,739 | 96,717 |
| Memberships | 1,000 | 1,000 |
| | $ 290,361 | $ 293,816 |
| Graham County Electric Cooperative, Inc. | | |
| Patronage Capital | $ 3,558 | $ 3,558 |
| | $ 293,919 | $ 297,374 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs – In Progress | $ 5,007 | $ 7,868 |
| Clearing Accounts | | 1,348 |
| Unamortized Debt Expense | 42,220 | 46,088 |
| | $ 47,227 | $ 55,304 |
| Water Department | | |
| Unamortized Debt Expense | $ 37,441 | $ 40,870 |
| Clearing Accounts | | 36 |
| | $ 37,441 | $ 40,906 |
| | $ 84,668 | $ 96,210 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of $109,457. Amortization expense for the year ended September 30, 2002, is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| Class A Memberships | | |
| Graham County Electric Cooperative, Inc., entitled to 1 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 | 18,325 | 17,565 |
| Class C Memberships | | |
| All others who receive service; $5 membership fee, entitled to one vote per membership | 4,665 | 4,665 |
| | $ 27,990 | $ 27,230 |

## 7. Accumulated Margins (Deficits)

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

| | Gas Department | Water Department | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,043) | (28,602) | (200,645) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 |
| Nine Months – 2002 | 42,042 | 13,431 | 55,473 |
| | $ (152,012) | $ 136,547 | $ (15,465) |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ (152,012) | $ 54,512 | $ (97,500) |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2002 and 2001, the water department retired patronage capital in the amount of $0 and $46,670, respectively.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed thirty percent of the total assets of the cooperative, the return to patrons of capital contributed by them is limited. Due to the net accumulated deficit for the cooperative as a whole, the patronage capital retirements for September 30, 2001, were in non-compliance with the mortgage agreement.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014 to June 30, 2026:

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| Fixed - 7.10% | $ 1,230,738 | $ 1,293,771 |
| Variable (3.85% - 2002; 6.15% - 2001) | 408,720 | 427,115 |
| Fixed – 7.450% | 509,999 | 517,602 |
| | $ 2,149,457 | $ 2,238,488 |
| Less: Current Maturities | 93,800 | 87,200 |
| | $ 2,055,657 | $ 2,151,288 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $59,000. As of September 30, 2002, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 2003 | $ 93,800 |
| 2004 | 100,100 |
| 2005 | 106,900 |
| 2006 | 114,100 |
| 2007 | 121,800 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 9. USDA Rural Development Note Payable

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

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 160,805 | $ 163,142 |
| 4.5% Note Maturing August 2035 | 277,723 | 281,337 |
| 5.5% Note Maturing July 2040 | 94,067 | 95,000 |
| | $ 532,595 | $ 539,479 |
| Less: Current Maturities | 7,200 | 5,230 |
| | $ 525,395 | $ 534,249 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2002, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2003 | $ 7,200 |
| 2004 | 7,500 |
| 2005 | 7,900 |
| 2006 | 8,300 |
| 2007 | 8,700 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over ten years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2002, is $251,269. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 2003 | $ 26,800 |
| 2004 | 28,900 |
| 2005 | 31,000 |
| 2006 | 33,400 |
| 2007 | 36,000 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2002, is $177,833. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2003 | $ 22,000 |
| 2004 | 22,000 |
| 2005 | 22,000 |
| 2006 | 22,000 |
| 2007 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| Graham County Utilities, Inc. | | |
| Accounts Payable | $ (218,107) | $ (266,857) |
| Note Payable | (251,269) | (276,166) |
| Net Due to Affiliated Cooperative | $ (469,376) | $ (543,023) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 218,107 | $ 266,857 |
| Note Receivable | 251,269 | 276,166 |
| Net Due from Affiliated Cooperative | $ 469,376 | $ 543,023 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 13. Litigation

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

## 14. Commitments

In August 2001, the cooperative committed to purchase 256,823 MMBtu of natural gas at $3.49 per MMBtu over the period October 2002 through March 2003.

## ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2002 AND 2001

### ASSETS

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,630,029 | $ 2,486,645 |
| Construction Work in Progress | 21,675 | 55,117 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 3,067,188 | $ 2,957,246 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,493,996 | 1,397,807 |
| | $ 1,573,192 | $ 1,559,439 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 158,814 | $ 159,600 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $3,181 in 2002 and $739 in 2001) | $ 85,623 | $ 93,306 |
| Materials and Supplies | 58,992 | 80,621 |
| Other Current and Accrued Assets | 32,216 | 27,756 |
| Total Current Assets | $ 176,831 | $ 201,683 |
| Deferred Charges | $ 47,227 | $ 55,304 |
| | $ 1,956,064 | $ 1,976,026 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 25,490 | $ 24,730 |
| Accumulated Deficits | (152,012) | (192,461) |
| | $ (126,522) | $ (167,731) |
| LONG -TERM DEBT | | |
| Note Payable - Graham County Electric Cooperative | $ 224,469 | $ 251,266 |
| CFC Mortgage Notes Less Current Maturities | 1,189,912 | 1,242,219 |
| | $ 1,414,381 | $ 1,493,485 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 78,100 | $ 72,600 |
| Accounts Payable - Other | 64,605 | 52,707 |
| Accounts Payable - Graham County Electric Cooperative | 219,044 | 264,844 |
| Accounts Payable - Water Department | 121,377 | 136,142 |
| Overbilled Consumers Fuel Cost | 75,585 | 24,006 |
| Accrued Taxes | 43,695 | 40,550 |
| Customers' Deposits and Prepayments | 57,875 | 52,785 |
| Accrued Interest | 7,924 | 6,638 |
| Total Current Liabilities | $ 668,205 | $ 650,272 |
| | $ 1,956,064 | $ 1,976,026 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 2**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,077,067 | $ 2,642,587 | $ (565,520) |
| Irrigation | 20,950 | 17,263 | 3,687 |
| Commercial and Industrial | 603,353 | 784,943 | (181,590) |
| Fuel Cost Overbilled | (51,270) | (148,947) | 97,677 |
| Other Operating Revenues | 23,162 | 25,922 | (2,760) |
| Total Operating Revenues | $ 2,673,262 | $ 3,321,768 | $ (648,506) |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 1,580,613 | $ 2,232,832 | $ (652,219) |
| Operations | 225,412 | 215,308 | 10,104 |
| Maintenance | 231,821 | 216,549 | 15,272 |
| Customer Accounts | 181,856 | 193,997 | (12,141) |
| Administrative and General | 198,691 | 179,087 | 19,604 |
| Depreciation and Amortization | 95,582 | 91,918 | 3,664 |
| Other Interest | 42,875 | 67,219 | (24,344) |
| Total Operating Expenses | $ 2,556,850 | $ 3,196,910 | $ (640,060) |
| OPERATING MARGINS - Before Fixed Charges | $ 116,412 | $ 124,858 | $ (8,446) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 85,827 | 95,143 | (9,316) |
| OPERATING MARGINS - After Fixed Charges | $ 30,585 | $ 29,715 | $ 870 |
| Capital Credits | 9,446 | 9,258 | 188 |
| NET OPERATING MARGINS | $ 40,031 | $ 38,973 | $ 1,058 |
| NONOPERATING MARGINS | | | |
| Interest | 418 | 13,426 | (13,008) |
| NET MARGINS | $ 40,449 | $ 52,399 | $ (11,950) |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (192,461) | (244,860) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (152,012) | $ (192,461) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 40,449 | $ 52,399 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 96,188 | 92,524 |
| Capital Credits - Noncash | (9,446) | (9,258) |
| Deferred Charges | 8,077 | 2,276 |
| Under/Overbilled Fuel Cost - Net | 51,579 | 135,836 |
| Accounts Receivable | 7,683 | (42,765) |
| Inventories and Other Current Assets | 17,169 | (20,167) |
| Payables and Accrued Expenses | 21,419 | (3,360) |
| Net Payments to - Water Department | (14,765) | (12,708) |
| Net Payments to - Graham County Eelectric Cooperative | (45,800) | (13,675) |
| Net Cash Provided by Operating Activities | $ 172,553 | $ 181,102 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (109,941) | $ (122,853) |
| Investments in Associated Organizations | 10,232 | 9,807 |
| Net Cash Used in Investing Activities | $ (99,709) | $ (113,046) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (48,707) | $ (45,224) |
| Payments on Long-Term Debt - Graham County Electric Cooperative | (24,897) | (23,127) |
| Memberships | 760 | 295 |
| Net Cash Used in Financing Activities | $ (72,844) | $ (68,056) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 105,431 | $ 148,747 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2002 AND 2001

### ASSETS

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,881,521 | $ 1,711,687 |
| Construction Work in Progress | 2,812 | 124,625 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,494,501 | $ 2,446,480 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,150,644 | 1,050,808 |
| | $ 1,343,857 | $ 1,395,672 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 135,105 | $ 137,774 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,665 | $ 18,383 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $6,152 in 2002 and $5,170 in 2001) | 17,897 | 18,882 |
| Accounts Receivable - Gas Department | 121,377 | 136,142 |
| Accounts Receivable - Graham County Electric Cooperative | 937 | |
| Materials and Supplies | 29,971 | 23,804 |
| Other Current and Accrued Assets | 10,754 | 9,231 |
| Total Current Assets | $ 199,601 | $ 206,442 |
| DEFERRED CHARGES | $ 37,441 | $ 40,906 |
| | $ 1,716,004 | $ 1,780,794 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 54,512 | 48,412 |
| | $ 57,012 | $ 50,912 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 865,745 | $ 909,069 |
| AEPCO Notes Payable Less Current Maturities | 155,833 | 177,833 |
| USDA Rural Development Notes Less Current Maturities | 525,395 | 534,249 |
| | $ 1,546,973 | $ 1,621,151 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 71,700 | $ 66,730 |
| Accounts Payable - Other | 9,136 | 7,110 |
| Accounts Payable - Graham County Electric Cooperative | | 2,013 |
| Accrued Taxes | 20,230 | 22,717 |
| Customers' Deposits and Prepayments | 9,025 | 8,500 |
| Accrued Interest | 1,928 | 1,661 |
| Total Current Liabilities | $ 112,019 | $ 108,731 |
| | $ 1,716,004 | $ 1,780,794 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 465,218 | $ 427,231 | $ 37,987 |
| Commercial and Industrial | 50,855 | 41,444 | 9,411 |
| Sales for Resale | 24,874 | 27,124 | (2,250) |
| Other Operating Revenues | 2,120 | 2,470 | (350) |
| Total Operating Revenues | $ 543,067 | $ 498,269 | $ 44,798 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 21,143 | $ 17,476 | $ 3,667 |
| Operations | 58,882 | 66,844 | (7,962) |
| Maintenance | 172,923 | 86,990 | 85,933 |
| Customer Accounts | 36,428 | 39,053 | (2,625) |
| Administrative and General | 72,060 | 67,795 | 4,265 |
| Depreciation and Amortization | 99,836 | 94,019 | 5,817 |
| Other Interest | 3,979 | 4,669 | (690) |
| Total Operating Expenses | $ 465,251 | $ 376,846 | $ 88,405 |
| OPERATING MARGINS - Before Fixed Charges | $ 77,816 | $ 121,423 | $ (43,607) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 86,578 | 93,226 | (6,648) |
| OPERATING MARGINS (DEFICIT) - After Fixed Charges | $ (8,762) | $ 28,197 | $ (36,959) |
| Capital Credits | 8,376 | 8,210 | 166 |
| NET OPERATING MARGINS (DEFICIT) | $ (386) | $ 36,407 | $ (36,793) |
| NONOPERATING MARGINS | | | |
| Interest | 6,486 | 5,947 | 539 |
| NET MARGINS | $ 6,100 | $ 42,354 | $ (36,254) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 48,412 | 52,728 | |
| PATRONAGE CAPITAL RETIRED | | (46,670) | |
| ACCUMULATED MARGINS - END OF YEAR | $ 54,512 | $ 48,412 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001

| | September 30, 2002 | September 30, 2001 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 6,100 | $ 42,354 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 99,836 | 94,019 |
| Capital Credits - Noncash | (8,376) | (8,210) |
| Deferred Charges | 3,465 | 3,435 |
| Accounts Receivable | 985 | (3,315) |
| Inventories and Other Current Assets | (7,690) | (4,243) |
| Payables and Accrued Expenses | 331 | (10,082) |
| Net Advances from - Gas Department | 14,765 | 12,708 |
| Net Payments to - Graham County Electric Cooperative | (2,950) | (1,229) |
| Net Cash Provided by Operating Activities | $ 106,466 | $ 125,437 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (48,021) | $ (104,273) |
| Investments in Associated Organizations | 11,045 | 10,669 |
| Net Cash Used in Investing Activities | $ (36,976) | $ (93,604) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Note Payable to AEPCO | $ (22,000) | $ (20,167) |
| Payments on Long-Term Debt to CFC | (40,325) | (37,439) |
| Advances on Long-Term Debt from USDA | | 95,000 |
| Payments on Long-Term Debt to USDA | (6,883) | (5,692) |
| Payment of Capital Credits | | (46,670) |
| Net Cash Used in Financing Activities | $ (69,208) | $ (14,968) |
| INCREASE IN CASH | $ 282 | $ 16,865 |
| CASH - BEGINNING OF YEAR | 18,383 | 1,518 |
| CASH - END OF YEAR | $ 18,665 | $ 18,383 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 86,578 | $ 90,546 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2002, and have issued our report thereon dated October 23, 2002.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This letter supplements the information included in the financial statements and notes. It is intended solely for the use of management, CFC, and supplemental lenders and should not be used for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2002, and have issued our report thereon dated October 23, 2002. We conducted our audit 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.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 23, 2002

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

## and

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2001 and 2000, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2001, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements of Graham County Utilities, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss L.L.P

