

**ARIZONA CORPORATION COMMISSION**  
**UTILITIES DIVISION**

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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E-01891A  
Garkane Energy Cooperative, Inc.  
PO Box 465  
Loa, UT 84747

RECEIVED

MAR 16 2010

AZ CORP COMM  
Director Utilities

**ANNUAL REPORT**  
**Electric**

**FOR YEAR ENDING**

12	31	2009
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FOR COMMISSION USE

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3-9-10

## COMPANY INFORMATION

<b>Company Name (Business Name)</b> <u>Garkane Energy Cooperative, Inc.</u>			
<b>Mailing Address</b> <u>120 West 300 South</u> <u>P.O. Box 465</u>			
(Street)			
<u>Loa</u>	<u>UT</u>	<u>84747</u>	
(City)	(State)	(Zip)	
<u>(435) 836-2795</u>	<u>(435) 836-2497</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
<b>Email Address</b> <u>calbrecht@garkaneenergy.com</u>			
<b>Local Office Mailing Address</b> <u>120 West 300 South</u> <u>P.O. Box 465</u>			
(Street)			
<u>Loa</u>	<u>UT</u>	<u>84747</u>	
(City)	(State)	(Zip)	
<u>(435) 836-2795</u>	<u>(435) 836-2497</u>		
Local Office Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
<b>Email Address</b> <u>calbrecht@garkaneenergy.com</u>			

## MANAGEMENT INFORMATION

<input checked="" type="checkbox"/> <b>Regulatory Contact:</b>			
<input checked="" type="checkbox"/> <b>Management Contact:</b> <u>Carl R. Albrecht</u> <u>General Manager/CEO</u>			
(Name)		(Title)	
<u>120 West 300 South</u>	<u>Loa</u>	<u>UT</u>	<u>84747</u>
(Street)	(City)	(State)	(Zip)
<u>(435) 836-2795</u>	<u>(435) 836-2497</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
<b>Email Address</b> <u>calbrecht@garkaneenergy.com</u>			
<b>On Site Manager:</b> <u>Carl R. Albrecht</u>			
(Name)			
<u>120 West 300 South</u>	<u>Loa</u>	<u>UT</u>	<u>84747</u>
(Street)	(City)	(State)	(Zip)
<u>(435) 836-2795</u>	<u>(435) 836-2497</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Cell No. (Include Area Code)	
<b>Email Address</b> <u>calbrecht@garkaneenergy.com</u>			

**Statutory Agent:**

Robert T. Jones

(Name)

120 North 44th Street Suite 100  
(Street)Phoenix  
(City)AZ  
(State)85034-1822  
(Zip)(602) 286-6925  
Telephone No. (Include Area Code)(602) 286-6932  
Fax No. (Include Area Code)

Cell No. (Include Area Code)

**Attorney:**

Michael Grant

(Name)

2575 East Camelback  
(Street)Phoenix  
(City)AZ  
(State)85016-9225  
(Zip)(602) 530-8291  
Telephone No. (Include Area Code)(602) 257-9459  
Fax No. (Include Area Code)

Cell No. (Include Area Code)

**Email Address****OWNERSHIP INFORMATION**

Check the following box that applies to your company:

 Sole Proprietor (S) C Corporation (C) (Other than Association/Co-op) Partnership (P) Subchapter S Corporation (Z) Bankruptcy (B) Association/Co-op (A) Receivership (R) Limited Liability Company Other (Describe) \_\_\_\_\_**COUNTIES SERVED**

Check the box below for the county/ies in which you are certificated to provide service:

 APACHE COCHISE COCONINO GILA GRAHAM GREENLEE LA PAZ MARICOPA MOHAVE NAVAJO PIMA PINAL SANTA CRUZ YAVAPAI YUMA STATEWIDE

## SERVICES AUTHORIZED TO PROVIDE

Check the following box/es for the services that you are authorized to provide:

- Electric**
- Investor Owned Electric
  - Rural Electric Cooperative
  - Utility Distribution Company
  - Electric Service Provider
    - Transmission Service Provider
    - Meter Service Provider
    - Meter Reading Service Provider
    - Billing and Collection
    - Ancillary Services
    - Generation Provider
    - Aggregator/Broker

**Other** (Specify) \_\_\_\_\_

## STATISTICAL INFORMATION

Total number of customers	1,390	
Residential	1,107	
Commercial	217	
Industrial	0	
Public Street and Highway lighting	5	
Irrigation	13	
<del>Resale</del> Public Authorities	48	
 Total kilowatt-hours sold	 24,828,675	 kWh
Residential	13,862,410	
Commercial	8,342,275	
Industrial	0	
Public Street and Highway lighting	31,960	
Irrigation	448,636	
<del>Resale</del> Public Authorities	31,960	
 Maximum Peak Load	 6.0	 MW

COMPANY NAME: GARKANE ENERGY COOPERATIVE, INC.

