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BEFORE THE ARIZONA CORPORATION COMMISSION

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2 COMMISSIONERS

- 3 KRISTEN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

AZ CORP COMMISSION DOCKET CONTROL

8 IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. G-02527A-09-0088  
9 GRAHAM COUNTY UTILITIES, INC. FOR A )  
10 RATE INCREASE )

11 IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. G-02527A-09-0032  
12 GRAHAM COUNTY UTILITIES, INC. GAS )  
13 DIVISION FOR APPROVAL OF A LOAN )

14 IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-02527A-09-0201  
15 GRAHAM COUNTY UTILITIES, INC. WATER )  
16 DIVISION FOR A RATE INCREASE )

17 IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-02527A-09-0033  
18 GRAHAM COUNTY UTILITIES, INC. WATER )  
19 DIVISION FOR APPROVAL OF A LOAN )

20 IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. E-01749A-09-0087  
21 GRAHAM COUNTY ELECTRIC )  
22 COOPERATIVE, INC. FOR APPROVAL OF A )  
23 LOAN GUARANTEE )

24 Graham County Utilities, Inc. ("GCU") hereby files the Rebuttal Testimony of John V.  
25 Wallace in the above-referenced matter.

26 RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of January, 2010.

27 Arizona Corporation Commission

28 DOCKETED By \_\_\_\_\_

JAN - 6 2010

DOCKETED BY [Signature]

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

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**Original** and nineteen (19) copies filed  
this 6<sup>th</sup> day of January, 2010, 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

IN THE MATTER OF THE APPLICATION OF ) GRAHAM COUNTY UTILITIES, INC. FOR A ) RATE INCREASE ) _____ )	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF ) GRAHAM COUNTY UTILITIES, INC. GAS ) DIVISION FOR APPROVAL OF A LOAN ) _____ )	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF ) GRAHAM COUNTY UTILITIES, INC. WATER ) DIVISION FOR A RATE INCREASE ) _____ )	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF ) GRAHAM COUNTY UTILITIES, INC. WATER ) DIVISION FOR APPROVAL OF A LOAN ) _____ )	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF ) GRAHAM COUNTY ELECTRIC ) COOPERATIVE, INC. FOR APPROVAL OF A ) LOAN GUARANTEE ) _____ )	DOCKET NO. E-01749A-09-0087

REBUTTAL

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY UTILITIES, INC.

JANUARY 6, 2010

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1           **I. INTRODUCTION AND SUMMARY OF TESTIMONY**

2           Q.     Please state your name address and occupation.

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

6  
7           Q.     Have you filed direct testimony in these dockets?

8           A.     Yes. I have.

9  
10          Q.     On whose behalf are you appearing in this proceeding?

11          A.     I am appearing on behalf of the applicants, GCU Gas and Water Divisions.

12  
13          Q.     Was this testimony prepared by you or under your direction?

14          A.     Yes, it was.

15  
16          Q.     What areas does your testimony address?

17          A.     My testimony addresses the direct testimony of the Arizona Corporation Commission  
18          Staff (“Staff”) witnesses. In an effort to expedite the Commission’s processing of these  
19          cases, GCU has limited the number of issues it will address in this testimony. Silence on  
20          any Staff issues raised and recommendations provided does not indicate agreement.

21  
22          Q.     Please summarize your recommendations.

23          A.     In an effort to expedite the processing of these cases, GCU did not take a position on each  
24          issue raised by Staff witnesses in their direct testimony. GCU is stipulating to all the  
25          recommendations contained in Staff Witnesses Stukov’s, Miller’s, Wallace’s,  
26          Manrique’s, Gray’s and Bahl’s direct testimony.

27  
28          GCU stipulates to all of the recommendations found in Ms. McNeely-Kirwan’s testimony

1           except the recommendation found at page 9, lines 9 and 10 of her direct testimony that  
2           states that GCU should file proposed DSM programs in this docket before the hearing on  
3           this case. For the reasons stated below in this testimony, GCU recommends that it be  
4           allowed to develop and file DSM/EE programs under the time frame contemplated by the  
5           DSM/EE rules that are being developed in Docket No. G-00000C-08-0314. This will  
6           give GCU the time and the resources necessary to comply with this recommendation.  
7           Additionally, GCU would request that Staff and the Commission consider adopting the  
8           \$0.10 per month bandwidth that was adopted for Duncan Valley Electric Cooperative,  
9           Inc. ("DVEC") (formerly Duncan Rural Services Corporation) in Decision No. 68599,  
10          dated March 23, 2006. As a non-profit entity, GCEC believes the \$0.10 per month  
11          bandwidth granted to DVEC is more relevant than the bandwidths granted to UNS Gas  
12          and Southwest Gas.

13  
14          GCU stipulates to all of the recommendations found in Ms. Allen's testimony except the  
15          recommendation found at page 7, starting at lines 1 of her direct testimony that states that  
16          GCU should refund the over-charged line extension costs over a three year period from  
17          the effective date of a decision in this matter. For the reasons stated below in this  
18          testimony, if the Commission requires the refund of these over-collections, in years  
19          where the refunds proposed by Staff will exceed a certain percentage of the positive  
20          margins of GCU, GCU will cease refunding until such time that margins recover. As  
21          another alternative, GCU would recommend a five year refunding schedule rather than  
22          the three year refunding schedule proposed by Staff. In addition, Ms. Allen is  
23          recommending that GCU recover all the costs associated with line and main extensions  
24          from new customers/developers including 100 percent of the overhead costs. Since gas  
25          service is not a necessity like water and electric, GCU has proposed to continue paying  
26          one-half of the overhead costs as a way to mitigate the additional costs of line and main  
27          extensions for new customers/developers.  
28

1 GCU stipulates to all of the recommendations found in Mr. McMurray's testimony  
2 except the recommendation found on Schedule GTM-2 of his direct testimony that states  
3 that GCU should receive a Times Interest Earned Ratio ("TIER") and Debt Service  
4 Coverage Ratio ("DSC") of 2.38 and 1.94 respectively. For the reasons stated in my  
5 direct and rebuttal testimony, GCU's requested TIER of 3.01 and DSC of 2.27 should be  
6 granted.