Certified Public Accountants

October 25, 2001

# GRAHAM COUNTY UTILITIES, INC.

Exhibit A

## BALANCE SHEET
## SEPTEMBER 30, 2001 AND 2000

### ASSETS

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| **UTILITY PLANT** | | |
| Plant in Service | $ 4,198,332 | $ 4,105,042 |
| Construction Work in Progress | 179,742 | 45,906 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 5,403,726 | $ 5,176,600 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,448,615 | 2,262,072 |
| | $ 2,955,111 | $ 2,914,528 |
| **OTHER PROPERTY AND INVESTMENTS** | | |
| Investments in Associated Organizations | $ 297,374 | $ 300,382 |
| **CURRENT ASSETS** | | |
| Cash - General | $ 18,383 | $ 1,518 |
| Accounts Receivable (Less allowance for uncollectibles of $5,909 in 2001 and $13,313 in 2000) | 112,188 | 66,108 |
| Underbilled Consumers Fuel Cost | | 111,830 |
| Accounts Receivable - GCEC | | 1,612 |
| Materials and Supplies | 104,425 | 91,022 |
| Other Current and Accrued Assets | 36,987 | 25,980 |
| Total Current Assets | $ 271,983 | $ 298,070 |
| **DEFERRED CHARGES** | $ 96,210 | $ 101,921 |
| | $ 3,620,678 | $ 3,614,901 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| **MEMBERS' EQUITY** | | |
| Memberships | $ 27,230 | $ 26,935 |
| Accumulated Deficits | (144,049) | (192,132) |
| | $ (116,819) | $ (165,197) |
| **LONG -TERM DEBT** | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,151,288 | $ 2,240,051 |
| Note Payable - AEPCO Less Current Maturities | 177,833 | 198,000 |
| Note Payable - GCEC Less Current Maturities | 251,266 | 276,166 |
| USDA Rural Development Note Payable Less Current Maturities | 534,249 | 444,674 |
| | $ 3,114,636 | $ 3,158,891 |
| **CURRENT LIABILITIES** | | |
| Current Maturities of Long-Term Debt | $ 139,330 | $ 131,724 |
| Accounts Payable - GCEC | 266,857 | 283,373 |
| Accounts Payable - Other | 59,817 | 93,886 |
| Overbilled Consumers Fuel Cost | 24,006 | |
| Customers' Deposits and Prepayments | 61,285 | 56,400 |
| Accrued Taxes | 63,267 | 48,744 |
| Accrued Interest | 8,299 | 7,080 |
| Total Current Liabilities | $ 622,861 | $ 621,207 |
| | $ 3,620,678 | $ 3,614,901 |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit B**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| OPERATING REVENUES | $ 3,820,037 | $ 2,590,464 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 2,232,832 | $ 1,064,742 |
| Power for Pumping | 17,476 | 15,866 |
| Operations | 282,152 | 245,722 |
| Maintenance | 303,539 | 325,832 |
| Consumer Accounts | 233,050 | 229,294 |
| Administrative and General | 246,882 | 263,817 |
| Depreciation and Amortization | 185,937 | 181,069 |
| Other Interest | 66,116 | 51,080 |
| Total Operating Expenses | $ 3,567,984 | $ 2,377,422 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 252,053 | $ 213,042 |
| Interest on Long-Term Debt | 188,369 | 191,915 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 63,684 | $ 21,127 |
| Capital Credits | 17,468 | 16,689 |
| NET OPERATING MARGINS | $ 81,152 | $ 37,816 |
| NONOPERATING MARGINS | | |
| Interest | 13,601 | 10,992 |
| NET MARGINS | $ 94,753 | $ 48,808 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (192,132) | (205,575) |
| PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT | (46,670) | (35,365) |
| ACCUMULATED DEFICITS - END OF YEAR | $ (144,049) | $ (192,132) |

See accompanying notes to financial statements.

# GRAHAM COUNTY UTILITIES, INC.

**Exhibit C**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 94,753 | $ 48,808 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 186,543 | 181,676 |
| Capital Credits - Noncash | (17,468) | (16,689) |
| Under/ Overbilled Fuel Cost - Net Change | 135,836 | (199,832) |
| Deferred Charges | 5,711 | 16,497 |
| Accounts Receivable | (46,080) | (9,550) |
| Inventories and Other Current Assets | (24,410) | 8,410 |
| Payables and Accrued Expenses | (13,442) | 64,338 |
| Net Advances from (Payments to) - GCEC | (14,904) | 212,356 |
| Net Cash Provided by Operating Activities | $ 306,539 | $ 306,014 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (227,126) | $ (207,517) |
| Investments in Associated Organizations | 20,476 | 19,422 |
| Net Cash Used in Investing Activities | $ (206,650) | $ (188,095) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Note Payable from AEPCO | $ | $ 46,049 |
| Payments on Note Payable to AEPCO | (20,167) | |
| Payments on Long-Term Debt to CFC | (82,663) | (76,751) |
| Payments on Long-Term Debt to GCEC | (23,127) | (46,247) |
| Advances on Long-Term Debt from USDA | 95,000 | |
| Payments on Long-Term Debt to USDA | (5,692) | (5,655) |
| Payment of Capital Credits | (46,670) | (35,365) |
| Memberships | 295 | 50 |
| Net Cash Used in Financing Activities | $ (83,024) | $ (117,919) |
| INCREASE IN CASH | $ 16,865 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 18,383 | $ 1,518 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 239,293 | $ 222,525 |
| 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. 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.

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, 2001 and 2000, was estimated to be $52,394 and $46,316 in the gas department and $32,790 and $34,742 in the water department, respectively.

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, 2001 and 2000, the cooperative had overbillings of $24,006 and underbillings of $111,830, respectively.

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 6%. Deposits on hand totaled $61,285 and $56,400 at September 30, 2001 and 2000, 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.

Federal Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform with current period presentation.

## 2. Assets Pledged

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

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2001 | | | September 30, 2000 |
|---|---|---|---|---|
| | Gas Department | Water Department | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,230 |
| Production | | 388,665 | 388,665 | 388,665 |
| Transmission | | 894,497 | 894,497 | 894,497 |
| Distribution | 2,362,241 | 210,306 | 2,572,547 | 2,485,383 |
| General | 80,791 | 164,504 | 245,295 | 239,169 |
| Land | 1,091 | 16,007 | 17,098 | 17,098 |
| Total Plant in Service | $ 2,486,645 | $ 1,711,687 | $ 4,198,332 | $ 4,105,042 |
| Construction Work in Progress | 55,117 | 124,625 | 179,742 | 45,906 |
| Electric Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 2,957,246 | $ 2,446,480 | $ 5,403,726 | $ 5,176,600 |

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

| | Gas Department | Water Department |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.8% | |
| Services | 4.1% | |
| Meters - Regulators | 2.6% | |
| Structures | 2.3% | |
| General | 6.7%-13.3% | 10%-16.67% |

Depreciation accruals charged to expense for the periods ended September 30, 2001 and 2000 totaled $144,911 and $140,043, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2001 are summarized as follows:

| | Gas Department | Water Department |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 182,814 | $ 268,473 |
| Current Year | 16,619 | 24,407 |
| | $ 199,433 | $ 292,880 |
| Unamortized Adjustment | $ 216,051 | $ 317,288 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 196,099 | $ 198,024 |
| Patronage Capital | 96,717 | 97,800 |
| Memberships | 1,000 | 1,000 |
| | $ 293,816 | $ 296,824 |
| Graham County Electric Cooperative, Inc. | | |
| Patronage Capital | $ 3,558 | $ 3,558 |
| | $ 297,374 | $ 300,382 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| Gas Department | | |
| Rate Filing Costs – In Progress | $ 7,868 | $ 7,540 |
| Clearing Accounts | 1,348 | 85 |
| Unamortized Debt Expense | 46,088 | 49,955 |
| | $ 55,304 | $ 57,580 |
| Water Department | | |
| Unamortized Debt Expense | $ 40,870 | $ 44,300 |
| Clearing Accounts | 36 | 41 |
| | $ 40,906 | $ 44,341 |
| | $ 96,210 | $ 101,921 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of $109,457. Amortization expense for the year ended September 30, 2001 is $7,297.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| Class A Memberships | | |
| Graham County Electric Cooperative, Inc., entitled to 1 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 | 17,565 | 17,300 |
| Class C Memberships | | |
| All others who receive service; $5 membership fee, entitled to one vote per membership | 4,665 | 4,635 |
| | $ 27,230 | $ 26,935 |

## 7. Accumulated Margins (Deficits)

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

| | Gas Department | Water Department | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,042) | (28,602) | (200,644) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 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 |
| Nine Months – 2001 | 40,654 | 48,072 | 88,726 |
| | $ (192,461) | $ 130,447 | $ (62,014) |
| Patronage Capital Retired | | (82,035) | (82,035) |
| | $ (192,461) | $ 48,412 | $ (144,049) |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2001 and 2000, the water department retired patronage capital in the amount of $46,670 and $35,365, respectively.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed thirty percent of the total assets of the cooperative, the return to patrons of capital contributed by them is limited. Due to the net accumulated deficit for the cooperative as a whole, the patronage capital retirements for both September 30, 2001 and 2000 were in non-compliance with the mortgage agreement.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

| | September 30, | |
|---|---|---|
| | 2001 | 2000 |
| Fixed - 7.10% | $ 1,293,771 | $ 1,352,522 |
| Variable (6.15% - 2001; 7.6% - 2000) | 427,115 | 443,964 |
| Fixed – 7.450% | 517,602 | 524,665 |
| | $ 2,238,488 | $ 2,321,151 |
| Less: Current Maturities | 87,200 | 81,100 |
| | $ 2,151,288 | $ 2,240,051 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $61,000. As of September 30, 2001, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 2002 | $ 87,200 |
| 2003 | 93,400 |
| 2004 | 100,100 |
| 2005 | 107,200 |
| 2006 | 114,900 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 9. USDA Rural Development Note Payable

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

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| 5% Note Maturing March 2032 | $ 163,142 | $ 165,373 |
| 4.5% Note Maturing August 2035 | 281,337 | 284,801 |
| 5.5% Note Maturing July 2040 | 95,000 | |
| | $ 539,479 | $ 450,174 |
| Less: Current Maturities | 5,230 | 5,500 |
| | $ 534,249 | $ 444,674 |

Principal and interest installments on the above notes are due monthly in amounts of $2,652. As of September 30, 2001, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2002 | $ 5,230 |
| 2003 | 7,200 |
| 2004 | 7,500 |
| 2005 | 7,900 |
| 2006 | 8,300 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over ten years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2001 is $276,166. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 2002 | $ 24,900 |
| 2003 | 26,800 |
| 2004 | 28,900 |
| 2005 | 31,000 |
| 2006 | 33,400 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is $220,000, payable in monthly payments of $1,833 for 120 months. The balance at September 30, 2001 is $199,833. Annual maturities due to AEPCO for the next five years are as follows:

| | |
|---|---|
| 2002 | $ 22,000 |
| 2003 | 22,000 |
| 2004 | 22,000 |
| 2005 | 22,000 |
| 2006 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Receivable | $ | $ 1,612 |
| Accounts Payable | (266,857) | (266,979) |
| Note Payable | (276,166) | (322,420) |
| Net Due to Affiliated Cooperative | $ (543,023) | $ (587,787) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 266,857 | $ 265,367 |
| Note Receivable | 276,166 | 322,420 |
| Net Due from Affiliated Cooperative | $ 543,023 | $ 587,787 |

## 13. Litigation

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

## 14. Commitments

In March 2001, the cooperative committed to purchase 12,225 MMBtu of natural gas through the period ending September 30, 2002 at $5.10 per MMBtu.

In August 2001, the cooperative committed to purchase 256,823 MMBtu of natural gas at $3.49 per MMBtu over the period October 2002 through March 2003.

# ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

Schedule 1

## BALANCE SHEET
## SEPTEMBER 30, 2001 AND 2000

### ASSETS

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| **UTILITY PLANT** | | |
| Plant in Service | $ 2,486,645 | $ 2,402,353 |
| Construction Work in Progress | 55,117 | 16,555 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 2,957,246 | $ 2,834,392 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,397,807 | 1,305,282 |
| | $ 1,559,439 | $ 1,529,110 |
| **OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE** | | |
| Investments in Associated Organizations | $ 159,600 | $ 160,149 |
| **CURRENT ASSETS** | | |
| Accounts Receivable (Less allowance for uncollectibles of $739 in 2001 and $7,428 in 2000) | $ 93,306 | $ 50,541 |
| Underbilled Consumers Fuel Cost | | 111,830 |
| Materials and Supplies | 80,621 | 68,665 |
| Other Current and Accrued Assets | 27,756 | 19,545 |
| Total Current Assets | $ 201,683 | $ 250,581 |
| Deferred Charges | $ 55,304 | $ 57,580 |
| | $ 1,976,026 | $ 1,997,420 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| **MEMBERS' EQUITY** | | |
| Memberships | $ 24,730 | $ 24,435 |
| Accumulated Deficits | (192,461) | (244,860) |
| | $ (167,731) | $ (220,425) |
| **LONG -TERM DEBT** | | |
| Note Payable - GCEC | $ 251,266 | $ 276,166 |
| CFC Mortgage Notes Less Current Maturities | 1,242,219 | 1,290,743 |
| | $ 1,493,485 | $ 1,566,909 |
| **CURRENT LIABILITIES** | | |
| Current Maturities of Long-Term Debt | $ 72,600 | $ 67,527 |
| Accounts Payable - Other | 52,707 | 68,559 |
| Accounts Payable - Graham County Electric Cooperative | 264,844 | 278,519 |
| Accounts Payable - Water Department | 136,142 | 148,850 |
| Overbilled Consumers Fuel Cost | 24,006 | |
| Accrued Taxes | 40,550 | 29,922 |
| Customers' Deposits and Prepayments | 52,785 | 51,915 |
| Accrued Interest | 6,638 | 5,644 |
| Total Current Liabilities | $ 650,272 | $ 650,936 |
| | $ 1,976,026 | $ 1,997,420 |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 2**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 2,642,587 | $ 1,439,214 | $ 1,203,373 |
| Irrigation | 17,263 | 21,759 | (4,496) |
| Commercial and Industrial | 784,943 | 394,027 | 390,916 |
| Fuel Cost Overbilled | (148,947) | 197,918 | (346,865) |
| Other Operating Revenues | 25,922 | 23,930 | 1,992 |
| Total Operating Revenues | $ 3,321,768 | $ 2,076,848 | $ 1,244,920 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 2,232,832 | $ 1,064,742 | $ 1,168,090 |
| Operations | 215,308 | 188,980 | 26,328 |
| Maintenance | 216,549 | 243,690 | (27,141) |
| Customer Accounts | 193,997 | 191,061 | 2,936 |
| Administrative and General | 179,087 | 184,535 | (5,448) |
| Depreciation and Amortization | 91,918 | 87,844 | 4,074 |
| Other Interest | 67,219 | 47,370 | 19,849 |
| Total Operating Expenses | $ 3,196,910 | $ 2,008,222 | $ 1,188,688 |
| OPERATING MARGINS - Before Fixed Charges | $ 124,858 | $ 68,626 | $ 56,232 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 95,143 | 97,899 | (2,756) |
| OPERATING MARGINS (DEFICITS) - After Fixed Charges | $ 29,715 | $ (29,273) | $ 58,988 |
| Capital Credits | 9,258 | 8,845 | 413 |
| NET OPERATING MARGINS (DEFICITS) | $ 38,973 | $ (20,428) | $ 59,401 |
| NONOPERATING MARGINS | | | |
| Interest | 13,426 | 3,111 | 10,315 |
| NET MARGINS (DEFICITS) | $ 52,399 | $ (17,317) | $ 69,716 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (244,860) | (227,543) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (192,461) | $ (244,860) | |