**UTILITY SHUTOFFS / DISCONNECTS**

MONTH	Termination without Notice R14-2-211.B	Termination with Notice R14-2-211	OTHER
JANUARY	0	2	
FEBRUARY	0	3	
MARCH	0	2	
APRIL	0	2	
MAY	0	3	
JUNE	0	3	
JULY	0	3	
AUGUST	0	3	
SEPTEMBER	0	6	
OCTOBER	0	7	
NOVEMBER	0	8	
DECEMBER	0	8	
<b>TOTALS →</b>	0	50	

OTHER (description):

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VERIFICATION  
AND  
SWORN STATEMENT  
Intrastate Revenues Only

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MAR 08 2010

AZ CORP COMM  
Director Utilities

VERIFICATION

STATE OF UTAH

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) Wayne
NAME (OWNER OR OFFICIAL) TITLE Stan T. Chappell, Finance Manager
COMPANY NAME Garkane Energy Cooperative, Inc.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2009

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2009 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)
\$ <u>2,426,853</u>

(THE AMOUNT IN BOX ABOVE  
INCLUDES \$ 136,837  
IN SALES TAXES BILLED, OR COLLECTED)

\*\*REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

*Stan T Chappell*  
 \_\_\_\_\_  
 SIGNATURE OF OWNER OR OFFICIAL  
 (435) 836-2795  
 \_\_\_\_\_  
 TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

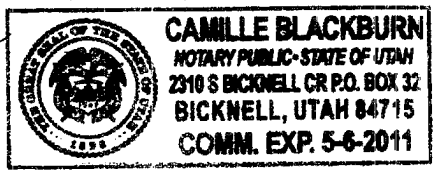
THIS 3rd DAY OF

(SEAL)

COUNTY NAME Wayne	
MONTH March	2010

*Camille Blackburn*  
 \_\_\_\_\_  
 SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES 5-6-11



**VERIFICATION  
AND  
SWORN STATEMENT  
RESIDENTIAL REVENUE  
INTRASTATE REVENUES ONLY**

**RECEIVED**

MAR 08 2010

AZ CORP COMM  
Director Utilities

UTAH  
STATE OF ARIZONA

I, THE UNDERSIGNED  
OF THE

COUNTY OF (COUNTY NAME) Wayne	
NAME (OWNER OR OFFICIAL) Stan T. Chappell	TITLE Finance Manager
COMPANY NAME Garkane Energy Cooperative, Inc.	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2009

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

**SWORN STATEMENT**

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2009 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES  \$ 1,385,110
---

(THE AMOUNT IN BOX AT LEFT  
INCLUDES \$ 76,550  
IN SALES TAXES BILLED, OR COLLECTED

\*RESIDENTIAL REVENUE REPORTED ON THIS PAGE  
MUST INCLUDE SALES TAXES BILLED.

*Stan T Chappell*  
SIGNATURE OF OWNER OR OFFICIAL

(435) 836-2795  
TELEPHONE NUMBER

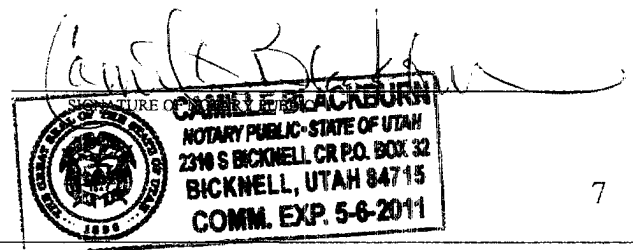
SUBSCRIBED AND SWORN TO BEFORE ME  
A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 3rd DAY OF

(SEAL)