7  
8 Finally, GCU stipulates to all of the recommendations found in Mr. Chaves' direct  
9 testimony except GCU has proposed an alternate inclining block tiered rate structure.  
10

11 **II. GCU'S COMMENTS ON STAFF DIRECT TESTIMONY**

12  
13 Q. Does GCU have any comments on Staff Witness McNeely-Kirwan's direct testimony?

14 A. Yes. GCU stipulates to all of the recommendations found in Ms. McNeely-Kirwan's  
15 testimony except the recommendation found at page 9, lines 9 and 10 of her direct  
16 testimony that states that GCU should file proposed DSM programs in this docket before  
17 the hearing on this case. Additionally, GCU would request that Staff and the  
18 Commission consider adopting the \$0.10 per month bandwidth that was adopted for  
19 Duncan Valley Electric Cooperative, Inc.'s Gas Division ("DVEC") (formerly Duncan  
20 Rural Services Corporation) in Decision No. 68599, dated March 23, 2006. As a non-  
21 profit entity, GCEC believes the \$0.10 per month bandwidth granted to DVEC is more  
22 relevant than the bandwidths granted to UNS Gas and Southwest Gas.

23  
24 Q. Is it realistic for GCU to develop meaningful gas DSM programs in this length of time  
25 given its financial condition, level of expertise in developing and implementing DSM  
26 Programs and the contemplated DSM/Energy Efficiency Rules?  
27  
28

1 A. GCU does not believe this is a realistic recommendation given its current financial  
2 situation that has further deteriorated in 2009 as discussed later in more detail in my  
3 testimony and given that it has no in-house expertise on the development and  
4 implementation of DSM and Energy Efficiency (“EE”) programs. Consequently, GCU  
5 will need to hire an outside consultant to determine the type, costs and benefits associated  
6 with gas EE programs.  
7

8  
9 Furthermore, unlike the electric industry, the opportunities for DSM savings in the gas  
10 industry are minimal. Gas utilities have fewer opportunities for EE programs and savings  
11 given the fact that the four main gas appliances can only be made marginally more  
12 efficient (gas furnace efficiency can only be increased from approximately 85 to 95  
13 percent).  
14

15  
16 Finally, GCU’s per capita therm usage and total therms sold has already declined over the  
17 last several years. This decline in the number of therms is one of the reasons GCU had to  
18 file this rate case. GCU questions the need for DSM/EE programs when the sale of  
19 therms is already in decline. GCU is concerned this trend will lead to the need for more  
20 frequent rate increases.  
21

22  
23 Q. Does GCU have any recommendations about developing DSM/EE programs?

24 A. Yes it does. GCU recommends that it be allowed to develop and file DSM/EE programs  
25 under the time frame contemplated by the DSM/EE rules that are being developed in  
26 Docket No. G-00000C-08-0314. This will give GCU the time and the resources  
27 necessary to comply with this recommendation.  
28

1 Q. Does GCU have any comments on Staff Witness Allen's direct testimony?

2 A. Yes. GCU stipulates to all of the recommendations found in Ms. Allen's testimony  
3 except the recommendation found at page 7, starting at line 1 of her direct testimony that  
4 states that GCU should refund the over-charged line extension costs over a three year  
5 period from the effective date of a decision in this matter. In addition, Ms. Allen is  
6 recommending that GCU recover all the costs associated with line and main extensions  
7 from new customers/developers including 100 percent of the overhead costs. GCU has  
8 concerns about potential customers/developers electing not to have gas service installed  
9 in their homes if they must pay 100 percent of all of charges associated line and main  
10 extension costs. Since gas service is not a necessity like water and electric, GCU has  
11 proposed to continue paying one-half of the overhead costs as a way to mitigate the  
12 additional costs of line and main extensions for new customers/developers.

13  
14 Q. Please explain GCU's position on the over-charged line extensions.

15 A. GCU formally apologizes for and deeply regrets that it did not follow its Commission  
16 approved line and main extension policy. However, it has concerns that it will not have  
17 the cash flow necessary to make necessary improvements to its gas system and make  
18 progress toward meeting a 30% equity goal without filing a rate case next year. These  
19 concerns are heightened by the fact that GCU's financial condition continues to  
20 deteriorate in 2009 with a net margin deficit of approximately \$430,000 and no  
21 improvement to its local economy on the horizon. (Please refer to the audited financial  
22 statements for years ended September 30, 2009 and 2008) Staff has also recommended a  
23 revenue requirement that is \$60,000 less than what was requested by GCU. Finally, since  
24 GCU is a non-profit member owned system, all of the members who did not receive line  
25 extensions will pay for the refund.

26  
27 Q. Does GCU have any suggestions for a Gas Division refunding strategy for the over-  
28 collected line and main extension costs?

1 A. Yes. If the Commission requires the refund of these over-collections, in years where the  
2 refunds proposed by Staff will exceed a certain percentage of the positive margins of  
3 GCU, GCU will cease refunding until such time that margins recover. As another  
4 alternative, GCU would recommend a five year refunding schedule rather than the three  
5 year refunding schedule proposed by Staff.

6  
7 Q. Does GCU have any comments on Staff Witness McMurray's direct testimony?

8 A. Yes. GCU stipulates to all of the recommendations found in Mr. McMurray's testimony  
9 except the recommendation found on Schedule GTM-2 of his direct testimony that states  
10 that GCU should receive a Times Interest Earned Ratio ("TIER") and Debt Service  
11 Coverage Ratio ("DSC") of 2.38 and 1.94 respectively. These ratios are considerably  
12 lower than what GCU requested to be able to fund operations and plant improvements.  
13 These lower ratios are compounded by the fact that GCU's financial condition continues  
14 to deteriorate and under the Staff recommendations, it must refund approximately  
15 \$226,000 of over-charged line extension costs over a three year period from the effective  
16 date of a decision in this matter. Finally, in accordance with previous Commission  
17 Decision No. 69245, GCU must make progress towards meeting a 30 percent equity  
18 requirement. GCU's positive equity balance amount has declined from \$519,672 in 2007  
19 to \$386,270 in 2008 to a negative equity amount of \$129,870. (Please refer to the  
20 attached equity reports to Arizona Corporation Commission) For the reasons stated in  
21 my direct and rebuttal testimony, GCU's requested TIER of 3.01 and DSC of 2.27 should  
22 be granted.

