

NEW APPLICATION

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

Arizona Corporation Commission

- GARY PIERCE, Chairman
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP
- BRENDA BURNS

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AZ CORP COMMISSION
DOCKET CONTROL

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-02527A-12-0321
 GRAHAM COUNTY UTILITIES GAS DIVISION)
 INC. FOR A RATE INCREASE)
 _____)

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

1. GCU is a nonprofit cooperative corporation that provides gas distribution service to approximately 5,070 customers in Graham County, Arizona.
2. GCU is a Class B 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 7 percent over current rates. The proposed revenue increase would produce a rate of return of 10.48 percent on its rate base of \$2,576,030 and would yield an operating margin of \$259,299 after interest expense.
4. The reasons underlying the Company's request for an overall 7 percent increase include GCEC's investment of over \$776,485 in plant improvements and replacements since September 30, 2008. Since its last test year GCU has incurred approximately \$985,487 in

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

3 5. In GCU's last rate case, the Commission authorized a 12.11 percent
4 increase in gross annual revenues based on a test year ending September 30, 2008 (Decision No.
5 71690, dated May 3, 2010).

6 6. For the 12 months ended September 30, 2011, the test year in this case, the
7 present rates produced an operating margin of approximately \$35,167 after interest expense on
8 an adjusted test year basis.

9 7. GCU's proposed \$224,132 increase in revenues produces a positive
10 operating margin of \$259,299 after interest expense.

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

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

19
20 Further communications and notices concerning this Docket should be directed to:

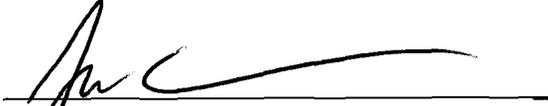
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26 With a copy to:

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RESPECTFULLY SUBMITTED this 13th day of July, 2012.

By 

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

Original and thirteen (13) copies filed
this 13th day of July, 2012, with:

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

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
PAUL NEWMAN
SARAH KENNEDY
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES GAS DIVISION)
INC. FOR A RATE INCREASE)
)
)
_____)

DOCKET NO. G-02527A-12-

DIRECT
TESTIMONY
OF
JOHN V. WALLACE
GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION

July 13, 2012

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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 Gas Division. GCU Gas Division is a nonprofit cooperative corporation that provides gas service to approximately 5,070 customers in Graham County, Arizona.

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

A. Yes, it was.

1 Q. What exhibits are you sponsoring in this case?

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

7
8 Q. What areas does your testimony address?

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

11
12 Q. Please summarize your recommendations.

13 A. The main reason underlying the Company's request for an overall 6.91 percent increase in
14 revenues is due to the fact that since its last Test Year ending September 30, 2008, GCU
15 has been investing over \$776,485 in plant improvements and replacements. As of
16 September 30, 2011, GCU has incurred approximately \$985,487 in inter-company
17 payables due to Graham County Electric Cooperative, Inc. ("GCEC") to fund its
18 investments in plant improvements. GCU has also experienced increases in its other
19 expenses such as salaries and benefits and purchased gas since its last Test Year. An
20 increase of this magnitude is needed to eliminate negative margins produced by the
21 current rates, to provide adequate interest and debt service coverage and to provide the
22 internally generated cash flows required to support the utility's on-going operations and
23 plant improvements and improve its equity position.

24
25 Q. What is the relationship between GCU and GCEC?

26 A. GCEC manages the operations of GCU's Gas and Water Divisions pursuant to an
27 operations and management agreement. GCEC and GCU Gas and Water are operated as
28 separate and distinct entities from each other. Nevertheless, the same members (5 out of

1 9) serve on the Boards of Directors of both GCU and GCEC. GCU's employees have
2 offices in GCEC's building. GCEC will also advance funds to GCU when necessary.

3
4 Q. Please explain Schedule A-2 of the filing.

5 A. Schedule A-2, summarizes operating results at present and proposed rates for the 12
6 months ended September 30, 2011, the test year in this case. The present rates produced
7 an operating margin including interest expense of approximately \$35,167 on an adjusted
8 test year basis. The proposed \$224,132 increase in revenues produces a positive
9 operating margin of \$259,299.

10
11 Q. Why was the operating margin a positive \$35,167 on an adjusted Test Year basis as
12 opposed to a negative amount?

13 A. The main reason is because GCEC decided in 2011 to decrease the allocations of
14 expenses associated with the GCEC building, labor and personnel, etc. that were
15 approved in GCU's last rate case in an effort to improve GCU's financial position. This
16 was done to the detriment of GCEC. Absent these changes, GCU's adjusted Test Year
17 basis margins would have been approximately a negative \$3,000.

18
19 Q. Do you view the indicated increase in revenues of approximately 7 percent at proposed
20 rates as reasonable in this case?

21 A. Yes. Cooperatives' revenue requirements are normally determined by the level of
22 operating expenses plus an additional amount of margin for interest coverage. GCU has
23 used an Operating Times Interest Earned Ratio ("TIER") of 3.31 (Debt Service Coverage
24 Ratio of 2.18) to determine the required level of revenues and revenue increase. Since
25 GCU's amount of interest on long term debt has and will continue to increase from its
26 previous Test Year amount, it is necessary for GCU to use an Operating TIER of 3.31
27 (DSC of 2.18) to set its revenue requirement. Finally, an Operating TIER of 3.31 is
28

1 necessary to maintain and increase GCU's equity level eventually to 30 percent which
2 has been required by the Commission Decision No. 67748, dated April 11, 2005.

3
4 Q. What factors besides its TIER did GCU use to determine its revenue requirement in this
5 case?

6 A. GCU has determined its proposed revenue requirement by considering the amount of
7 revenue necessary to maintain an Operating TIER of 3.31, to maintain a positive cash
8 flow after operating expenses, to fund plant improvements and maintenance, to maintain
9 its equity level and to fund contingencies. The requested increase in this case is
10 reasonable given its recent history of negative margins (negative margins of \$438,574 as
11 of September 30, 2009 and negative margins of \$246,299 as of September 30, 2010), and
12 the need to produce positive cash flows and maintain its equity level. GCU has
13 considered and balanced these financial considerations with a reasonable overall increase
14 in revenues for its members. Consistent with Decision No. 69245, GCU should be able
15 to stabilize or perhaps steadily increase its equity ratio using an Operating TIER of 3.31
16 even given its forecast for higher margin losses in 2012 which are estimated to be a
17 negative \$10,888 as of December 31, 2012.

18
19 Q. Please summarize your rate design recommendations.

20 A. Considering the Cost of Service Study ("COSS") prepared for the case and other factors,
21 I have based the rate design on customer class increases such that the residential class
22 receives a slightly higher percentage of revenue increase than the approximately 7
23 percent overall increase in revenues due to the fact that according to the COSS, the
24 commercial class is already paying significantly over its fair share and the irrigation class
25 is also paying over its fair share.

26
27 I am recommending a \$3.25 increase from \$13.00 to \$16.25 in the residential service
28 availability charge and a \$5.25 increase in the monthly minimum (service availability)

1 charges for the irrigation classes and a \$6.00 increase in the monthly minimum (service
2 availability) charges for the commercial.

3
4 The per therm charges for each class were not changed due to GCU's recommended
5 increases in to the service availability charges for the reasons stated later in my
6 testimony.

7
8 I am recommending no increases in GCU's current Service Charges.

9
10 The proposed rate and charges are detailed on Schedule H-3.

11
12 GCU recommends that the Commission approve its proposed line extension policy that
13 would allow GCU to pay half of the overhead charges associated with line extensions.

14
15 Q. Is GCU requesting that the Commission process its application and enter a decision as
16 soon possible?

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

22
23 **II. REVENUE REQUIREMENTS**

24
25 Q. Please explain the original cost rate base (OCRB) calculation shown on Schedule B-1.

26 A. I am recommending that the Commission adopt an OCRB of \$2,581,088 for GCU. In an
27 effort to limit the potential issues that may arise during the processing of this case, I have
28 made no adjustments to Rate Base, Plant-in-Service, Accumulated Provision for

1 Deprecation, etc.

2

3 I have subtracted \$66,645 of customer deposits from the rate base. I have added the
4 construction work in progress that is currently Plant-in-Service, materials and supplies
5 and prepayments to GCU's rate base.

6

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

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

12

13 Q. Why hasn't a provision for cash working capital (Schedule B-5) been included in the
14 development of rate base?

15 A. The Cooperative decided not to incur the additional expense required to conduct a
16 lead/lag study. Accordingly, no cash working capital allowance is sought in this case.

17

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

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

21 A. Adjustment A. eliminates the \$16,619 of amortization of the acquisition adjustment
22 associated with GCU's original purchase of the gas system from the depreciation and
23 amortization expenses. This adjustment was adopted in GCU's previous rate case
24 Decision No. 71690, dated May 3, 2010.

25

26 B. Adjustment B. increased depreciation and amortization expense by \$7,183 to allow
27 depreciation on the acquisition adjustment assets that were charged to plant per
28 Decision No. 58437. This adjustment was adopted in GCU's previous rate case

1 Decision No. 71690, dated May 3, 2010.

2
3 C. Adjustment C. increased Administrative and General Expense by \$421 for an increase
4 in ACC assessments due to the revenue increase being proposed in this case.

5
6 D. Adjustment D. decreased Interest Expense-Other by \$3,529 to adjust for lower interest
7 rates on the due-to GCEC. This adjustment also recognizes \$9,128 in reduced interest
8 rates/expense on long-term debt from CFC.

9
10 E. Adjustment E. increases Sales of Gas by customer class by a total of \$148,828,
11 decreases Fuel Cost Under-billed by a total of \$148,828 to reclassify the Purchased
12 Gas Fuel Adjustor Revenues.

13
14 F. Adjustment F. decreased A&G expense by \$19,342 to annualize GCU's allocation of
15 management fees.

16
17 G. Adjustment G. increases several expenses by a total of \$22,560 to annualize increases
18 in payroll, benefits and pensions costs.

19
20 H. Adjustment H. increased Rate (Case) Related Expense by \$6,000 for actual and
21 estimated rate case expenses that will be incurred in the preparation and completion of
22 this case. I have estimated the total amount of rate case expense of \$12,000 in this
23 case. I then amortized this expense over a two-year period given the projected growth
24 in GCU's service territory and the associated plant investments.

25
26 These adjustments increase operating margins for the test year by \$3,326 resulting in
27 adjusted operating margins of \$147,371 before interest on long-term debt on Schedule C-1.

28

1 **III. COST OF SERVICE AND RATE DESIGN**

2
3 Q. Why should gas rates be based upon cost of service?

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

12
13 Q. Did you prepare the class cost of service analysis contained in this filing?

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

17
18 Q. Would you briefly describe the approach used to develop the study?

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

22
23 The initial step was to establish, for costing purposes, consumer classes with similar
24 usage characteristics. For the purposes of present rates these classes are: residential
25 commercial, etc. The next step in the study was to classify all elements of rate base and
26 operating expenses as demand-related, usage or commodity-related or customer-related.
27 The results of this process are shown on Schedules G-6 and G-7. The final step in the
28 analysis was to allocate rate base and operating expenses to each class of consumer. The

1 results of these allocations are shown on Schedules G-1 and G-2. The class allocation
2 factors used in the study are provided on Schedule G-8.

3
4 Q. Please summarize the results of your study.

5 A. The results of my study, at present and proposed rates, are summarized on Schedules G-1
6 and G-2, respectively. At present rates, the overall system rate of return (ROR) on rate
7 base is a positive 5.87 percent. All classes are producing positive returns with the
8 exception of the residential class. At present rates, the residential class has a negative
9 return of 1.80 percent. The irrigation class has a positive return of 9.85 percent. The
10 commercial class has a positive return of 39.60.

11
12 Q. Please explain the rate of return index concept.

13 A. The last line of Schedule G-1 shows the ratio of actual to equal return revenues (AERR
14 ratio). A class with a ratio of 1 is paying the amount of revenue that results in ROR equal
15 to the system ROR. When the system ROR is positive, if the AERR ratio is below 1.00,
16 this indicates that a class's revenues and margins are not sufficient to recover the system
17 rate of return. When the AERR ratio is above 1.00, this indicates that a class's revenues
18 and margins result in a return higher than the system rate of return.

19
20 In GCU's case, the commercial and irrigation classes currently have an AERR ratio
21 above 1.00. The residential class AERR ratio is below 1.00.

22
23 Q. Typically the cost of service study is used as the basis to allocate revenues among
24 customer classes. Did you use the cost of service study to allocate revenues to customer
25 classes?

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

28

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

2 A. I have based the rate design on customer class increases such that the residential class
3 receives a slightly higher percentage of revenue increase than the approximately 7
4 percent overall increase in revenues due to the fact that according to the COSS, the
5 commercial class is already paying well over its fair share of the cost of service and the
6 irrigation class is also paying greater than its share. The residential, irrigation,
7 commercial class revenues were increased by approximately 8 percent, 18 percent and 4
8 percent, respectively as shown on Schedule H-1.

9
10 Q. What monthly minimum system (service availability) charges are you recommending by
11 customer class and why?

12 A. I am proposing increases to the present monthly minimum service charges for the
13 various classes. I am recommending the residential class service availability charge be
14 increased from \$13.00 to \$16.25; the irrigation class be increased from \$21 to \$26.25;
15 and the commercial class be increased from \$24 to \$30. (Refer to Schedule H-3)

16
17 I am recommending the monthly service availability charges be increased because of the
18 following reasons. The first is the majority of the GCU's distribution related costs are
19 fixed and do not vary with the number of therms used. The second reason is that using
20 fixed charges to collect fixed costs helps to alleviate cash flow shortages and surpluses
21 that result from a rate design that is heavily weighted toward a per therm charge.
22 Changes in the number of therms sold after the Test Year due to weather and other
23 factors can have a dramatic affect on a utilities' financial condition. GCU's fixed costs
24 for serving each customer class are significantly higher than GCU's monthly minimum
25 service charges. In addition, GCU will collect a more even revenue stream during
26 summer versus winter months.

27
28

1 Q. Is GCU recommending changes to the existing per therm charges for each customer
2 class?

3 A. No, it is not. GCU is recommending that the increase in revenues be collected from its
4 proposed increases to service availability charges for each customer class for the reasons
5 stated above.

6
7 Q. Please explain the bill impacts for residential customers from GCU's proposed rate
8 design.

9 A. The monthly bill for a residential customer who uses 36 therms will increase by \$5.12
10 (12.43%), from \$41.15 to \$46.27. Residential customers who use more (less) than 36
11 therms per month will experience a lower (higher) percent increase due to the level of the
12 higher percentage increase in the monthly service availability charge versus the therm
13 charge. (Refer to Schedule H4, Page 1 of 3.)

14
15 Q. Please explain the bill impacts for irrigation customers from GCU's proposed rate design.

16 A. The monthly bill for an irrigation customer who uses approximately 59 therms will
17 increase by \$8.31 (14.78%), from \$56.23 to \$64.53. Irrigation customers who use more
18 (less) than 59 therms per month will experience a lower (higher) percent increase due to
19 the level of the higher percentage increase in the monthly service availability charge
20 versus the therm charge. (Refer to Schedule H-4, page 2 of 3.)

21
22 Q. Please explain the bill impacts for the commercial class from GCU's proposed rate
23 design.

24 A. Under GCU's proposed rates, the monthly bill for a commercial customer who uses 289
25 therms will increase by \$20.98 (8.43%), from \$248.86 to \$269.84. Commercial
26 customers who use more (less) than 289 therms per month will experience a lower
27 (higher) percent increase due to the level of the higher percentage increase in the monthly
28 system charge versus the therm charge. (Refer to Schedule H4, page 3 of 3.)

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Q. Is GCU recommending any changes to Service Charges?

A. GCU is recommending no changes to its currently approved Service Charges.

IV. PURCHASED GAS BASE COST AND FUEL ADJUSTOR

Q. What are your recommendations regarding the existing purchased gas base cost?

A. In Decision No. 71690, the Commission ordered that the GCU purchased gas base cost be set at zero and that the entire cost of gas be collected through the Purchased Gas Fuel Adjustor. Consequently, GCU is not proposing a base cost of gas in this case.

V. Line Extensions

Q. Please discuss GCU's line extension policy that was approved in Decision No. 71690 dated May 3, 2010.

A. In compliance with rate case Decision No. 71690, GCU filed a line extension policy that removed all free main and/or service line footage and all dollar allowances. This policy requires all new customers who need line extensions to pay the total cost of these extensions in the form of a CIAC.

Q. What changes are being proposed by GCU to this line extension policy in this case?

A. GCU is recommending all new customers who need line extensions pay the total cost of these extensions in the form of a CIAC except for one-half of associated line extension overhead costs. Under this proposal, GCU will pay one-half of over-head costs because, as discussed in more detail below, GCU is concerned that customers and developers will not install gas service in homes if the cost to connect gas service is too high.

Currently GCU is experiencing no growth in number of customers. In fact, it has fewer customers now than it did in its last rate case. Given there are a limited number of developers and developments in GCU's service territory, GCU is also concerned that if it

1 continues to require 100% of the line extension costs be paid by customers, that
2 developers will elect not to plumb houses for gas service (provide homes that are all
3 electric service) and remove a homeowner's choice to have gas service. Unlike electric
4 and water service, developers and homeowners can choose gas service as an optional
5 service.

6 In conclusion, GCU's management and Board have concluded that developers and
7 customers may not install gas service in its service area with the existing line extension
8 policy due to the fact that these developers and customers must bear all of the cost of line
9 extensions because of the elimination of the free footage for line extensions that was a
10 part of GCU's previously approved line extension policy.

11
12 Q. Does that conclude your direct testimony?