MY COMMISSION EXPIRES 5-6-11

NOTARY PUBLIC NAME Cammie Blackburn
COUNTY NAME Wayne
MONTH March 2010



<b>Garkane Energy Cooperative, Inc.</b>			
120 W 300 S PO Box 465			
Loa, UT 84747			
1-435-836-2975			
<b>FINANCIAL STATEMENTS ON ARIZONA-SPECIFIC</b>			
For Year Ending December 31,2009			
<b>BALANCE SHEET</b>			
<b>ELECTRIC PLANT</b>			
	<b>Total System</b>	<b>Utah</b>	<b>Arizona</b>
Plant in Service	\$ 75,926,221	\$ 71,039,182	\$ 4,887,039
Construction Work In Progress	\$ 8,649,840	\$ 8,588,772	\$ 61,068
Acc Prov For Depreciation	\$ (29,544,983)	\$ (27,254,266)	\$ (2,290,717)
<b>Net Electric Plant</b>	<b>\$ 55,031,078</b>	<b>\$ 52,373,688</b>	<b>\$ 2,657,390</b>
<b>INCOME STATEMENT</b>			
	<b>Total System</b>	<b>Utah</b>	<b>Arizona</b>
<b>UTILITY OPERATING INCOME</b>			
Operating Revenue	\$ 18,596,689	\$ 16,211,908	\$ 2,384,781
Operating Expenses:			
Operation & Maintenance expense	\$ 12,402,100	\$ 10,814,634	\$ 1,587,466
Depreciation expense	\$ 2,249,509	\$ 2,121,641	\$ 127,868
Taxes	\$ 367,628	\$ 344,746	\$ 22,882
<b>Total Operating Expenses</b>	<b>\$ 15,019,237</b>	<b>\$ 13,281,021</b>	<b>\$ 1,738,216</b>
<b>Net Operating Revenue</b>	<b>\$ 3,577,452</b>	<b>\$ 2,930,887</b>	<b>\$ 646,565</b>
Miscellaneous Deductions	\$ 27,175	\$ -	
<b>Net Income before Interest</b>	<b>\$ 3,550,277</b>		
Interest Expense	\$ 1,898,037		
<b>Operating Margin</b>	<b>\$ 1,652,240</b>		
<b>Other Income</b>			
Net Merchandising	\$ 21,942		
Interest Income	\$ 45,252		
Miscellaneous nonoperating income	\$ 1,921,100		
Other capital credits & dividends	\$ 157,375		
Extraordinary income	\$ 33,192		
<b>Net margins &amp; patronage capital</b>	<b>\$ 3,831,101</b>		

**GARKANE ENERGY COOPERATIVE, INC.**

**MANAGEMENT LETTER**

**DECEMBER 31, 2009**

# *Kimball & Roberts*

*Certified Public Accountants*

*A Professional Corporation*

*Box 663*

*Richfield, Utah 84701*

*Phone 896-6488*

Board of Directors  
Garkane Energy Cooperative, Inc.  
Loa, Utah 84747

We have audited the consolidated financial statements of Garkane Energy Cooperative, Inc. and its wholly owned subsidiary, Garkane Propane, Inc. for the year ended December 31, 2009, and have issued our report thereon dated February 5, 2010. We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Services (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the consolidated financial statements of Garkane Energy Cooperative, Inc. for the year ended December 31, 2009, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we considered to be material weaknesses as defined above.

Section 1773.34 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instruments provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security and instrument provisions, and additional matters tested included, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(1), related party transactions, depreciation rates and a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and accordingly, we express no opinion thereon.

No reports other than our independent auditor's report and our independent auditor's report on compliance and on internal control over financial reporting, all dated February 5, 2010 or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS Loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

#### COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING.

We noted no matters regarding Garkane Energy Cooperative, Inc.'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- \* The accounting procedures and records;
- \* The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- \* The materials control.

#### COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- \* Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2009, of Garkane Energy Cooperative, Inc.:
  1. Garkane Energy Cooperative, Inc. did not enter into any new contracts for the operation or maintenance of its property, or for the use of its property by others as defined in paragraph 1773.334(e)(1)(ii).
  2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
  3. Noted the existence of written RUS and other mortgagee approval of each contract listed by the borrower.

- \* Procedures performed with respect to the requirement to submit RUS Form 7 or Form 12 to the RUS:

1. Agreed amounts reported in Form 7 or Form 12 to Garkane Energy Cooperative, Inc. records.

The results of our tests indicate that, with respect to the items tested, Garkane Energy Cooperative, Inc. complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- \* The borrower has obtained written approval of the RUS and other mortgages to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in paragraph 1773.334(e)(1)(ii); and
- \* The borrower has submitted its Form 7 or Form 12 to RUS and the Form 7 or Form 12, Financial and Statistical Report as of December 31, 2009, as represented by the borrower as having been submitted to RUS, is in agreement with Garkane Energy Cooperative, Inc.'s records in all material respects and appears reasonable based upon the audit procedures performed.

#### COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the consolidated financial statements of Garkane Energy Cooperative, Inc., nothing came to our attention that caused us to believe that Garkane Energy Cooperative, Inc. failed to comply with respect to:

- \* The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR 1773.334(c)(1);
- \* The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.334(c)(2);
- \* The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- \* Approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, materials, or scrap addressed at 7 CFR 1773.33(c)(5);
- \* The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2009, in the financial statements reference in the first paragraph of this report addressed at 7 CFR 1773.33(f); and
- \* The depreciation rates addressed at 7 CFR Part 1773.334(g); and
- \* The detailed schedule of deferred debits and deferred credits; and
- \* The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR 1773.33(h) and provided following this page is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**GARKANE ENERGY COOPERATIVE, INC.**  
**DEFERRED DEBITS AND CREDITS**  
**SCHEDULE 1**  
**December 31, 2009**

	<u>Account #</u>	<u>Amount</u>
<b>Deferred Debits:</b>		
Lake Powell Preliminary Pipeline Costs	183.01	<u>2,498</u>
<b>Deferred Credits:</b>		
Uncashed Capital Credits - Warm Fund	253.00	117,960
Customer Donations - Warm Fund	253.10	740
Deferred Revenue - Impact Fees	253.20	1,416,412
Unamortized Gain on Reacquired Debt	257.00	<u>683,544</u>
Total Deferred Credits		<u><u>2,218,656</u></u>

**GARKANE ENERGY COOPERATIVE, INC.**  
**DETAILED SCHEDULE OF INVESTMENTS**  
**SCHEDULE 2**  
**December 31, 2009**

**Investments In Garkane Propane, Inc:**

Original Investment	1,478,229
Dividends Paid to Parent Through 12/31/09	(360,950)
Undistributed Earnings (Loss) as of 12/31/09	<u>802,977</u>
Book Value of Investment of 12/31/09	<u><u>1,920,256</u></u>

Garkane Propane, Inc. is a wholly owned subsidiary in the propane business and sells to individuals and businesses in Southern Utah and Northern Arizona. The Cooperative owns a 100% interest in the corporation and accounts for the business on the equity basis.

**Investments In Associated Companies:**

Member Capital Securities	50,000
NRUCFC Patronage Capital Credits	393,480
NRUCFC Capital Term Certificates	997,857
NRUCFC Class A Membership	1,000
Go Sevier	<u>350</u>
Total	<u><u>1,442,687</u></u>

**Other Investments:**

Homestead Deferred Compensation Funds	119,468
Low Income Energy Assistance Warm Fund	117,960
Round-Up Fund	<u>9,187</u>
Total	<u><u>246,615</u></u>

**FINDINGS AND QUESTIONED COSTS:**

There were no findings or questioned costs.

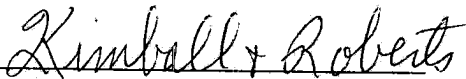
**SCHEDULE OF PRIOR AUDIT FINDINGS:**

There were no prior audit findings reported to the Board of Directors.

Board of Directors  
Garkane Energy Cooperative, Inc.  
Page -7-

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

  
KIMBALL & ROBERTS, P. C.  
Certified Public Accountants

February 5, 2010  
Richfield, Utah

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

## C O N T E N T S

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*Kimball & Roberts*  
*Certified Public Accountants*  
*A Professional Corporation*  
*Box 663*  
*Richfield, Utah 84701*  
*Phone 896-6488*  
INDEPENDENT AUDITOR'S REPORT

Garkane Energy Cooperative, Inc. and Subsidiary  
P. O. Box 465  
Loa, Utah 84747


We have audited the accompanying consolidated financial statements of the business-type activities of Garkane Energy Cooperative, Inc. and Subsidiary as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the business-type activities of Garkane Energy Cooperative, Inc. and Subsidiary at December 31, 2009 and 2008, and the respective changes in consolidated financial position and consolidated 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 our report dated February 5, 2010, on our consideration of Garkane Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions 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 audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Garkane Energy Cooperative, Inc. and Subsidiary's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
KIMBALL & ROBERTS, P. C.  
Certified Public Accountants

February 5, 2010  
Richfield, Utah

**(This page contains no information and  
is used to assist in formatting for easier reading)**

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# **BASIC FINANCIAL STATEMENTS**

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**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2009 and 2008