23  
24 Q. Does GCU have any comments on Staff Witness Chaves' direct testimony?

25 A. Yes. In an effort to limit the issues in these rate cases, GCU will not be taking a position  
26 on each issue raised in Staff Witness Chaves' direct testimony despite the fact that it  
27 could provide compelling arguments on some of the issues raised by Mr. Chaves.  
28

1 GCU stipulates to all of the recommendations found in Mr. Chaves' direct testimony  
2 except GCU has proposed an alternate inclining block tiered rate structure. GCU is  
3 concerned that Staff's tiered rate structure will result in rate shock for customers who use  
4 over 9,000 gallons because the rate per 1,000 gallons increases by 113 percent from  
5 \$2.55 to \$5.43. In addition, a large portion of GCU's revenues are collected from  
6 customers who use over 9,000 gallons. Staff has not accounted for the significant amount  
7 of conservation and decrease in GCU's revenues that will take place under its  
8 recommended tiered rate design. GCU's customers have also have not had any notice  
9 that their rates could be changing so drastically. Finally, GCU currently has water  
10 resources well in excess of its demand for the next 5 to 10 years. GCU's proposed tiered  
11 rate structure will provide customers with a more gradual transition between a flat rate  
12 and tiered rate structure. For these reasons, GCU recommends its proposed tiered rate  
13 structure be adopted.

14  
15 Q. Does GCU have any comments on Staff Witness Stukov's direct testimony?

16 A. Yes. In an effort to limit the issues in these rate cases, GCU will not be taking a position  
17 on each issue raised in Staff Witness Stukov's direct testimony despite the fact that it  
18 could provide compelling arguments on some of the issues raised by Ms. Stukov. GCU  
19 stipulates to all of the recommendations found in Ms. Stukov's direct testimony.

20  
21 Q. Does GCU have any comments on Staff Witness Miller's direct testimony?

22 A. Yes. GCU supports and stipulates to all of the recommendations found in Mr. Miller's  
23 direct testimony.

24  
25 Q. Does GCU have any comments on Staff Witness Wallace's direct testimony?

26 A. Yes. In an effort to limit the issues in these rate cases, GCU will not be taking a position  
27 on each issue raised in Staff Witness Wallace's direct testimony despite the fact that it  
28 could provide compelling arguments on some of the issues raised by Ms. Wallace. GCU

1 stipulates to all of the recommendations found in Ms. Wallace's direct testimony.

2  
3 Q. Does GCU have any comments on Staff Witness Manrique's direct testimony?

4 A. Yes. GCU supports and stipulates to all of the recommendations found in Mr.  
5 Manrique's direct testimony.

6  
7 Q. Does GCU have any comments on Staff Witness Gray's direct testimony?

8 A. Yes. GCU supports and stipulates to all of the recommendations found in Mr. Gray's  
9 direct testimony.

10  
11 Q. Does GCU have any comments on Staff Witness Bahl's direct testimony?

12 A. Yes. GCU supports and stipulates to all of the recommendations found in Mr. Bahl's  
13 direct testimony.

14  
15 Q. Does that conclude your rebuttal testimony?

16 A. Yes, it does.  
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28

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

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

**CERTIFIED PUBLIC ACCOUNTANTS  
PHONE: (806) 747-3808  
FAX: (806) 747-3815  
8215 NASHVILLE AVENUE  
LURBOCK, 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. (the Cooperative), as of September 30, 2009 and 2008, 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, 2009 and 2008, 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 23, 2009, on our consideration of the Cooperative'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 23, 2009