# GRAHAM COUNTY UTILITIES, INC.
## GAS DEPARTMENT

**Schedule 3**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Deficits) | $ 52,399 | $ (17,317) |
| Adjustments to Reconcile Net Margins (Deficits) to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 92,524 | 88,451 |
| Capital Credits - Noncash | (9,258) | (8,845) |
| Deferred Charges | 2,276 | 12,969 |
| Under/Overbilled Fuel Cost - Net | 135,836 | (199,832) |
| Accounts Receivable | (42,765) | (6,853) |
| Inventories and Other Current Assets | (20,167) | 3,986 |
| Payables and Accrued Expenses | (3,360) | 35,834 |
| Net Advances from (Payments to) - Water Department | (12,708) | 119,695 |
| Net Advances from (Payments to) - GCEC | (13,675) | 212,743 |
| Net Cash Provided by Operating Activities | $ 181,102 | $ 240,831 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Gas Utility Plant | $ (122,853) | $ (161,893) |
| Investments in Associated Organizations | 9,807 | 9,249 |
| Net Cash Used in Investing Activities | $ (113,046) | $ (152,644) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (45,224) | $ (41,990) |
| Payments on Long-Term Debt - Graham County Electric Cooperative, Inc. | (23,127) | (46,247) |
| Memberships | 295 | 50 |
| Net Cash Used in Financing Activities | $ (68,056) | $ (88,187) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 148,747 | $ 129,590 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 4**

## BALANCE SHEET
## SEPTEMBER 30, 2001 AND 2000

### ASSETS

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,711,687 | $ 1,702,689 |
| Construction Work in Progress | 124,625 | 29,351 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,446,480 | $ 2,342,208 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,050,808 | 956,790 |
| | $ 1,395,672 | $ 1,385,418 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 137,774 | $ 140,233 |
| CURRENT ASSETS | | |
| Cash - General | $ 18,383 | $ 1,518 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $5,170 in 2001 and $5,885 in 2000) | 18,882 | 15,567 |
| Accounts Receivable - Gas Department | 136,142 | 148,850 |
| Accounts Receivable - Graham County Electric Cooperative, Inc. | | 1,612 |
| Materials and Supplies | 23,804 | 22,357 |
| Other Current and Accrued Assets | 9,231 | 6,435 |
| Total Current Assets | $ 206,442 | $ 196,339 |
| DEFERRED CHARGES | $ 40,906 | $ 44,341 |
| | $ 1,780,794 | $ 1,766,331 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 48,412 | 52,728 |
| | $ 50,912 | $ 55,228 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 909,069 | $ 949,308 |
| AEPCO - Notes Payable Less Current Maturities | 177,833 | 198,000 |
| USDA Rural Development Notes Less Current Maturities | 534,249 | 444,674 |
| | $ 1,621,151 | $ 1,591,982 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 66,730 | $ 64,197 |
| Accounts Payable - Other | 7,110 | 25,327 |
| Accounts Payable - Graham County Electric Cooperative, Inc. | 2,013 | 4,854 |
| Accrued Taxes | 22,717 | 18,822 |
| Customers' Deposits and Prepayments | 8,500 | 4,485 |
| Accrued Interest | 1,661 | 1,436 |
| Total Current Liabilities | $ 108,731 | $ 119,121 |
| | $ 1,780,794 | $ 1,766,331 |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 5**

## STATEMENT OF INCOME AND ACCUMULATED MARGINS
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 427,231 | $ 445,031 | $ (17,800) |
| Commercial and Industrial | 41,444 | 41,095 | 349 |
| Sales for Resale | 27,124 | 25,490 | 1,634 |
| Other Operating Revenues | 2,470 | 2,000 | 470 |
| Total Operating Revenues | $ 498,269 | $ 513,616 | $ (15,347) |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 17,476 | $ 15,866 | $ 1,610 |
| Operations | 66,844 | 56,742 | 10,102 |
| Maintenance | 86,990 | 82,142 | 4,848 |
| Customer Accounts | 39,053 | 38,233 | 820 |
| Administrative and General | 67,795 | 79,282 | (11,487) |
| Depreciation and Amortization | 94,019 | 93,225 | 794 |
| Other Interest | 4,669 | 3,710 | 959 |
| Total Operating Expenses | $ 376,846 | $ 369,200 | $ 7,646 |
| OPERATING MARGINS - Before Fixed Charges | $ 121,423 | $ 144,416 | $ (22,993) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 93,226 | 94,016 | (790) |
| OPERATING MARGINS - After Fixed Charges | $ 28,197 | $ 50,400 | $ (22,203) |
| Capital Credits | 8,210 | 7,844 | 366 |
| NET OPERATING MARGINS | $ 36,407 | $ 58,244 | $ (21,837) |
| NONOPERATING MARGINS | | | |
| Interest | 5,947 | 7,881 | (1,934) |
| NET MARGINS | $ 42,354 | $ 66,125 | $ (23,771) |
| ACCUMULATED MARGINS - BEGINNING OF YEAR | 52,728 | 21,968 | |
| PATRONAGE CAPITAL RETIRED | (46,670) | (35,365) | |
| ACCUMULATED MARGINS - END OF YEAR | $ 48,412 | $ 52,728 | |

# GRAHAM COUNTY UTILITIES, INC.
## WATER DEPARTMENT

**Schedule 6**

## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

| | September 30, 2001 | September 30, 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 42,354 | $ 66,125 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 94,019 | 93,225 |
| Capital Credits - Noncash | (8,210) | (7,844) |
| Deferred Charges | 3,435 | 3,528 |
| Accounts Receivable | (3,315) | (2,697) |
| Inventories and Other Current Assets | (4,243) | 4,424 |
| Payables and Accrued Expenses | (10,082) | 28,504 |
| Net Advances from (Payments to) - Gas Department | 12,708 | (119,695) |
| Net Advances from (Payments to) - GCEC | (1,229) | (387) |
| Net Cash Provided by Operating Activities | $ 125,437 | $ 65,183 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (104,273) | $ (45,624) |
| Investments in Associated Organizations | 10,669 | 10,173 |
| Net Cash Used in Investing Activities | $ (93,604) | $ (35,451) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Note Payable from AEPCO | $ | $ 46,049 |
| Payments on Note Payable to AEPCO | (20,167) | |
| Payments on Long-Term Debt to CFC | (37,439) | (34,761) |
| Advances on Long-Term Debt from USDA | 95,000 | |
| Payments on Long-Term Debt to USDA | (5,692) | (5,655) |
| Payment of Capital Credits | (46,670) | (35,365) |
| Net Cash Used in Financing Activities | $ (14,968) | $ (29,732) |
| INCREASE IN CASH | $ 16,865 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 18,383 | $ 1,518 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 90,546 | $ 92,935 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING AUDITS OF CFC BORROWERS

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

We have audited the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2001, and have issued our report thereon dated October 25, 2001.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance, and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

| | Gas | Water |
|---|---|---|
| Gross Shortages | $ (4,453) | $ (1,833) |
| Gross Overages | 3,204 | 703 |
| Net Shortages | $ (1,249) | $ (1,130) |

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances from CFC on loans controlled by the CFC Electric Mortgage and Loan Agreement.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status – More than 85% of the income is collected from the cooperative's members. The cooperative has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code and Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 12 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with thirteen years remaining in the amortization period.

Deposits – All cash deposits in banks and savings and loan associations are in institutions insured by an agency of the federal government.

Deferred Charges – See Note 5 to the financial statements.

Retirement of Patronage Capital – During the years ended September 30, 2001 and 2000, the cooperative retired patronage capital – water department of $46,670 and $35,365. The retirements were non-compliant with the CFC mortgage agreement.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## Independent Auditors' Report

### REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2001, and have issued our report thereon dated October 25, 2001. We conducted our audit 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.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2001. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2001.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

October 25, 2001

**GRAHAM COUNTY UTILITIES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Reportable conditions: None.
3. None of the reportable conditions above are considered to be material weaknesses.
4. Noncompliance which is material to the financial statements: None.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings which are required to be reported under Sec.___510(a): No.
7. Major programs include:
   Rural Development Grant and Loan
   Water and Waste Disposal Systems for Rural Development – CFDA 10.418
8. Dollar threshold used to distinguish between Type A and Type B programs: $300,000.
9. Low risk auditee: The cooperative was not classified as a low risk auditee in the context of OMB Circular A-133.

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

**GRAHAM COUNTY UTILITIES, INC.**

**CORRECTIVE ACTION PLAN**
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

N/A – No applicable findings to correct.

**GRAHAM COUNTY UTILITIES, INC.**

**SCHEDULE OF STATUS OF PRIOR FINDINGS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

N/A – No prior audit findings.

## GRAHAM COUNTY UTILITIES, INC.

### SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
### FOR THE YEAR ENDED SEPTEMBER 30, 2001

| Case Number | Federal Grantor/ Pass-Through Grantor/Program Title | Federal CFDA Number | Current Year Expenditures | Outstanding Loan Balance |
|---|---|---|---|---|
| | U.S. DEPARTMENT OF AGRICULTURE | | | |
| 02-05-860626208 | Rural Development - Water and Waste Disposal Systems for Rural Communities - Grant | 10.760 | $ 378,712 | $ 0 |
| 02-05-860626208 | Rural Development - Water and Waste Disposal Systems for Rural Communities - Loan | 10.760 | $ 95,000 | $ 0 |
| | TOTAL DEPARTMENT OF AGRICULTURE | | $ 473,712 | $ 0 |
| | TOTAL EXPENDITURES OF FEDERAL AWARDS | | $ 473,712 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

## and

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

HOLLADAY, BURKE, DOLLAR & MOSS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 · 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 2000 and 1999, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2000, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 26, 2000

**GRAHAM COUNTY UTILITIES, INC.**

**BALANCE SHEET**
**SEPTEMBER 30, 2000**
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1999**

**ASSETS**

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 4,105,042 | $ 3,928,338 |
| Construction Work in Progress | 45,906 | 15,093 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 5,176,600 | $ 4,969,083 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,262,072 | 2,080,396 |
| | $ 2,914,528 | $ 2,888,687 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 300,382 | $ 303,115 |
| CURRENT ASSETS | | |
| Cash - General | $ 1,518 | $ 1,518 |
| Accounts Receivable (Less allowance for uncollectibles of $13,313 in 2000 and $13,128 in 1999) | 66,108 | 56,558 |
| Underbilled Consumers Fuel Cost | 111,830 | |
| Accounts Receivable - GCEC | 1,612 | 1,225 |
| Materials and Supplies | 91,022 | 96,034 |
| Other Current and Accrued Assets | 25,980 | 29,379 |
| Total Current Assets | $ 298,070 | $ 184,714 |
| DEFERRED CHARGES | $ 101,921 | $ 118,418 |
| | $ 3,614,901 | $ 3,494,934 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 26,935 | $ 26,885 |
| Accumulated Deficits | (192,132) | (205,575) |
| | $ (165,197) | $ (178,690) |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,240,051 | $ 2,322,602 |
| Note Payable - AEPCO - Advances to Date | 198,000 | 151,951 |
| Note Payable - GCEC Less Current Maturities | 276,166 | 247,900 |
| USDA Rural Development Note Payable Less Current Maturities | 444,674 | 450,626 |
| | $ 3,158,891 | $ 3,173,079 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 131,724 | $ 200,140 |
| Accounts Payable - GCEC | 266,979 | 54,236 |
| Accounts Payable - Other | 93,886 | 46,374 |
| Overbilled Consumers Fuel Cost | | 88,002 |
| Customers' Deposits and Prepayments | 56,400 | 53,237 |
| Accrued Taxes | 48,744 | 45,057 |
| Accrued Interest | 7,080 | 4,669 |
| Accrued Payroll | 16,394 | 8,830 |
| Total Current Liabilities | $ 621,207 | $ 500,545 |
| | $ 3,614,901 | $ 3,494,934 |

See accompanying notes to financial statements

## GRAHAM COUNTY UTILITIES, INC.

### STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
### FOR THE YEAR ENDED SEPTEMBER 30, 2000
### WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1999

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| OPERATING REVENUES | $ 2,590,464 | $ 2,397,369 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 1,064,742 | $ 885,186 |
| Power for Pumping | 15,866 | 14,346 |
| Operations | 245,722 | 201,715 |
| Maintenance | 325,832 | 244,324 |
| Consumer Accounts | 229,294 | 223,278 |
| Administrative and General | 263,817 | 247,184 |
| Depreciation and Amortization | 181,069 | 165,351 |
| Other Interest | 51,080 | 44,702 |
| Total Operating Expenses | $ 2,377,422 | $ 2,026,086 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 213,042 | $ 371,283 |
| Interest on Long-Term Debt | 191,915 | 190,521 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 21,127 | $ 180,762 |
| Capital Credits | 16,689 | 17,226 |
| NET OPERATING MARGINS | $ 37,816 | $ 197,988 |
| NONOPERATING MARGINS | | |
| Interest | 10,992 | 926 |
| NET MARGINS | $ 48,808 | $ 198,914 |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (205,575) | (404,489) |
| PATRONAGE CAPITAL RETIRED - WATER DEPARTMENT | (35,365) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (192,132) | $ (205,575) |

See accompanying notes to financial statements

# GRAHAM COUNTY UTILITIES, INC.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED SEPTEMBER 30, 2000
## WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1999

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Margins | $ 48,808 | $ 198,914 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 181,676 | 165,959 |
| Capital Credits | (16,689) | (17,226) |
| Underbilled Fuel Cost | (199,832) | 25,918 |
| Deferred Charges | 16,497 | 23,395 |
| Accounts Receivable | (9,550) | 2,517 |
| Inventories and Other Current Assets | 8,410 | (16,744) |
| Payables and Accrued Expenses | 64,338 | (73,309) |
| Net Advances - GCEC | 212,356 | (15,424) |
| Net Cash Provided by Operating Activities | $ 306,014 | $ 294,000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to Plant | $ (207,517) | $ (316,798) |
| CFC Patronage Capital Refunds | 19,422 | 15,160 |
| Net Cash Used in Investing Activities | $ (188,095) | $ (301,638) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| AEPCO Note Proceeds | $ 46,049 | $ 173,951 |
| Payments on Long-Term Debt to CFC | (76,751) | (71,264) |
| Payments on Long-Term Debt to GCEC | (46,247) | (90,695) |
| Payment - USDA-RD | (5,655) | (5,024) |
| Payment of Capital Credits | (35,365) | |
| Memberships | 50 | 670 |
| Net Cash Provided by (Used in) Financing Activities | $ (117,919) | $ 7,638 |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 1,518 | $ 1,518 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 222,525 | $ 190,439 |
| 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. 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.