<b>ASSETS</b>	<u>2009</u>	<u>2008</u>
Utility Plant:		
Electric Plant in Service	75,926,221	71,621,557
Construction Work-in-Progress	<u>8,649,840</u>	<u>4,163,926</u>
Total	84,576,061	75,785,483
Less: Accumulated Depreciation and Amortization	<u>(29,488,357)</u>	<u>(27,421,432)</u>
Total Utility Plant - Net	<u>55,087,704</u>	<u>48,364,051</u>
Other Property and Investments (At Cost):		
Non-Utility Property - Net	1,859,736	1,707,645
Investments in Associated Companies	1,442,688	1,217,438
Other Investments	<u>246,615</u>	<u>194,940</u>
Total Other Property and Investments	<u>3,549,039</u>	<u>3,120,023</u>
Current Assets:		
Cash in Banks	1,308,241	2,811,786
Accounts Receivable (Less Allowance for Doubtful Accounts of \$96,561 in 2009 and \$105,613 in 2008)	3,429,385	2,263,555
Materials and Supplies (Average Cost)	3,352,913	3,535,442
Other Current and Accrued Assets	<u>115,307</u>	<u>82,899</u>
Total Current Assets	<u>8,205,846</u>	<u>8,693,682</u>
<b>TOTAL ASSETS</b>	<u><u>66,842,589</u></u>	<u><u>60,177,756</u></u>
<b>EQUITIES AND LIABILITIES</b>		
Equities and Margins:		
Patrons Capital	<u>25,676,924</u>	<u>21,755,173</u>
Long-Term Debt:		
RUS and CFC Mortgage Notes	<u>32,483,374</u>	<u>30,773,838</u>
Other Noncurrent Liabilities:		
Deferred Income Tax Liability (Net)	241,963	210,441
Accumulated Operating Provisions	<u>1,078,651</u>	<u>478,457</u>
Total Other Noncurrent Liabilities	<u>1,320,614</u>	<u>688,898</u>
Current Liabilities:		
Accounts Payable	1,777,174	1,811,202
Customer Deposits	565,358	385,377
Current Portion of Long-Term Debt	1,248,446	1,117,436
Other Current and Accrued Liabilities	<u>1,552,043</u>	<u>1,515,512</u>
Total Current Liabilities	<u>5,143,021</u>	<u>4,829,527</u>
Deferred Credits	<u>2,218,656</u>	<u>2,130,320</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u><u>66,842,589</u></u>	<u><u>60,177,756</u></u>

The notes to the financial statements are an integral part of this statement.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF REVENUE AND PATRONAGE CAPITAL**  
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating Revenue and Patronage Capital</b>	<u>20,688,771</u>	<u>18,510,527</u>
<b>Operating Expenses:</b>		
Power Production	369,561	322,225
Cost of Purchased Power	5,618,945	4,832,114
Cost of Propane Sales	1,493,033	2,055,404
Transmission Expenses	183,495	734,739
Distribution Expenses - Operation	654,149	588,000
Distribution Expenses - Maintenance	945,677	1,565,242
Consumer Accounts	645,662	633,225
Customer Service Informational Expense	107,878	104,644
Sales Expenses	8,809	16,489
Administrative and General Expense	4,229,967	3,612,279
Depreciation and Amortization Expense	2,348,735	2,244,910
Taxes	384,933	370,397
Interest on Long-Term Debt	1,831,442	1,688,618
Other Interest	25,503	21,645
Other Deductions	<u>68,267</u>	<u>17,375</u>
Total Operating Expenses and Interest	<u>18,916,056</u>	<u>18,807,306</u>
Net Operating Margins (Deficit)	<u>1,772,715</u>	<u>(296,779)</u>
<b>Non-Operating Margins:</b>		
Interest Income	48,290	96,810
Amortized Gain From Impact Fees	190,641	156,872
Gain (Loss) on Disposition of Property	1,675,510	34,416
Amortized Gain on RUS Loan Discount	54,948	54,948
Net Income From Municipal Operations	21,942	23,707
Miscellaneous Non-Operating Income	<u>38,671</u>	<u>5,626</u>
Total Non-Operating Margins	<u>2,030,002</u>	<u>372,379</u>
Other Capital Credits and Allocations	<u>150,556</u>	<u>162,894</u>
Net Margins for Period Before Taxes	3,953,273	238,494
Provision for Income Taxes	<u>(31,522)</u>	<u>(63,935)</u>
Net Margins for Period	3,921,751	174,559
Patronage Capital - Beginning of Year	<u>21,755,173</u>	<u>21,580,614</u>
Patronage Capital - End of Year	<u><u>25,676,924</u></u>	<u><u>21,755,173</u></u>

The notes to the financial statements are an integral part of this statement.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For The Years Ended December 31, 2009 and 2008**