**FINANCIAL STATEMENTS**

## GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**ASSETS**

	September 30,	
	<u>2009</u>	<u>2008</u>
<b>UTILITY PLANT</b>		
Plant in Service	\$ 7,020,363	\$ 5,814,817
Construction Work in Progress	397,312	1,287,278
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 8,443,327	\$ 8,127,747
Less: Accumulated Provision for Depreciation and Amortization	<u>4,131,615</u>	<u>3,848,763</u>
	\$ <u>4,311,712</u>	\$ <u>4,278,984</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ <u>238,052</u>	\$ <u>243,099</u>
<b>CURRENT ASSETS</b>		
Cash - General	\$ 46,579	\$ 44,517
Accounts Receivable (Less allowance for uncollectibles of \$92,362 in 2009 and \$80,217 in 2008)	35,155	71,765
Underbilled Consumers Fuel Cost		32,417
Materials and Supplies	138,178	142,225
Other Current and Accrued Assets	<u>29,727</u>	<u>32,475</u>
Total Current Assets	\$ <u>249,639</u>	\$ <u>323,399</u>
<b>DEFERRED CHARGES</b>	\$ <u>40,228</u>	\$ <u>35,878</u>
<b>TOTAL ASSETS</b>	\$ <u>4,839,631</u>	\$ <u>4,881,360</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 31,079	\$ 30,629
Accumulated Margins (Deficits)	<u>(160,949)</u>	<u>355,541</u>
	\$ <u>(129,870)</u>	\$ <u>386,170</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,360,070	\$ 1,536,299
AEPCO Note Payable Less Current Maturities	3,667	25,667
Graham County Electric Cooperative Note Payable Less Current Maturities		14,607
USDA Rural Development Note Payable Less Current Maturities	<u>1,534,502</u>	<u>1,557,427</u>
	\$ <u>2,898,239</u>	\$ <u>3,134,000</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 232,007	\$ 238,628
Accounts Payable - Other	81,476	158,717
Accounts Payable - Graham County Electric Coop	1,340,160	817,693
Overbilled Consumers Fuel Cost	247,529	
Customers' Deposits and Prepayments	57,317	75,810
Accrued Taxes	77,250	55,232
Accrued Interest	19,199	15,110
Accrued Payroll	<u>16,324</u>	
Total Current Liabilities	\$ <u>2,071,262</u>	\$ <u>1,361,190</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	\$ <u>4,839,631</u>	\$ <u>4,881,360</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,	
	<u>2009</u>	<u>2008</u>
OPERATING REVENUES	\$ <u>4,034,707</u>	\$ <u>4,373,004</u>
OPERATING EXPENSES		
Purchased Gas	\$ 2,100,652	\$ 2,398,790
Power for Pumping	40,037	32,595
Operations	375,477	345,717
Maintenance	539,626	441,186
Consumer Accounts	342,675	334,466
Administrative and General	630,740	495,840
Depreciation and Amortization	282,852	246,611
Other Interest	69,033	35,768
Total Operating Expenses	\$ <u>4,381,092</u>	\$ <u>4,330,973</u>
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (346,385)	\$ 42,031
Interest on Long-Term Debt	<u>180,664</u>	<u>195,057</u>
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (527,049)	\$ (153,026)
Capital Credits	<u>9,951</u>	<u>14,142</u>
NET OPERATING (DEFICIT)	\$ (517,098)	\$ (138,884)
NONOPERATING MARGINS		
Interest	<u>608</u>	<u>5,433</u>
NET (DEFICIT)	\$ (516,490)	\$ (133,451)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>355,541</u>	<u>488,992</u>
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	\$ <u>(160,949)</u>	\$ <u>355,541</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (516,490)	\$ (133,451)
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	282,852	246,611
Capital Credits - Noncash	(11,951)	(4,242)
Over/(Under)billed Fuel Cost	279,946	(145,554)
Deferred Charges	(4,350)	8,341
Accounts Receivable	36,610	30,441
Inventories and Other Current Assets	6,796	16,853
Payables and Accrued Expenses	(53,304)	45,862
Net Payments (to) from - Graham County Electric Cooperative	522,467	843,886
Net Cash Provided by Operating Activities	<u>\$ 542,576</u>	<u>\$ 908,747</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (315,580)	\$ (916,725)
Investments in Associated Organizations	16,998	14,362
Net Cash Used in Investing Activities	<u>\$ (298,582)</u>	<u>\$ (902,363)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from USDA	\$	\$ 206,278
Payments on Note Payable to AEPCO	(22,000)	(20,166)
Payments on Long-Term Debt to CFC	(157,329)	(146,108)
Payments on Long-Term Debt to GCEC	(41,728)	(38,761)
Payments on Long-Term Debt to USDA	(21,325)	(14,630)
Memberships	450	(51)
Net Cash Used in Financing Activities	<u>\$ (241,932)</u>	<u>\$ (13,438)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>\$ 2,062</b>	<b>\$ (7,054)</b>
<b>CASH - BEGINNING OF YEAR</b>	<u>44,517</u>	<u>51,571</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 46,579</u></u>	<u><u>\$ 44,517</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 179,621	\$ 200,791
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

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

**Basis of Accounting**

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

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

**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, 2009 and 2008, was estimated to be \$57,282 and \$58,032, respectively, in the gas department and \$39,691 and \$36,270, respectively, 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, 2009 and 2008, the Cooperative was overbilled \$247,529 and underbilled \$32,417, 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 \$57,317 and \$75,810 at September 30, 2009 and 2008, 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.

**Cash and Cash Equivalents**

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

**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,			
	2009			2008
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,475,189	1,475,189	555,938
Transmission		1,098,561	1,098,561	983,468
Distribution	3,504,479	531,670	4,036,149	3,865,329
General	194,859	111,452	306,311	305,929
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	<u>\$ 3,743,276</u>	<u>\$ 3,277,087</u>	<u>\$ 7,020,363</u>	<u>\$ 5,814,817</u>
Construction Work in Progress	195,805	201,507	397,312	1,287,278
Utility Plant Acquisition Adjustment	<u>415,484</u>	<u>610,168</u>	<u>1,025,652</u>	<u>1,025,652</u>
Total Utility Plant	<u>\$ 4,354,565</u>	<u>\$ 4,088,762</u>	<u>\$ 8,443,327</u>	<u>\$ 8,127,747</u>

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

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2009 and 2008, totaled \$241,826 and \$205,585, respectively.

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to 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, 2009, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 315,769	\$ 463,727
Current Year	<u>16,619</u>	<u>24,407</u>
	\$ <u>332,388</u>	\$ <u>488,134</u>
Unamortized Adjustment	<u>\$ 83,096</u>	<u>\$ 122,034</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
CFC		
Capital Term Certificates	\$ 137,512	\$ 152,510
Patronage Capital	93,414	83,463
Memberships	<u>1,000</u>	<u>1,000</u>
	\$ 231,926	\$ 236,973
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 6,126</u>	<u>\$ 6,126</u>
	<u>\$ 238,052</u>	<u>\$ 243,099</u>

5. Deferred Charges

Deferred charges consisted of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Gas Department		
Unamortized Debt Expense	\$ 15,148	\$ 19,015
Clearing Accounts	<u>400</u>	<u></u>
	\$ <u>15,548</u>	\$ <u>19,015</u>
Water Department		
Unamortized Debt Expense	<u>\$ 24,680</u>	<u>\$ 16,863</u>
	<u>\$ 40,228</u>	<u>\$ 35,878</u>

**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 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2009 and 2008, is \$3,867 and \$3,867, respectively.

**6. Memberships**

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
<b>Class A Memberships</b>		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
<b>Class B Memberships</b>		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,414	20,964
<b>Class C Memberships</b>		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 31,079</u>	<u>\$ 30,629</u>

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	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	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	(179,686)	(26,292)	(205,978)
2009 Nine Months	(352,645)	(75,173)	(427,818)
Patronage Capital Retired	\$ (305,016)	\$ 226,102	\$ (78,914)
		(82,035)	(82,035)
	\$ (305,016)	\$ 144,067	\$ (160,949)

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, 2009 and 2008, 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.