13 A. Yes, it does.
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GCU PROPOSED RATE SCHEDULES

GCU PROPOSED RULES AND REGULATIONS

I. ANNUAL FORM 7 For Years Ended December 31, 2011, 2010, 2009

J. REPORT OF CERTIFIED PUBLIC ACCOUNTANT For Years Ended September 30, 2011, 2010, 2009

GRAHAM COUNTY UTILITIES, INC. - GAS
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011

Line		Present	Proposed
<u>No.</u>	<u>Description</u>	<u>Rates</u>	<u>Rates</u>
		<u>(b)</u>	<u>(d)</u>
1	Revenues	3,242,352	3,466,484
2	Operating Expense and Interest	3,207,185	3,207,185
3	Operating Margins	35,167	259,299
4	Non-Operating Margins	11,311	11,311
5	Operating TIER	1.31	3.31
6	Net TIER	1.41	3.41
7	Rate Base (a)	2,581,088	2,581,088
8	% Return on Rate Base	1.80%	10.48%
9	Requested Increase in Revenues (c)		224,132
10	% Increase		6.91%
		<u>(c)</u>	<u>(c)</u>
	RESIDENTIAL	2,383,955	2,576,030
	IRRIGATION	11,955	14,084
	COMMERCIAL	806,399	836,328
	TOTAL	<u>3,202,310</u>	<u>3,426,441</u>
	OTHER GAS REVENUE	40,043	40,043
		<u>3,242,353</u>	<u>3,466,484</u>

SUPPORT SCHEDULES:

(a) B-1 (c) H-1
 (b) C-1 (d) A-2

**GRAHAM COUNTY UTILITIES, INC. - GAS
SUMMARY RESULTS OF OPERATIONS
GROSS REVENUE REQUIREMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

Line Description No.	<u>PRIOR YEARS</u>		<u>Test Year Ended 9/30/11</u>		<u>Projected Year</u>	
	Ended 9/30/2009 <u>(a)</u>	Ended 9/30/2010 <u>(a)</u>	Actual <u>(a)</u>	Adjusted <u>(b)</u>	Present <u>(c)</u>	Proposed <u>(c)</u>
1 Operating Revenues	3,402,937	3,124,766	3,242,352	3,242,352	3,242,352	3,466,484
2 <u>Operating Expenses:</u>						
3 Purchased Gas	2,100,652	1,644,748	1,399,908	1,399,908	1,399,908	1,399,908
4 Distribution - Operation	264,357	262,575	332,030	337,843	337,843	337,843
5 Distribution - Maintenance	361,287	273,541	317,169	322,241	322,241	322,241
6 Customer Accounts	270,628	292,084	314,703	327,042	327,042	327,042
7 Admin. & General Expenses	486,413	528,065	451,059	437,474	437,474	437,474
8 Depreciation & Amortization	137,095	145,705	156,455	147,018	147,018	147,018
9 Property Taxes	35,521	32,480	31,306	31,306	31,306	31,306
10 Tax Expense - Other	50,706	46,836	48,107	48,107	48,107	48,107
11 Interest on Long-Term Debt	79,858	82,985	121,332	112,205	112,205	112,205
12 Interest Expense - Other	54,993	62,047	47,571	44,041	44,041	44,041
13 Other Deductions					-	
14 Total	3,841,511	3,371,065	3,219,639	3,207,185	3,207,185	3,207,185
15 Operating Margins	(438,574)	(246,299)	22,713	35,167	35,167	259,299
16 Non-Operating Margins	7,775	8,436	11,311	11,311	11,311	11,311
17 Net Margins	(430,799)	(237,863)	34,024	46,478	46,478	270,610
18 Therms Sold	2,638,611	2,920,126	2,933,418	2,933,418	2,933,418	2,933,418
19 Utility Plant Additions	145,361	352,091	279,033	279,033	279,033	279,033
20 Average No. of Customers	5,101	5,080	5,103	5,103	5,103	5,103
21 Times Interest Earned (Tier)	(4.39)	(1.87)	1.28	1.41	1.41	3.41
22 Debt Service Coverage (DSC)			1.26	1.48	1.48	2.18

SUPPORTING SCHEDULES:

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

SCHEDULE A-3

PAGE 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
SUMMARY OF CAPITAL STRUCTURE
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	PRIOR YEARS		TEST YEAR	PROFORMA
	9/30/2009	9/30/2010	9/30/2011	YEAR
	<u>(a)</u>	<u>(a)</u>	<u>(a)</u>	<u>(b)</u>
Short-Term Debt	-	177,018	750,751	-
Long-Term Debt	982,069	1,863,352	1,672,034	1,583,052
Total Debt	982,069	2,040,370	2,422,785	1,583,052
Margins And Equity	(276,437)	(514,024)	(480,062)	(480,062)
Total Capital	705,632	1,526,346	1,942,723	1,102,990
Capitalization Ratios: (%)				
Short-Term Debt	0.00%	11.60%	38.64%	0.00%
Long-Term Debt	139.18%	122.08%	86.07%	143.52%
Total Debt	139.18%	133.68%	124.71%	143.52%
Margins And Equity	-39.18%	-33.68%	-24.71%	-43.52%
	100.00%	100.00%	100.00%	100.00%
Weighted Cost Of				
Short-Term Debt	5.10%	4.95%	4.60%	3.70%
Weighted Cost Of				
Long-Term Debt	7.08%	7.09%	7.10%	7.09%

SUPPORTING SCHEDULES:

(a) E-1

(b) D-1

GRAHAM COUNTY UTILITIES, INC. - GAS
CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>YEAR</u>	NET PLANT ADDITIONS (a)	GROSS UTILITY PLANT IN SERVICE
Test Year Ended 9/30/06		3,527,199
Test Year Ended 9/30/07	184,076	3,711,275
Test Year Ended 9/30/08	403,885	4,115,160
Test Year Ended 9/30/09	239,405	4,354,565
Test Year Ended 9/30/10	522,607	4,877,172
Test Year Ended 9/30/11 (b)	124,271	5,001,443
Projected Year Ended 9/30/12	79,900	5,081,343
Projected Year Ended 9/30/13	61,400	5,142,743
Projected Year Ended 9/30/14	61,400	5,204,143

SUPPORT SCHEDULES:

- (a) F-3
- (b) E-3A

GRAHAM COUNTY UTILITIES, INC. - GAS
SUMMARY STATEMENT OF CASH FLOWS
TEST FISCAL YEAR SEPTEMBER 30, 2011

	PRIOR YEARS		TEST YEAR	PRESENT	PROJECTED
	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>RATES</u>	<u>PROPOSED RATES</u>
<u>SOURCES OF FUNDS:</u>	(a)	(a)	(a)	(b)	(b)
FROM OPERATIONS	363,062	(395,028)	235,657	235,657	235,657
FROM INVESTING	(228,924)	(515,629)	(118,615)	(118,615)	(118,615)
FROM FINANCING	(134,138)	910,657	(117,042)	(117,042)	(117,042)
TOTAL SOURCES OF FUNDS	-	-	-	(0)	-

SUPPORT SCHEDULES:

- (a) E-3
- (b) F-2

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
SUMMARY OF ORIGINAL COST

	ORIGINAL COST RATE BASE
<u>DISTRIBUTION:</u>	
GROSS PLANT	4,429,599
ACCUMULATED DEPRECIATION	<u>(2,129,775)</u>
NET DISTRIBUTION PLANT	<u>2,299,824</u>
<u>GENERAL & INTANGIBLE</u>	
GROSS PLANT	204,644
ACCUMULATED DEPRECIATION	<u>(170,531)</u>
NET GENERAL PLANT	<u>34,113</u>
<u>TOTAL</u>	
GROSS PLANT	4,634,243
ACCUMULATED DEPRECIATION	<u>(2,300,306)</u>
NET TOTAL PLANT	<u>2,333,937</u>
<u>PLUS:</u>	
CONSTRUCTION WORK IN PROGRESS	211,559
MATERIALS AND SUPPLIES	79,032
PREPAYMENTS	23,205
<u>LESS:</u>	
CONSUMER DEPOSITS	<u>66,645</u>
	<u><u>2,581,088</u></u>

Recap :
A-1

GRAHAM COUNTY UTILITIES, INC. - GAS
ORIGINAL COST RATE BASE
PROFORMA ADJUSTMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011

	ACTUAL AT END OF TEST YEAR 9/30/11 (a)	PROFORMA ADJUSTMENTS 9/30/11	ADJUSTED AT END OF TEST YEAR 9/30/11 (b)
<u>DISTRIBUTION:</u>			
GROSS PLANT	4,387,077		4,387,077
ACCUMULATED DEPRECIATION	(2,129,775)	-	(2,129,775)
NET PLANT	2,257,302	-	2,257,302
<u>GENERAL & INTANGIBLE</u>			
GROSS PLANT	247,166		247,166
ACCUMULATED DEPRECIATION	(170,531)	-	(170,531)
NET PLANT	76,635	-	76,635
<u>TOTAL</u>			
GROSS PLANT	4,634,243	-	4,634,243
ACCUMULATED DEPRECIATION	(2,300,306)	-	(2,300,306)
NET PLANT	2,333,937	-	2,333,937

SUPPORT SCHEDULES:
 (a) E-5

Recap :
 B-1

SCHEDULE B-3

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
RCND RATE BASE PROFORMA ADJUSTMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

NOT APPLICABLE

SCHEDULE B-4

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
RCND BY MAJOR PLANT ACCOUNTS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

NOT APPLICABLE

SCHEDULE B-5

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
COMPUTATION OF WORKING CAPITAL
TEST FISCAL YEAR SEPTEMBER 30, 2011**

1. MATERIALS AND SUPPLIES INVENTORIES	79,032
2. PREPAYMENTS	23,205
3. LESS: CONSUMER DEPOSITS	66,645
3. TOTAL WORKING CAPITAL ALLOWANCE	<u><u>35,592</u></u>

CUSTOMER CLASSIFICATION

RESIDENTIAL
IRRIGATION
COMMERCIAL
TOTALS

**ALLOCATION TO
RATE BASE**

2,040,370
11,565
462,514
2,514,449

SUPPORT SCHEDULES:

(a) E-1

RECAP SCHEDULES:

(b) B-1

**GRAHAM COUNTY UTILITIES, INC. - GAS
ADJUSTED TEST YEAR INCOME STATEMENT
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TEST YEAR 9/30/2011 (a)	PROFORMA ADJUSTMENTS (b)	ADJUSTED TEST YEAR
<u>REVENUES</u>			
RESIDENTIAL	2,273,160	110,795	2,383,955
IRRIGATION	11,400	555	11,955
COMMERCIAL AND INDUSTRIAL	768,921	37,478	806,399
FUEL COST UNDERBILLED	148,828	(148,828)	-
OTHER OPERATING RVENUES	40,043	-	40,043
	3,242,352	-	3,242,352
<u>EXPENSES</u>			
PURCHASED GAS	1,399,908	-	1,399,908
DISTRIBUTION EXPENSE - OPERATIONS	332,030	5,813	337,843
DISTRIBUTION EXPENSE - MAINTENANCE	317,169	5,072	322,241
CONSUMER ACCOUNTS EXPENSE	314,703	12,339	327,042
ADMINISTRATIVE & GENERAL	451,059	(13,585)	437,474
DEPRECIATION & AMORTIZATION	156,455	(9,436)	147,018
TAX EXPENSE - PROPERTY	31,306	-	31,306
TAX EXPENSE - OTHER	48,107	-	48,107
INTEREST EXPENSE - OTHER	47,571	(3,529)	44,041
	3,098,307	(3,326)	3,094,981
OPERATING MARGINS	144,045	3,326	147,371
INTEREST EXPENSE - LTD	121,332	(9,128)	112,205
<u>NON-OPERATING MARGINS</u>			
INTEREST INCOME	-	-	-
OTHER NON-OPERATING INCOME	-	-	-
CAPITAL CREDITS	11,311	-	11,311
	11,311	-	11,311
NET MARGINS	34,024	12,454	46,478

SUPPORT SCHEDULES:

- (a) E-2
- (b) C-2

RECAP SCHEDULES:

- (C) A-1

SCHEDULE C-2

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
INCOME STATEMENT PROFORMA ADJUSTMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

DESCRIPTION	A	B	C	D	E	F	G	H	TOTAL (a)
PROFORMA ADJUSTMENTS									
REVENUES									
RESIDENTIAL					110,795				110,795
IRRIGATION					555				555
COMMERCIAL AND INDUSTRIAL					37,478				37,478
FUEL COST UNDERBILLED					(148,828)				(148,828)
OTHER OPERATING REVENUES									-
EXPENSES									
PURCHASED GAS									
DISTRIBUTION EXPENSE - OPERATIONS							5,813		5,813
DISTRIBUTION EXPENSE - MAINTENANCE							5,072		5,072
CONSUMER ACCOUNTS EXPENSE							6,339	6,000	12,339
ADMINISTRATIVE & GENERAL			421			(19,342)	5,336		(13,585)
DEPRECIATION & AMORTIZATION	(16,619)	7,183							(9,436)
TAX EXPENSE - PROPERTY									
TAX EXPENSE - OTHER									
INTEREST EXPENSE - GCEC				(3,529)					(3,529)
OPERATING MARGINS	(16,619)	7,183	421	(3,529)	-	(19,342)	22,560	6,000	(3,326)
INTEREST EXPENSE - LTD	16,619	(7,183)	(421)	3,529	-	19,342	(22,560)	(6,000)	3,326
NON-OPERATING MARGINS				(9,128)					(9,128)
INTEREST INCOME									
OTHER NON-OPERATING INCOME									
CAPITAL CREDITS									
NET MARGINS	-	-	-	(9,128)	-	-	-	-	(9,128)
	16,619	(7,183)	(421)	12,657	-	19,342	(22,560)	(6,000)	12,454

SUPPORTING SCHEDULES:

- A - TO ELIMINATE AMORTIZATION OF ACQUISITION ADJUSTMENT
- B - TO ALLOW DEPRECIATION ON ACQUISITION ADJUSTMENT ASSETS CHARGED TO PLANT PER DECISION NO. 58437
- C - TO ADJUST FOR INCREASE IN A.C.C ASSESSMENTS DUE TO INCREASED REVENUE
- D - TO ADJUST FOR INTEREST DUE GCEC
- E - TO ALLOCATE UNDERBILLED FUEL COST TO RATE CLASSES
- F - ADJUST PER MANAGEMENT COST PER MANAGEMENT AGREEMENT VS RENT
- G - TO ADJUST FOR INCREASE IN WAGES, PAYROLL TAXES AND PENSION COSTS
- H - TO REFLECT THE INCREASE IN RATE CASE EXPENSE

SCHEDULE C-3

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR
TEST FISCAL YEAR SEPTEMBER 30, 2011**

NOT APPLICABLE - GCU IS A NON-PROFIT CORPORATION

GRAHAM COUNTY UTILITIES, INC. - GAS
COMPUTATION OF ACC ANNUAL ASSESSMENT
TEST FISCAL YEAR SEPTEMBER 30, 2011

ACC ANNUAL ASSESSMENT

TOTAL REVENUE - YEAR ENDED 9/30/11	3,242,352
TOTAL ASSESSMENT	6,094
FACTOR	<u>0.0018795</u>

PROFORMA ADJUSTMENT IN REVENUE	224,132
FACTOR	<u>0.0018795</u>
DOLLAR INCREASE IN A.C.C. ANNUAL ASSESSMENT	<u><u>421</u></u>

SUPPORTING SCHEDULES:
ACC ASSESSMENT NOTICES

GRAHAM COUNTY UTILITIES, INC. - GAS
SUMMARY COST OF CAPITAL
TEST FISCAL YEAR SEPTEMBER 30, 2011

INVESTED CAPITAL	<u>END OF ACTUAL TEST YEAR</u>		<u>9/30/2011</u>	
	<u>AMOUNT</u>	<u>%</u>	<u>COST RATE</u>	<u>COMPOSITE</u>
	<u>(b)</u>			
LONG-TERM DEBT (a)	1,708,513	63.42%	7.20%	7.27%
SHORT-TERM DEBT (a)	985,487	36.58%	4.60%	4.60%
TOTAL	2,694,000	100.00%		11.87%

INVESTED CAPITAL	<u>END OF PROJECTED YEAR</u>		<u>9/30/2012</u>	
	<u>AMOUNT</u>	<u>%</u>	<u>COST RATE</u>	<u>COMPOSITE</u>
	<u>(b)</u>			
LONG-TERM DEBT (a)	1,583,052	52.91%	7.27%	7.27%
SHORT-TERM DEBT (a)	1,408,658	47.09%	4.60%	4.60%
TOTAL	2,991,710	100.00%	11.87%	11.87%

SUPPORTING SCHEDULES:
 (a) D-2

RECAP SCHEDULES:
 (b) A-3

**GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF LONG-TERM AND SHORT-TERM DEBT
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>END OF TEST YEAR</u> 9/30/11			<u>END OF PROJECTED YEAR</u>		
	OUTSTANDING (a)	WEIGHTED INTEREST RATE	ANNUAL INTEREST	OUTSTANDING	WEIGHTED INTEREST RATE	ANNUAL INTEREST
<u>LONG-TERM:</u>						
CFC - LOAN TO PURCHASE SYSTEM - FIXED	217,719	7.10%	18,276	150,190	7.10%	13,061
CFC - LOAN TO PURCHASE SYSTEM - VARIABLE	74,151	2.35%	1,531	50,010	2.35%	1,459
CFC - CONSTRUCTION 9002	282,139	7.45%	21,714	266,231	7.45%	20,427
CFC - CONSTRUCTION 9003	342,858	6.25%	21,759	333,929	6.25%	21,150
UNAMORTIZED DEBT EXPENSE			3,867			3,867
CFC - LOAN TO REPAY CONSTRUCTION COSTS	791,646	7.00%	55,784	782,691	7.00%	55,102
TOTAL LONG-TERM DEBT	1,708,513	7.20%	122,930	1,583,052	7.27%	115,065
SHORT-TERM DEBT	985,487	4.60%		1,408,658	4.60%	55,065