	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Net Margins	3,921,751	174,559
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,348,735	2,244,910
Increase (Decrease) in Operating Assets:		
Accounts Receivable	(1,160,345)	38,570
Inventory	182,529	(384,500)
Other Current and Accrued Assets	(32,408)	(6,400)
Customer Deposits	179,981	(8,554)
Accounts Payable	(39,513)	15,305
Accrued Liabilities	77,013	165,716
	<b>5,477,743</b>	<b>2,239,606</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Increase (Decrease) in Deferred Credits	88,333	429,676
Increase (Decrease) in Deferred Tax Liability	31,522	36,080
Increase (Decrease) in Accumulated Operating Provisions	559,713	17,573
	<b>679,568</b>	<b>483,329</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Patronage Refunds	18,523	-
Long-Term Borrowing	3,000,000	6,000,000
Principal Payments on Long-Term Debt	(1,159,452)	(954,635)
	<b>1,859,071</b>	<b>5,045,365</b>
<b>Cash Flows From Investing Activities:</b>		
Increase in Property, Plant and Equipment	(9,224,479)	(7,308,336)
Increase in Investment in Subsidiary	(18,523)	(93,484)
Increase in Non-Utility Property - Net	-	(14,346)
Investments in Associated Companies	(225,250)	(20,435)
(Increase) Decrease in Other Investments	(51,675)	(133,943)
	<b>(9,519,927)</b>	<b>(7,570,544)</b>
Increase (Decrease) in Cash and Cash Equivalents	(1,503,545)	197,756
Cash and Cash Equivalents - Beginning of Year	2,811,786	2,614,030
Cash and Cash Equivalents - End of Year	1,308,241	2,811,786
<b>Supplemental Information for Statement of Cash Flows:</b>		
Interest Paid	1,847,175	1,688,618

The notes to the financial statements are an integral part of this statement.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

Garkane Energy Cooperative, Inc. (Garkane) is a non-profit, cooperative association organized pursuant to the provisions of the Utah Non-Profit Corporation and Cooperative Association Act. Membership is available to individuals and organizations as provided in the Cooperative's by-laws.

In April of 2001 Garkane officially changed its legal name from Garkane Power Association, Inc. to Garkane Energy Cooperative, Inc. The membership also approved new articles of incorporation and by-laws.

**Reporting Entity:**

For financial reporting purposes Garkane has included in the financial statements its wholly owned subsidiary, Garkane Propane, Inc., which commenced business on January 1, 2003. As required by generally accepted accounting principles, these financial statements present Garkane Energy Cooperative, Inc., the reporting entity. The financial statements are presented on a consolidated basis.

**Accounting Policies:**

The accounting policies of Garkane conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

**Basis of Accounting:**

The accompanying financial statements have been prepared using the accrual basis of accounting.

**Accounting Regulations:**

Garkane is subject to Federal accounting and State rate regulation. Garkane's accounting practices and policies are generally consistent with regulatory authorities and the accounting records are maintained in accordance with Uniform System of Accounts prescribed by regulatory authorities.

**Statement of Cash Flows:**

For purposes of the statement of cash flows, Garkane considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Materials and Supplies:**

Materials and supplies are stated generally at moving average cost which is not in excess of market.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 2 - ASSETS PLEDGED**

Substantially all assets are pledged as security for long-term debt to NRUCFC.

**NOTE 3 - ELECTRIC PLANT AND DEPRECIATION PROCEDURES**

Listed below are the major classes of the electric plant, at cost, as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Production Plant	6,586,591	6,537,753
Transmission Plant	12,290,377	11,585,950
Distribution Plant	45,531,709	42,575,062
General Plant	<u>11,517,544</u>	<u>10,922,792</u>
 Total Electric Plant in Service	 75,926,221	 71,621,557
 Construction Work-in-Progress	 <u>8,649,840</u>	 <u>4,163,926</u>
 Total	 <u><u>84,576,061</u></u>	 <u><u>75,785,483</u></u>

Provision has been made for depreciation of the classified plant in service on a straight-line basis as follows:

Depreciation - Hydraulic Production Plant	*2.00 - 3.79
Depreciation - Transmission Plant	*2.70
Depreciation - Distribution Plant	*2.00 - 4.10
General Plant:	
Structures and Improvements	3.30
Office Furniture and Fixtures	10.00
Transportation Equipment	14.25
Stores Equipment	10.00
Tools, Shop and Garage Equipment	10.00
Laboratory Equipment	10.00
Power Operated Equipment	12.00
Communication Equipment	10.00
Miscellaneous Equipment	10.00
Depreciation - Non-Utility Propane Plant	*2.00 - 10.00

Individual assets are within the depreciation rate schedule in bulletin 183.1.

\* Composite

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 4 - GARKANE PROPANE, INC.**

Garkane Propane, Inc is a wholly owned for profit subsidiary of Garkane Energy Cooperative, Inc. Garkane Propane, Inc. was organized under the laws of the State of Utah on November 8, 2002, and business began on January 1, 2003. The Company has five full time employees. Their office and operations are located in Hatch, Utah.

Articles of Incorporation and Bylaws were approved and new board officers were elected. The officers are Reed Munson, President; Boudicca Joseph, Vice-President; and Trenton Hunt, Secretary/Treasurer.

On December 16, 2002, a Services Agreement, Subscription Agreement, Lease Agreement, Security Agreement, Revolving Credit Agreement and Promissory Note were approved and executed by Garkane Energy Cooperative, Inc.'s Board of Directors and the Board of Directors of Garkane Propane, Inc.