**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, June 30, 2026, and September 30, 2031:

	September 30,	
	2009	2008
Fixed - 7.10%	\$ 640,232	\$ 743,396
Variable (4.65% in 2009, 4.90% in 2008)	222,961	256,966
Fixed - 7.45%	310,640	323,387
Fixed - 6.25%	359,137	366,550
	<u>\$ 1,532,970</u>	<u>\$ 1,690,299</u>
Less: Current Maturities	172,900	154,000
	<u>\$ 1,360,070</u>	<u>\$ 1,536,299</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2009, annual maturities of long-term debt due CFC for the next five years is as follows:

2010	\$ 172,900
2011	184,400
2012	196,800
2013	209,900
2014	224,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the year ended September 30, 2009 and 2008.

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,	
	2009	2008
5.000% Note Maturing March, 2032	\$ 140,742	\$ 144,052
4.500% Note Maturing August, 2035	247,329	252,271
4.500% Note Maturing July, 2040	86,261	87,529
4.125% Note Maturing March, 2047	<u>1,082,670</u>	<u>1,094,475</u>
	\$ 1,557,002	\$ 1,578,327
Less: Current Maturities	<u>22,500</u>	<u>20,900</u>
	<u>\$ 1,534,502</u>	<u>\$ 1,557,427</u>

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2009, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2010	\$ 22,500
2011	23,500
2012	24,300
2013	25,600
2014	26,700

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 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2009, is \$14,607. Annual maturities due to Graham County Electric Cooperative for the next year as follows:

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, 2009, is \$25,667. Annual maturities due to AEPCO for the next two years are as follows:

2010	\$ 22,000
2011	3,667

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Related Parties**

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

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

Intercompany balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (1,340,164)	\$ (820,100)
Note Payable	<u>(14,607)</u>	<u>(56,335)</u>
Net Due to Affiliated Cooperative	<u>\$ (1,354,771)</u>	<u>\$ (876,435)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,340,164	\$ 820,100
Accounts Payable		
Note Receivable	<u>14,607</u>	<u>56,335</u>
Net Due from Affiliated Cooperative	<u>\$ 1,354,771</u>	<u>\$ 876,435</u>

**13. Litigation and Contingencies**

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

The Cooperative has filed for rate increases in both water and gas companies with the Arizona Corporation Commission. Gas and Water rates cases have been tied together by agreement with the Arizona Corporation Commission. The hearing is set at the end of January 2010 with an open hearing around March or April 2010, and implementation of the rates one month thereafter.

**14. Subsequent Events**

The Cooperative has evaluated subsequent events through November 23, 2009, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS  
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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 23, 2009

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

Schedule 1

**BALANCE SHEET**  
**SEPTEMBER 30, 2009 AND 2008**

**ASSETS**

	September 30,	
	2009	2008
<b>UTILITY PLANT</b>		
Plant in Service	\$ 3,743,276	\$ 3,597,916
Construction Work in Progress	195,805	101,760
Plant Acquisition Adjustment	415,484	415,484
	\$ 4,354,565	\$ 4,115,160
Less: Accumulated Provision for Depreciation and Amortization	2,207,546	2,070,451
	\$ 2,147,019	\$ 2,044,709
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 134,341	\$ 135,593
 <b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$76,885 in 2009 and \$65,606 in 2008)	\$ 21,546	\$ 57,220
Underbilled Consumers Fuel Cost		32,417
Materials and Supplies	75,283	91,067
Other Current and Accrued Assets	22,295	20,582
Total Current Assets	\$ 119,124	\$ 201,266
Deferred Charges	\$ 15,548	\$ 19,015
 <b>TOTAL ASSETS</b>	\$ 2,416,032	\$ 2,400,583

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 28,579	\$ 28,129
Accumulated Margins (Deficits)	(305,018)	125,783
	\$ (276,437)	\$ 153,912
 <b>LONG -TERM DEBT</b>		
Note Payable - Graham County Electric Cooperative	\$	\$ 14,607
CFC Mortgage Notes Less Current Maturities	982,069	1,113,729
	\$ 982,069	\$ 1,128,336
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 159,807	\$ 148,128
Accounts Payable - Other	69,351	103,777
Accounts Payable - Graham County Electric Cooperative	1,103,232	750,751
Overbilled Consumers Fuel Cost	247,529	
Accrued Taxes	36,220	35,549
Customers' Deposits and Prepayments	68,845	67,270
Accrued Interest	13,096	12,860
Accrued Payroll	12,320	
Total Current Liabilities	\$ 1,710,400	\$ 1,118,335
 <b>TOTAL EQUITIES AND LIABILITIES</b>	\$ 2,416,032	\$ 2,400,583

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,		Increase (Decrease)
	2009	2008	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,678,432	\$ 2,658,038	\$ 20,394
Irrigation	8,456	5,263	3,193
Commercial and Industrial	976,257	936,481	39,776
Fuel Cost Under (Over) Billed	19,960	144,749	(124,789)
Other Operating Revenues	(280,168)	21,520	(301,688)
Total Operating Revenues	<u>\$ 3,402,937</u>	<u>\$ 3,766,051</u>	<u>\$ (363,114)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 2,100,652	\$ 2,398,790	\$ (298,138)
Operations	309,874	285,961	23,913
Maintenance	376,161	285,370	90,791
Customer Accounts	283,581	276,124	7,457
Administrative and General	499,297	394,362	104,935
Depreciation and Amortization	137,095	129,506	7,589
Other Interest	54,993	29,948	25,045
Total Operating Expenses	<u>\$ 3,761,653</u>	<u>\$ 3,800,061</u>	<u>\$ (38,408)</u>
<b>OPERATING (DEFICIT) - Before Fixed Charges</b>	<u>\$ (358,716)</u>	<u>\$ (34,010)</u>	<u>\$ (324,706)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>79,858</u>	<u>86,266</u>	<u>(6,408)</u>
<b>OPERATING (DEFICIT) - After Fixed Charges</b>	<u>\$ (438,574)</u>	<u>\$ (120,276)</u>	<u>\$ (318,298)</u>
Capital Credits	<u>7,229</u>	<u>10,168</u>	<u>(2,939)</u>
<b>NET OPERATING (DEFICIT)</b>	<u>\$ (431,345)</u>	<u>\$ (110,108)</u>	<u>\$ (321,237)</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>546</u>	<u>1,733</u>	<u>(1,187)</u>
<b>NET (DEFICIT)</b>	<u>\$ (430,799)</u>	<u>\$ (108,375)</u>	<u>\$ (322,424)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>125,783</u>	<u>234,158</u>	
<b>ACCUMULATED MARGINS (DEFICIT) - END OF YEAR</b>	<u>\$ (305,016)</u>	<u>\$ 125,783</u>	