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, 2000 and 1999, was estimated to be $46,316 and $56,742 in the gas department and $34,742 and $36,873 in the water department, respectively.

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, 2000 and 1999, the cooperative had underbillings of $111,830 and overbillings of $88,002, respectively.

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 6%. Deposits on hand totaled $56,400 and $53,237 at September 30, 2000 and 1999, 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.

Statement of Cash Flows

For the purposes of the statement of cash flows, the cooperative considers cash and temporary cash investments to be cash and cash equivalents.

Inventories

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

Federal Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 2000 | | | September 30, 1999 |
|---|---|---|---|---|
| | Gas | Water | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,708 | $ 80,230 | $ 80,228 |
| Production | | 388,665 | 388,665 | 388,665 |
| Transmission | | 894,497 | 894,497 | 894,497 |
| Distribution | 2,277,949 | 207,434 | 2,485,383 | 2,413,216 |
| General | 80,791 | 158,378 | 239,169 | 134,634 |
| Land | 1,091 | 16,007 | 17,098 | 17,098 |
| Total Plant in Service | $ 2,402,353 | $ 1,702,689 | $ 4,105,042 | $ 3,928,338 |
| Construction Work in Progress | 16,555 | 29,351 | 45,906 | 15,093 |
| Electric Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 2,834,392 | $ 2,342,208 | $ 5,176,600 | $ 4,969,083 |

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

| | Gas | Water |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.8% | |
| Services | 4.1% | |
| Meters - Regulators | 2.6% | |
| Structures | 2.3% | |
| General | 6.7%-13.3% | 10%-16.67% |

Depreciation accruals charged to expense for the periods ended September 30, 2000 and 1999 totaled $140,043 and $124,933, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2000 are summarized as follows:

| | Gas | Water |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 166,194 | $ 244,067 |
| Current Year | 16,619 | 24,407 |
| | $ 182,813 | $ 268,474 |
| Unamortized Adjustment | $ 232,871 | $ 341,694 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 198,024 | $ 199,438 |
| Patronage Capital | 97,800 | 99,119 |
| Memberships | 1,000 | 1,000 |
| | $ 296,824 | $ 299,557 |
| GCEC | | |
| Patronage Capital | $ 3,558 | $ 3,558 |
| | $ 300,382 | $ 303,115 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| Gas | | |
| Rate Filing Costs – In Progress | $ 7,540 | $ 16,103 |
| Clearing Accounts | 85 | 624 |
| Unamortized Debt Expense | 49,955 | 53,822 |
| | $ 57,580 | $ 70,549 |
| Water | | |
| Rate Filing Costs - 1993 Case | $ | $ |
| Unamortized Debt Expense | 44,300 | 47,729 |
| Clearing Accounts | 41 | 140 |
| | $ 44,341 | $ 47,869 |
| | $ 101,921 | $ 118,418 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of $109,457. Amortization expense for the year ended September 30, 2000 is $7,297.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| Class A Memberships | | |
| Graham County Electric Cooperative, Inc., entitled to 1 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 | 17,300 | 17,335 |
| Class C Memberships | | |
| All others who receive service; $5 membership fee, entitled to one vote per membership | 4,635 | 4,550 |
| | $ 26,935 | $ 26,885 |

## 7. Accumulated Margins (Deficits)

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

| | Gas | Water | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,042) | (28,602) | (200,644) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 1997 | (65,806) | (23,095) | (88,901) |
| 1998 | 225,309 | 31,474 | 256,783 |
| 1999 | 97,405 | 62,256 | 159,661 |
| Nine Months – 2000 | (10,278) | 52,645 | 42,367 |
| | $ (244,860) | $ 88,093 | $ (156,767) |
| Patronage Capital Retired | | (35,365) | (35,365) |
| | $ (244,860) | $ 52,728 | $ (192,132) |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2000, the water department retired patronage capital in the amount of $35,365.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| Variable (7.10% - 2000 and 1999) | $ 1,352,522 | $ 1,407,279 |
| Variable (7.6% - 2000; 6.10% - 1999) | 443,964 | 459,397 |
| Fixed – 7.450% | 524,665 | 531,226 |
| | $ 2,321,151 | $ 2,397,902 |
| Less: Current Maturities | 81,100 | 75,300 |
| | $ 2,240,051 | $ 2,322,602 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $67,757. As of September 30, 2000, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 2001 | $ 81,100 |
| 2002 | 87,100 |
| 2003 | 93,600 |
| 2004 | 100,500 |
| 2005 | 108,000 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| 5% Note Maturing May 31, 2033 | $ 165,373 | $ 167,464 |
| Less: Current Maturities | 2,245 | 2,100 |
| | $ 163,128 | $ 165,364 |
| 4.5% Note Maturing November 30, 2036 | $ 284,801 | $ 288,362 |
| Less: Current Maturities | 3,255 | 3,100 |
| | $ 281,546 | $ 285,262 |
| | $ 444,674 | $ 450,626 |

Principal and interest installments on the above notes are due monthly in amounts of $2,220. As of September 30, 2000, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2001 | $ 5,500 |
| 2002 | 5,800 |
| 2003 | 6,000 |
| 2004 | 6,300 |
| 2005 | 6,600 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over ten years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2000 is $299,293. Annual maturities due to Graham County Electric Cooperative are as follows:

| | |
|---|---|
| 2001 | $ 23,127 |
| 2002 | 24,900 |
| 2003 | 26,800 |
| 2004 | 29,856 |
| 2005 | 31,065 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is $220,000, payable in monthly payments of $1,833 for 120 months. The cooperative is awaiting the final drawdown before repayments will begin. The balance at September 30, 2000 is $220,000. Annual maturities due to AEPCO are as follows:

| | |
|---|---|
| 2001 | $ 22,000 |
| 2002 | 22,000 |
| 2003 | 22,000 |
| 2004 | 22,000 |
| 2005 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Receivable | $ 1,612 | $ 1,225 |
| Accounts Payable | (266,979) | (54,236) |
| Net Due to Affiliated Cooperative | $ (265,367) | $ (53,011) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 265,367 | $ 53,011 |
| Net Due from Affiliated Cooperative | $ 265,367 | $ 53,011 |

## 13. Litigation

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

## 14. Rate Matters

The cooperative, with the approval of the Arizona Corporation Commission, has instituted new rates for the gas department effective December 1997 and new rates for the water department effective September 1998.

# ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 14 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

October 26, 2000

# GRAHAM COUNTY UTILITIES, INC.

## GAS DEPARTMENT
## BALANCE SHEET
## SEPTEMBER 30, 2000 AND 1999

### ASSETS

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,402,353 | $ 2,243,720 |
| Construction Work in Progress | 16,555 | 13,295 |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 2,834,392 | $ 2,672,499 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,305,282 | 1,216,831 |
| | $ 1,529,110 | $ 1,455,668 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 160,149 | $ 160,553 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $7,428 in 2000 and $8,023 in 1999) | $ 50,541 | $ 43,688 |
| Underbilled Consumers Fuel Cost | 111,830 | |
| Materials and Supplies | 68,665 | 70,209 |
| Other Current and Accrued Assets | 19,545 | 21,987 |
| Total Current Assets | $ 250,581 | $ 135,884 |
| Deferred Charges | $ 57,580 | $ 70,549 |
| | $ 1,997,420 | $ 1,822,654 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 24,435 | $ 24,385 |
| Accumulated Deficits | (244,860) | (227,543) |
| | $ (220,425) | $ (203,158) |
| LONG -TERM DEBT | | |
| Note Payable - GCEC | $ 276,166 | $ 247,900 |
| CFC Mortgage Notes Less Current Maturities | 1,290,743 | 1,335,933 |
| | $ 1,566,909 | $ 1,583,833 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 67,527 | $ 138,840 |
| Accounts Payable - Other | 68,559 | 43,245 |
| Accounts Payable - GCEC | 266,979 | 54,236 |
| Accounts Payable - Water Department | 148,850 | 29,155 |
| Overbilled Consumers Fuel Cost | | 88,002 |
| Accrued Taxes | 29,922 | 27,469 |
| Customers' Deposits and Prepayments | 51,915 | 49,437 |
| Accrued Interest | 5,644 | 4,401 |
| Accrued Payroll | 11,540 | 7,194 |
| Total Current Liabilities | $ 650,936 | $ 441,979 |
| | $ 1,997,420 | $ 1,822,654 |

# GRAHAM COUNTY UTILITIES, INC.

## GAS DEPARTMENT
## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | September 30, 2000 | September 30, 1999 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 1,439,214 | $ 1,482,022 | $ (42,808) |
| Irrigation | 21,759 | 18,538 | 3,221 |
| Commercial and Industrial | 394,027 | 411,146 | (17,119) |
| Fuel Cost Overbilled | 197,918 | (24,569) | 222,487 |
| Other Operating Revenues | 23,930 | 24,060 | (130) |
| Total Operating Revenues | $ 2,076,848 | $ 1,911,197 | $ 165,651 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 1,064,742 | $ 885,186 | $ 179,556 |
| Operations | 188,980 | 160,982 | 27,998 |
| Maintenance | 243,690 | 157,153 | 86,537 |
| Customer Accounts | 191,061 | 184,484 | 6,577 |
| Administrative and General | 184,535 | 178,651 | 5,884 |
| Depreciation and Amortization | 87,844 | 82,225 | 5,619 |
| Other Interest | 47,370 | 39,061 | 8,309 |
| Total Operating Expenses | $ 2,008,222 | $ 1,687,742 | $ 320,480 |
| OPERATING MARGINS - Before Fixed Charges | $ 68,626 | $ 223,455 | $ (154,829) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 97,899 | 97,449 | 450 |
| OPERATING MARGINS (DEFICITS) - After Fixed Charges | $ (29,273) | $ 126,006 | $ (155,279) |
| Capital Credits | 8,845 | 9,130 | (285) |
| NET OPERATING MARGINS (DEFICITS) | $ (20,428) | $ 135,136 | $ (155,564) |
| NONOPERATING MARGINS | | | |
| Interest and Investment Income | 3,111 | 523 | 2,588 |
| NET MARGINS (DEFICITS) | $ (17,317) | $ 135,659 | $ (152,976) |
| ACCUMULATED DEFICITS - BEGINNING OF YEAR | (227,543) | (363,202) | |
| ACCUMULATED DEFICITS - END OF YEAR | $ (244,860) | $ (227,543) | |

## GAS DEPARTMENT
## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Deficits) | $ (17,317) | $ 135,659 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 88,451 | 82,833 |
| Capital Credits - Noncash | (8,845) | (9,130) |
| Deferred Charges | 12,969 | 17,349 |
| Overbilled Fuel Cost | (199,832) | 25,918 |
| Accounts Receivable | (6,853) | 2,949 |
| Inventories and Other Current Assets | 3,986 | (14,959) |
| Payables and Accrued Expenses | 35,834 | (15,709) |
| Advances - Water Department | 119,695 | 29,155 |
| Advances - GCEC | 212,743 | 43,389 |
| Net Cash Provided by Operating Activities | $ 240,831 | $ 297,454 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant/Purchase of Property | $ (161,893) | $ (175,429) |
| Patronage Capital Retirement - CFC | 9,249 | 6,990 |
| Net Cash Used in Investing Activities | $ (152,644) | $ (168,439) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (41,990) | $ (38,990) |
| Payments on Long-Term Debt - GCEC | (46,247) | (90,695) |
| Memberships | 50 | 670 |
| Net Cash Used in Financing Activities | $ (88,187) | $ (129,015) |
| INCREASE (DECREASE) IN CASH | $ (0) | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 129,590 | $ 97,449 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.

## WATER DEPARTMENT
## BALANCE SHEET
## SEPTEMBER 30, 2000 AND 1999

### ASSETS

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,702,689 | $ 1,684,618 |
| Construction Work in Progress | 29,351 | 1,798 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,342,208 | $ 2,296,584 |
| Less: Accumulated Provision for Depreciation and Amortization | 956,790 | 863,565 |
| | $ 1,385,418 | $ 1,433,019 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 140,233 | $ 142,562 |
| CURRENT ASSETS | | |
| Cash - General | $ 1,518 | $ 1,518 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $5,885 in 2000 and $5,105 in 1999) | 15,567 | 12,870 |
| Accounts Receivable - Gas Department | 148,850 | 29,155 |
| Accounts Receivable - GCEC | 1,612 | 1,225 |
| Materials and Supplies | 22,357 | 25,825 |
| Other Current and Accrued Assets | 6,435 | 7,392 |
| Total Current Assets | $ 196,339 | $ 77,985 |
| DEFERRED CHARGES | $ 44,341 | $ 47,869 |
| | $ 1,766,331 | $ 1,701,435 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins | 52,728 | 21,968 |
| | $ 55,228 | $ 24,468 |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 949,308 | $ 986,669 |
| AEPCO - Notes Payable - Advances to Date | 198,000 | 151,951 |
| USDA Rural Development Notes Less Current Maturities | 444,674 | 450,626 |
| | $ 1,591,982 | $ 1,589,246 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 64,197 | $ 61,300 |
| Accounts Payable - Other | 25,327 | 3,129 |
| Accrued Taxes | 18,822 | 17,588 |
| Customers' Deposits and Prepayments | 4,485 | 3,800 |
| Accrued Interest | 1,436 | 268 |
| Accrued Payroll | 4,854 | 1,636 |
| Total Current Liabilities | $ 119,121 | $ 87,721 |
| | $ 1,766,331 | $ 1,701,435 |

## GRAHAM COUNTY UTILITIES, INC.

### WATER DEPARTMENT
### STATEMENT OF INCOME AND ACCUMULATED MARGINS
### FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | September 30, 2000 | September 30, 1999 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 445,031 | $ 422,555 | $ 22,476 |
| Commercial and Industrial | 41,095 | 39,415 | 1,680 |
| Sales for Resale | 25,490 | 22,172 | 3,318 |
| Other Operating Revenues | 2,000 | 2,030 | (30) |
| Total Operating Revenues | $ 513,616 | $ 486,172 | $ 27,444 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 15,866 | $ 14,346 | $ 1,520 |
| Operations | 56,742 | 40,733 | 16,009 |
| Maintenance | 82,142 | 87,171 | (5,029) |
| Customer Accounts | 38,233 | 38,794 | (561) |
| Administrative and General | 79,282 | 68,533 | 10,749 |
| Depreciation and Amortization | 93,225 | 83,126 | 10,099 |
| Other Interest | 3,710 | 5,641 | (1,931) |
| Total Operating Expenses | $ 369,200 | $ 338,344 | $ 30,856 |
| OPERATING MARGINS - Before Fixed Charges | $ 144,416 | $ 147,828 | $ (3,412) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 94,016 | 93,072 | 944 |
| OPERATING MARGINS - After Fixed Charges | $ 50,400 | $ 54,756 | $ (4,356) |
| Capital Credits | 7,844 | 8,096 | (252) |
| NET OPERATING MARGINS | $ 58,244 | $ 62,852 | $ (4,608) |
| NONOPERATING MARGINS | | | |
| Interest | 7,881 | 403 | 7,478 |
| NET MARGINS | $ 66,125 | $ 63,255 | $ 2,870 |
| ACCUMULATED MARGINS (DEFICITS) - BEGINNING OF YEAR | 21,968 | (41,287) | |
| PATRONAGE CAPITAL RETIRED | (35,365) | | |
| ACCUMULATED MARGINS - END OF YEAR | $ 52,728 | $ 21,968 | |