A schedule of assets transferred to the subsidiary as of January 1, 2003, referred to as Exhibit A of the Subscription Agreement, had a book value of \$1,530,864.10 and liabilities of \$52,635.55. These assets and liabilities were transferred for 750 shares of Garkane Propane, Inc. stock. The stock certificate is on file with Garkane Energy Cooperative, Inc. The Services Agreement calls for various administrative services (accounting, management, etc.) to be performed by Garkane Energy Cooperative, Inc. at a cost of \$2,000.00 per month. The Lease Agreement calls for Garkane Propane, Inc. to pay Garkane Energy Cooperative, Inc. \$2,250.00 per month for rented facilities.

Changes in Investment in Subsidiary:

	<u>2009</u>	<u>2008</u>
Investment in Subsidiary Beginning of Year	1,901,732	1,808,248
Amounts Repaid to Garkane Energy from Propane	-	-
Net Profit from Subsidiary Operations	90,649	123,777
Less: Dividend Paid to Garkane Energy	<u>(72,126)</u>	<u>(30,293)</u>
Net Investment in Subsidiary	<u><u>1,920,255</u></u>	<u><u>1,901,732</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 4 - GARKANE PROPANE, INC. (CONTINUED)**

The following are condensed financial statements for Garkane Propane, Inc.

<b><u>BALANCE SHEET</u></b>	<u>2009</u>	<u>2008</u>
Assets:		
Current Assets	590,769	623,736
Net Property, Plant and Equipment	<u>1,859,736</u>	<u>1,707,645</u>
Total Assets	<u><u>2,450,505</u></u>	<u><u>2,331,381</u></u>
Liabilities and Stockholders Equity:		
Liabilities:		
Current Liabilities	194,310	178,727
Noncurrent Liabilities	93,977	40,481
Deferred Income Tax Liability	<u>241,963</u>	<u>210,441</u>
Total Liabilities	<u>530,250</u>	<u>429,649</u>
Stockholders Equity:		
Capital Stock	1,478,229	1,478,229
Retained Earnings	<u>442,026</u>	<u>423,503</u>
Total Stockholders Equity	<u>1,920,255</u>	<u>1,901,732</u>
Total Liabilities and Stockholders Equity	<u><u>2,450,505</u></u>	<u><u>2,331,381</u></u>
 <b><u>STATEMENT OF INCOME AND RETAINED EARNINGS</u></b>		
Operating Income	2,171,396	2,759,480
Cost of Sales	<u>(1,522,097)</u>	<u>(2,094,074)</u>
Gross Profit	<u>649,299</u>	<u>665,406</u>
Operating Expenses	(528,825)	(499,308)
Non-Operating Income (Expense)	1,697	21,614
Provision for Federal Income Taxes	<u>(31,522)</u>	<u>(63,935)</u>
Total Expenses	<u>(558,650)</u>	<u>(541,629)</u>
Net Profit	90,649	123,777
Retained Earnings - Beginning of Year	423,503	330,019
Dividends Paid	<u>(72,126)</u>	<u>(30,293)</u>
Retained Earnings - End of Year	<u><u>442,026</u></u>	<u><u>423,503</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 5 - INVESTMENTS IN ASSOCIATED COMPANIES**

Investments in the associated companies include the following:

	<u>2009</u>	<u>2008</u>
Patronage Capital Credits Invested - CFC	393,480	322,510
Capital Term Certificates - CFC	1,047,857	893,578
Class A Membership - CFC	1,000	1,000
Go Sevier	<u>350</u>	<u>350</u>
Total	<u><u>1,442,687</u></u>	<u><u>1,217,438</u></u>

On March 28, 1984 Garkane agreed to extend the maturity date of all 4% capital term certificates fifty years to October 1, 2070. As a result of this agreement, the current interest rate of 4% was increased on October 1, 1992 to 5% until the maturity date.

**NOTE 6 - OTHER INVESTMENTS**

	<u>2009</u>	<u>2008</u>
Deferred Compensation - Homestead Funds	119,468	65,824
Zions Bank - WARM Fund	117,960	122,168
Round-up Special Fund	<u>9,187</u>	<u>6,948</u>
Total Other Investments	<u><u>246,615</u></u>	<u><u>194,940</u></u>

**NOTE 7 - DEPOSITS AND INVESTMENTS**

**Deposits in Banks:**

At years end, the carrying amount of Garkane's deposits for 2009 and 2008 were \$1,308,241 and \$2,810,186 and the bank balances were \$1,923,821 and \$3,204,332 respectively. Of the bank balances, \$637,613 and \$568,825 respectively were covered by federal depository insurance and \$1,286,208 and \$2,587,537 were uninsured. All such depositories are members of the Federal Reserve System. Uninsured deposits of \$536,698 were collateralized in Far West Bank.