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

**Schedule 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	September 30,	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (430,799)	\$ (108,375)
Adjustments to Reconcile Net (Deficit) to Net Cash		
Provided by (Used in) Operating Activities		
<i>Depreciation and Amortization</i>	137,095	129,506
Capital Credits - Noncash	(9,229)	(3,050)
Deferred Charges	3,467	4,911
Over/(Under)billed Fuel Cost - Net	279,946	(145,554)
Accounts Receivable	35,674	22,956
Inventories and Other Current Assets	14,051	9,018
Payables and Accrued Expenses	(19,624)	28,688
Net Payments to - Water Department		(160,862)
Net Payments from - Graham County Electric Cooperative	352,481	734,595
Net Cash Provided by Operating Activities	<u>\$ 363,062</u>	<u>\$ 511,833</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (239,405)	\$ (403,886)
Investments in Associated Organizations	10,481	6,812
Net Cash Used in Investing Activities	<u>\$ (228,924)</u>	<u>\$ (397,074)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (92,860)	\$ (86,277)
Payments on Long-Term Debt - Graham County Electric Cooperative	(41,728)	(38,761)
Memberships	450	(51)
Net Cash Used in Financing Activities	<u>\$ (134,138)</u>	<u>\$ (125,089)</u>
<b>INCREASE (DECREASE) IN CASH</b>	\$ 0	\$ (10,330)
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>10,330</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 82,630</u>	<u>\$ 92,006</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2009 AND 2008

ASSETS

	September 30,	
	<u>2009</u>	<u>2008</u>
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,277,087	\$ 2,216,901
Construction Work in Progress	201,507	1,185,518
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,088,762</u>	<u>\$ 4,012,587</u>
Less: Accumulated Provision for Depreciation and Amortization	1,924,069	1,778,312
	<u>\$ 2,164,693</u>	<u>\$ 2,234,275</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 103,711	\$ 107,506
CURRENT ASSETS		
Cash - General	\$ 46,579	\$ 44,517
Accounts Receivable - Customers (Less allowance for uncollectibles of \$15,477 in 2009 and \$14,611 in 2008)	13,609	14,545
Materials and Supplies	62,895	51,158
Other Current and Accrued Assets	7,432	11,914
Total Current Assets	<u>\$ 130,515</u>	<u>\$ 122,134</u>
DEFERRED CHARGES	\$ 24,680	\$ 16,863
NET ASSETS	<u>\$ 2,423,599</u>	<u>\$ 2,480,778</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	144,067	229,758
	<u>\$ 146,567</u>	<u>\$ 232,258</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 378,001	\$ 422,570
AEPCCO Notes Payable Less Current Maturities	3,667	25,667
USDA Rural Development Notes Less Current Maturities	1,534,502	1,557,427
	<u>\$ 1,916,170</u>	<u>\$ 2,005,664</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 72,200	\$ 90,500
Accounts Payable - Other	12,125	54,940
Accounts Payable - Graham County Electric Cooperative	236,928	66,942
Accrued Taxes	21,097	19,684
Customers' Deposits and Prepayments	8,405	8,540
Accrued Interest	6,103	2,250
Accrued Payroll	4,004	
Total Current Liabilities	<u>\$ 360,862</u>	<u>\$ 242,856</u>
NET EQUITIES AND LIABILITIES	<u>\$ 2,423,599</u>	<u>\$ 2,480,778</u>

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,		Increase (Decrease)
	2009	2008	
<b>OPERATING REVENUES</b>			
Residential	\$ 546,737	\$ 520,702	\$ 26,035
Commercial and Industrial	50,027	48,371	1,656
Sales for Resale	31,186	33,910	(2,724)
Other Operating Revenues	3,820	3,970	(150)
Total Operating Revenues	<u>\$ 631,770</u>	<u>\$ 606,953</u>	<u>\$ 24,817</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 40,037	\$ 32,595	\$ 7,442
Operations	65,603	59,756	5,847
Maintenance	163,465	155,816	7,649
Customer Accounts	59,094	58,342	752
Administrative and General	131,443	101,478	29,965
Depreciation and Amortization	145,757	117,105	28,652
Other Interest	14,040	5,820	8,220
Total Operating Expenses	<u>\$ 619,439</u>	<u>\$ 530,912</u>	<u>\$ 88,527</u>
<b>OPERATING MARGINS - Before</b>			
Fixed Charges	\$ 12,331	\$ 76,041	\$ (63,710)
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>100,806</u>	<u>108,791</u>	<u>(7,985)</u>
<b>OPERATING (DEFICIT) - After Fixed Charges</b>			
	\$ (88,475)	\$ (32,750)	\$ (55,725)
Capital Credits	<u>2,722</u>	<u>3,974</u>	<u>(1,252)</u>
<b>NET OPERATING (DEFICIT)</b>			
	\$ (85,753)	\$ (28,776)	\$ (56,977)
<b>NONOPERATING MARGINS</b>			
Interest	<u>62</u>	<u>3,700</u>	<u>(3,638)</u>
<b>NET (DEFICIT)</b>			
	\$ (85,691)	\$ (25,076)	<u>\$ (60,615)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>			
	<u>229,758</u>	<u>254,834</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>			
	<u>\$ 144,067</u>	<u>\$ 229,758</u>	