SUPPORTING SCHEDULES:
(b) E-1

RECAP SCHEDULES:
(a) D-1

SCHEDULE D-3

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF PREFERRED STOCK
TEST FISCAL YEAR SEPTEMBER 30, 2011**

NOT APPLICABLE

SCHEDULE D-4

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF COMMON EQUITY
TEST FISCAL YEAR SEPTEMBER 30, 2011**

NOT APPLICABLE

**GRAHAM COUNTY UTILITIES, INC. - GAS
COMPARATIVE BALANCE SHEET
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TEST YEAR ENDED 9/30/11	PRIOR YEARS ENDED 9/30/10	ENDED 9/30/09
ASSETS:			
UTILITY PLANT IN SERVICE	4,374,400	4,095,366	3,743,276
CONSTRUCTION WORK IN PROGRESS (a)	211,559	366,322	195,805
PLANT ACQUISITION ADJUSTMENT	415,484	415,484	415,484
TOTAL UTILITY PLANT	5,001,443	4,877,172	4,354,565
ACCUMULATED DEPRECIATION	2,509,706	2,353,251	2,207,546
NET UTILITY PLANT	2,491,737	2,523,921	2,147,019
INVESTMENTS IN ASSOCIATED ORGANIZATIO	199,180	131,388	134,341
CURRENT ASSETS:			
CASH	-	-	-
ACCOUNTS RECEIVABLE (NET)	44,253	20,842	21,546
UNDERBILLED CONSUMERS FUEL COST	-	-	-
MATERIALS AND SUPPLIES	79,032	84,805	75,283
OTHER CURRENT AND ACCRUED ASSETS	23,205	26,747	22,295
	146,490	132,394	119,124
OTHER ASSETS - DEFERRED DEBITS	17,393	21,057	15,548
	2,854,800	2,808,760	2,416,032
LIABILITIES AND EQUITY:			
MEMBERSHIPS	28,792	28,854	28,579
PATRONAGE CAPITAL	(508,854)	(542,878)	(305,016)
TOTAL EQUITY (b)	(480,062)	(514,024)	(276,437)
NOTE PAYABLE - GCEC	-	-	-
CFC NOTES PAYABLE	1,672,034	1,863,352	982,069
TOTAL LONG-TERM DEBT	1,672,034	1,863,352	982,069
CURRENT LIABILITIES:			
Current Maturities of Long-Term Debt	263,244	188,906	159,807
Accounts Payable - Other	51,712	60,616	69,351
Accounts Payable - GGEC	985,487	699,527	1,103,232
Accounts Payable - Water Department	-	-	-
Overbilled Consumers Fuel Cost	230,169	378,378	247,529
Accrued Taxes	34,294	34,846	36,220
Customers' Deposits and Prepayments	66,645	67,220	68,845
Accrued Interest	13,664	13,282	13,096
Accrued Payroll	17,613	16,657	12,320
Total Current Liabilities	1,662,828	1,459,432	1,710,400
	2,854,800	2,808,760	2,416,032

SUPPORT SCHEDULES:

(a) E-5
(b) E-4

RECAP SCHEDULES:

(c) A-3 (d) B-5

**GRAHAM COUNTY UTILITIES, INC. - GAS
COMPARATIVE INCOME STATEMENT
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TEST YEAR ENDED 9/30/11	PRIOR YEARS ENDED 9/30/10	ENDED 9/30/09	
REVENUES:				
RESIDENTIAL	2,273,160	2,380,373	2,678,432	
IRRIGATION	11,400	6,681	8,456	
COMMERCIAL AND INDUSTRIAL	768,921	843,054	976,257	
FUEL COST OVERBILLED	148,828	24,648	19,960	
OTHER OPERATING RVENUES	40,043	(129,990)	(280,168)	
	3,242,352	3,124,766	3,402,937	(b)
EXPENSES:				
PURCHASED GAS	1,399,908	1,644,748	2,100,652	
DISTRIBUTION EXP. - OPER.	332,030	262,575	264,357	
DISTRIBUTION EXP. - MAINT.	317,169	273,541	361,287	
CONSUMER ACCOUNTS EXP.	314,703	292,084	270,628	
ADMIN. & GENERAL	451,059	528,065	486,413	
DEPRECIATION & AMORT.	156,455	145,705	137,095	
TAXES - PROPERTY	31,306	32,480	35,521	
TAXES - OTHER	48,107	46,836	50,706	
INTEREST EXPENSE - OTHER	47,571	62,047	54,993	
	3,098,307	3,288,081	3,761,653	(b)
OPERATING MARGINS	144,045	(163,315)	(358,716)	(b)
INTEREST EXPENSE - LTD	121,332	82,985	79,858	(b)
	22,713	(246,299)	(438,574)	
NON-OPERATING MARGINS:				
INTEREST INCOME	-	386	546	
CAPITAL CREDITS	11,311	8,050	7,229	
	11,311	8,436	7,775	(b)
NET MARGINS (a)	34,024	(237,863)	(430,799)	(b)

SUPPORTING SCHEDULES:

(a) E-4

RECAP SCHEDULES:

(b) A-2

GRAHAM COUNTY UTILITIES, INC. - GAS
COMPARATIVE STATEMENT OF CASH FLOWS
TEST FISCAL YEAR SEPTEMBER 30, 2011

	TEST YEAR	PRIOR YEAR	PRIOR YEAR
	<u>9/30/2011</u>	<u>9/30/2010</u>	<u>9/30/2009</u>
<u>CASH FLOWS</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
NET MARGINS (DEFICITS)	34,024	(237,862)	(430,799)
DEPRECIATION AND AMORTIZATION	156,455	145,705	137,095
CAPITAL CREDITS - NONCASH	(73,448)	(4,025)	(9,229)
DEFERRED CHARGES	3,664	(5,509)	3,467
OVERBILLED FUEL COST	(148,209)	130,849	279,946
ACCOUNTS RECEIVABLE	(23,411)	704	35,674
INVENTORIES AND OTHER CURRENT ASSETS	9,315	(13,974)	14,051
PAYABLES AND ACCRUED EXPENSES	(8,693)	(7,211)	(19,624)
ADVANCES - WATER DEPARTMENT	-	-	-
ADVANCES - GCEC	285,960	(403,705)	352,481
TOTAL FROM OPERATIONS	235,657	(395,028)	363,062
<u>FROM INVESTING ACTIVITIES:</u>			
ADDITIONS TO PLANT/PURCHASE OF PROPEI	(124,271)	(522,607)	(239,405)
SALVAGE VALUE OF PLANT RETIRED	-	-	-
PATRONAGE CAPITAL RETIREMENT - CFC	5,656	6,978	10,481
TOTAL FROM FINANCING	(118,615)	(515,629)	(228,924)
<u>FROM FINANCING:</u>			
Advances on Long-Term Debt - CFC		800,000	
CIAC Refunds Due		226,765	
PAYMENTS ON LONG-TERM DEBT - CFC	(116,980)	(101,776)	(92,860)
PAYMENTS ON LONG-TERM DEBT - GCEC	-	(14,607)	(41,728)
MEMBERSHIPS	(62)	275	450
TOTAL FROM FINANCING	(117,042)	910,657	(134,138)
CHANGE	-	-	-
BALANCE AT BEGINNING OF YEAR	-	-	-
BALANCE AT END OF YEAR	-	-	-

SUPPORT SCHEDULES:

RECAP SCHEDULES:

A-5

**GRAHAM COUNTY UTILITIES, INC. - GAS
STATEMENT OF CHANGE IN MEMBERS EQUITY
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TOTAL MARGINS AND EQUITIES
BALANCE SEPTEMBER 30, 2006	127,979
NET EARNINGS (LOSS)	133,624
INCREASE IN MEMBERSHIPS	735
BALANCE SEPTEMBER 30, 2007	262,338
NET EARNINGS (LOSS)	(108,375)
DECREASE IN MEMBERSHIPS	(51)
BALANCE SEPTEMBER 30, 2008	153,912
NET EARNINGS (LOSS)	(430,799) (b)
INCREASE IN MEMBERSHIPS	450 (a)
BALANCE SEPTEMBER 30, 2009	(276,437) (a)
NET EARNINGS (LOSS)	(237,863) (b)
INCREASE IN MEMBERSHIPS	275 (a)
BALANCE SEPTEMBER 30, 2010	(514,024) (a)
NET EARNINGS (LOSS)	34,024 (b)
DECREASE IN MEMBERSHIPS	(62) (a)
ROUNDING DOLLARS	1
BALANCE SEPTEMBER 30, 2011	(480,062) (a)

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

RECAP SCHEDULES:

GRAHAM COUNTY UTILITIES, INC. - GAS
DETAIL OF UTILITY PLANT
TEST FISCAL YEAR SEPTEMBER 30, 2011

	G/L BALANCE PRIOR YEAR	PLANT IN SERVICE	ADJUSTED PRIOR YEAR	END OF TEST YEAR
	9/30/2010	FROM ACQ. ADJ.	9/30/2010	NET ADDITIONS
				9/30/2011
INTANGIBLE PLANT:				
2301 ORGANIZATION	42,522		42,522	-
SUBTOTAL INTANGIBLE	42,522	-	42,522	-
DISTRIBUTION PLANT				
2374 LAND & LAND RIGHTS	1,416	78	1,494	-
2376 MAINS	1,768,586	214,381	1,982,967	226,766
2380 SERVICES	864,077	45,384	909,461	181
2381 METERS & REGULATORS	1,223,907		1,223,907	42,301
SUBTOTAL DISTRIBUTION	3,857,986	259,843	4,117,829	269,248
GENERAL PLANT				
2390 STRUCTURES & IMPROVEMENTS	3,309		3,309	-
2391 OFFICE EQUIPMENT	2,750		2,750	-
2392 TRANSPORTATION EQUIPMENT	-		-	-
2394 TOOLS, SHOP & GARAGE EQUIPMENT	122,790		122,790	9,786
2396 POWER OPERATED EQUIPMENT	66,009		66,009	-
SUBTOTAL GENERAL	194,858	-	194,858	9,786
TOTAL PLANT IN SERVICE	4,095,366	259,843	4,355,209	279,034
CWIP	366,322		366,322	(154,763)
TOTAL NET PLANT	4,461,688	259,843	4,721,531	124,271
RECONCILIATION TO GENERAL LEDGER				
PER GENERAL LEDGER	4,510,851		4,510,851	279,034
LESS: ACQUISITION ADJUSTMENT	(415,485)		(415,485)	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1	259,843		259,843	259,843
CWIP	366,322		366,322	(154,763)
NET	4,721,531	-	4,721,531	124,271
ACCUMULATED DEPRECIATION				
DISTRIBUTION	1,850,418	149,043	1,999,461	130,314
GENERAL	153,826		153,826	16,705
TOTAL	2,004,244	149,043	2,153,287	147,019
RECONCILIATION TO GENERAL LEDGER				
PER GENERAL LEDGER	2,353,251		2,353,251	156,455
LESS: ACQUISITION ADJUSTMENT	(349,006)		(349,006)	(16,619)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1	149,042		149,042	7,183
NET	2,153,287	-	2,153,287	147,019
NET PLANT	2,457,444	110,800	2,568,244	(22,748)

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
A-4 E-1

GRAHAM COUNTY UTILITIES, INC. - GAS
SCHEDULE OF PLANT
TEST FISCAL YEAR SEPTEMBER 30, 2011

ACCOUNT #	DESCRIPTION	9/30/2006	9/30/2007	9/30/2008	9/30/2009	9/30/2010	9/30/11
		ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	BALANCE
2301.00	ORGANIZATION	42,522	42,522	42,522	42,522	42,522	42,522
2374.00	LAND & LAND RIGHTS	1,494	1,494	1,494	1,494	1,494	1,494
2376.00	MAINS	1,593,823	1,655,897	1,765,026	1,824,699	1,982,967	2,209,732
2380.00	SERVICES	697,194	741,746	792,695	814,772	909,460	909,641
2381.00	METERS & REGULATORS	910,135	980,520	1,061,544	1,124,774	1,223,909	1,266,210
2390.00	STRUCTURES & IMPROVEMENTS	3,309	3,309	3,309	3,309	3,309	3,309
2391.00	OFFICE EQUIPMENT	2,750	2,750	2,750	2,750	2,750	2,750
2392.00	TRANSPORTATION EQUIPMENT	-	-	-	-	-	-
2394.00	TOOLS, SHOP & GARAGE EQUIPMENT	93,304	103,411	124,531	122,790	122,790	132,576
2396.00	POWER OPERATED EQUIPMENT	6,000	6,000	63,887	66,009	66,009	66,009
	TOTAL	3,350,531	3,537,649	3,857,758	4,003,119	4,355,210	4,634,243

RECONCILIATION TO GENERAL LEDGER

PER GENERAL LEDGER	3,506,173	3,693,291	4,013,400	4,158,761	4,510,852	4,789,885
LESS: ACQUISITION ADJUSTMENT	(415,485)	(415,485)	(415,485)	(415,485)	(415,485)	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	259,843	259,843	259,843	259,843	259,843	259,843
NET	3,350,531	3,537,649	3,857,758	4,003,119	4,355,210	4,634,243

RECONCILIATION TO GENERAL LEDGER

2108.60	ACCUM PROV FOR DEPR - DIST PLANT	1,564,567	1,415,649	1,768,202	1,879,508	1,999,461	2,129,775
2108.70	ACCUM PROV FOR DEPR - GENERAL PLANT	96,953	80,435	121,157	137,510	153,826	170,531
	TOTAL	1,661,520	1,496,084	1,889,359	2,017,018	2,153,287	2,300,306

RECONCILIATION TO GENERAL LEDGER

PER GENERAL LEDGER	1,823,740	1,639,430	2,070,451	2,207,546	2,353,251	2,509,706
LESS: ACQUISITION ADJUSTMENT	(282,530)	(249,290)	(315,768)	(332,387)	(349,006)	(365,625)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	120,310	7,183	134,676	141,859	149,042	156,225
NET	1,661,520	1,496,084	1,889,359	2,017,018	2,153,287	2,300,306

(1) PER DECISION NO. 58437

GRAHAM COUNTY UTILITIES, INC. - GAS
COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENT
TEST FISCAL YEAR SEPTEMBER 30, 2011

NOT APPLICABLE

GRAHAM COUNTY UTILITIES, INC. - GAS
OPERATING STATISTICS
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>GAS STATISTICS (a)</u>	<u>TEST YEAR</u>	<u>PRIOR YEAR</u>	<u>PRIOR YEAR</u>
	<u>ENDED 9/30/11</u>	<u>ENDED 9/30/10</u>	<u>ENDED 9/30/09</u>
<u>THERMS SOLD</u>			
RESIDENTIAL	1,960,668	2,033,675	1,825,721
IRRIGATION	18,064	7,116	7,037
COMMERCIAL	892,778	908,257	805,853
TOTALS	<u>2,871,510</u>	<u>2,949,048</u>	<u>2,638,611</u>
<u>AVERAGE NUMBER OF CUSTOMERS</u>			
RESIDENTIAL	4,785	4,820	4,853
IRRIGATION	9	10	8
COMMERCIAL	261	259	258
TOTALS	<u>5,054</u>	<u>5,089</u>	<u>5,119</u>
<u>AVERAGE THERM USE</u>			
RESIDENTIAL	410	422	376
IRRIGATION	2,084	712	918
COMMERCIAL	3,425	3,502	3,119
TOTALS	<u>5,919</u>	<u>4,635</u>	<u>4,413</u>
AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER	475	494	552

SUPPORTING SCHEDULES:
 (a) FORM 7 FOR RESPECTIVE YEARS
 (b) E-7-1

GRAHAM COUNTY UTILITIES, INC. - GAS
OPERATING STATISTICS
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>GAS STATISTICS (a)</u>	<u>FORM 7</u>	<u>ADJUSTMENTS</u>	<u>TEST YEAR ADJUSTED</u>
<u>THERM SALES</u>			
RESIDENTIAL	1,960,668	-	1,960,668
IRRIGATION	18,064	-	18,064
COMMERCIAL	892,780	-	892,780
TOTALS	2,871,512	-	2,871,512
<u>AVERAGE NUMBER OF CUSTOMERS</u>			
RESIDENTIAL	4,826	-	4,826
IRRIGATION	8	-	8
COMMERCIAL	265	-	265
TOTALS	5,099	-	5,099
<u>AVERAGE THERMS USE</u>			
RESIDENTIAL	406.27	-	406
IRRIGATION	2,409	-	2,409
COMMERCIAL	3,368	-	3,368
TOTALS	6,183	-	6,183
<u>REVENUE</u>			
RESIDENTIAL	2,383,955	-	2,383,955
IRRIGATION	11,955	-	11,955
COMMERCIAL	806,399	-	806,399
TOTALS	3,202,310	-	3,202,310

RECAP SCHEDULES:
(a) E-7

SCHEDULE E-8

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS
TAXES CHARGED TO OPERATIONS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TEST YEAR	PRIOR YEAR	PRIOR YEAR
	<u>9/30/2011</u>	<u>9/30/2010</u>	<u>9/30/2009</u>
PAYROLL & OTHER	48,107	46,836	50,706
PROPERTY	31,306	32,480	35,521
TOTAL TAXES	<u>79,413</u>	<u>79,316</u>	<u>86,227</u>

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011

NOTES TO FINANCIAL STATEMENTS

SEE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

**GRAHAM COUNTY UTILITIES, INC. - GAS
PROJECTED INCOME STATEMENTS
PRESENT AND PROPOSED RATES
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>TEST YEAR</u>	<u>PROJECTED YEAR ENDED 9/30/11</u>	
	ENDED 9/30/11 <u>(a)</u>	PRESENT <u>(b)</u>	PROPOSED <u>(b)</u>
REVENUES:			
SALES OF NATURAL GAS	3,053,481	3,202,309	3,426,441
FUEL COST OVERBILLED	148,828	-	-
OTHER GAS REVENUE	40,043	40,043	40,043
	3,242,352	3,242,352	3,466,484
EXPENSES:			
PURCHASED GAS	1,399,908	1,399,908	1,399,908
DISTRIBUTION EXP. - OPER.	332,030	337,843	337,843
DISTRIBUTION EXP. - MAINT.	317,169	322,241	322,241
CONSUMER ACCOUNTS EXP.	314,703	327,042	327,042
ADMIN. & GENERAL	451,059	437,474	437,474
DEPRECIATION & AMORT.	156,455	147,018	147,018
TAXES - PROPERTY	31,306	31,306	31,306
TAXES - OTHER	48,107	48,107	48,107
INTEREST EXPENSE - OTHER	47,571	44,041	44,041
	3,098,307	3,094,981	3,094,981
OPERATING MARGINS	144,045	147,371	371,504
INTEREST EXPENSE - LTD	121,332	112,205	112,205
NON-OPERATING MARGINS:			
INTEREST INCOME	-	-	-
OTHER NON-OPERATING INCOMI	-	-	-
CAPITAL CREDITS	11,311	11,311	11,311
	11,311	11,311	11,311
NET MARGINS	34,024	46,478	270,610

SUPPORTING SCHEDULES:

(a) E-2

**GRAHAM COUNTY UTILITIES, INC. - GAS
PROJECTED CHANGES IN FINANCIAL POSITION
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	PROJECTED YEAR		
	TEST YEAR ENDED <u>9/30/2011</u>	AT PRESENT	AT PROPOSED
		RATES	RATES
		YEAR ENDED <u>9/30/2011</u>	YEAR ENDED <u>9/30/2011</u>
<u>CASH FLOWS</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
NET MARGINS (DEFICITS)	34,024	46,478	270,610
DEPRECIATION AND AMORTIZATION	156,455	156,455	156,455
CAPITAL CREDITS - NONCASH	(73,448)	(73,448)	(73,448)
DEFERRED CHARGES	3,664	3,664	3,664
OVERBILLED FUEL COST	(148,209)	(148,209)	(148,209)
ACCOUNTS RECEIVABLE	(23,411)	(23,411)	(23,411)
INVENTORIES AND OTHER CURRENT AS	9,315	9,315	9,315
PAYABLES AND ACCRUED EXPENSES	(8,693)	(8,693)	(8,693)
ADVANCES - WATER DEPARTMENT	-	-	-
ADVANCES - GCEC	285,960	273,506	49,374
TOTAL FROM OPERATIONS	235,657	235,657	235,657
<u>FROM INVESTING ACTIVITIES:</u>			
ADDITIONS TO PLANT/PURCHASE OF PF	(124,271)	(124,271)	(124,271)
SALVAGE VALUE OF PLANT RETIRED	-	-	-
PATRONAGE CAPITAL RETIREMENT - CF	5,656	5,656	5,656
TOTAL FROM FINANCING	(118,615)	(118,615)	(118,615)
<u>FROM FINANCING:</u>			
ADVANCES FROM CFC	-	-	-
PAYMENTS ON LONG-TERM DEBT - CFC	(116,980)	(116,980)	(116,980)
PAYMENTS ON LONG-TERM DEBT - GCE	-	-	-
MEMBERSHIPS	(62)	(62)	(62)
TOTAL FROM FINANCING	(117,042)	(117,042)	(117,042)
CHANGE	-	(0)	-
BALANCE AT BEGINNING OF YEAR	-	-	-
BALANCE AT END OF YEAR	-	(0)	-

SUPPORT SCHEDULES:

- (a) E-3
- (c) F-3

RECAP SCHEDULES:

- (b) A-5

GRAHAM COUNTY UTILITIES, INC. - GAS
PROJECTED CONSTRUCTION REQUIREMENTS
TEST FISCAL YEAR SEPTEMBER 30, 2011

PROPERTY CLASSIFICATION:	ACTUAL	PROJECTED YEAR ENDED		
	TEST YEAR ENDED	YEAR ENDED	YEAR ENDED	YEAR ENDED
	9/30/2011	9/30/2012	9/30/2013	9/30/2014
DISTRIBUTION PLANT	269,247	58,400	58,400	58,400
GENERAL PLANT	9,786	21,500	3,000	3,000
TOTAL PLANT (a)	279,033	79,900	61,400	61,400

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

(a) F-2 & A-4

**GRAHAM COUNTY UTILITIES, INC. - GAS
ASSUMPTIONS USED IN DEVELOPING PROJECTIONS
TEST FISCAL YEAR SEPTEMBER 30, 2011
AT PRESENT AND PROPOSED RATES - SCHEDULE F-1**

PURCHASED GAS	PRESENT	PROPOSED
TRANSPORTATION (PER THERM)	0.0499	0.0499
GAS (PER THERM) - BLENDED	0.4797	0.4797
FUEL ADJUSTOR	0.4371	0.4888
STAFFING LEVELS	10	10
ANNUAL WAGE INCREASES THROUGH 6/30/11	3.00%	3.00%
NRECA RETIREMENT COST RATE - % OF GROSS PAYRO	18.94%	18.94%
401 K CONTRIBUTION RATE	4.00%	4.00%
DEPRECIATION RATES		
MAINS	2.80%	2.80%
SERVICES	4.10%	4.10%
METERS & REGULATORS	2.60%	2.60%
GENERAL PLANT	7.00%	7.00%

CONSTRUCTION EXPENDITURES - SCHEDULE F-3

**GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF SERVICE SUMMARY - PRESENT RATES
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
Operating Revenues	3,242,352	2,421,838	808,496	12,018
<u>Operating Expenses:</u>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,747	266,979	66,341	1,427
Distribution Expense - Maintenance	319,610	247,731	70,699	1,180
Customer Account Expense	323,757	302,456	20,624	677
Administrative & General Expense	434,787	365,641	67,785	1,361
Depreciation	147,630	120,473	26,458	699
Property Taxes	31,306	21,835	9,417	54
Tax Expense - Other	59,036	49,647	9,204	185
Interest Expense -Other	44,041	41,666	2,306	69
Total Operation Expenses	3,094,822	2,458,585	625,358	10,879
Operating Income (Loss)	147,530	(36,747)	183,138	1,139
Rate Base	2,514,449	2,040,370	462,514	11,565
% Return - Present Rates	5.87%	-1.80%	39.60%	9.85%
Return Index	1.00	(0.31)	6.75	1.68
Allocated Interest - Long-Term	112,205	91,049	20,639	516
Operating TIER - Present Rates	1.31	(0.40)	8.87	2.21

**GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF SERVICE SUMMARY - PROPOSED RATES
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
Operating Revenues	3,466,484	2,613,913	838,425	14,147
<u>Operating Expenses:</u>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,747	266,979	66,341	1,427
Distribution Expense - Maintenance	319,610	247,731	70,699	1,180
Customer Account Expense	323,757	302,456	20,624	677
Administrative & General Expense	434,787	365,641	67,785	1,361
Depreciation	147,630	120,473	26,458	699
Property Taxes	31,306	21,835	9,417	54
Tax Expense - Other	59,036	49,647	9,204	185
Interest Expense -Other	44,041	41,666	2,306	69
Total Operation Expenses	3,094,822	2,458,585	625,358	10,879
Operating Income (Loss)	371,662	155,328	213,067	3,268
Rate Base	2,514,449	2,040,370	462,514	11,565
% Return - Proposed Rates	14.78%	7.61%	46.07%	28.26%
Return Index	1.00	0.52	3.12	1.91
Allocated Interest - Long-Term	112,205	91,049	20,639	516
Operating TIER - Proposed Rates	3.31	1.71	10.32	6.33

**GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
UNIT COSTS**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<u>UNIT COSTS - PRESENT RATES:</u>				
<u>DEMAND</u>				
Amount	478,944	383,605	94,606	733
Bills	61,183	57,912	3,181	90
Therms	2,871,512	1,960,668	892,780	18,064
Per Bill	7.83	6.62	29.74	8.15
Per Therms	0.1668	0.1957	0.1060	0.0406
<u>COMMODITY:</u>				
Amount	1,482,045	1,011,941	460,781	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<u>CUSTOMER:</u>				
Amount	1,281,363	1,026,292	253,109	1,962
Per Bill	20.94	17.72	79.57	21.80
<u>UNIT COSTS - PROPOSED RATES:</u>				
<u>DEMAND</u>				
Amount	539,926	432,448	106,652	827
Per Bill	50.18	7.47	33.53	9.18
Per Therms	0.3858	0.2206	0.1195	0.0458
<u>COMMODITY:</u>				
Amount	1,482,045	1,011,941	460,781	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<u>CUSTOMER:</u>				
Amount	1,444,513	1,156,966	285,336	2,211
Per Bill	134.25	19.98	89.70	24.57

**GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
ALLOCATION OF RATE BASE**

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>CONSUMER CLASS</u>			
		<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<u>GROSS PLANT IN SERVICE:</u>					
Demand	D-1	1,178,936	822,278	354,636	2,022
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	3,455,307	2,946,458	489,266	19,583
Customer - Unweighted	C-2	-	-	-	-
Total		4,634,243	3,768,736	843,902	21,605
<u>ACCUMULATED DEPRECIATION:</u>					
Demand	D-1	585,191	408,156	176,031	1,004
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	1,715,116	1,462,538	242,858	9,720
Customer - Unweighted	C-2	-	-	-	-
Total		2,300,307	1,870,694	418,889	10,724
<u>NET PLANT IN SERVICE</u>		2,333,936	1,898,042	425,013	10,881
<u>CWIP:</u>					
Demand	D-1	53,820	37,538	16,190	92
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	157,738	134,508	22,336	894
Customer - Unweighted	C-2	-	-	-	-
Total		211,558	172,046	38,526	986
<u>WORKING CAPITAL:</u>					
Demand	D-1	24,992	17,431	7,518	43
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	3,794	3,235	537	22
Customer - Unweighted	C-2	6,814	6,446	357	11
Total		35,600	27,112	8,412	76
LESS:					
CONSUMER DEPOSITS	C-1	66,645	56,830	9,437	378
TOTAL RATE BASE		2,514,449	2,040,370	462,514	11,565

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
ALLOCATION OF INCOME STATEMENT

DESCRIPTION	FACTOR	CONSUMER CLASS (PRESENT)				CONSUMER CLASS (PROPOSED)			
		TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
REVENUES:									
Gas Sales - Adjusted		3,202,309	2,383,955	806,399	11,955	3,426,441	2,576,030	836,328	14,084
Service Charges & Other Revenues	C-2	40,043	37,883	2,097	63	40,043	37,883	2,097	63
Total		3,242,352	2,421,838	808,496	12,018	3,466,484	2,613,913	838,425	14,147
OPERATING EXPENSE:									
Purchased Gas	CM-1	1,399,908	1,042,157	352,524	5,227				
Distribution Expense - Operations:									
Demand	D-1	118,969	82,978	35,787	204				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	215,778	184,001	30,554	1,223				
Customer - Unweighted	C-2	-	-	-	-				
Total		334,747	266,979	66,341	1,427				
Distribution Expense - Maintenance:									
Demand	D-1	159,805	111,460	48,071	274				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	159,805	136,271	22,628	906				
Customer - Unweighted	C-2	-	-	-	-				
Total		319,610	247,731	70,699	1,180				
Customer Accounts Expense:									
Demand	D-1	-	-	-	-				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	-	-	-	-				
Customer - Unweighted	C-2	323,757	302,456	20,624	677				
Total		323,757	302,456	20,624	677				
Admin. & General Expense:									
Demand	D-1	123,346	86,030	37,104	212				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	161,066	137,346	22,807	913				
Customer - Unweighted	C-2	150,375	142,265	7,874	236				
Total		434,787	365,641	67,785	1,361				

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
ALLOCATION OF INCOME STATEMENT

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>CONSUMER CLASS</u>			
		<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<u>Depreciation:</u>					
Demand	D-1	34,887	24,333	10,494	60
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	112,743	96,140	15,964	639
Customer - Unweighted	C-2	-	-	-	-
Total		147,630	120,473	26,458	699
<u>Property Taxes:</u>					
Demand	D-1	7,398	5,160	2,225	13
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	23,908	16,675	7,192	41
Customer - Unweighted	C-2	-	-	-	-
Total		31,306	21,835	9,417	54
<u>Tax Expense - Other:</u>					
Demand	D-1	16,748	11,681	5,038	29
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	21,870	18,649	3,097	124
Customer - Unweighted	C-2	20,418	19,317	1,069	32
Total		59,036	49,647	9,204	185
<u>Interest Expense - Other:</u>					
Demand	D-1	-	-	-	-
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	-	-	-	-
Customer - Unweighted	C-2	44,041	41,666	2,306	69
Total		44,041	41,666	2,306	69
TOTAL OPERATING EXPENSES		3,094,822	2,458,585	625,358	10,879
OPERATING INCOME (LOSS)		147,530	(36,747)	183,138	1,139
OPERATING INCOME PERCENT		4.55%	-1.52%	22.65%	9.48%

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
FUNCTION OF OPERATING EXPENSES

DESCRIPTION	FACTOR	TOTAL	FUNCTION	DEMAND	COMMODITY	CUST. - WT	CUST.
Purchased Gas	F-2	1,399,908	1,399,908	1,399,908	1,399,908		
Distribution Operating Expenses:							
Supervision & Engineering	F-3	46,915	46,915	23,457			23,458
Mains & Services	F-3	138,508	138,508	69,254			69,254
Measuring & Reg Stations	F-1	2,339	2,339	2,339			
Customer Installations	F-4	99,148	99,148				99,148
Other Operating Expenses	F-3	47,837	47,837	23,919			23,918
Total Operating Expenses		334,747	334,747	118,969	-		215,777
Distribution Maint. Expenses:							
Supervision & Engineering	F-3	19,669	19,669	9,835			9,835
Mains	F-3	299,940	299,940	149,970			149,970
Total Maint. Expenses		319,610	319,610	159,805	-		159,805
Meter Reading Expenses	F-6	82,279	82,279				41,139
Customer Accounting & Info. Exp.	F-6	209,903	209,903				209,903
Delinquent Accts. & Uncollectible	F-6	31,577	31,577				31,577
Total Customer Accounts Expenses:		323,759	323,759	-			41,139
Administrative & General Exp.	F-8	434,786	434,786	123,345			161,065
Depreciation	F-7	147,019	147,630	34,887			112,743
Property Taxes	F-7	31,306	31,306	7,398			23,908
Taxes - Other	F-8	59,035	59,035	16,748			21,869
Interest Expense - Other	F-6	44,042	44,042				44,042
TOTAL OPERATING EXPENSES		3,094,211	3,094,822	461,152	1,399,908		736,307
FUNCT. OF SALARIES & WAGES							
Operating Expenses	F-3	143,568	143,568	71,784			71,784
Maintenance Expenses	F-3	133,201	133,201	66,600			66,601
Meter Reading & Installation	F-6	79,250	79,250				42,318
Customer Accounting	F-6	131,778	131,778				131,778
Total		487,796	487,796	138,384	-		180,703
Percent	F-8	100.00%	100.00%	28.37%	0.00%		37.04%
FUNCTION OF O&M LESS PG		1,694,303	1,694,914	461,152	-		736,307
Percent	F-9	100.00%	100.04%	27.22%	0.00%		43.46%
Percent		100.00%		27.21%			43.44%

**GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2011
ALLOCATION FACTORS**

FUNCTION FACTOR	DESCRIPTION	TOTAL	DEMAND	COMMODITY	WEIGHTED CUSTOMER	CUSTOMER
F-1	Demand	100.00%	100.00%			
F-2	Commodity	100.00%		100.00%		
F-3	Distribution Mains	100.00%	100.00%			
F-3a	Mains & Services	100.00%	50.00%		50.00%	
F-4	Services	100.00%			100.00%	
F-5	Meters & regulators	100.00%			100.00%	
F-6	Customer Accounts	100.00%				100.00%

**DERIVED
FUNCTION
FACTOR**

DESCRIPTION	TOTAL	DEMAND	COMMODITY	WEIGHTED CUSTOMER	CUSTOMER	
F-7	Gross Plant in Service	100.00%	23.63%		76.37%	
F-8	Salaries & Wages	100.00%	28.37%	0.00%	37.04%	34.59%
F-9	O & M Less Purchased gas	100.04%	27.22%	0.00%	43.46%	29.36%

**CLASS
ALLOCATION
FACTORS**

DESCRIPTION	TOTAL	CUSTOMER CLASS			
		RESID.	COMM.	IRRIG.	
D-1	Winter Peak Demand	100.000%	69.748%	30.081%	0.171%
CM-1	Commodity	100.000%	74.445%	25.182%	0.373%
C-1	Customer - Weighted	100.000%	85.273%	14.160%	0.567%
C-2	Customer - Unweighted	100.000%	94.606%	5.237%	0.157%

**GRAHAM COUNTY UTILITIES, INC. - GAS
SUMMARY OF REVENUES BY CUSTOMER CLASS
PRESENT AND PROPOSED RATES
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>REVENUES IN TEST YEAR</u>		<u>PROPOSED</u>	
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>INCREASE</u>	
	<u>(a)</u>	<u>(a)</u>	<u>AMOUNT</u>	<u>%</u>
			<u>(b)</u>	<u>(b)</u>
RESIDENTIAL	2,383,955	2,576,030	192,075	8.06%
IRRIGATION	11,955	14,084	2,128	17.80%
COMMERCIAL	806,399	836,328	29,928	3.71%
TOTAL	3,202,310	3,426,441	224,131	7.00%

**GRAHAM COUNTY UTILITIES, INC. - GAS
ANALYSIS OF REVENUE BY DETAIL CLASS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>CLASS OF SERVICE</u>	<u>ANNUAL AVERAGES</u>		<u>REVENUES</u>		<u>INCREASE</u>	
	<u>CUSTOMERS</u>	<u>THERMS</u>	<u>PRESENT</u> <u>(a)</u>	<u>PROPOSED</u> <u>(a)</u>	<u>AMOUNT</u> <u>(a)</u>	<u>PERCENT</u> <u>(a)</u>
<u>RESIDENTIAL :</u>						
SCHEDULE A	4,826	406.27	2,383,955	2,576,030	192,075	8.06%
<u>IRRIGATION :</u>						
SCHEDULE I	8	2,409	11,955	14,084	2,128	17.80%
<u>COMMERCIAL :</u>						
SCHEDULE B	265	3,368	806,399	836,328	29,928	3.71%
TOTAL	5,099	6,183	3,202,310	3,426,441	224,131	7.00%

RECAP SCHEDULES:

(a) H-1	40043
	<u>3,242,353</u>

**GRAHAM COUNTY UTILITIES, INC. - GAS
PRESENT RATES REVENUE CALCULATIONS (a)
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		<u>SERVICE</u>		<u>FUEL ADJUSTOR</u>	
		<u>AVAILABILITY</u>	<u>GAS</u>		
RESIDENTIAL	PER MONTH	13.00	0.34500	0.43705	
IRRIGATION	PER MONTH	21.00	0.16000	0.43705	
COMMERCIAL	PER MONTH	24.00	0.34100	0.43705	

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
TOTAL	2,871,510	5,099	61,183

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>FUEL COST UNDERBILLED</u>	<u>PRESENT REVENUE</u>
RESIDENTIAL	748,994	676,430	856,911	101,620	2,383,955
IRRIGATION	234	2,890	7,895	936	11,955
COMMERCIAL	65,501	304,437	390,189	46,272	806,399
TOTAL	814,729	983,758	1,254,995	148,828	3,202,310

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	13.00	730,340	1,732	22,520	752,860
IRRIGATION	77	21.00	1,617	13	273	1,890
COMMERCIAL	3,142	24.00	75,408	39	937	76,345
	59,399		807,365	1,784	23,730	831,095

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	13.00	22,516	1,732	22,516	-
IRRIGATION	13	21.00	273	13	273	-
COMMERCIAL	39	24.00	936	39	936	-
	1,784		23,725	1,784	23,725	-