# GRAHAM COUNTY UTILITIES, INC.

## WATER DEPARTMENT
## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 2000 AND 1999

| | September 30, 2000 | September 30, 1999 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Margins | $ 64,566 | $ 63,255 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used by) Operating Activities | | |
| Depreciation and Amortization | 93,225 | 83,126 |
| Capital Credits - Noncash | (7,844) | (8,096) |
| Deferred Charges | 3,356 | 6,046 |
| Accounts Receivable | (2,697) | (432) |
| Inventories and Other Current Assets | 4,424 | (1,785) |
| Payables and Accrued Expenses | 28,852 | (57,600) |
| Advances - Gas Department | (119,695) | (29,155) |
| Advances GCEC | 1,225 | (58,813) |
| Net Cash Provided by (Used in) Operating Activities | $ 65,412 | $ (3,454) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to Plant | $ (45,853) | $ (141,369) |
| CFC Patronage Capital Retirement | 10,173 | 8,170 |
| Net Cash Used in Investing Activities | $ (35,680) | $ (133,199) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances on Long-Term Debt - AEPCO | $ 46,049 | $ 173,951 |
| Payments on Long-Term Debt to CFC | (34,761) | (32,274) |
| Payments - Other Long-Term Debt | (5,655) | (5,024) |
| Payment of Capital Credits | (35,365) | |
| Net Cash Provided by (Used in) Financing Activities | $ (29,732) | $ 136,653 |
| **INCREASE (DECREASE) IN CASH** | $ 0 | $ 0 |
| **CASH - BEGINNING OF YEAR** | 1,518 | 1,518 |
| **CASH - END OF YEAR** | $ 1,518 | $ 1,518 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 92,935 | $ 92,990 |
| Federal Income Tax | $ 0 | $ 0 |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' COMMENT ON CERTAIN MATTERS FOR CFC BORROWERS

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

We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 2000 and 1999, and have issued our report thereon dated October 26, 2000.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

| | Gas | Water |
|---|---|---|
| Gross Shortages | $ (2,906) | $ (637) |
| Gross Overages | 7,721 | 4,548 |
| Net Overages | $ 4,815 | $ 3,911 |

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances from CFC on loans controlled by the CFC Electric Mortgage and Loan Agreement.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 12 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with sixteen years remaining in the amortization period.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 26, 2000

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## Independent Auditors' Report

### REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2000, and have issued our report thereon dated October 26, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 26, 2000

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

## and

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

HOLLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 1999 and 1998, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 1999, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and its compliance with certain provision of laws, regulations, contracts and grants.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 28, 1999

**GRAHAM COUNTY UTILITIES, INC.**

**BALANCE SHEET**
**SEPTEMBER 30, 1999**
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1998**

**ASSETS**

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 3,928,338 | $ 3,519,131 |
| Construction Work in Progress | 15,093 | 107,505 |
| Plant Acquisition Adjustment | 1,025,652 | 1,025,652 |
| | $ 4,969,083 | $ 4,652,288 |
| Less: Accumulated Provision for Depreciation and Amortization | 2,080,396 | 1,914,438 |
| | $ 2,888,687 | $ 2,737,850 |
| OTHER PROPERTY AND INVESTMENTS | | |
| Investments in Associated Organizations | $ 303,115 | $ 301,049 |
| CURRENT ASSETS | | |
| Cash - General | $ 1,518 | $ 1,518 |
| Accounts Receivable (Less allowance for uncollectibles of $13,128 in 1999 and $8,025 in 1998) | 56,558 | 59,075 |
| Accounts Receivable - GCEC | 1,225 | |
| Materials and Supplies | 96,034 | 78,356 |
| Other Current and Accrued Assets | 29,379 | 30,313 |
| Total Current Assets | $ 184,714 | $ 169,262 |
| DEFERRED CHARGES | $ 118,418 | $ 141,813 |
| | $ 3,494,934 | $ 3,349,974 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 26,885 | $ 26,215 |
| Accumulated Deficit | (205,575) | (404,489) |
| | $ (178,690) | $ (378,274) |
| LONG -TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 2,322,602 | $ 2,399,367 |
| Note Payable - AEPCO - Advances to Date | 151,951 | |
| Note Payable - GCEC Less Current Maturities | 247,900 | 345,540 |
| USDA Rural Development Note Payable Less Current Maturities | 450,626 | 455,826 |
| | $ 3,173,079 | $ 3,200,733 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 200,140 | $ 165,520 |
| Accounts Payable - GCEC | 54,236 | 68,435 |
| Accounts Payable - Other | 46,374 | 100,423 |
| Overbilled Consumers Fuel Cost | 88,002 | 62,084 |
| Customers' Deposits and Prepayments | 53,237 | 75,112 |
| Accrued Taxes | 45,057 | 43,132 |
| Accrued Interest | 4,669 | 3,894 |
| Accrued Payroll | 8,830 | 8,915 |
| Total Current Liabilities | $ 500,545 | $ 527,515 |
| | $ 3,494,934 | $ 3,349,974 |

See accompanying notes to financial statements

## GRAHAM COUNTY UTILITIES, INC.

### STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
### FOR THE YEAR ENDED SEPTEMBER 30, 1999
### WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1998

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| OPERATING REVENUES | $ 2,397,369 | $ 2,406,569 |
| OPERATING EXPENSES | | |
| Purchased Gas | $ 885,186 | $ 964,995 |
| Power for Pumping | 14,346 | 15,181 |
| Operations | 201,715 | 215,176 |
| Maintenance | 244,324 | 160,264 |
| Consumer Accounts | 223,278 | 227,379 |
| Administrative and General | 247,184 | 228,490 |
| Depreciation and Amortization | 165,351 | 154,729 |
| Other Interest | 44,702 | 40,576 |
| Total Operating Expenses | $ 2,026,086 | $ 2,006,790 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 371,283 | $ 399,779 |
| Interest on Long-Term Debt | 190,521 | 221,655 |
| OPERATING MARGINS - AFTER FIXED CHARGES | $ 180,762 | $ 178,124 |
| Capital Credits | 17,226 | 24,531 |
| NET OPERATING MARGINS | $ 197,988 | $ 202,655 |
| NONOPERATING MARGINS | | |
| Interest | 926 | 5,330 |
| NET MARGINS | $ 198,914 | $ 207,985 |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (404,489) | (612,474) |
| ACCUMULATED DEFICIT - END OF YEAR | $ (205,575) | $ (404,489) |

See accompanying notes to financial statements

# GRAHAM COUNTY UTILITIES, INC.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED SEPTEMBER 30, 1999
## WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1998

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins | $ 198,914 | $ 207,985 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 165,959 | 155,360 |
| Capital Credits | (17,226) | (25,935) |
| Overbilled Fuel Cost | 25,918 | 45,255 |
| Deferred Charges | 23,395 | (99,886) |
| Deferred Credits | | (65) |
| Accounts Receivable | 2,517 | 68,406 |
| Inventories and Other Current Assets | (16,744) | (7,004) |
| Payables and Accrued Expenses | (73,309) | 62,583 |
| Net Advances - GCEC | (15,424) | 23,801 |
| Net Cash Provided by Operating Activities | $ 294,000 | $ 430,500 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (316,798) | $ (335,250) |
| CFC Patronage Capital Refunds | 15,160 | 21,946 |
| Net Cash Used in Investing Activities | $ (301,638) | $ (313,304) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| AEPCO Note Proceeds | $ 173,951 | $ |
| Payments on Long-Term Debt to CFC | (71,264) | (56,892) |
| Payments on Long-Term Debt to GCEC | (90,695) | (52,782) |
| Payment - USDA-RD | (5,024) | (7,777) |
| Memberships | 670 | 255 |
| Net Cash Provided by (Used in) Financing Activities | $ 7,638 | $ (117,196) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 1,518 | $ 1,518 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for: | | |
| Interest on Long-Term Debt | $ 190,439 | $ 221,376 |
| 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. 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.

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, 1999 and 1998, was estimated to be $56,742 and $58,863 in the gas department and $36,873 and $39,900 in the water department, respectively.

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 advance billing - fuel cost and costs to be billed in the subsequent period are recorded as unbilled fuel cost. Overbillings amounted to $88,002 and $62,084 at September 30, 1999 and 1998, respectively.

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 6%. Deposits on hand totaled $53,237 and $75,112 at September 30, 1999 and 1998, respectively.

Patronage Capital Certificates

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Statement of Cash Flows

For the purposes of the statement of cash flows, the cooperative considers cash and temporary cash investments to be cash and cash equivalents.

Inventories

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

Federal Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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).

## 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 1999 | | | September 30, 1998 |
|---|---|---|---|---|
| | Gas | Water | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,706 | $ 80,228 | $ 80,228 |
| Production | | 388,665 | 388,665 | 387,022 |
| Transmission | | 894,497 | 894,497 | 706,159 |
| Distribution | 2,119,316 | 293,900 | 2,413,216 | 2,202,908 |
| General | 80,791 | 53,843 | 134,634 | 125,716 |
| Land | 1,091 | 16,007 | 17,098 | 17,098 |
| Total Plant in Service | $ 2,243,720 | $ 1,684,618 | $ 3,928,338 | $ 3,519,131 |
| Construction Work in Progress | 13,295 | 1,798 | 15,093 | 107,505 |
| Electric Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 2,672,499 | $ 2,296,584 | $ 4,969,083 | $ 4,652,288 |

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

| | Gas | Water |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.8% | |
| Services | 4.1% | |
| Meters - Regulators | 2.6% | |
| Structures | 2.3% | |
| General | 6.7%-13.3% | 10%-16.67% |

Depreciation accruals charged to expense for the periods ended September 30, 1999 and 1998 totaled $124,933 and $113,703, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 1999 are summarized as follows:

| | Gas | Water |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 149,575 | $ 219,660 |
| Current Year | 16,619 | 24,407 |
| | $ 166,194 | $ 244,067 |
| Unamortized Adjustment | $ 249,290 | $ 366,101 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 199,438 | $ 200,885 |
| Patronage Capital | 99,119 | 95,606 |
| Memberships | 1,000 | 1,000 |
| | $ 299,557 | $ 297,491 |
| GCEC | | |
| Patronage Capital | $ 3,558 | $ 3,558 |
| | $ 303,115 | $ 301,049 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| Gas | | |
| Rate Filing Costs – In Progress | $ 16,103 | $ 29,663 |
| Clearing Accounts | 624 | 545 |
| Unamortized Debt Expense | 53,822 | 57,690 |
| | $ 70,549 | $ 87,898 |
| Water | | |
| Rate Filing Costs - 1993 Case | $ | $ 2,550 |
| Unamortized Debt Expense | 47,729 | 51,159 |
| Clearing Accounts | 140 | 206 |
| | $ 47,869 | $ 53,915 |
| | $ 118,418 | $ 141,813 |

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a conversion fee of $109,457. Amortization expense for the year ended September 30, 1999 is $7,298.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| Class A Memberships | | |
| Graham County Electric Cooperative, Inc., entitled to 1 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 | 17,335 | 16,750 |
| Class C Memberships | | |
| All others who receive service; $5 membership fee, entitled to one vote per membership | 4,550 | 4,465 |
| | $ 26,885 | $ 26,215 |

## 7. Accumulated Margins (Deficit)

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

| | Gas | Water | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,042) | (28,602) | (200,644) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 1997 | (65,806) | (23,095) | (88,901) |
| 1998 | 225,309 | 31,474 | 256,783 |
| Nine Months - 1999 | 104,444 | 48,776 | 153,220 |
| | $(227,543) | $ 21,968 | $(205,575) |

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations. Patronage capital will be allocated when all deficits have been recovered.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| Variable (7.10% - 1999) | $ 1,407,279 | $ 1,458,316 |
| Variable (6.10% - 1999, 6.25% - 1998) | 459,397 | 473,533 |
| Fixed – 7.450% | 531,226 | 537,318 |
| | $ 2,397,902 | $ 2,469,167 |
| Less: Current Maturities | 75,300 | 69,800 |
| | $ 2,322,602 | $ 2,399,367 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $67,757. As of September 30, 1999, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 2000 | $ 75,300 |
| 2001 | 80,800 |
| 2002 | 86,600 |
| 2003 | 93,000 |
| 2004 | 99,800 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| 5% Note Maturing May 31, 2033 | $ 167,464 | $ 169,484 |
| Less: Current Maturities | 2,100 | 2,020 |
| | $ 165,364 | $ 167,464 |
| 4.5% Note Maturing November 30, 2036 | $ 288,362 | $ 291,366 |
| Less: Current Maturities | 3,100 | 3,004 |
| | $ 285,262 | $ 288,362 |
| | $ 450,626 | $ 455,826 |

Principal and interest installments on the above notes are due monthly in amounts of $2,220. As of September 30, 1999, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 2000 | $ 5,200 |
| 2001 | 5,500 |
| 2002 | 5,700 |
| 2003 | 6,100 |
| 2004 | 6,400 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over five years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 1999 is $345,540. Annual maturities due to Graham County Electric Cooperative are as follows:

| | |
|---|---|
| 2000 | $ 97,640 |
| 2001 | 105,115 |
| 2002 | 113,165 |
| 2003 | 29,620 |

## 11. AEPCO Note Payable

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan is $220,000, payable in monthly payments of $1,833 for 120 months. The cooperative is awaiting the final drawdown before repayments will begin. The balance at September 30, 1999 is $173,951. Annual maturities due to AEPCO are as follows:

| | |
|---|---|
| 2000 | $ 22,000 |
| 2001 | 22,000 |
| 2002 | 22,000 |
| 2003 | 22,000 |
| 2004 | 22,000 |

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| Graham County Utilities, Inc. | | |
| Accounts Receivable | $ 1,225 | $ |
| Accounts Payable | (54,236) | (68,435) |
| Net Due to Affiliated Cooperative | $ (53,011) | $ (68,435) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 53,011 | $ 68,435 |
| Net Due from Affiliated Cooperative | $ 53,011 | $ 68,435 |

## 13. Litigation

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

## 14. Commitments and Contingencies

The cooperative is aware of issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether the computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The cooperative is utilizing internal and external resources to identify, correct and test the systems for the year 2000 compliance.