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

**Schedule 6**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	September 30,	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (85,691)	\$ (25,076)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	145,757	117,105
Capital Credits - Noncash	(2,722)	(1,192)
Deferred Charges	(7,817)	3,430
Accounts Receivable	936	7,485
Inventories and Other Current Assets	(7,255)	7,835
Payables and Accrued Expenses	(33,680)	17,174
Net Advances from (to) - Gas Department		160,862
Net Payments from (to) - Graham County Electric Cooperative	169,986	109,291
Net Cash Provided by Operating Activities	<u>\$ 179,514</u>	<u>\$ 396,914</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (76,175)	\$ (512,839)
Investments in Associated Organizations	6,517	7,550
Net Cash Used in Investing Activities	<u>\$ (69,658)</u>	<u>\$ (505,289)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from USDA	\$	\$ 206,278
Payments on Note Payable to AEPCO	(22,000)	(20,166)
Payments on Long-Term Debt to CFC	(64,469)	(59,831)
Payments on Long-Term Debt to USDA	(21,325)	(14,630)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (107,794)</u>	<u>\$ 111,651</u>
<b>INCREASE IN CASH</b>	<b>\$ 2,062</b>	<b>\$ 3,276</b>
<b>CASH - BEGINNING OF YEAR</b>	<u>44,517</u>	<u>41,241</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 46,579</u></u>	<u><u>\$ 44,517</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 96,991	\$ 108,785
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

**GRAHAM COUNTY UTILITIES, INC..  
 COMBINED WATER AND GAS DIVISIONS  
 2007 ANNUAL EQUITY ACCUMULATION REPORT  
 Decision No. 69245**

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th	
		Annual Revenues	Cumulative Revenues
1			
2	2006	4,254,119	4,254,119
3	2007	FYE 4,241,224	8,495,343
4			
5			

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th	
		Equity Balance as of 9/30/05	Annual Equity Balances
6			
7	2005	154,258 (Base Period)	
8	2006	341,746	
9	2007	519,672	
10			

Compliance Analysis		
LINE NOS.	Calculation of 2% Equity Goal Requirement	
11	2007 Equity Balance	519,672
12	Less Base Period Balance	(154,258)
13	Actual Increase in Equity	365,414
14		
15	2007 Cumulative Revenue	8,495,343
16	Multiplied by	0.02
17	Two Percent Equity Goal	169,907
18	If Line 13 is greater than Line 17, the 2% Equity Increase Goal has been met go to Line 22	
19	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20	
20	If the Cooperative has been granted a waiver from filing a rate application, write "Waiver Granted and Attached" in the space to the right and attach the Staff memorandum granting approval and go to Line 22. Otherwise, go to Line 21	
21	The Company is required to file a rate application by June 30th as a compliance item. If a rate application has been filed, write the Docket No. for the rate application in the space to the right. Otherwise, write "Rate Application Required by	
22	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20  In Compliance	
23	Is Members' Equity at least 30% of total equity? Write "Yes" or "No" in the space to the right. If "Yes", Attach support, no Further Filings are required.	No

**GRAHAM COUNTY UTILITIES, INC..  
 COMBINED WATER AND GAS DIVISIONS  
 2008 ANNUAL EQUITY ACCUMULATION REPORT  
 Decision No. 69245**

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th	
1		Annual Revenues	Cumulative Revenues
2	2006	4,254,119	4,254,119
3	2007	FYE 4,241,224	8,495,343
4	2008	FYE 4,373,004	12,868,347
5			

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th	
6		Equity Balance as of 9/30/05	Annual Equity Balances
7	2005	154,258 (Base Period)	
8	2006	341,746	
9	2007	519,672	
10	2008	386,170	

Compliance Analysis			
LINE NOS.	Calculation of 2% Equity Goal Requirement		
11	2008 Equity Balance		386,170
12	Less Base Period Balance		(154,258)
13	Actual Increase in Equity		231,912
14			
15	2008 Cumulative Revenue		12,868,347
16	Multiplied by		0.02
17	Two Percent Equity Goal		257,367
18	If Line 13 is greater than Line 17, the 2% Equity Increase Goal has been met go to Line 22		
19	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20		Equity Increase Goal Not Achieved
20	If the Cooperative has been granted a waiver from filing a rate application, write "Waiver Granted and Attached" in the space to the right and attach the Staff memorandum granting approval and go to Line 22. Otherwise, go to Line 21		
21	The Company is required to file a rate application by June 30th as a compliance item. If a rate application has been filed, write the Docket No. for the rate application in the space to the right. Otherwise, write "Rate Application Required by		G-02527A-09- W-02527A-09-
22	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20		Equity Increase Goal Not Achieved
23	Is Members' Equity at least 30% of total equity? Write "Yes" or "No" in the space to the right. If "Yes", Attach support, no Further Filings are required.		No

**GRAHAM COUNTY UTILITIES, INC..  
 COMBINED WATER AND GAS DIVISIONS  
 2009 ANNUAL EQUITY ACCUMULATION REPORT  
 Decision No. 69245**

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th		
1		Annual Revenues		Cumulative Revenues
2	2006	4,254,119		4,254,119
3	2007	FYE	4,241,224	8,495,343
4	2008	FYE	4,373,004	12,868,347
5	2009	FYE	4,034,707	16,903,054

LINE NOS.	YEARS	FOR FISCAL YEAR ENDED SEPTEMBER 30th		
6		Equity Balance as of 9/30/05	Annual Equity Balances	
7	2005	154,258 (Base Period)		
8	2006	341,746		
9	2007	519,672		
10	2008	386,170		
11	2009	(129,870)		