**GRAHAM COUNTY UTILITIES, INC. - GAS
PROPOSED RATES REVENUE CALCULATIONS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>FUEL ADJUSTOR</u>
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
TOTAL	2,871,510	5,099	61,183

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>Proposed REVENUE</u>	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,929
TOTAL	1,038,863	983,758	1,403,821	3,426,442	224,132

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	16.25	912,925	1,732	28,150	941,075
IRRIGATION	77	26.25	2,021	13	341	2,363
COMMERCIAL	3,142	30.00	94,260	39	1,171	95,431
	59,399		1,009,206	1,784	29,663	1,038,869

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	16.25	28,145	1,732	28,145	-
IRRIGATION	13	26.25	341	13	341	-
COMMERCIAL	39	30.00	1,170	39	1,170	(0)
	1,784		29,656	1,784	29,657	(0)

GRAHAM COUNTY UTILITIES, INC. - GAS
PROPOSED RATES REVENUE CALCULATIONS (a)
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>RATES:</u>		<u>SERVICE AVAILABILITY</u>	<u>ENERGY</u>	<u>FUEL ADJUSTOR PGA</u>
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	-	90
COMMERCIAL	892,778	265	3,181
TOTAL	2,871,510	5,099	61,183

	<u>SERVICE AVAILABILITY</u>	<u>ENERGY</u>	<u>FUEL ADJUSTOR</u>	<u>PROPOSED REVENUE</u>	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,928
TOTALS	1,038,863	983,758	1,403,821	3,426,441	224,131

**GRAHAM COUNTY UTILITIES, INC. - GAS
CHANGE IN REPRESENTATIVE RATE SCHEDULES
TEST FISCAL YEAR SEPTEMBER 30, 2011**

RATE SCHEDULE	<u>BLOCK</u>	RATES PROPOSED <u>(b)</u>
<u>RESIDENTIAL</u>		
A	THERM	0.34500
	FUEL ADJUSTOR	0.48888
	SERVICE AVAILABILITY	16.25000
<u>IRRIGATION</u>		
I	THERM	0.16000
	FUEL ADJUSTOR	0.48888
	MINIMUM ANNUAL/HP	26.25000
<u>COMMERCIAL</u>		
B	THERM	0.34100
	FUEL ADJUSTOR	0.48888
	SERVICE AVAILABILITY	30.00000

OTHER REVENUES

SUPPORTING SCHEDULES:

(a) TARIFF SCHEDULES EFFECTIVE 6/28/01 - DECISION NO.63850

(b) H-3-1 PROPOSED TARIFF SCHEDULES

GRAHAM COUNTY UTILITIES, INC. - GAS
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>RESIDENTIAL</u>	<u>MONTHLY THERMS</u>	<u>PRESENT</u>	<u>MONTHLY BILL PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
A	10	20.82	24.59	3.77	18.10%
	20	28.64	32.93	4.29	14.97%
	30	36.46	41.27	4.80	13.18%
	36	41.15	46.27	5.12	12.43%
	40	44.28	49.61	5.32	12.02%
	50	52.10	57.94	5.84	11.21%
	75	71.65	78.79	7.14	9.96%
	100	91.21	99.64	8.43	9.25%
	125	110.76	120.48	9.73	8.78%
	150	130.31	141.33	11.02	8.46%
	200	169.41	183.03	13.62	8.04%
	250	208.51	224.72	16.21	7.77%
	300	247.62	266.41	18.80	7.59%
	400	325.82	349.80	23.98	7.36%
	500	404.03	433.19	29.16	7.22%
	750	599.54	641.66	42.12	7.03%
	1000	795.05	850.13	55.08	6.93%

GRAHAM COUNTY UTILITIES, INC. - GAS
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR SEPTEMBER 30, 2011

MONTHLY MONTHLY BILL					
<u>IRRIGATION</u>	<u>THERMS</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
I	10	26.97	32.74	5.77	21.39%
	25	35.93	42.47	6.55	18.22%
	50	50.85	58.69	7.84	15.42%
	59	56.23	64.53	8.31	14.78%
	75	65.78	74.92	9.14	13.89%
	100	80.71	91.14	10.43	12.93%
	125	95.63	107.36	11.73	12.26%
	150	110.56	123.58	13.02	11.78%
	175	125.48	139.80	14.32	11.41%
	200	140.41	156.03	15.62	11.12%
	250	170.26	188.47	18.21	10.69%
	300	200.12	220.91	20.80	10.39%
	350	229.97	253.36	23.39	10.17%
	400	259.82	285.80	25.98	10.00%
	450	289.67	318.25	28.57	9.86%
	500	319.53	350.69	31.16	9.75%
	750	468.79	512.91	44.12	9.41%
	1000	618.05	675.13	57.08	9.24%
	1250	767.31	837.35	70.04	9.13%
	1500	916.58	999.57	82.99	9.05%
	1750	1065.84	1161.79	95.95	9.00%
	2000	1215.10	1324.01	108.91	8.96%
	2500	1513.63	1648.45	134.82	8.91%
	3000	1812.15	1972.89	160.74	8.87%
	4000	2409.20	2621.77	212.56	8.82%
	5000	3006.25	3270.65	264.39	8.79%

**GRAHAM COUNTY UTILITIES, INC. - GAS
TYPICAL BILL ANALYSIS
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>COMMERCIAL</u>	<u>MONTHLY THERMS</u>	<u>MONTHLY BILL PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
B	10	31.78	38.30	6.52	20.51%
	20	39.56	46.60	7.04	17.79%
	50	62.90	71.49	8.59	13.66%
	100	101.81	112.99	11.18	10.98%
	150	140.71	154.48	13.77	9.79%
	200	179.61	195.98	16.37	9.11%
	250	218.51	237.47	18.96	8.68%
	289	248.86	269.84	20.98	8.43%
	300	257.42	278.96	21.55	8.37%
	350	296.32	320.46	24.14	8.15%
	400	335.22	361.95	26.73	7.97%
	450	374.12	403.45	29.32	7.84%
	500	413.03	444.94	31.91	7.73%
	750	607.54	652.41	44.87	7.39%
	1,000	802.05	859.88	57.83	7.21%
	1,250	996.56	1,067.35	70.79	7.10%
	1,500	1,191.08	1,274.82	83.74	7.03%
	1,750	1,385.59	1,482.29	96.70	6.98%
	2,000	1,580.10	1,689.76	109.66	6.94%
	2,500	1,969.13	2,104.70	135.57	6.88%

GRAHAM COUNTY UTILITIES, INC. - GAS
BILL COUNT
TEST FISCAL YEAR SEPTEMBER 30, 2011

RESIDENTIAL

THERM RANGE	NUMBER OF BILLS	THERMS BY BLOCK	<u>CUMULATIVE BILLS</u>		<u>CUMULATIVE THERM USAGE</u>	
			NUMBER	% OF TOTAL	THERMS	% OF TOTAL
0-10	15,774	90,347	15,774	27.24%	90,347	4.61%
11-20	14,251	214,689	30,025	51.85%	305,036	15.56%
21-30	7,966	197,190	37,991	65.60%	502,226	25.62%
31-50	7,022	275,760	45,013	77.73%	777,986	39.68%
51-100	9,111	651,524	54,124	93.46%	1,429,510	72.91%
101-150	2,840	338,252	56,964	98.36%	1,767,762	90.16%
151-200	674	114,701	57,638	99.53%	1,882,463	96.01%
OVER 200	274	78,205	57,912	100.00%	1,960,668	100.00%
TOTAL	<u>57,912</u>	<u>1,960,668</u>				

AVERAGE NUMBER OF CUSTOMERS **4,826**
AVERAGE THERMS USED PER YEAR **406**
MEDIAN ANNUAL USAGE **339**

**GRAHAM COUNTY UTILITIES, INC. - GAS
BILL COUNT
TEST FISCAL YEAR SEPTEMBER 30, 2011
IRRIGATION**

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	38	68	38	42.22%	68	0.38%
11-20	5	70	43	47.78%	138	0.76%
21-30	1	28	44	48.89%	166	0.92%
31-50	5	176	49	54.44%	342	1.89%
51-100	7	547	56	62.22%	889	4.92%
101-150	7	901	63	70.00%	1,790	9.91%
151-200	4	747	67	74.44%	2,537	14.04%
OVER 200	23	15,527	90	100.00%	18,064	100.00%
	90	18,064				

AVERAGE NUMBER OF CUSTOMERS 8
AVERAGE THERMS USED PER YEAR 2,409
MEDIAN ANNUAL USAGE 428

GRAHAM COUNTY UTILITIES, INC. - GAS
COMMERCIAL BILL COUNT
TEST FISCAL YEAR SEPTEMBER 30, 2011
THERMS SOLD

<u>BLOCK</u>	<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>Jun-11</u>	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>TOTAL</u>
0-10	395	360	115	52	46	87	262	416	410	382	360	361	3,246
11-50	1,120	1,931	1,719	1,203	1,172	1,730	2,270	1,941	1,328	1,092	1,093	1,010	17,609
51-100	1,092	1,434	3,797	3,367	2,890	3,377	2,642	1,252	1,155	1,007	1,133	1,087	24,233
101-200	2,064	1,886	5,629	7,425	7,004	6,210	3,528	1,918	1,031	766	688	1,337	39,486
201-300	1,329	2,398	6,094	5,636	6,839	5,631	2,478	1,824	1,492	1,323	1,007	1,503	37,554
301-500	3,564	3,351	8,510	13,059	11,957	12,113	5,836	3,622	3,564	3,113	5,298	4,427	78,414
OVER 500	30,149	47,394	88,452	140,556	137,805	72,689	47,424	36,385	26,007	24,242	18,795	22,340	692,238
TOTAL	39,713	58,754	114,316	171,298	167,713	101,837	64,440	47,358	34,987	31,925	28,374	32,065	892,780
BILL COUNT													
0-10	154	116	32	21	19	31	75	122	163	171	169	169	1,242
11-50	49	76	58	38	38	58	88	79	54	47	49	47	681
51-100	15	20	53	44	38	46	38	18	15	14	16	15	332
101-200	14	14	41	52	47	43	25	13	7	6	5	9	276
201-300	5	10	26	23	28	22	10	7	6	5	4	6	152
301-500	9	8	22	34	30	32	14	9	9	8	13	11	199
OVER 500	13	16	36	57	69	38	18	15	11	12	6	8	299
TOTAL	259	260	268	269	269	270	268	263	265	263	262	265	3,181

**GRAHAM COUNTY UTILITIES, INC. - GAS
RESIDENTIAL BILL COUNT
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>BLOCK</u>	<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>Jun-11</u>	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>TOTAL</u>
<u>THERMS SOLD</u>													
0-10	11,690	6,557	1,434	965	892	1,290	3,396	7,557	12,581	13,269	15,745	14,971	90,347
11-20	28,244	24,039	5,237	2,647	2,778	5,594	19,033	26,934	26,872	25,651	22,783	24,877	214,689
21-30	16,856	29,069	13,611	5,241	4,749	16,442	34,126	28,285	15,451	13,375	9,520	10,465	197,190
31-50	7,773	27,088	53,264	23,644	22,149	53,495	46,856	18,451	7,356	6,359	4,232	5,093	275,760
51-100	2,845	13,500	133,557	169,207	168,954	125,396	24,692	6,591	2,102	1,656	1,495	1,529	651,524
101-150	213	1,261	37,429	125,300	126,987	41,839	2,501	1,221	468	226	237	570	338,252
151-200	161	154	10,925	43,202	48,064	10,569	788	154	511	173			114,701
OVER 200	-	401	5,290	35,650	31,316	3,917	926	260	229	216			78,205
TOTAL	67,782	102,069	260,747	405,856	405,889	258,542	132,318	89,453	65,570	60,925	54,012	57,505	1,960,668
<u>COUNT</u>													
0-10	1,961	1,154	321	238	218	310	687	1,317	2,097	2,281	2,681	2,509	15,774
11-20	1,883	1,566	332	167	173	352	1,199	1,755	1,824	1,747	1,566	1,687	14,251
21-30	690	1,174	533	208	188	640	1,362	1,148	638	551	397	437	7,966
31-50	209	713	1,313	575	541	1,326	1,222	499	197	174	114	139	7,022
51-100	43	209	1,925	2,253	2,266	1,809	392	106	35	26	23	24	9,111
101-150	2	11	316	1,051	1,064	351	22	10	4	2	2	5	2,840
151-200	1	1	64	253	282	63	5	1	3	1			674
OVER 200	-	1	20	107	124	16	3	1	1	1			274
TOTAL	4,789	4,829	4,824	4,852	4,856	4,867	4,892	4,837	4,799	4,783	4,783	4,801	57,912

GRAHAM COUNTY UTILITIES, INC.

RATE SCHEDULE GA - RESIDENTIAL GAS SERVICE

I. Availability

Available to all residential customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Distribution Rates

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

IV. Purchased Gas Adjustor

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all billings on or after _____ as authorized by the ACC in Decision No. _____ dated _____.

GRAHAM COUNTY UTILITIES, INC.

RATE SCHEDULE GB – COMMERCIAL GAS SERVICE

I. Availability

Available to all commercial customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Distribution Rates

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

IV. Purchased Gas Adjustor

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all billings on or after _____ as authorized by the ACC in Decision No. _____ dated _____.

GRAHAM COUNTY UTILITIES, INC.

RATE SCHEDULE GI – IRRIGATION GAS SERVICE

I. Availability

Available to all irrigation customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Distribution Rates

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

IV. Purchased Gas Adjustor

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all billings on or after _____ as authorized by the ACC in Decision No. _____ dated _____.

GRAHAM COUNTY UTILITES, INC. - GAS DIVISION

RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR

I. Applicability

Applicable to all therm sales of gas provided to all customers within the Utility's certificated service area.

II. Gas Adjustment Procedure

The Purchased Gas Adjustor ("PGA") rate will be increased or decreased on a monthly basis to compensate for the difference between the actual cost of natural gas and the amount the Utility recovers for its cost of natural gas. The PGA rate is based on a rolling twelve month average cost, limited by a \$0.15 per therm annual bandwidth. The PGA rate cannot vary by more than \$0.15 per therm from any rate in place during the previous twelve months as authorized by the ACC in Decision No. 71690 dated May 3, 2010.

III. PGA Bank Balance

The Utility shall establish and maintain a PGA Bank Balance (PGABB). Entries shall be made to this account each month, if appropriate, as follows:

1. A debit or credit entry equal to the difference between (a) the actual purchased gas cost for the month and (b) the amount determined by multiplying the Purchased Gas Adjustor Rate as set forth on the Statement of Charges in this Tariff by the therms billed during the month under the applicable rate schedules of this Tariff.
2. A debit or credit entry for refunds or payments authorized by the ACC.
3. A debit or credit entry for interest to be applied to over- and under-collected bank balances based on the Three Month Financial Commercial Paper Rate as published by the Federal Reserve as authorized by the ACC in Decision No. 68600 dated March 23, 2006.

IV. Monthly Informational Filings

Each month the Utility shall make a cost of gas informational filing with Commission Staff to include any and all information required by Decision No. 61225 dated October 30, 1998.

GRAHAM COUNTY UTILITES, INC. - GAS DIVISION

RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR

(Continued)

V. Additional Requirements

A special review is required if the PGABB reaches an over- or under-collection in the amount of \$250,000 for three consecutive months as authorized by the ACC in Decision No. 71690 dated May 3, 2010. The Utility must file an application for a PGABB surcharge adjustment upon completing the Monthly Informational Filing that illustrates the threshold has been exceeded or file a notice in the docket explaining why an adjustment is not necessary at this time. The ACC, upon review, may authorize the balance to be amortized through a predetermined surcharge rate included as part of the PGA for a specified period.

VI. Effective Date

This rate schedule is effective for all billings on or after _____ as authorized by the ACC in Decision No. _____ dated _____.

GRAHAM COUNTY UTILITES, INC. - GAS DIVISION

RATES AND CHARGES FOR OTHER SERVICES

<u>I. Description of Service</u>	<u>Rate</u>
Establishment of Service - Regular Hours	\$30.00
Establishment of Service - After Hours	\$50.00
Reconnection of Service - Regular Hours	\$30.00
Reconnection of Service - After Hours	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$10.00
Meter Test Fee	\$10.00
Insufficient Funds Check	\$25.00
Interest Rate on Customer Deposits	6.00%
Late Payment (Per Month & Per Total Bill)	1.50%

II. Effective Date

This rate schedule is effective for all billings on or after _____ as authorized by the ACC in Decision No. _____ dated _____.

**GRAHAM COUNTY UTILITES, INC.
STATEMENT OF GAS RATES***

<u>Description</u>	<u>Distribution Rate</u>
<u>Rate Schedule GA – Residential Gas Service</u>	
Monthly Service Availability Charge	\$16.25
Delivery Charge – Per Therm for all gas	\$0.34500

Rate Schedule GB – Commercial Gas Service

Monthly Service Availability Charge	\$30.00
Delivery Charge – Per Therm for all gas	\$0.34100

Rate Schedule GI – Irrigation Gas Service

Monthly Service Availability Charge	\$26.25
Delivery Charge – Per Therm for all gas	\$0.16000

* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.

Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

GAS DIVISION

RULES AND REGULATIONS

**In Accordance With
Arizona Corporation Commission**

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. Customer provided facilities
 - a. An applicant for services shall be responsible for the safety and maintenance of all customer piping from the point of delivery.
 - b. Meters shall be installed in a location suitable to the utility where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the customer. The customer shall provide, without cost to the utility, at a suitable and easily accessible location, sufficient and proper space for the installation of meters.
 - c. 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 customer piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
 - d. An applicant shall be responsible for all labor, material, and one-half (1/2) the overhead costs of the new service as a non-refundable contribution in aid of construction.
2. Company provided facilities
 - a. Graham County Utilities, Inc. (GCU) does not provide a free footage or equipment allowance.
3. Easements and rights-of-way
 - a. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure 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.
 - b. 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 VI. Main extensions

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 plans 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
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 one-half (1/2) the 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. Gas 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 except to the individual developer when additional customers have been connected to and are using service from the extension of the main line outside the development.

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. GAS SYSTEM PIMA, AZ 85543 MONTH ENDING December 31, 2011
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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.

 SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	1/25/12 DATE
 SIGNATURE OF MANAGER	1-25-12 DATE

PART A. STATEMENT OF OPERATIONS				December
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,243,441	3,018,026	3,186,143	352,564
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	1,661,257	1,139,786	1,318,079	126,746
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	331,352	367,318	317,263	42,977
6. Distribution Expense - Maintenance	301,761	334,069	289,272	18,149
7. Consumer Accounts Expense	322,183	322,169	316,102	32,835
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	573,462	423,916	573,991	36,730
11. Total Operation & Maintenance Expense (2 - 10)	3,190,015	2,587,257	2,814,707	257,437
12. Depreciation and Amortization Expense	148,763	157,448	151,097	13,180
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	95,337	118,974	106,994	9,178
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	57,037	46,552	81,510	3,003
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,491,152	2,910,231	3,154,308	282,798
20. Patronage Capital & Operating Margins (1 - 19)	(247,712)	107,794	31,835	69,766
21. Non Operating Margins - Interest	386	-	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	8,050	11,311	8,050	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(239,276)	119,105	39,885	69,766

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	25	32			
2. Service Retired		-	6. Miles Distribution	234	237
3. Total Services in Place	5,267	5,299			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	234	237

FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION
	GAS SYSTEM
	MONTH ENDING
Round ALL AMOUNTS to nearest dollar.	December 31, 2011

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	5,023,810	26. Memberships	28,912
2. Construction Work in Progress	4,680	27. Patronage Capital	(592,447)
3. Total Utility Plant (1 + 2)	5,028,491	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	2,549,205	29. Operating Margins - Current Year	107,794
5. Net Utility Plant (3 -4)	2,479,286	30. Non Operating Margins	11,311
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(444,430)
8. Invest in Assoc Org - General Funds	199,180	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$ _____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,904,627
11. Special Funds	-	(Payments - Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	199,180	35 Total Long-Term Debt(33 + 34)	1,904,627
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	1,419,045
15. Special Deposits	-	38. Consumers Deposits	69,765
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	56,388
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	1,545,198
18. Accounts Receivable - Sales of Gas	212,497	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	(1,682)	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	77,122	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	23,776	35 + 40 thru 42)	3,005,395
22. Other Current & Accrued Assets	-	ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	311,713	Balance Beginning of Year	1,097,119
24. Deferred Debits	15,216	Amounts Received This Year (Net)	68,343
25. Total Assets & Other Debits (5+12+23+24)	3,005,395	TOTAL Contributions in Aid of Construction	1,165,462

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	4,884	297,752	250,583.96	1,989,652	2,215,194
2. IRRIGATION SALES	7	1,077	619.66	18,712	11,467
3. COMM & INDUSTRIAL	271	146,045	97,867.80	929,304	750,900
4. TOTAL GAS SALES	5,162	444,874	349,071.42	2,937,668	2,977,562
5. OTHER GAS REVENUE			3,493.04		40,464
6. TOTAL	5,162	444,874	352,564.46	2,937,668	3,018,026

PART E. GAS STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	574,840	2,756,260	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	129,966	(181,408)
3. TOTAL PURCHASED	574,840	2,756,260	8. % SYSTEM LOSS	22.61%	-6.58%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	444,874	2,937,668	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

FINANCIAL AND STATISTICAL REPORT

GRAHAM COUNTY UTILITIES, INC.
GAS SYSTEM
PIMA, AZ 85543

Round ALL AMOUNTS to nearest dollar.

MONTH ENDING
December 31, 2010

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.

Kirk Gray

1/26/11

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

DATE

Steve M. Lino

1-26-11

SIGNATURE OF MANAGER

DATE

PART A. STATEMENT OF OPERATIONS

December

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,561,818	3,243,441	4,199,132	381,157
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,253,862	1,661,258	2,603,898	179,774
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	297,959	331,352	317,587	41,254
6. Distribution Expense - Maintenance	346,153	301,761	380,734	32,104
7. Consumer Accounts Expense	287,179	322,183	299,040	37,933
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	509,532	573,462	529,912	50,798
11. Total Operation & Maintenance Expense (2 - 10)	3,694,684	3,190,015	4,131,170	341,863
12. Depreciation and Amortization Expense	138,722	148,763	139,997	13,039
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	80,050	95,337	99,054	10,708
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	56,532	57,037	74,668	3,552
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,969,988	3,491,152	4,444,890	369,162
20. Patronage Capital & Operating Margins (1 - 19)	(408,170)	(247,712)	(245,758)	11,995
21. Non Operating Margins - Interest	139	386	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	7,229	8,050	7,229	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(400,801)	(239,276)	(238,528)	11,995

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	51	25			
2. Service Retired		-	6. Miles Distribution	233	237
3. Total Services in Place	5,242	5,267			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	233	237

FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION
	GAS SYSTEM
Round ALL AMOUNTS to nearest dollar.	MONTH ENDING
	December 31, 2010

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	4,749,985	26. Memberships	28,859
2. Construction Work in Progress	160,838	27. Patronage Capital	(353,172)
3. Total Utility Plant (1 + 2)	4,910,823	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	2,391,757	29. Operating Margins - Current Year	(247,712)
5. Net Utility Plant (3 -4)	2,519,065	30. Non Operating Margins	8,436
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(563,588)
8. Invest in Assoc Org - General Funds	138,054	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$ _____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	2,023,727
11. Special Funds	-	(Payments - Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	138,054	35 Total Long-Term Debt(33 + 34)	2,023,727
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	1,137,731
15. Special Deposits	-	38. Consumers Deposits	66,990
16. Temporary Investments	-	39. Other Current & Accrued Liabilites	57,558
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	1,262,279
18. Accounts Receivable - Sales of Gas	180,008	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	(237,567)	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	84,677	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	19,729	35 + 40 thru 42)	2,722,418
22. Other Current & Accrued Assets	-	ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	46,847	Balance Beginning of Year	1,052,529
24. Deferred Debits	18,451	Amounts Received This Year (Net)	44,590
25. Total Assets & Other Debits (5+12+23+24)	2,722,418	TOTAL Contributions in Aid of Construction	1,097,119

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,783	260,703	276,923.79	2,029,266	2,384,511
2. IRRIGATION SALES	8	370	320.39	8,327	7,356
3. COMM & INDUSTRIAL	259	114,316	100,022.15	899,539	823,181
4. TOTAL GAS SALES	5,050	375,389	377,266.33	2,937,132	3,215,048
5. OTHER GAS REVENUE			3,890.81		28,392
6. TOTAL	5,050	375,389	381,157.14	2,937,132	3,243,441

PART E. GAS STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	434,420	2,679,510	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	59,031	(257,622)
3. TOTAL PURCHASED	434,420	2,679,510	8. % SYSTEM LOSS	13.59%	-9.61%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	375,389	2,937,132	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	GRAHAM COUNTY UTILITIES, INC. GAS SYSTEM PIMA, AZ 85543 MONTH ENDING December 31, 2009
---	--

CERTIFICATION	
<i>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.</i>	
<i>Russ Barney</i> SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT	1-29-10 DATE
<i>Steve M. Jones</i> SIGNATURE OF MANAGER	1-29-10 DATE

PART A. STATEMENT OF OPERATIONS				December
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,727,437	3,561,818	3,594,474	372,318
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,350,576	2,253,862	2,221,283	229,507
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	297,846	297,959	316,505	19,426
6. Distribution Expense - Maintenance	321,323	346,153	385,321	12,558
7. Consumer Accounts Expense	278,308	287,179	301,784	24,143
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	419,520	509,532	500,166	39,589
11. Total Operation & Maintenance Expense (2 - 10)	3,667,573	3,694,684	3,725,059	325,222
12. Depreciation and Amortization Expense	131,765	138,722	135,077	12,019
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	89,350	80,050	94,500	5,989
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	30,124	56,532	73,939	5,185
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,918,812	3,969,988	4,028,576	348,415
20. Patronage Capital & Operating Margins (1 - 19)	(191,375)	(408,170)	(434,102)	23,903
21. Non Operating Margins - Interest	1,522	139	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	10,167	7,229	10,167	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(179,686)	(400,801)	(423,935)	23,903

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	88	51			
2. Service Retired		-	6. Miles Distribution	226	233
3. Total Services in Place	5,191	5,242			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	226	233

FINANCIAL AND STATISTICAL REPORT Round ALL AMOUNTS to nearest dollar.	BORROWER DESIGNATION GAS SYSTEM MONTH ENDING December 31, 2009
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PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	4,332,913	26. Memberships	28,694
2. Construction Work in Progress	129,919	27. Patronage Capital	47,630
3. Total Utility Plant (1 + 2)	4,462,832	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	2,242,994	29. Operating Margins - Current Year	(408,170)
5. Net Utility Plant (3 -4)	2,219,838	30. Non Operating Margins	7,368
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(324,478)
8. Invest in Assoc Org - General Funds	130,727	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$ _____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,106,127
11. Special Funds	-	(Payments - Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	130,727	35 Total Long-Term Debt(33 + 34)	1,106,127
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	1,592,473
15. Special Deposits	-	38. Consumers Deposits	70,120
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	55,411
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	1,718,004
18. Accounts Receivable - Sales of Gas	174,441	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	(126,523)	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	70,953	43. Total Liabilities & Other Credits (32 +	
21. Prepayments	16,038	35 + 40 thru 42)	2,499,654
22. Other Current & Accrued Assets	-	ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	134,909	Balance Beginning of Year	1,046,629
24. Deferred Debits	14,181	Amounts Received This Year (Net)	5,900
25. Total Assets & Other Debits (5+12+23+24)	2,499,654	TOTAL Contributions in Aid of Construction	1,052,529

PART D. CONSUMER SALES AND REVENUE DATA

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,813	250,926	266,683	1,839,244	2,588,397
2. IRRIGATION SALES	10	192	173	7,249	8,727
3. COMM & INDUSTRIAL	261	113,816	103,632	824,786	945,334
4. TOTAL GAS SALES	5,084	364,934	370,488	2,671,279	3,542,458
5. OTHER GAS REVENUE			1,830		19,360
6. TOTAL	5,084	364,934	372,318	2,671,279	3,561,818

PART E. GAS STATISTICS

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	554,210	2,608,190	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	189,276	(63,089)
3. TOTAL PURCHASED	554,210	2,608,190	8. % SYSTEM LOSS	34.15%	-2.42%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	364,934	2,671,279	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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, 2011 AND 2010

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

INDEPENDENT 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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2011, 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 22, 2011

FINANCIAL STATEMENTS

-2-
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

ASSETS

	September 30,	
	2011	2010
UTILITY PLANT		
Plant in Service	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	436,018	589,566
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 9,390,208	\$ 9,088,200
Less: Accumulated Provision for Depreciation and Amortization	<u>4,672,504</u>	<u>4,395,875</u>
	\$ <u>4,717,704</u>	\$ <u>4,692,325</u>
 OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ <u>319,797</u>	\$ <u>234,833</u>
 CURRENT ASSETS		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable (Less allowance for uncollectibles of \$76,993 in 2011 and \$84,544 in 2010)	84,531	40,161
Materials and Supplies	134,048	147,415
Other Current and Accrued Assets	30,777	35,663
Total Current Assets	\$ <u>302,081</u>	\$ <u>269,887</u>
 DEFERRED CHARGES		
	\$ <u>43,088</u>	\$ <u>50,788</u>
 TOTAL ASSETS	\$ <u>5,382,670</u>	\$ <u>5,247,833</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 31,292	\$ 31,354
Accumulated Margins (Deficits)	<u>(349,918)</u>	<u>(427,859)</u>
	\$ <u>(318,626)</u>	\$ <u>(396,505)</u>
 LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,002,092	\$ 2,213,105
USDA Rural Development Note Payable Less Current Maturities	1,486,395	1,510,766
CIAC Refund Due	88,151	154,189
	\$ <u>3,576,638</u>	\$ <u>3,878,060</u>
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 373,014	\$ 293,076
Accounts Payable - Other	82,111	82,099
Accounts Payable - Graham County Electric Coop	1,260,814	834,642
Overbilled Consumers Fuel Cost	230,169	378,378
Customers' Deposits and Prepayments	78,750	77,625
Accrued Taxes	57,453	58,299
Accrued Interest	19,923	19,506
Accrued Payroll	22,424	22,653
Total Current Liabilities	\$ <u>2,124,658</u>	\$ <u>1,766,278</u>
 TOTAL EQUITIES AND LIABILITIES	\$ <u>5,382,670</u>	\$ <u>5,247,833</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, 2011 AND 2010

	September 30,	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES	\$ 4,054,110	\$ 3,804,753
OPERATING EXPENSES		
Purchased Gas	\$ 1,399,908	\$ 1,644,748
Power for Pumping	54,478	49,922
Operations	439,780	368,856
Maintenance	545,659	464,199
Consumer Accounts	409,213	369,921
Administrative and General	590,172	672,726
Depreciation and Amortization	276,629	264,260
Other Interest	61,333	79,283
Total Operating Expenses	<u>\$ 3,777,172</u>	<u>\$ 3,913,915</u>
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ 276,938	\$ (109,162)
Interest on Long-Term Debt	<u>213,719</u>	<u>174,908</u>
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ 63,219	\$ (284,070)
Capital Credits	<u>14,645</u>	<u>16,703</u>
NET OPERATING (DEFICIT)	\$ 77,864	\$ (267,367)
NONOPERATING MARGINS		
Interest	<u>77</u>	<u>457</u>
NET MARGINS (DEFICIT)	\$ 77,941	\$ (266,910)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	<u>(427,859)</u>	<u>(160,949)</u>
ACCUMULATED DEFICIT - END OF YEAR	<u>\$ (349,918)</u>	<u>\$ (427,859)</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Deficit)	\$ 77,941	\$ (266,910)
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	276,629	264,260
Capital Credits - Noncash	(7,322)	(5,485)
Over/(Under)billed Fuel Cost	(148,209)	130,849
Deferred Charges	7,700	(10,560)
Accounts Receivable	(44,370)	(5,006)
Inventories and Other Current Assets	18,253	(15,173)
Payables and Accrued Expenses	479	8,616
Net Payments (to) from - Graham County Electric Cooperative	426,172	(505,518)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 607,273</u>	<u>\$ (404,927)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (302,008)	\$ (644,873)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(77,642)	8,704
Net Cash Used in Investing Activities	<u>\$ (385,727)</u>	<u>\$ (636,238)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$	\$ 1,050,000
CIAC Refund Due		226,765
Payments on Note Payable to AEPSCO		(25,667)
Payments on Long-Term Debt to CFC	(198,013)	(172,865)
Payments on Long-Term Debt to GCEC		(14,607)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Memberships	(62)	275
Net Cash Provided by (Used in) Financing Activities	<u>\$ (221,546)</u>	<u>\$ 1,041,165</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 213,719</u>	<u>\$ 174,908</u>
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, 2011 and 2010, was estimated to be \$46,978 and \$47,135, respectively, in the gas department and \$47,881 and \$51,039, 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, 2011 and 2010, the Cooperative was overbilled \$230,169 and \$378,378, 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 \$78,750 and \$77,625 at September 30, 2011 and 2010, 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.

Restricted Cash

As part of its agreement for loan funding from USDA Rural Development the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2011 and 2010 was \$52,725 and \$46,648, respectively and was in compliance with funding requirements.

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.

On January 1, 2009, the Cooperative adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2008.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2011 and 2010.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

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

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

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

3. Utility Plant and Depreciation

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

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

Major classes of utility plant are summarized as follows:

	September 30,			
	2011		2010	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,630,076	1,630,076	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	4,125,817	653,276	4,779,093	4,488,211
General	204,645	112,010	316,655	306,868
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,374,400	\$ 3,554,138	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	211,559	224,459	436,018	589,566
Utility Plant Acquisition				
Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 5,001,443	\$ 4,388,765	\$ 9,390,208	\$ 9,088,200

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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

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

Depreciation accruals charged to expense for the periods ended September 30, 2011 and 2010, totaled \$235,603 and \$223,233, 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.

The plant acquisition costs and related provision for amortization at September 30, 2011, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 349,007	\$ 512,540
Current Year	16,619	24,407
	<u>\$ 365,626</u>	<u>\$ 536,947</u>
Unamortized Adjustment	<u>\$ 49,858</u>	<u>\$ 73,221</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2011	2010
CFC		
Capital Term Certificates	\$ 205,692	\$ 128,049
Patronage Capital	101,245	93,924
Memberships	1,000	1,000
	<u>\$ 307,937</u>	<u>\$ 222,973</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 11,860	\$ 11,860
	<u>\$ 319,797</u>	<u>\$ 234,833</u>

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2011	2010
Gas Department		
Unamortized Debt Expense	\$ 7,413	\$ 11,280
Other	9,980	9,777
	<u>\$ 17,393</u>	<u>\$ 21,057</u>
Water Department		
Unamortized Debt Expense	\$ 16,472	\$ 20,576
Other	9,223	9,155
	<u>\$ 25,695</u>	<u>\$ 29,731</u>
Total	<u>\$ 43,088</u>	<u>\$ 50,788</u>

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, 2011 and 2010, is \$7,971 and \$7,971, respectively.

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GRAHAM COUNTY UTILITIES, INC.
NOTES TO FINANCIAL STATEMENTS

6. Memberships

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,627	21,689
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 31,292</u>	<u>\$ 31,354</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	(400,801)	(85,705)	(486,506)
2010	(239,276)	5,043	(234,233)
2011 Nine Months	83,594	20,358	103,952
	<u>\$ (508,854)</u>	<u>\$ 240,971</u>	<u>\$ (267,883)</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (508,854)</u>	<u>\$ 158,936</u>	<u>\$ (349,918)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2011 and 2010, 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 between September 30, 2014 and July 7, 2040:

	September 30,	
	2011	2010
Fixed - 7.10%	\$ 410,791	\$ 529,547
Fixed - 2.35% in 2011, 4.65% in 2010	139,907	182,393
Fixed - 7.45%	282,139	296,915
Fixed - 6.25%	342,858	351,250
Fixed - 7.00%	791,646	800,000
Fixed - 3.05%	244,751	250,000
	<u>\$ 2,212,092</u>	<u>\$ 2,410,105</u>
Less: Current Maturities	210,000	197,000
	<u>\$ 2,002,092</u>	<u>\$ 2,213,105</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2011, annual maturities of long-term debt due CFC for the next five years is as follows:

2012	\$ 210,000
2013	227,000
2014	240,000
2015	48,000
2016	50,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the years ended September 30, 2011 and 2010.