## 15. Rate Matters

The cooperative, with the approval of the Arizona Corporation Commission, has instituted new rates for the gas department effective December 1997 and new rates for the water department effective September 1998.

# ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 14 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Belzer, Segan, Hillis & Moss

Certified Public Accountants

October 28, 1999

# GRAHAM COUNTY UTILITIES, INC.

## GAS DEPARTMENT
## BALANCE SHEET
## SEPTEMBER 30, 1998 AND 1998

### ASSETS

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,243,720 | $ 2,087,038 |
| Construction Work in Progress | 13,295 | (5,451) |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 2,672,499 | $ 2,497,071 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,216,831 | 1,133,999 |
| | $ 1,455,668 | $ 1,363,072 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 160,553 | $ 158,413 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $8,023 in 1999 and $4,503 in 1998) | $ 43,688 | $ 46,637 |
| Materials and Supplies | 70,209 | 54,610 |
| Other Current and Accrued Assets | 21,987 | 22,627 |
| Total Current Assets | $ 135,884 | $ 123,874 |
| Deferred Charges | $ 70,549 | $ 87,898 |
| | $ 1,822,654 | $ 1,733,257 |

### EQUITIES AND LIABILITIES

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 24,385 | $ 23,715 |
| Accumulated Deficit | (227,543) | (363,202) |
| | $ (203,158) | $ (339,487) |
| LONG -TERM DEBT | | |
| Note Payable - GCEC | $ 247,900 | $ 345,540 |
| CFC Mortgage Notes Less Current Maturities | 1,335,933 | 1,376,336 |
| | $ 1,583,833 | $ 1,721,876 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 138,840 | $ 130,482 |
| Accounts Payable - Other | 43,245 | 41,588 |
| Accounts Payable - GCEC | 54,236 | 10,847 |
| Accounts Payable - Water Department | 29,155 | |
| Overbilled Consumers Fuel Cost | 88,002 | 62,084 |
| Accrued Taxes | 27,469 | 26,764 |
| Customers' Deposits and Prepayments | 49,437 | 69,952 |
| Accrued Interest | 4,401 | 3,667 |
| Accrued Payroll | 7,194 | 5,484 |
| Total Current Liabilities | $ 441,979 | $ 350,868 |
| | $ 1,822,654 | $ 1,733,257 |

# GRAHAM COUNTY UTILITIES, INC.

## GAS DEPARTMENT
## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

| | September 30, 1999 | September 30, 1998 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 1,482,022 | $ 1,574,406 | $ (92,384) |
| Irrigation | 18,538 | 15,858 | 2,680 |
| Commercial and Industrial | 411,146 | 435,441 | (24,295) |
| Fuel Cost Over Billed | (24,569) | (45,255) | 20,686 |
| Other Operating Revenues | 24,060 | 19,360 | 4,700 |
| Total Operating Revenues | $ 1,911,197 | $ 1,999,810 | $ (88,613) |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 885,186 | $ 964,995 | $ (79,809) |
| Operations | 160,982 | 172,274 | (11,292) |
| Maintenance | 157,153 | 93,999 | 63,154 |
| Customer Accounts | 184,484 | 191,795 | (7,311) |
| Administrative and General | 178,651 | 163,431 | 15,220 |
| Depreciation and Amortization | 82,225 | 75,516 | 6,709 |
| Other Interest | 39,061 | 39,773 | (712) |
| Total Operating Expenses | $ 1,687,742 | $ 1,701,783 | $ (14,041) |
| OPERATING MARGINS - Before Fixed Charges | $ 223,455 | $ 298,027 | $ (74,572) |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 97,449 | 115,459 | (18,010) |
| OPERATING MARGINS - After Fixed Charges | $ 126,006 | $ 182,568 | $ (56,562) |
| Capital Credits | 9,130 | 13,002 | (3,872) |
| NET OPERATING MARGINS | $ 135,136 | $ 195,570 | $ (60,434) |
| NONOPERATING MARGINS | | | |
| Interest and Investment Income | 523 | 4,296 | (3,773) |
| NET MARGINS | $ 135,659 | $ 199,866 | $ (64,207) |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (363,202) | (563,068) | |
| ACCUMULATED DEFICIT - END OF YEAR | $ (227,543) | $ (363,202) | |

# GRAHAM COUNTY UTILITIES, INC.

## GAS DEPARTMENT
## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Margins | $ 135,659 | $ 199,866 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 82,833 | 76,124 |
| Capital Credits - Noncash | (9,130) | (13,093) |
| Deferred Charges | 17,349 | (46,653) |
| Deferred Credits | | (65) |
| Overbilled Fuel Cost | 25,918 | 45,255 |
| Accounts Receivable | 2,949 | (8,440) |
| Inventories and Other Current Assets | (14,959) | (6,245) |
| Payables and Accrued Expenses | (15,709) | 9,917 |
| Advances - Water Department | 29,155 | |
| Advances - GCEC | 43,389 | |
| Net Cash Provided by Operating Activities | $ 297,454 | $ 256,666 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to Plant/Purchase of Property | $ (175,429) | $ (183,239) |
| Patronage Capital Retirement - CFC | 6,990 | 10,456 |
| Net Cash Used in Investing Activities | $ (168,439) | $ (172,783) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments on Long-Term Debt - CFC | $ (38,990) | $ (31,356) |
| Payments on Long-Term Debt - GCEC | (90,695) | (52,782) |
| Memberships | 670 | 255 |
| Net Cash Used in Financing Activities | $ (129,015) | $ (83,883) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 0 | 0 |
| CASH - END OF YEAR | $ 0 | $ 0 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 97,449 | $ 115,459 |
| Federal Income Tax | $ 0 | $ 0 |

**GRAHAM COUNTY UTILITIES, INC.**

**WATER DEPARTMENT**
**BALANCE SHEET**
**SEPTEMBER 30, 1999 AND 1998**

**ASSETS**

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,684,618 | $ 1,432,093 |
| Construction Work in Progress | 1,798 | 112,956 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,296,584 | $ 2,155,217 |
| Less: Accumulated Provision for Depreciation and Amortization | 863,565 | 780,439 |
| | $ 1,433,019 | $ 1,374,778 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 142,562 | $ 142,636 |
| CURRENT ASSETS | | |
| Cash - General | $ 1,518 | $ 1,518 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $5,105 in 1999 and $3,522 in 1998) | 12,870 | 12,438 |
| Accounts Receivable - Water Department | 29,155 | |
| Accounts Receivable - GCEC | 1,225 | |
| Materials and Supplies | 25,825 | 23,746 |
| Other Current and Accrued Assets | 7,392 | 7,686 |
| Total Current Assets | $ 77,985 | $ 45,388 |
| DEFERRED CHARGES | $ 47,869 | $ 53,915 |
| | $ 1,701,435 | $ 1,616,717 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Margins (Deficit) | 21,968 | (41,287) |
| | $ 24,468 | $ (38,787) |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 986,669 | $ 1,023,031 |
| AEPCO - Notes Payable - Advances to Date | 151,951 | |
| USDA Rural Development Notes Less Current Maturities | 450,626 | 455,826 |
| | $ 1,589,246 | $ 1,478,857 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 61,300 | $ 35,038 |
| Accounts Payable - Other | 3,129 | 58,835 |
| Accounts Payable - GCEC | | 57,588 |
| Accrued Taxes | 17,588 | 16,368 |
| Customers' Deposits and Prepayments | 3,800 | 5,160 |
| Accrued Interest | 268 | 227 |
| Accrued Payroll | 1,636 | 3,431 |
| Total Current Liabilities | $ 87,721 | $ 176,647 |
| | $ 1,701,435 | $ 1,616,717 |

**GRAHAM COUNTY UTILITIES, INC.**

**WATER DEPARTMENT**
**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)**
**FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998**

| | September 30, 1999 | September 30, 1998 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 422,555 | $ 356,172 | $ 66,383 |
| Commercial and Industrial | 39,415 | 30,033 | 9,382 |
| Sales for Resale | 22,172 | 18,564 | 3,608 |
| Other Operating Revenues | 2,030 | 1,990 | 40 |
| Total Operating Revenues | $ 486,172 | $ 406,759 | $ 79,413 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 14,346 | $ 15,181 | $ (835) |
| Operations | 40,733 | 42,902 | (2,169) |
| Maintenance | 87,171 | 66,265 | 20,906 |
| Customer Accounts | 38,794 | 35,584 | 3,210 |
| Administrative and General | 68,533 | 65,059 | 3,474 |
| Depreciation and Amortization | 83,126 | 79,213 | 3,913 |
| Other Interest | 5,641 | 803 | 4,838 |
| Total Operating Expenses | $ 338,344 | $ 305,007 | $ 33,337 |
| OPERATING MARGINS - Before Fixed Charges | $ 147,828 | $ 101,752 | $ 46,076 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 93,072 | 106,196 | (13,124) |
| OPERATING MARGINS (LOSS) - After Fixed Charges | $ 54,756 | $ (4,444) | $ 59,200 |
| Capital Credits | 8,096 | 11,529 | (3,433) |
| NET OPERATING MARGINS | $ 62,852 | $ 7,085 | $ 55,767 |
| NONOPERATING MARGINS | | | |
| Interest | 403 | 1,034 | (631) |
| NET MARGINS | $ 63,255 | $ 8,119 | $ 55,136 |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (41,287) | (49,406) | |
| ACCUMULATED MARGINS (DEFICIT) - END OF YEAR | $ 21,968 | $ (41,287) | |

# COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' COMMENT ON CERTAIN MATTERS FOR CFC BORROWERS

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

We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 1999 and 1998, and have issued our report thereon dated October 28, 1999.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

| | Gas | Water |
|---|---|---|
| Gross Shortages | $ (7,156) | $ (2,119) |
| Gross Overages | 4,332 | 3,786 |
| Net Overages | $ (2,824) | $ 1,667 |

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances. During the calendar years 1998 and 1997, the cooperative failed to attain the 1.0 TIER rating required by the mortgage agreement. The cooperative is in the process of implementing new water and gas rates.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 11 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with sixteen years remaining in the amortization period.

Berger, Segan, Gilbert & Moss

Certified Public Accountants

October 28, 1999

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 1999, and have issued our report thereon dated October 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger Segars Gilbert & Moss

Certified Public Accountants

October 28, 1999

# GRAHAM COUNTY UTILITIES, INC.

## WATER DEPARTMENT
## STATEMENT OF CASH FLOWS
## FOR THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998

| | September 30, 1999 | September 30, 1998 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Margins | $ 63,255 | $ 8,119 |
| Adjustments to Reconcile Net Margins to Net Cash Provided by (Used by) Operating Activities | | |
| Depreciation and Amortization | 83,126 | 79,236 |
| Capital Credits - Noncash | (8,096) | (12,842) |
| Deferred Charges | 6,046 | (53,233) |
| Accounts Receivable | (432) | 76,846 |
| Inventories and Other Current Assets | (1,785) | (759) |
| Payables and Accrued Expenses | (57,600) | 52,666 |
| Advances - Water Department | (29,155) | |
| Advances GCEC | (58,813) | 23,801 |
| Net Cash Provided by (Used by) Operating Activities | $ (3,454) | $ 173,834 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to Plant | $ (141,369) | $ (152,011) |
| CFC Patronage Capital Retirement | 8,170 | 11,490 |
| Net Cash Used in Investing Activities | $ (133,199) | $ (140,521) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances on Long-Term Debt - AEPCO | $ 173,951 | $ |
| Payments on Long-Term Debt to CFC | $ (32,274) | $ (25,536) |
| Payments - Other Long-Term Debt | (5,024) | (7,777) |
| Net Cash Provided by (Used in) Financing Activities | $ 136,653 | $ (33,313) |
| INCREASE (DECREASE) IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 1,518 | $ 1,518 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 92,990 | $ 105,918 |
| Federal Income Tax | $ 0 | $ 0 |

# GRAHAM COUNTY UTILITIES, INC.

## PIMA, ARIZONA

## FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

## FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

## and

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**GRAHAM COUNTY UTILITIES, INC.**
**Pima, Arizona**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**
**FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Graham County Utilities, Inc., as of September 30, 1998 and 1997, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 1998, on our consideration of Graham County Utilities, Inc.'s internal control structure and its compliance with laws and regulations.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 29, 1998

**GRAHAM COUNTY UTILITIES, INC.**

**BALANCE SHEET**
**SEPTEMBER 30, 1998**
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 1997**

**ASSETS**

| | September 30, 1998 | | | September 30, |
|---|---|---|---|---|
| | Gas | Water | Total | 1997 - Total |
| UTILITY PLANT | | | | |
| Plant in Service | $ 2,087,038 | $ 1,432,093 | $ 3,519,131 | $ 3,038,312 |
| Construction Work in Progress | (5,451) | 112,956 | 107,505 | 281,107 |
| Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| | $ 2,497,071 | $ 2,155,217 | $ 4,652,288 | $ 4,345,071 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,133,999 | 780,439 | 1,914,438 | 1,787,111 |
| | $ 1,363,072 | $ 1,374,778 | $ 2,737,850 | $ 2,557,960 |
| OTHER PROPERTY AND INVESTMENTS | | | | |
| Investments in Associated Organizations | $ 158,413 | $ 142,636 | $ 301,049 | $ 297,059 |
| CURRENT ASSETS | | | | |
| Cash - General | $ | $ 1,518 | $ 1,518 | $ 1,518 |
| Accounts Receivable (Less allowance for uncollectibles of $8,025 in 1998 and $4,216 in 1997) | 46,637 | 12,438 | 59,075 | 48,682 |
| Accounts Receivable - Other | | | | 78,799 |
| Materials and Supplies | 54,610 | 23,746 | 78,356 | 70,444 |
| Other Current and Accrued Assets | 22,627 | 7,686 | 30,313 | 31,221 |
| Total Current Assets | $ 123,874 | $ 45,388 | $ 169,262 | $ 230,664 |
| DEFERRED CHARGES | $ 87,898 | $ 53,915 | $ 141,813 | $ 41,927 |
| | $ 1,733,257 | $ 1,616,717 | $ 3,349,974 | $ 3,127,610 |