**Compliance Analysis**

LINE NOS.	Calculation of 2% Equity Goal Requirement		
11	2009 Equity Balance		(129,870)
12	Less Base Period Balance		(154,258)
13	Actual Increase in Equity		(284,128)
14			
15	2009 Cumulative Revenue		16,903,054
16	Multiplied by		0.02
17	Two Percent Equity Goal		338,061
18	If Line 13 is greater than Line 17, the 2% Equity Increase Goal has been met go to Line 22		
19	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20		Equity Increase Goal Not Achieved
20	If the Cooperative has been granted a waiver from filing a rate application, write "Waiver Granted and Attached" in the space to the right and attach the Staff memorandum granting approval and go to Line 22. Otherwise, go to Line 21		
21	The Company is required to file a rate application by June 30th as a compliance item. If a rate application has been filed, write the Docket No. for the rate application in the space to the right. Otherwise, write "Rate Application Required by		G-02527A-09-0088 W-02527A-09-
22	If Line 13 is less than Line 17, write "Equity Increase Goal Not Achieved" in the space to the right. Go to Line 20		Equity Increase Goal Not Achieved
23	Is Members' Equity at least 30% of total equity? Write "Yes" or "No" in the space to the right. If "Yes", Attach support, no Further Filings are required.		No

**GRAHAM COUNTY UTILITIES, INC.  
RECOMMENDED TIERED RATE STRUCTURE  
WATER DIVISION**

<b>TOTALS</b>	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>OLD REVENUE</b>	<b>NEW REVENUE</b>	<b>% INCREASE</b>
5/8" X 3/4" METER	13,880	127,320	556,803	704,443	26.5%
1" METER	34	621	2,375	3,023	27.3%
1 1/2" METER	48	1,227	4,569	5,543	21.3%
2" METER	96	1,550	7,312	9,535	30.4%
4" METER	24	21,662	33,910	43,247	27.5%
	<b>14,082</b>	<b>152,380</b>	<b>604,969</b>	<b>765,790</b>	<b>0.27</b>
<b>5/8" X 3/4" METER</b>	<b>MINIMUM</b>	<b>0-3000</b>	<b>3001-9000</b>	<b>OVER 9000</b>	<b>TTL REVENUE</b>
RATES	19.50	3.00	3.20	3.51	
	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>MINIMUM \$</b>	<b>COMMODITY \$</b>	<b>TOTAL DOLLARS</b>
0-3000	3,401	4,508	66,320	13,524	79,844
3001-9000	6,064	34,876	118,248	111,603	229,851
Over 9000	4,415	87,936	86,093	308,655	394,748
	<b>13,880</b>	<b>127,320</b>	<b>270,660</b>	<b>433,783</b>	<b>704,443</b>
<b>3/4" METER</b>					
RATES	21.50	3.00	3.20	3.51	
0-3000	-	-	-	-	-
3001-9000	-	-	-	-	-
Over 9000	-	-	-	-	-
	<b>MINIMUM</b>	<b>0-19000</b>	<b>OVER 19000</b>		
RATES	31.00	3.00	3.20		
	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>MINIMUM \$</b>	<b>COMMODITY \$</b>	<b>TOTAL DOLLARS</b>
0-19000	18	92	558	276	834
Over 19000	16	529	496	1,693	2,189
	<b>34</b>	<b>621</b>	<b>1,054</b>	<b>1,969</b>	<b>3,023</b>
<b>1 1/2" METER</b>					
RATES	36.50	3.00	3.20		
	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>MINIMUM \$</b>	<b>COMMODITY \$</b>	<b>TOTAL DOLLARS</b>
0-19000	30	94	1,095	282	1,377
Over 19000	18	1,133	540	3,626	4,166
	<b>48</b>	<b>1,227</b>	<b>1,635</b>	<b>3,908</b>	<b>5,543</b>
<b>2" METER</b>					
RATES	39.00	3.00	3.20		
	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>MINIMUM \$</b>	<b>COMMODITY \$</b>	<b>TOTAL DOLLARS</b>
0-20000	69	807	2,691	2,421	5,112
Over 20000	27	743	1,053	3,370	4,423
	<b>96</b>	<b>1,550</b>	<b>3,744</b>	<b>5,791</b>	<b>9,535</b>
<b>3" Meter</b>	48	3.00	3.20		
0-23000	-	-	-	-	-
Over 23000	-	-	-	-	-
	<b>MINIMUM</b>	<b>0-20000</b>	<b>OVER 20000</b>		
RATES	58	3.00	3.20		
0-26000	-	-	-	-	-
Over 26000	-	-	-	-	-
	<b>MINIMUM</b>	<b>0-42000</b>	<b>OVER 42000</b>		
RATES	80	3.00	3.20		
0-42000	-	-	-	-	-
Over 42000	-	-	-	-	-
	<b>RESALE*</b>				
RATES	58.00	80.00	1.92		
	<b>BILLS</b>	<b>1000 GALLONS</b>	<b>MINIMUM \$</b>	<b>COMMODITY \$</b>	<b>TOTAL DOLLARS</b>
ALL	24	21,662	1,656	41,591	43,247
	<b>14,082</b>	<b>152,380</b>	<b>278,749</b>	<b>487,041</b>	<b>765,790</b>
TOTAL				765,847	57

<b>Summary</b>	<b>MINIMUM</b>	<b>1st TIER</b>	<b>2nd TIER</b>	<b>3rd TIER</b>
5/8" X 3/4" METER	19.50	3.00	3.20	3.51
3/4" METER	21.50	3.00	3.20	3.51
1" METER	31.00	3.00	3.20	
1 1/2" METER	36.50	3.00	3.20	
2" METER	39.00	3.00	3.20	
3" Meter	48.00	3.00	3.20	
4" METER	58.00	3.00	3.20	
6" Meter	80.00	3.00	3.20	
RESALE	Meter Size	1.92		

\*NOTE: RESALE SERVICE CURRENTLY INCLUDES ONE 6" METER AND ONE 4" METER. RESALE CUSTOMERS ARE CHARGED THE SAME MINIMUM CHARGE AS OTHER METERS. ONLY THE COMMODITY RATE IS DIFFERENT FOR RESALE SERVICE.