9. USDA Rural Development Note Payable

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

	September 30,	
	2011	2010
5.000% Note Maturing March, 2032	\$ 133,600	\$ 137,260
4.500% Note Maturing August, 2035	236,737	242,152
4.500% Note Maturing July, 2040	83,540	84,931
4.125% Note Maturing March, 2047	1,056,918	1,069,923
	<u>\$ 1,510,795</u>	<u>\$ 1,534,266</u>
Less: Current Maturities	24,400	23,500
	<u>\$ 1,486,395</u>	<u>\$ 1,510,766</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2011, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2012	\$ 24,400
2013	25,600
2014	26,700
2015	27,900
2016	29,000

10. CIAC Refund Due

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and \$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$88,151) and current maturities of long term debt (\$138,614). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

11. 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.

Balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ <u>(1,260,814)</u>	\$ <u>(834,642)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ <u>1,260,814</u>	\$ <u>834,642</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

12. Litigation and Contingencies

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

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. *During the prior period the rate cases were concluded and new rates were implemented in June 2010.*

13. Subsequent Events

The Cooperative has evaluated subsequent events through November 22, 2011, 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 16 through 21 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 22, 2011

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GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2011 AND 2010

ASSETS

	September 30,	
	2011	2010
UTILITY PLANT		
Plant in Service	\$ 4,374,400	\$ 4,095,366
Construction Work in Progress	211,559	366,322
Plant Acquisition Adjustment	415,484	415,484
	\$ 5,001,443	\$ 4,877,172
Less: Accumulated Provision for Depreciation and Amortization	2,509,706	2,353,251
	\$ 2,491,737	\$ 2,523,921
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 199,180	\$ 131,388
 CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$64,981 in 2011 and \$70,453 in 2010)	\$ 44,253	\$ 20,842
Materials and Supplies	79,032	84,805
Other Current and Accrued Assets	23,205	26,747
Total Current Assets	\$ 146,490	\$ 132,394
Deferred Charges	\$ 17,393	\$ 21,057
 TOTAL ASSETS	\$ 2,854,800	\$ 2,808,760

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,792	\$ 28,854
Accumulated Margins (Deficits)	(508,854)	(542,878)
	\$ (480,062)	\$ (514,024)
 LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,583,883	\$ 1,709,163
CIAC Refunds Due	88,151	154,189
	\$ 1,672,034	\$ 1,863,352
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 263,244	\$ 188,906
Accounts Payable - Other	51,712	60,616
Accounts Payable - Graham County Electric Cooperative	985,487	699,527
Overbilled Consumers Fuel Cost	230,169	378,378
Accrued Taxes	34,294	34,846
Customers' Deposits and Prepayments	66,645	67,220
Accrued Interest	13,664	13,282
Accrued Payroll	17,613	16,657
Total Current Liabilities	\$ 1,662,828	\$ 1,459,432
 TOTAL EQUITIES AND LIABILITIES	\$ 2,854,800	\$ 2,808,760

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

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	September 30,		Increase (Decrease)
	2011	2010	
OPERATING REVENUES			
Residential	\$ 2,273,160	\$ 2,380,373	\$ (107,213)
Irrigation	11,400	6,681	4,719
Commercial and Industrial	768,921	843,054	(74,133)
Fuel Cost Under (Over) Billed	148,828	24,648	124,180
Other Operating Revenues	40,043	(129,990)	170,033
Total Operating Revenues	<u>\$ 3,242,352</u>	<u>\$ 3,124,766</u>	<u>\$ 117,586</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,399,908	\$ 1,644,748	\$ (244,840)
Operations	374,592	303,884	70,708
Maintenance	328,460	283,816	44,644
Customer Accounts	327,997	306,437	21,560
Administrative and General	463,325	541,444	(78,119)
Depreciation and Amortization	156,455	145,705	10,750
Other Interest	47,571	62,047	(14,476)
Total Operating Expenses	<u>\$ 3,098,308</u>	<u>\$ 3,288,081</u>	<u>\$ (189,773)</u>
OPERATING MARGIN (DEFICIT) - Before Fixed Charges	<u>\$ 144,044</u>	<u>\$ (163,315)</u>	<u>\$ 307,359</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>121,332</u>	<u>82,985</u>	<u>38,347</u>
OPERATING MARGIN (DEFICIT) - After Fixed Charges	<u>\$ 22,712</u>	<u>\$ (246,300)</u>	<u>\$ 269,012</u>
Capital Credits	<u>11,312</u>	<u>8,050</u>	<u>3,262</u>
NET OPERATING MARGIN (DEFICIT)	<u>\$ 34,024</u>	<u>\$ (238,250)</u>	<u>\$ 272,274</u>
NONOPERATING MARGINS			
Interest	<u> </u>	<u>388</u>	<u>(388)</u>
NET MARGIN (DEFICIT)	<u>\$ 34,024</u>	<u>\$ (237,862)</u>	<u>\$ 271,886</u>
ACCUMULATED DEFICIT - BEGINNING OF YEAR	<u>(542,878)</u>	<u>(305,016)</u>	
ACCUMULATED DEFICIT - END OF YEAR	<u>\$ (508,854)</u>	<u>\$ (542,878)</u>	

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

Schedule 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	September 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Deficit)	\$ 34,024	\$ (237,862)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	156,455	145,705
Capital Credits - Noncash	(5,655)	(4,025)
Deferred Charges	3,664	(5,509)
Over/(Under)billed Fuel Cost - Net	(148,209)	130,849
Accounts Receivable	(23,411)	704
Inventories and Other Current Assets	9,315	(13,974)
Payables and Accrued Expenses	(8,693)	(7,211)
Net Payments from - Graham County Electric Cooperative	285,960	(403,705)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 303,450</u>	<u>\$ (395,028)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (124,271)	\$ (522,607)
Investments in Associated Organizations	(62,137)	6,978
Net Cash Used in Investing Activities	<u>\$ (186,408)</u>	<u>\$ (515,629)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - CFC	\$	\$ 800,000
CIAC Refunds Due		226,765
Payments on Long-Term Debt - CFC	(116,980)	(101,776)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(62)	275
Net Cash Provided by (Used in) Operating Activities	<u>\$ (117,042)</u>	<u>\$ 910,657</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 121,332	\$ 82,985
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2011 AND 2010

ASSETS

	September 30,	
	2011	2010
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,554,138	\$ 3,377,616
Construction Work in Progress	224,459	223,244
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,388,765	\$ 4,211,028
Less: Accumulated Provision for Depreciation and Amortization	2,162,798	2,042,624
	\$ 2,225,967	\$ 2,168,404
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 120,617	\$ 103,445
 CURRENT ASSETS		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable - Customers (Less allowance for uncollectibles of \$12,012 in 2011 and \$14,091 in 2010)	40,278	19,319
Materials and Supplies	55,016	62,610
Other Current and Accrued Assets	7,572	8,916
Total Current Assets	\$ 155,591	\$ 137,493
 DEFERRED CHARGES	\$ 25,695	\$ 29,731
 NET ASSETS	\$ 2,527,870	\$ 2,439,073

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	158,936	115,019
	\$ 161,436	\$ 117,519
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 418,209	\$ 503,942
USDA Rural Development Notes Less Current Maturities	1,486,395	1,510,766
	\$ 1,904,604	\$ 2,014,708
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 109,770	\$ 104,170
Accounts Payable - Other	30,399	21,483
Accounts Payable - Graham County Electric Cooperative	275,327	135,115
Accrued Taxes	23,159	23,453
Customers' Deposits and Prepayments	12,105	10,405
Accrued Interest	6,259	6,224
Accrued Payroll	4,811	5,996
Total Current Liabilities	\$ 461,830	\$ 306,846
 NET EQUITIES AND LIABILITIES	\$ 2,527,870	\$ 2,439,073

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,		Increase (Decrease)
	2011	2010	
OPERATING REVENUES			
Residential	\$ 667,546	\$ 575,793	\$ 91,753
Commercial and Industrial	78,544	60,484	18,060
Sales for Resale	49,957	38,719	11,238
Other Operating Revenues	15,711	4,991	10,720
Total Operating Revenues	<u>\$ 811,758</u>	<u>\$ 679,987</u>	<u>\$ 131,771</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 54,478	\$ 49,922	\$ 4,556
Operations	65,188	64,972	216
Maintenance	217,199	180,383	36,816
Customer Accounts	81,216	63,484	17,732
Administrative and General	126,847	131,282	(4,435)
Depreciation and Amortization	120,174	118,555	1,619
Other Interest	13,762	17,236	(3,474)
Total Operating Expenses	<u>\$ 678,864</u>	<u>\$ 625,834</u>	<u>\$ 53,030</u>
OPERATING MARGINS - Before			
Fixed Charges	\$ 132,894	\$ 54,153	\$ 78,741
FIXED CHARGES			
Interest on Long-Term Debt	<u>92,387</u>	<u>91,923</u>	<u>464</u>
OPERATING MARGIN (DEFICIT) - After Fixed Charges	\$ 40,507	\$ (37,770)	\$ 78,277
Capital Credits	<u>3,333</u>	<u>8,653</u>	<u>(5,320)</u>
NET OPERATING MARGIN (DEFICIT)	\$ 43,840	\$ (29,117)	\$ 72,957
NONOPERATING MARGINS			
Interest	<u>77</u>	<u>69</u>	<u>8</u>
NET MARGIN (DEFICIT)	\$ 43,917	\$ (29,048)	\$ 72,965
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>115,019</u>	<u>144,067</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 158,936</u>	<u>\$ 115,019</u>	

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

Schedule 6

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	September 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Deficit)	\$ 43,917	\$ (29,048)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	120,174	118,555
Capital Credits - Noncash	(1,667)	(1,460)
Deferred Charges	4,036	(5,051)
Accounts Receivable	(20,959)	(5,710)
Inventories and Other Current Assets	8,938	(1,199)
Payables and Accrued Expenses	9,172	16,028
Net Payments from (to) - Graham County Electric Cooperative	140,212	(101,813)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 303,823</u>	<u>\$ (9,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (177,737)	\$ (122,467)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(15,505)	1,726
Net Cash Used in Investing Activities	<u>\$ (199,319)</u>	<u>\$ (120,810)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$	\$ 250,000
Payments on Note Payable to AEPCO		(25,667)
Payments on Long-Term Debt to CFC	(81,033)	(71,089)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (104,504)</u>	<u>\$ 130,508</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 92,387	\$ 91,923
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

GRAHAM COUNTY UTILITIES, INC.

PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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, 2010 AND 2009

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
PHONE: (806) 747-3806
FAX: (806) 747-3815
8215 NASHVILLE AVENUE
LUBBOCK, TEXAS 79423-1954

INDEPENDENT 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, 2010 and 2009, 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, 2010 and 2009, 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 2, 2010, 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 L.L.P.

Certified Public Accountants

November 2, 2010

FINANCIAL STATEMENTS

/

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	<u>2010</u>	<u>2009</u>
UTILITY PLANT		
Plant in Service	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	589,566	397,312
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 9,088,200	\$ 8,443,327
Less: Accumulated Provision for Depreciation and Amortization	<u>4,395,875</u>	<u>4,131,615</u>
	\$ <u>4,692,325</u>	\$ <u>4,311,712</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	<u>\$ 234,833</u>	<u>\$ 238,052</u>
CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable (Less allowance for uncollectibles of \$84,544 in 2010 and \$92,362 in 2009)	40,161	35,155
Materials and Supplies	147,415	138,178
Other Current and Accrued Assets	<u>35,663</u>	<u>29,727</u>
Total Current Assets	\$ <u>269,887</u>	\$ <u>249,639</u>
DEFERRED CHARGES	<u>\$ 50,788</u>	<u>\$ 40,228</u>
TOTAL ASSETS	<u>\$ 5,247,833</u>	<u>\$ 4,839,631</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 31,354	\$ 31,079
Accumulated Margins (Deficits)	<u>(427,859)</u>	<u>(160,949)</u>
	\$ <u>(396,505)</u>	\$ <u>(129,870)</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,213,105	\$ 1,360,070
AEPCO Note Payable Less Current Maturities		3,667
USDA Rural Development Note Payable Less Current Maturities	1,510,766	1,534,502
CIAC Refund Due	<u>154,189</u>	
	\$ <u>3,878,060</u>	\$ <u>2,898,239</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 293,076	\$ 232,007
Accounts Payable - Other	82,099	81,476
Accounts Payable - Graham County Electric Coop	834,642	1,340,160
Overbilled Consumers Fuel Cost	378,378	247,529
Customers' Deposits and Prepayments	77,625	77,250
Accrued Taxes	58,299	57,317
Accrued Interest	19,506	19,199
Accrued Payroll	<u>22,653</u>	<u>16,324</u>
Total Current Liabilities	\$ <u>1,766,278</u>	\$ <u>2,071,262</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 5,247,833</u>	<u>\$ 4,839,631</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, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
OPERATING REVENUES	\$ 3,804,753	\$ 4,034,707
OPERATING EXPENSES		
Purchased Gas	\$ 1,644,748	\$ 2,100,652
Power for Pumping	49,922	40,037
Operations	368,856	375,477
Maintenance	464,199	539,626
Consumer Accounts	369,921	342,675
Administrative and General	672,726	630,740
Depreciation and Amortization	264,260	282,852
Other Interest	79,283	69,033
Total Operating Expenses	<u>\$ 3,913,915</u>	<u>\$ 4,381,092</u>
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (109,162)	\$ (346,385)
Interest on Long-Term Debt	<u>174,908</u>	<u>180,664</u>
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (284,070)	\$ (527,049)
Capital Credits	<u>16,703</u>	<u>9,951</u>
NET OPERATING (DEFICIT)	\$ (267,367)	\$ (517,098)
NONOPERATING MARGINS		
Interest	<u>457</u>	<u>608</u>
NET (DEFICIT)	\$ (266,910)	\$ (516,490)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>(160,949)</u>	<u>355,541</u>
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	<u>\$ (427,859)</u>	<u>\$ (160,949)</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (266,910)	\$ (516,490)
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	264,260	282,852
Capital Credits - Noncash	(5,485)	(11,951)
Over/(Under)billed Fuel Cost	130,849	279,946
Deferred Charges	(10,560)	(4,350)
Accounts Receivable	(5,006)	36,610
Inventories and Other Current Assets	(15,173)	6,796
Payables and Accrued Expenses	8,616	(53,304)
Net Payments (to) from - Graham County Electric Cooperative	(505,518)	522,467
Net Cash Provided by (Used in) Operating Activities	<u>\$ (404,927)</u>	<u>\$ 542,576</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (644,873)	\$ (315,580)
Investments in Associated Organizations	8,704	16,998
Net Cash Used in Investing Activities	<u>\$ (636,169)</u>	<u>\$ (298,582)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$ 1,050,000	\$
CIAC Refund Due	226,765	
Payments on Note Payable to AEPCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(172,865)	(157,329)
Payments on Long-Term Debt to GCEC	(14,607)	(41,728)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Memberships	275	450
Net Cash Provided by (Used in) Financing Activities	<u>\$ 1,041,165</u>	<u>\$ (241,932)</u>
INCREASE (DECREASE) IN CASH	\$ 69	\$ 2,062
CASH - BEGINNING OF YEAR	<u>46,579</u>	<u>44,517</u>
CASH - END OF YEAR	<u>\$ 46,648</u>	<u>\$ 46,579</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 174,908	\$ 179,621
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, 2010 and 2009, was estimated to be \$47,135 and \$57,282, respectively, in the gas department and \$51,039 and \$39,691, 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, 2010 and 2009, the Cooperative was overbilled \$378,378 and \$247,529, 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 \$77,625 and \$77,250 at September 30, 2010 and 2009, 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.

On January 1, 2009, the Cooperative adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2007.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2010 and 2009.

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.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

3. Utility Plant and Depreciation

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

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

Major classes of utility plant are summarized as follows:

	September 30,			
	2010		2009	
	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	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	3,856,570	631,641	4,488,211	4,036,149
General	194,858	112,010	306,868	306,311
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,095,366	\$ 3,377,616	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	366,322	223,244	589,566	397,312
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 4,877,172	\$ 4,211,028	\$ 9,088,200	\$ 8,443,327

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, 2010 and 2009, totaled \$223,233 and \$241,826, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

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.

The plant acquisition costs and related provision for amortization at September 30, 2010, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 332,388	\$ 488,134
Current Year	16,619	24,407
	<u>\$ 349,007</u>	<u>\$ 512,541</u>
Unamortized Adjustment	<u>\$ 66,477</u>	<u>\$ 97,627</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
CFC		
Capital Term Certificates	\$ 128,049	\$ 137,512
Patronage Capital	93,924	93,414
Memberships	1,000	1,000
	<u>\$ 222,973</u>	<u>\$ 231,926</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 11,860</u>	<u>\$ 6,126</u>
	<u>\$ 234,833</u>	<u>\$ 238,052</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2010	2009
Gas Department		
Unamortized Debt Expense	\$ 11,280	\$ 15,148
Other	9,777	400
	<u>\$ 21,057</u>	<u>\$ 15,548</u>
Water Department		
Unamortized Debt Expense	\$ 20,576	\$ 24,680
Other	9,155	
	<u>\$ 29,731</u>	<u>\$ 24,680</u>
Total	<u>\$ 50,788</u>	<u>\$ 40,228</u>

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, 2010 and 2009, is \$7,971 and \$8,983, respectively.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2010	2009
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	21,689	21,414
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 31,354</u>	<u>\$ 31,079</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	(400,801)	(85,705)	(486,506)
2010 Nine Months	<u>(189,706)</u>	<u>(18,516)</u>	<u>(208,222)</u>
	\$ <u>(542,878)</u>	\$ <u>197,054</u>	\$ <u>(345,824)</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	\$ <u><u>(542,878)</u></u>	\$ <u><u>115,019</u></u>	\$ <u><u>(427,859)</u></u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2010 and 2009, 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 between September 30, 2014 and July 7, 2040:

	September 30,	
	2010	2009
Fixed - 7.10%	\$ 529,547	\$ 640,232
Fixed - 4.65%	182,393	222,961
Fixed - 7.45%	296,915	310,640
Fixed - 6.25%	351,250	359,137
Fixed - 7.00%	800,000	
Fixed - 3.05%	250,000	
	<u>\$ 2,410,105</u>	<u>\$ 1,532,970</u>
Less: Current Maturities	<u>197,000</u>	<u>172,900</u>
	<u>\$ 2,213,105</u>	<u>\$ 1,360,070</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 5 years is as follows:

2011	\$ 197,000
2012	210,000
2013	227,000
2014	240,000
2015	48,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the year ended September 30, 2010 and 2009.