**EQUITIES AND LIABILITIES**

| | | | | |
|---|---|---|---|---|
| MEMBERS' EQUITY | | | | |
| Memberships | $ 23,715 | $ 2,500 | $ 26,215 | $ 25,960 |
| Accumulated Deficit | (363,202) | (41,287) | (404,489) | (612,474) |
| | $ (339,487) | $ (38,787) | $ (378,274) | $ (586,514) |
| LONG -TERM DEBT | | | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,376,336 | $ 1,023,031 | $ 2,399,367 | $ 2,472,658 |
| Note Payable - GCEC | 345,540 | | 345,540 | |
| USDA Rural Development Note Payable Less Current Maturities | | 455,826 | 455,826 | 463,832 |
| | $ 1,721,876 | $ 1,478,857 | $ 3,200,733 | $ 2,936,490 |
| CURRENT LIABILITIES | | | | |
| Current Maturities of Long-Term Debt | $ 130,482 | $ 35,038 | $ 165,520 | $ 58,196 |
| Accounts Payable - GCEC | 10,847 | 57,588 | 68,435 | 533,651 |
| Accounts Payable - Other | 41,588 | 58,835 | 100,423 | 42,258 |
| Overbilled Consumers Fuel Cost | 62,084 | | 62,084 | 16,829 |
| Customers' Deposits and Prepayments | 69,952 | 5,160 | 75,112 | 74,580 |
| Accrued Taxes | 26,764 | 16,368 | 43,132 | 42,353 |
| Accrued Interest | 3,667 | 227 | 3,894 | 3,944 |
| Accrued Payroll | 5,484 | 3,431 | 8,915 | 5,758 |
| Total Current Liabilities | $ 350,868 | $ 176,647 | $ 527,515 | $ 777,569 |
| DEFERRED CREDITS | $ | $ | $ | $ 65 |
| | $ 1,733,257 | $ 1,616,717 | $ 3,349,974 | $ 3,127,610 |

See accompanying notes to financial statements

**GRAHAM COUNTY UTILITIES, INC.**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)**
**FOR THE YEAR ENDED SEPTEMBER 30, 1998**
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1997**

| | September 30, 1998 | | | September 30, |
|---|---|---|---|---|
| | Gas | Water | Total | 1997 - Total |
| OPERATING REVENUES | $ 1,999,810 | $ 406,759 | $ 2,406,569 | $ 1,925,536 |
| OPERATING EXPENSES | | | | |
| Purchased Gas | $ 964,995 | $ | $ 964,995 | $ 797,318 |
| Power for Pumping | | 15,181 | 15,181 | 15,265 |
| Operations | 172,274 | 42,902 | 215,176 | 190,368 |
| Maintenance | 93,999 | 66,265 | 160,264 | 224,453 |
| Consumer Accounts | 191,795 | 35,584 | 227,379 | 205,186 |
| Administrative and General | 163,431 | 65,059 | 228,490 | 205,252 |
| Depreciation and Amortization | 75,516 | 79,213 | 154,729 | 140,030 |
| Taxes | | | | |
| Other Interest | 39,773 | 803 | 40,576 | 33,288 |
| Total Operating Expenses | $ 1,701,783 | $ 305,007 | $ 2,006,790 | $ 1,811,160 |
| OPERATING MARGINS - BEFORE FIXED CHARGES | $ 298,027 | $ 101,752 | $ 399,779 | $ 114,376 |
| Interest on Long-Term Debt | 115,459 | 106,196 | 221,655 | 241,155 |
| OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES | $ 182,568 | $ (4,444) | $ 178,124 | $ (126,779) |
| Capital Credits | 13,002 | 11,529 | 24,531 | 24,827 |
| NET OPERATING MARGINS (LOSS) | $ 195,570 | $ 7,085 | $ 202,655 | $ (101,952) |
| NONOPERATING MARGINS | | | | |
| Interest | 4,296 | 1,034 | 5,330 | 205 |
| NET MARGINS (LOSS) | $ 199,866 | $ 8,119 | $ 207,985 | $ (101,747) |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (563,068) | (49,406) | (612,474) | (510,727) |
| ACCUMULATED DEFICIT - END OF YEAR | $ (363,202) | $ (41,287) | $ (404,489) | $ (612,474) |

See accompanying notes to financial statements

**GRAHAM COUNTY UTILITIES, INC.**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED SEPTEMBER 30, 1998**
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 1997**

| | September 30, 1998 | | | September 30, |
|---|---|---|---|---|
| | Gas | Water | Total | 1997 - Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net Margins (Loss) | $ 199,866 | $ 8,119 | $ 207,985 | $ (101,747) |
| Adjustments to Reconcile Net Margins (Loss) to Net Cash Provided by Operating Activities | | | | |
| Depreciation and Amortization | 76,124 | 79,236 | 155,360 | 140,640 |
| Capital Credits | (13,093) | (12,842) | (25,935) | (24,827) |
| Overbilled Fuel Cost | 45,255 | | 45,255 | 20,210 |
| Deferred Charges | (46,653) | (53,233) | (99,886) | (6,497) |
| Deferred Credits | (65) | | (65) | 65 |
| Accounts Receivable | (8,440) | 76,846 | 68,406 | (66,448) |
| Inventories and Other Current Assets | (6,245) | (759) | (7,004) | 905 |
| Payables and Accrued Expenses | 9,917 | 52,666 | 62,583 | (13,161) |
| Net Advances - GCEC | | 23,801 | 23,801 | 124,023 |
| Net Cash Provided by Operating Activities | $ 256,666 | $ 173,834 | $ 430,500 | $ 73,163 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Additions to Plant | $ (183,239) | $ (152,011) | $ (335,250) | $ (341,897) |
| CFC Patronage Capital Refunds | 10,456 | 11,490 | 21,946 | 21,973 |
| Net Cash Used in Investing Activities | $ (172,783) | $ (140,521) | $ (313,304) | $ (319,924) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| FMHA Note Proceeds | $ | $ | $ | $ 300,000 |
| Payments on Long-Term Debt to CFC | (31,356) | (25,536) | (56,892) | (49,919) |
| Payments on Long-Term Debt to GCEC | (52,782) | | (52,782) | |
| Payment - USDA-RD | | (7,777) | (7,777) | (4,350) |
| Memberships | 255 | | 255 | 1,030 |
| Net Cash Provided by (Used in) Financing Activities | $ (83,883) | $ (33,313) | $ (117,196) | $ 246,761 |
| INCREASE IN CASH | $ 0 | $ 0 | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | | 1,518 | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 0 | $ 1,518 | $ 1,518 | $ 1,518 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Cash paid during the year for: | | | | |
| Interest on Long-Term Debt | $ 115,458 | $ 105,918 | $ 221,376 | $ 241,155 |
| Federal Income Tax | $ 0 | $ 0 | $ 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. 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 expense 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.

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, 1998 and 1997, was estimated to be $58,863 and $60,117 in the gas department and $39,900 and $25,529 in the water department, respectively.

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 advance billing - fuel cost and costs to be billed in the subsequent period are recorded as unbilled fuel cost. At September 30, 1998, $62,084 was overbilled, and at September 30, 1997, $16,829 was overbilled.

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 6%. Deposits on hand totaled $75,112 and $74,580 at September 30, 1998 and 1997, respectively.

Patronage Capital Certificates

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

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Statement of Cash Flows

For the purposes of the statement of cash flows, the cooperative considers cash and temporary cash investments to be cash and cash equivalents.

Inventories

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

Federal Income Tax Status

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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).

### 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 corporation 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.

## GRAHAM COUNTY UTILITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

| | September 30, 1998 | | | September 30, 1997 |
|---|---|---|---|---|
| | Gas | Water | Total | Total |
| Utility Plant in Service | | | | |
| Intangible | $ 42,522 | $ 37,706 | $ 80,228 | $ 80,228 |
| Production | | 387,022 | 387,022 | 346,036 |
| Transmission | | 706,159 | 706,159 | 492,824 |
| Distribution | 1,970,275 | 232,633 | 2,202,908 | 2,030,921 |
| General | 73,150 | 52,566 | 125,716 | 71,205 |
| Land | 1,091 | 16,007 | 17,098 | 17,098 |
| Total Plant in Service | $ 2,087,038 | $ 1,432,093 | $ 3,519,131 | $ 3,038,312 |
| Construction Work in Progress | (5,451) | 112,956 | 107,505 | 281,107 |
| Electric Plant Acquisition Adjustment | 415,484 | 610,168 | 1,025,652 | 1,025,652 |
| Total Utility Plant | $ 2,497,071 | $ 2,155,217 | $ 4,652,288 | $ 4,345,071 |

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

| | Gas | Water |
|---|---|---|
| Production | | 4% |
| Transmission | | 4% |
| Distribution | | 4% |
| Gas Mains | 2.8% | |
| Services | 4.1% | |
| Meters - Regulators | 2.6% | |
| Structures | 2.3% | |
| General | 6.7%-13.3% | 10%-16.67% |

Depreciation accruals charged to expense for the periods ended September 30, 1998 and 1997 totaled $113,703 and $99,004, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. 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 corporation has elected to amortize these costs over a twenty-five year period. The annual charge to expense is $16,619 in the gas department and $24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 1998 are summarized as follows:

| | Gas | Water |
|---|---|---|
| Acquisition Adjustment | $ 415,484 | $ 610,168 |
| Less: Amortization | | |
| Prior Periods | $ 132,954 | $ 195,254 |
| Current Year | 16,619 | 24,407 |
| | $ 149,573 | $ 219,661 |
| Unamortized Adjustment | $ 265,911 | $ 390,507 |

## 4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| CFC | | |
| Capital Term Certificates | $ 200,885 | $ 202,598 |
| Patronage Capital | 95,606 | 89,903 |
| Memberships | 1,000 | 1,000 |
| | $ 297,491 | $ 293,501 |
| GCEC | | |
| Patronage Capital | $ 3,558 | $ 3,558 |
| | $ 301,049 | $ 297,059 |

## 5. Deferred Charges

Deferred charges consisted of the following:

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| Gas | | |
| Rate Filing Costs – In Progress | $ 29,663 | $ 28,182 |
| Rate Filing Costs - 1995 Case | | 12,186 |
| Clearing Accounts | 545 | 877 |
| Unamortized Debt Expense | 57,690 | |
| | $ 87,898 | $ 41,245 |
| Water | | |
| Rate Filing Costs - 1993 Case | $ 2,550 | $ 470 |
| Unamortized Debt Expense | 51,159 | |
| Clearing Accounts | 206 | 212 |
| | $ 53,915 | $ 682 |
| | $ 141,813 | $ 41,927 |

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for fifteen years with a coversion fee of $109,457. Amortization expense for September 30, 1998 is $608.

## 6. Memberships

Memberships are comprised of the following:

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| Class A Memberships<br>Graham County Electric Cooperative, Inc., entitled to 1 vote | $ 5,000 | $ 5,000 |
| Class B Memberships<br>All qualified members of Graham County Electric Cooperative, Inc.; $5 membership fee, entitled to one vote per membership | 16,750 | 16,640 |
| Class C Memberships<br>All others who receive service; $5 membership fee, entitled to one vote per membership | 4,465 | 4,320 |
| | $ 26,215 | $ 25,960 |

## 7. Accumulated Margins (Deficit)

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

| | Gas | Water | Total |
|---|---|---|---|
| Calendar Year | | | |
| 1989 | $ 23,321 | $ (694) | $ 22,627 |
| 1990 | (30,746) | 2,845 | (27,901) |
| 1991 | (91,410) | (23,047) | (114,457) |
| 1992 | (41,115) | (13,851) | (54,966) |
| 1993 | (64,937) | 5,078 | (59,859) |
| 1994 | (46,268) | 26,494 | (19,774) |
| 1995 | (172,042) | (28,602) | (200,644) |
| 1996 | (68,293) | (3,410) | (71,703) |
| 1997 | (65,806) | (23,095) | (88,901) |
| Nine Months - 1998 | 194,094 | 16,995 | 211,089 |
| | $(363,202) | $ (41,287) | $(404,489) |

The Board of Directors has adopted the policy of netting gains and losses from multiple departments and to carryover net losses to offset subsequent margins. No patronage capital has been allocated from operations which has resulted in net deficits since the inception of the cooperative.

## 8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014:

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| Variable (7.10% - 1998) | $ 1,458,316 | $ |
| Variable (6.25% - 1998, 6.25% - 1997) | 473,533 | 1,029,816 |
| Fixed – 7.450% | 537,318 | 1,496,244 |
| | $ 2,469,167 | $ 2,526,060 |
| Less: Current Maturities | 69,800 | 53,402 |
| | $ 2,399,367 | $ 2,472,658 |

Principal and interest installments on the above notes are due quarterly in amounts of approximately $67,757. As of September 30, 1998, annual maturities of long-term debt due CFC for the next five years are as follows:

| | |
|---|---|
| 1999 | $ 69,800 |
| 2000 | 74,800 |
| 2001 | 80,200 |
| 2002 | 85,900 |
| 2003 | 92,000 |

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

## 9. USDA Rural Development Note Payable

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

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| 5% Note Maturing May 31, 2033 | $ 169,484 | $ 171,148 |
| Less: Current Maturities | 2,020 | 1,922 |
| | $ 167,464 | $ 169,226 |
| 4.5% Note Maturing November 30, 2036 | $ 291,366 | $ 297,478 |
| Less: Current Maturities | 3,004 | 2,872 |
| | $ 288,362 | $ 294,606 |
| | $ 455,826 | $ 463,832 |

Principal and interest installments on the above notes are due monthly in amounts of $2,220. As of September 30, 1998, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

| | |
|---|---|
| 1999 | $ 5,024 |
| 2000 | 5,265 |
| 2001 | 5,519 |
| 2002 | 5,783 |
| 2003 | 6,062 |

## 10. Graham County Electric Note Payable

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of $500,000 is to be paid over five years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 1998 is $436,236. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

| | |
|---|---|
| 1999 | $ 90,696 |
| 2000 | 97,640 |
| 2001 | 105,116 |
| 2002 | 113,164 |
| 2003 | 29,620 |

## 11. Short-Term Borrowing

The cooperative has a line of credit at a variable interest rate available with CFC not to exceed $140,000. No balances were outstanding on this agreement at September 30, 1998.

## 12. Related Parties

Graham County Utilities, Inc. (GCU) 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 GCU under an operating and management agreement signed by both parties on June 20, 1989.

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

Intercompany balances between the two cooperatives are summarized as follows:

| | September 30, | |
|---|---|---|
| | 1998 | 1997 |
| Graham County Utilities, Inc. | | |
| Accounts Payable | $ (68,435) | $ (533,651) |
| Net Due to Affiliated Cooperative | $ (68,435) | $ (533,651) |
| Graham County Electric Cooperative, Inc. | | |
| Accounts Receivable | $ 68,435 | $ 533,651 |
| Net Due from Affiliated Cooperative | $ 68,435 | $ 533,651 |

## 13. Litigation

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

## 14. Commitments and Contingencies

The cooperative is aware of issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether the computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The cooperative is utilizing internal and external resources to identify, correct and test the systems for the year 2000 compliance.