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,	
	2010	2009
5.000% Note Maturing March, 2032	\$ 137,260	\$ 140,742
4.500% Note Maturing August, 2035	242,152	247,329
4.500% Note Maturing July, 2040	84,931	86,261
4.125% Note Maturing March, 2047	1,069,923	1,082,670
	<u>\$ 1,534,266</u>	<u>\$ 1,557,002</u>
Less: Current Maturities	23,500	22,500
	<u>\$ 1,510,766</u>	<u>\$ 1,534,502</u>

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2010, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2011	\$ 23,500
2012	24,400
2013	25,600
2014	26,700
2015	27,900

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 was paid off during the current period.

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 was paid off during the current period.

12. CIAC Refund Due

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

\$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$154,189) and current maturities of long term debt (\$72,576). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

13. 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.

Balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (834,642)	\$ (1,340,164)
Note Payable		(14,607)
Net Due to Affiliated Cooperative	<u>\$ (834,642)</u>	<u>\$ (1,354,771)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 834,642	\$ 1,340,164
Note Receivable		14,607
Net Due from Affiliated Cooperative	<u>\$ 834,642</u>	<u>\$ 1,354,771</u>

14. Litigation and Contingencies

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

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. During the current period the rate cases were concluded and new rates were implemented in June 2010.

15. Subsequent Events

The Cooperative has evaluated subsequent events through November 2, 2010, the date the financial statements were available to be issued.

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 2, 2010

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GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	2010	2009
UTILITY PLANT		
Plant in Service	\$ 4,095,366	\$ 3,743,276
Construction Work in Progress	366,322	195,805
Plant Acquisition Adjustment	415,484	415,484
	\$ 4,877,172	\$ 4,354,565
Less: Accumulated Provision for Depreciation and Amortization	2,353,251	2,207,546
	\$ 2,523,921	\$ 2,147,019
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 131,388	\$ 134,341
 CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$70,453 in 2010 and \$76,885 in 2009)	\$ 20,842	\$ 21,546
Materials and Supplies	84,805	75,283
Other Current and Accrued Assets	26,747	22,295
Total Current Assets	\$ 132,394	\$ 119,124
Deferred Charges	\$ 21,057	\$ 15,548
 TOTAL ASSETS	\$ 2,808,760	\$ 2,416,032

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,854	\$ 28,579
Accumulated Margins (Deficits)	(542,878)	(305,016)
	\$ (514,024)	\$ (276,437)
 LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,709,163	\$ 982,069
CIAC Refunds Due	154,189	
	\$ 1,863,352	\$ 982,069
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 188,906	\$ 159,807
Accounts Payable - Other	60,616	69,351
Accounts Payable - Graham County Electric Cooperative	699,527	1,103,232
Overbilled Consumers Fuel Cost	378,378	247,529
Accrued Taxes	34,846	36,220
Customers' Deposits and Prepayments	67,220	68,845
Accrued Interest	13,282	13,096
Accrued Payroll	16,657	12,320
Total Current Liabilities	\$ 1,459,432	\$ 1,710,400
 TOTAL EQUITIES AND LIABILITIES	\$ 2,808,760	\$ 2,416,032

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,		Increase (Decrease)
	2010	2009	
OPERATING REVENUES			
Residential	\$ 2,380,373	\$ 2,678,432	\$ (298,059)
Irrigation	6,681	8,456	(1,775)
Commercial and Industrial	843,054	976,257	(133,203)
Fuel Cost Under (Over) Billed	24,648	19,960	4,688
Other Operating Revenues	(129,990)	(280,168)	150,178
Total Operating Revenues	<u>\$ 3,124,766</u>	<u>\$ 3,402,937</u>	<u>\$ (278,171)</u>
OPERATING EXPENSES			
Purchased Gas	\$ 1,644,748	\$ 2,100,652	\$ (455,904)
Operations	303,884	309,874	(5,990)
Maintenance	283,816	376,161	(92,345)
Customer Accounts	306,437	283,581	22,856
Administrative and General	541,444	499,297	42,147
Depreciation and Amortization	145,705	137,095	8,610
Other Interest	62,047	54,993	7,054
Total Operating Expenses	<u>\$ 3,288,081</u>	<u>\$ 3,761,653</u>	<u>\$ (473,572)</u>
OPERATING (DEFICIT) - Before Fixed Charges	\$ (163,315)	\$ (358,716)	\$ 195,401
FIXED CHARGES			
Interest on Long-Term Debt	<u>82,985</u>	<u>79,858</u>	<u>3,127</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (246,300)	\$ (438,574)	\$ 192,274
Capital Credits	<u>8,050</u>	<u>7,229</u>	<u>821</u>
NET OPERATING (DEFICIT)	\$ (238,250)	\$ (431,345)	\$ 193,095
NONOPERATING MARGINS			
Interest	<u>388</u>	<u>546</u>	<u>(158)</u>
NET (DEFICIT)	\$ (237,862)	\$ (430,799)	\$ <u>192,937</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>(305,016)</u>	<u>125,783</u>	
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	<u>\$ (542,878)</u>	<u>\$ (305,016)</u>	

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

Schedule 3

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	September 30,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (237,862)	\$ (430,799)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	145,705	137,095
Capital Credits - Noncash	(4,025)	(9,229)
Deferred Charges	(5,509)	3,467
Over/(Under)billed Fuel Cost - Net	130,849	279,946
Accounts Receivable	704	35,674
Inventories and Other Current Assets	(13,974)	14,051
Payables and Accrued Expenses	(7,211)	(19,624)
Net Payments from - Graham County Electric Cooperative	(403,705)	352,481
Net Cash Provided by (Used in) Operating Activities	<u>\$ (395,028)</u>	<u>\$ 363,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (522,607)	\$ (239,405)
Investments in Associated Organizations	6,978	10,481
Net Cash Used in Investing Activities	<u>\$ (515,629)</u>	<u>\$ (228,924)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - CFC	\$ 800,000	\$
CIAC Refunds Due	226,765	
Payments on Long-Term Debt - CFC	(101,776)	(92,860)
Payments on Long-Term Debt - Graham County Electric Cooperative	(14,607)	(41,728)
Memberships	275	450
Net Cash Provided by (Used in) Operating Activities	<u>\$ 910,657</u>	<u>\$ (134,138)</u>
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 82,985	\$ 82,630
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 4

BALANCE SHEET
SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	2010	2009
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,377,616	\$ 3,277,087
Construction Work in Progress	223,244	201,507
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,211,028	\$ 4,088,762
Less: Accumulated Provision for Depreciation and Amortization	2,042,624	1,924,069
	\$ 2,168,404	\$ 2,164,693
 OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 103,445	\$ 103,711
 CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable - Customers (Less allowance for uncollectibles of \$14,091 in 2010 and \$15,477 in 2009)	19,319	13,609
Materials and Supplies	62,610	62,895
Other Current and Accrued Assets	8,916	7,432
Total Current Assets	\$ 137,493	\$ 130,515
 DEFERRED CHARGES	\$ 29,731	\$ 24,680
 NET ASSETS	\$ 2,439,073	\$ 2,423,599

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	115,019	144,067
	\$ 117,519	\$ 146,567
 LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 503,942	\$ 378,001
AEPSCO Notes Payable Less Current Maturities		3,667
USDA Rural Development Notes Less Current Maturities	1,510,766	1,534,502
	\$ 2,014,708	\$ 1,916,170
 CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 104,170	\$ 72,200
Accounts Payable - Other	21,483	12,125
Accounts Payable - Graham County Electric Cooperative	135,115	236,928
Accrued Taxes	23,453	21,097
Customers' Deposits and Prepayments	10,405	8,405
Accrued Interest	6,224	6,103
Accrued Payroll	5,996	4,004
Total Current Liabilities	\$ 306,846	\$ 360,862
 NET EQUITIES AND LIABILITIES	\$ 2,439,073	\$ 2,423,599

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,		Increase (Decrease)
	2010	2009	
OPERATING REVENUES			
Residential	\$ 575,793	\$ 546,737	\$ 29,056
Commercial and Industrial	60,484	50,027	10,457
Sales for Resale	38,719	31,186	7,533
Other Operating Revenues	4,991	3,820	1,171
Total Operating Revenues	<u>\$ 679,987</u>	<u>\$ 631,770</u>	<u>\$ 48,217</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 49,922	\$ 40,037	\$ 9,885
Operations	64,972	65,603	(631)
Maintenance	180,383	163,465	16,918
Customer Accounts	63,484	59,094	4,390
Administrative and General	131,282	131,443	(161)
Depreciation and Amortization	118,555	145,757	(27,202)
Other Interest	17,236	14,040	3,196
Total Operating Expenses	<u>\$ 625,834</u>	<u>\$ 619,439</u>	<u>\$ 6,395</u>
OPERATING MARGINS - Before			
Fixed Charges	\$ 54,153	\$ 12,331	\$ 41,822
FIXED CHARGES			
Interest on Long-Term Debt	<u>91,923</u>	<u>100,806</u>	<u>(8,883)</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (37,770)	\$ (88,475)	\$ 50,705
Capital Credits	<u>8,653</u>	<u>2,722</u>	<u>5,931</u>
NET OPERATING (DEFICIT)	\$ (29,117)	\$ (85,753)	\$ 56,636
NONOPERATING MARGINS			
Interest	<u>69</u>	<u>62</u>	<u>7</u>
NET (DEFICIT)	\$ (29,048)	\$ (85,691)	\$ 56,643
ACCUMULATED MARGINS - BEGINNING			
OF YEAR	<u>144,067</u>	<u>229,758</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 115,019</u>	<u>\$ 144,067</u>	

GRAHAM COUNTY UTILITIES, INC.
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (29,048)	\$ (85,691)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	118,555	145,757
Capital Credits - Noncash	(1,460)	(2,722)
Deferred Charges	(5,051)	(7,817)
Accounts Receivable	(5,710)	936
Inventories and Other Current Assets	(1,199)	(7,255)
Payables and Accrued Expenses	16,028	(33,680)
Net Payments from (to) - Graham County Electric Cooperative	(101,813)	169,986
Net Cash Provided by (Used in) Operating Activities	<u>\$ (9,698)</u>	<u>\$ 179,514</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (122,467)	\$ (76,175)
Investments in Associated Organizations	1,726	6,517
Net Cash Used in Investing Activities	<u>\$ (120,741)</u>	<u>\$ (69,658)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$ 250,000	\$
Payments on Note Payable to AEPSCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(71,089)	(64,469)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 130,508</u>	<u>\$ (107,794)</u>
INCREASE IN CASH	\$ 69	\$ 2,062
CASH - BEGINNING OF YEAR	<u>46,579</u>	<u>44,517</u>
CASH - END OF YEAR	<u>\$ 46,648</u>	<u>\$ 46,579</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 91,923	\$ 96,991
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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

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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. (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 L.L.P.

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>
UTILITY PLANT		
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>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 238,052	\$ 243,099
CURRENT ASSETS		
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>
DEFERRED CHARGES		
	<u>\$ 40,228</u>	<u>\$ 35,878</u>
TOTAL ASSETS	<u>\$ 4,839,631</u>	<u>\$ 4,881,360</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 31,079	\$ 30,629
Accumulated Margins (Deficits)	<u>(160,949)</u>	<u>355,541</u>
	<u>\$ (129,870)</u>	<u>\$ 386,170</u>
LONG - TERM DEBT		
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>
CURRENT LIABILITIES		
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>
TOTAL EQUITIES AND LIABILITIES	<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,	
	2009	2008
OPERATING REVENUES	\$ 4,034,707	\$ 4,373,004
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	\$ 4,381,092	\$ 4,330,973
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (346,385)	\$ 42,031
Interest on Long-Term Debt	180,664	195,057
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (527,049)	\$ (153,026)
Capital Credits	9,951	14,142
NET OPERATING (DEFICIT)	\$ (517,098)	\$ (138,884)
NONOPERATING MARGINS		
Interest	608	5,433
NET (DEFICIT)	\$ (516,490)	\$ (133,451)
ACCUMULATED MARGINS - BEGINNING OF YEAR	355,541	488,992
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	\$ (160,949)	\$ 355,541

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>
CASH FLOWS FROM OPERATING ACTIVITIES		
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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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>
CASH FLOWS FROM FINANCING ACTIVITIES		
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>
INCREASE (DECREASE) IN CASH	\$ 2,062	\$ (7,054)
CASH - BEGINNING OF YEAR	<u>44,517</u>	<u>51,571</u>
CASH - END OF YEAR	<u>\$ 46,579</u>	<u>\$ 44,517</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
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	\$ 3,743,276	\$ 3,277,087	\$ 7,020,363	\$ 5,814,817
Construction Work in Progress	195,805	201,507	397,312	1,287,278
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 4,354,565	\$ 4,088,762	\$ 8,443,327	\$ 8,127,747

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	16,619	24,407
	<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	1,000	1,000
	<u>\$ 231,926</u>	<u>\$ 236,973</u>
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	400	
	<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>
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	21,414	20,964
Class C Memberships		
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	<u>(352,645)</u>	<u>(75,173)</u>	<u>(427,818)</u>
	\$ (305,016)	\$ 226,102	\$ (78,914)
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (305,016)</u>	<u>\$ 144,067</u>	<u>\$ (160,949)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the 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	1,082,670	1,094,475
	<u>\$ 1,557,002</u>	<u>\$ 1,578,327</u>
Less: Current Maturities	22,500	20,900
	<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:

	September 30,	
	<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

GRAHAM COUNTY UTILITIES, INC.
GAS DEPARTMENT

Schedule 1

BALANCE SHEET
SEPTEMBER 30, 2009 AND 2008

ASSETS

	September 30,	
	<u>2009</u>	<u>2008</u>
UTILITY PLANT		
Plant in Service	\$ 3,743,276	\$ 3,597,916
Construction Work in Progress	195,805	101,760
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 4,354,565</u>	<u>\$ 4,115,160</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>2,207,546</u>	<u>2,070,451</u>
	<u>\$ 2,147,019</u>	<u>\$ 2,044,709</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 134,341	\$ 135,593
CURRENT ASSETS		
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	20,562
Total Current Assets	<u>\$ 119,124</u>	<u>\$ 201,266</u>
Deferred Charges	\$ 15,548	\$ 19,015
TOTAL ASSETS	<u>\$ 2,416,032</u>	<u>\$ 2,400,583</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,579	\$ 28,129
Accumulated Margins (Deficits)	<u>(305,016)</u>	<u>125,783</u>
	<u>\$ (276,437)</u>	<u>\$ 153,912</u>
LONG - TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$	\$ 14,607
CFC Mortgage Notes Less Current Maturities	982,069	1,113,729
	<u>\$ 982,069</u>	<u>\$ 1,128,336</u>
CURRENT LIABILITIES		
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	<u>\$ 1,710,400</u>	<u>\$ 1,118,335</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,416,032</u>	<u>\$ 2,400,583</u>

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	
OPERATING REVENUES			
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>
OPERATING EXPENSES			
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>
OPERATING (DEFICIT) - Before Fixed Charges	<u>\$ (358,716)</u>	<u>\$ (34,010)</u>	<u>\$ (324,706)</u>
FIXED CHARGES			
Interest on Long-Term Debt	<u>79,858</u>	<u>86,266</u>	<u>(6,408)</u>
OPERATING (DEFICIT) - After Fixed Charges	<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>
NET OPERATING (DEFICIT)	<u>\$ (431,345)</u>	<u>\$ (110,108)</u>	<u>\$ (321,237)</u>
NONOPERATING MARGINS			
Interest	<u>546</u>	<u>1,733</u>	<u>(1,187)</u>
NET (DEFICIT)	<u>\$ (430,799)</u>	<u>\$ (108,375)</u>	<u>\$ (322,424)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>125,783</u>	<u>234,158</u>	
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	<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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (430,799)	\$ (108,375)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (92,860)	\$ (86,277)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(41,728)	(38,761)
	450	(51)
Net Cash Used in Financing Activities	<u>\$ (134,138)</u>	<u>\$ (125,089)</u>
INCREASE (DECREASE) IN CASH	\$ 0	\$ (10,330)
CASH - BEGINNING OF YEAR	<u>0</u>	<u>10,330</u>
CASH - END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 82,630	\$ 92,006
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,	
	2009	2008
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
	\$ 4,088,762	\$ 4,012,587
Less: Accumulated Provision for Depreciation and Amortization	1,924,069	1,778,312
	\$ 2,164,693	\$ 2,234,275
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	\$ 130,515	\$ 122,134
DEFERRED CHARGES	\$ 24,680	\$ 16,863
NET ASSETS	\$ 2,423,599	\$ 2,480,778

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	144,067	229,758
	\$ 146,567	\$ 232,258
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 378,001	\$ 422,570
AEPCO Notes Payable Less Current Maturities	3,667	25,667
USDA Rural Development Notes Less Current Maturities	1,534,502	1,557,427
	\$ 1,916,170	\$ 2,005,664
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	\$ 360,862	\$ 242,856
NET EQUITIES AND LIABILITIES	\$ 2,423,599	\$ 2,480,778

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	
OPERATING REVENUES			
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>
OPERATING EXPENSES			
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>
OPERATING MARGINS - Before Fixed Charges	\$ 12,331	\$ 76,041	\$ (63,710)
FIXED CHARGES			
Interest on Long-Term Debt	<u>100,806</u>	<u>108,791</u>	<u>(7,985)</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (88,475)	\$ (32,750)	\$ (55,725)
Capital Credits	<u>2,722</u>	<u>3,974</u>	<u>(1,252)</u>
NET OPERATING (DEFICIT)	\$ (85,753)	\$ (28,776)	\$ (56,977)
NONOPERATING MARGINS			
Interest	<u>62</u>	<u>3,700</u>	<u>(3,638)</u>
NET (DEFICIT)	\$ (85,691)	\$ (25,076)	\$ (60,615)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>229,758</u>	<u>254,834</u>	
ACCUMULATED MARGINS - END OF YEAR	<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>
CASH FLOWS FROM OPERATING ACTIVITIES		
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>
CASH FLOWS FROM INVESTING ACTIVITIES		
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>
CASH FLOWS FROM FINANCING ACTIVITIES		
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>
INCREASE IN CASH	\$ 2,062	\$ 3,276
CASH - BEGINNING OF YEAR	<u>44,517</u>	<u>41,241</u>
CASH - END OF YEAR	<u><u>\$ 46,579</u></u>	<u><u>\$ 44,517</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 96,991</u>	<u>\$ 108,785</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>