## 15. Rate Matters

The net margins for the calendar years 1996 and 1997 failed to achieve the required 1:0 TIER ratio. The cooperative, with the approval of the Arizona Corporation Commission, instituted new rates for the gas department in November 1996. In addition, the company is in the process of assembling the necessary information to file for rate increases in both the gas and water department.

ACCOMPANYING INFORMATION

## INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

Our audit of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 14 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balmer, Segar, Hallett & Moss

Certified Public Accountants

October 29, 1998

**GRAHAM COUNTY UTILITIES, INC.**

**GAS DEPARTMENT**
**BALANCE SHEET**
**SEPTEMBER 30, 1998 AND 1997**

**ASSETS**

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| UTILITY PLANT | | |
| Plant in Service | $ 2,087,038 | $ 1,904,344 |
| Construction Work in Progress | (5,451) | (220) |
| Plant Acquisition Adjustment | 415,484 | 415,484 |
| | $ 2,497,071 | $ 2,319,608 |
| Less: Accumulated Provision for Depreciation and Amortization | 1,133,999 | 1,063,651 |
| | $ 1,363,072 | $ 1,255,957 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 158,413 | $ 155,776 |
| CURRENT ASSETS | | |
| Accounts Receivable (Less allowance for uncollectibles of $4,503 in 1998 and $1,715 in 1997) | $ 46,637 | $ 38,197 |
| Materials and Supplies | 54,610 | 47,585 |
| Other Current and Accrued Assets | 22,627 | 23,407 |
| Total Current Assets | $ 123,874 | $ 109,189 |
| Deferred Charges | $ 87,898 | $ 41,245 |
| | $ 1,733,257 | $ 1,562,167 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| MEMBERS' EQUITY | | |
| Memberships | $ 23,715 | $ 23,460 |
| Accumulated Deficit | (363,202) | (563,068) |
| | $ (339,487) | $ (539,608) |
| LONG -TERM DEBT | | |
| Note Payable - GCEC | $ 345,540 | $ |
| CFC Mortgage Notes Less Current Maturities | 1,376,336 | 1,417,778 |
| | $ 1,721,876 | $ 1,417,778 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 130,482 | $ 29,701 |
| Accounts Payable - Other | 41,588 | 33,818 |
| Accounts Payable - GCEC | 10,847 | 499,864 |
| Overbilled Consumers Fuel Cost | 62,084 | 16,829 |
| Accrued Taxes | 26,764 | 26,105 |
| Customers' Deposits and Prepayments | 69,952 | 69,490 |
| Accrued Interest | 3,667 | 3,711 |
| Accrued Payroll | 5,484 | 4,414 |
| Total Current Liabilities | $ 350,868 | $ 683,932 |
| DEFERRED CREDITS | $ | $ 65 |
| | $ 1,733,257 | $ 1,562,167 |

**GRAHAM COUNTY UTILITIES, INC.**

**GAS DEPARTMENT**
**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)**
**FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

| | September 30, 1998 | September 30, 1997 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 1,574,406 | $ 1,208,161 | $ 366,245 |
| Irrigation | 15,858 | 13,054 | 2,804 |
| Commercial and Industrial | 435,441 | 321,116 | 114,325 |
| Fuel Cost Over Billed | (45,255) | (20,210) | (25,045) |
| Other Operating Revenues | 19,360 | 11,970 | 7,390 |
| Total Operating Revenues | $ 1,999,810 | $ 1,534,091 | $ 465,719 |
| OPERATING EXPENSES | | | |
| Purchased Gas | $ 964,995 | $ 797,318 | $ 167,677 |
| Operations | 172,274 | 149,427 | 22,847 |
| Maintenance | 93,999 | 123,974 | (29,975) |
| Customer Accounts | 191,795 | 175,160 | 16,635 |
| Administrative and General | 163,431 | 152,652 | 10,779 |
| Depreciation and Amortization | 75,516 | 70,962 | 4,554 |
| Taxes | | | 0 |
| Other Interest | 39,773 | 30,003 | 9,770 |
| Total Operating Expenses | $ 1,701,783 | $ 1,499,496 | $ 202,287 |
| OPERATING MARGINS - Before Fixed Charges | $ 298,027 | $ 34,595 | $ 263,432 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 115,459 | 123,664 | (8,205) |
| OPERATING MARGINS (LOSS) - After Fixed Charges | $ 182,568 | $ (89,069) | $ 271,637 |
| Capital Credits | 13,002 | 12,505 | 497 |
| NET OPERATING MARGINS (LOSS) | $ 195,570 | $ (76,564) | $ 272,134 |
| NONOPERATING MARGINS | | | |
| Interest and Investment Income | 4,296 | | 4,296 |
| NET MARGINS (LOSS) | $ 199,866 | $ (76,564) | $ 276,430 |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (563,068) | (486,504) | |
| ACCUMULATED DEFICIT - END OF YEAR | $ (363,202) | $ (563,068) | |

**GRAHAM COUNTY UTILITIES, INC.**

**GAS DEPARTMENT**
**STATEMENT OF CASH FLOWS**
**FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Loss) | $ 199,866 | $ (76,564) |
| Adjustments to Reconcile Net Margins (Loss) to Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 76,124 | 71,569 |
| Capital Credits - Noncash | (13,093) | (12,505) |
| Deferred Charges | (46,653) | (18,716) |
| Deferred Credits | (65) | 65 |
| Overbilled Fuel Cost | 45,255 | 20,210 |
| Accounts Receivable | (8,440) | 9,941 |
| Inventories and Other Current Assets | (6,245) | 204 |
| Payables and Accrued Expenses | 9,917 | (7,807) |
| Advances - GCEC | | 103,429 |
| Net Cash Provided by Operating Activities | $ 256,666 | $ 89,826 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant/Purchase of Property | $ (183,239) | $ (74,712) |
| Patronage Capital Retirement - CFC | 10,456 | 11,646 |
| Net Cash Used in Investing Activities | $ (172,783) | $ (63,066) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on Long-Term Debt - CFC | $ (31,356) | $ (27,790) |
| Payments on Long-Term Debt - GCEC | (52,782) | |
| Memberships | 255 | 1,030 |
| Net Cash Used in Financing Activities | $ (83,883) | $ (26,760) |
| INCREASE IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | | |
| CASH - END OF YEAR | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 115,458 | $ 123,664 |
| Federal Income Tax | $ 0 | $ 0 |

**GRAHAM COUNTY UTILITIES, INC.**

**WATER DEPARTMENT**
**BALANCE SHEET**
**SEPTEMBER 30, 1998 AND 1997**

**ASSETS**

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| UTILITY PLANT AT COST | | |
| Water Plant in Service | $ 1,432,093 | $ 1,133,968 |
| Construction Work in Progress | 112,956 | 281,327 |
| Plant Acquisition Adjustment | 610,168 | 610,168 |
| | $ 2,155,217 | $ 2,025,463 |
| Less: Accumulated Provision for Depreciation and Amortization | 780,439 | 723,460 |
| | $ 1,374,778 | $ 1,302,003 |
| OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE | | |
| Investments in Associated Organizations | $ 142,636 | $ 141,283 |
| CURRENT ASSETS | | |
| Cash - General | $ 1,518 | $ 1,518 |
| Accounts Receivable - Customers (Less allowance for uncollectibles of $3,522 in 1998 and $2,501 in 1997) | 12,438 | 10,485 |
| Accounts Receivable - Other | | 78,799 |
| Materials and Supplies | 23,746 | 22,859 |
| Other Current and Accrued Assets | 7,686 | 7,814 |
| Total Current Assets | $ 45,388 | $ 121,475 |
| DEFERRED CHARGES | $ 53,915 | $ 682 |
| | $ 1,616,717 | $ 1,565,443 |

**EQUITIES AND LIABILITIES**

| | | |
|---|---|---|
| EQUITY | | |
| Memberships | $ 2,500 | $ 2,500 |
| Accumulated Deficit | (41,287) | (49,406) |
| | $ (38,787) | $ (46,906) |
| LONG-TERM DEBT | | |
| CFC Mortgage Notes Less Current Maturities | $ 1,023,031 | $ 1,054,880 |
| USDA Rural Development Notes Less Current Maturities | 455,826 | 463,832 |
| | $ 1,478,857 | $ 1,518,712 |
| CURRENT LIABILITIES | | |
| Current Maturities of Long-Term Debt | $ 35,038 | $ 28,495 |
| Accounts Payable - Other | 58,835 | 8,440 |
| Accounts Payable - GCEC | 57,588 | 33,787 |
| Accrued Taxes | 16,368 | 16,248 |
| Customers' Deposits and Prepayments | 5,160 | 5,090 |
| Accrued Interest | 227 | 233 |
| Accrued Payroll | 3,431 | 1,344 |
| Total Current Liabilities | $ 176,647 | $ 93,637 |
| | $ 1,616,717 | $ 1,565,443 |

# GRAHAM COUNTY UTILITIES, INC.

## WATER DEPARTMENT
## STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)
## FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997

| | September 30, 1998 | September 30, 1997 | Increase (Decrease) |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Residential | $ 356,172 | $ 340,345 | $ 15,827 |
| Commercial and Industrial | 30,033 | 31,050 | (1,017) |
| Sales for Resale | 18,564 | 18,230 | 334 |
| Other Operating Revenues | 1,990 | 1,820 | 170 |
| Total Operating Revenues | $ 406,759 | $ 391,445 | $ 15,314 |
| OPERATING EXPENSES | | | |
| Purchased Power - Pumping | $ 15,181 | $ 15,265 | $ (84) |
| Operations | 42,902 | 40,941 | 1,961 |
| Maintenance | 66,265 | 100,479 | (34,214) |
| Customer Accounts | 35,584 | 30,026 | 5,558 |
| Administrative and General | 65,059 | 52,600 | 12,459 |
| Depreciation and Amortization | 79,213 | 69,068 | 10,145 |
| Taxes | | | 0 |
| Other Interest | 803 | 3,285 | (2,482) |
| Total Operating Expenses | $ 305,007 | $ 311,664 | $ (6,657) |
| OPERATING MARGINS - Before Fixed Charges | $ 101,752 | $ 79,781 | $ 21,971 |
| FIXED CHARGES | | | |
| Interest on Long-Term Debt | 106,196 | 117,491 | (11,295) |
| OPERATING LOSS - After Fixed Charges | $ (4,444) | $ (37,710) | $ 33,266 |
| Capital Credits | 11,529 | 12,322 | (793) |
| NET OPERATING MARGINS (LOSS) | $ 7,085 | $ (25,388) | $ 32,473 |
| NONOPERATING MARGINS | | | |
| Interest | 1,034 | 205 | 829 |
| NET MARGINS (LOSS) | $ 8,119 | $ (25,183) | $ 33,302 |
| ACCUMULATED DEFICIT - BEGINNING OF YEAR | (49,406) | (24,223) | |
| ACCUMULATED DEFICIT - END OF YEAR | $ (41,287) | $ (49,406) | |

**GRAHAM COUNTY UTILITIES, INC.**

**WATER DEPARTMENT**
**STATEMENT OF CASH FLOWS**
**FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND 1997**

| | September 30, 1998 | September 30, 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Margins (Loss) | $ 8,119 | $ (25,183) |
| Adjustments to Reconcile Net Margins (Loss) to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization | 79,236 | 69,071 |
| Capital Credits - Noncash | (12,842) | (12,322) |
| Deferred Charges | (53,233) | 12,219 |
| Accounts Receivable | 76,846 | (76,389) |
| Inventories and Other Current Assets | (759) | 701 |
| Payables and Accrued Expenses | 52,666 | (5,354) |
| Advances GCEC | 23,801 | 20,594 |
| Net Cash Provided by (Used in) Operating Activities | $ 173,834 | $ (16,663) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to Plant | $ (152,011) | $ (267,185) |
| CFC Patronage Capital Retirement | 11,490 | 10,327 |
| Net Cash Used in Investing Activities | $ (140,521) | $ (256,858) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on Long-Term Debt - FMHA | $ | $ 300,000 |
| Payments on Long-Term Debt to CFC | (25,536) | (22,129) |
| Payments - Other Long-Term Debt | (7,777) | (4,350) |
| Net Cash Provided by (Used in) Financing Activities | $ (33,313) | $ 273,521 |
| INCREASE IN CASH | $ 0 | $ 0 |
| CASH - BEGINNING OF YEAR | 1,518 | 1,518 |
| CASH - END OF YEAR | $ 1,518 | $ 1,518 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Paid during the year for: | | |
| Interest on Long-Term Debt | $ 105,918 | $ 117,491 |
| Federal Income Tax | $ 0 | $ 0 |

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

## INDEPENDENT AUDITORS' COMMENT ON CERTAIN MATTERS FOR CFC BORROWERS

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

We have audited the financial statements of Graham County Utilities, Inc., for the years ended September 30, 1998 and 1997, and have issued our report thereon dated October 29, 1998.

Our comments and recommendations, if any, have been detailed in this letter and the Report on Internal Controls. No other written communications with respect to comments or recommendations have been provided.

Accounting Records - The corporation's accounting records were considered adequate in all material respects. The records were maintained in a manner that provides for fair distribution of costs to construction, retirement, maintenance and other expense accounts.

Material Control - The results of the physical inventories of materials and supplies are summarized below.

| | Gas | Water |
|---|---|---|
| Gross Shortages | $ 3,307 | $ 2,740 |
| Gross Overages | 4,282 | 6,916 |
| Net Overages | $ 975 | $ 4,176 |

CFC Loan Fund Advances - During the period of this audit, the corporation did not receive any additional loan fund advances. During the calendar years 1997 and 1996, the cooperative failed to attain the 1.0 TIER rating required by the mortgage agreement. The cooperative is in the process of implementing new water and gas rates.

Service Contracts - There were no material service contracts in effect at the end of the year except for the management and operations agreement with Graham County Electric Cooperative, Inc., previously noted in the Notes to the Financial Statements.

Income Tax Status - The corporation has obtained exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Internal Revenue Form 990 is being filed.

Related Party Transactions - Related party transactions are discussed in Note 11 to the financial statements.

Plant Acquisition Adjustments - In connection with the acquisition of gas and water utility plant, in 1989 an acquisition adjustment was recorded representing the excess of the purchase price over the book value of the acquired property. This adjustment is being amortized over a twenty-five year period with seventeen years remaining in the amortization period.

Certified Public Accountants

October 29, 1998

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
1623 - 10TH STREET
LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 1998, and have issued our report thereon dated October 29, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bolinger, Segars, Gilbert & Moss

Certified Public Accountants

October 29, 1998