Cash and investments as of December 31, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Demand Deposits	1,306,741	2,810,186
Petty Cash	<u>1,500</u>	<u>1,600</u>
Total Cash and Investments	<u><u>1,308,241</u></u>	<u><u>2,811,786</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**

Continued

**NOTE 7 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Cash and investments listed above are classified in the accompanying statement of net assets as follows:

	2009	2008
Business-Type Activities - Unrestricted	1,308,241	2,811,786
Total Cash and Cash Equivalents	1,308,241	2,811,786

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that the Cooperative's funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

Deposits and investments for the Cooperative are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

**Custodial Credit Risk:**

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Cooperative's deposits may not be recovered. The Cooperative's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Cooperative to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2009 and 2008, \$749,510 and \$1,773,072 of the Cooperative's bank balances of \$1,923,821 and \$3,205,632 were uninsured and uncollateralized.

**Credit Risk:**

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The Cooperative's policy limiting the credit risk of investments is to comply with the Money Management Act.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 7 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**Interest Rate Risk:**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Concentration of Credit Risk:**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer.

**NOTE 8 - OTHER CURRENT AND ACCRUED ASSETS**

	<u>2009</u>	<u>2008</u>
Other Current and Accrued Assets:		
Prepaid Insurance and Prepayments	106,463	63,790
Accrued Interest Receivable	6,346	6,346
Preliminary and Investigation Costs	<u>2,498</u>	<u>12,763</u>
Total Other Current and Accrued Assets	<u><u>115,307</u></u>	<u><u>82,899</u></u>

**NOTE 9 - PATRONAGE CAPITAL**

At December 31, 2009 and 2008, patronage capital consisted of:

	<u>2009</u>	<u>2008</u>
Beginning of Year	21,755,173	21,580,614
Add:		
Operating Margins (Losses)	1,772,715	(296,779)
Other Capital Credits	150,556	162,894
Non-Operating Margins	2,030,002	372,379
Deduct:		
Provision for Income Taxes	<u>(31,522)</u>	<u>(63,935)</u>
End of Year	<u><u>25,676,924</u></u>	<u><u>21,755,173</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 9 - PATRONAGE CAPITAL (CONTINUED)**

Under the provisions of the Mortgage Agreement the equities and margins must equal or exceed twenty percent of the total assets of the cooperative before the return to patrons of capital contributed by them can be distributed. In addition, any distribution is generally limited to thirty percent of the patronage capital or margins received by Garkane in the prior calendar year. The equities and margins of Garkane approximate 38.41% for 2009 and 36.15% for 2008 of the total assets at balance sheet date.

**NOTE 10 - LONG TERM DEBT**

**National Rural Utilities Cooperative Finance Corporation (CFC) Mortgage Notes:**

Garkane has long-term debt of \$32,483,374 represented by thirty-two notes. All notes are with CFC. These notes are all on fixed or variable rates ranging from 3.95% to 7%.

The fixed assets are pledged as security for these debts. The notes range from 20 to 35 year periods. Interest and principal requirements are due quarterly.

Quarterly payments to service the debt obligations for the twelve months following the balance sheet will be approximately \$3,141,188 of which \$1,248,446 will be paid on principal.

A summary of required long term debt payments for CFC is as follows:

For the year ending December 31, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	1,248,446	1,892,742	3,141,188
2011	1,268,628	1,821,085	3,089,713
2012	1,265,407	1,749,802	3,015,209
2013	1,284,049	1,676,861	2,960,910
2014	1,313,169	1,603,345	2,916,514
2015-2019	6,936,237	6,857,372	13,793,609
2020-2024	6,730,896	4,836,849	11,567,745
2025-2029	6,080,211	3,079,053	9,159,264
2030-2034	5,691,198	1,397,368	7,088,566
2035-2039	<u>1,913,579</u>	<u>183,706</u>	<u>2,097,285</u>
Total	<u><u>33,731,820</u></u>	<u><u>25,098,183</u></u>	<u><u>58,830,003</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 10 - LONG TERM DEBT (CONTINUED)**

For the year ending December 31, 2008:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	1,117,436	1,827,083	2,944,519
2010	1,147,606	1,761,732	2,909,338
2011	1,167,788	1,694,596	2,862,384
2012	1,164,566	1,627,834	2,792,400
2013	1,183,208	1,559,413	2,742,621
2014-2018	6,304,901	6,728,218	13,033,119
2019-2023	6,504,596	4,823,311	11,327,907
2024-2028	5,502,015	3,128,282	8,630,297
2029-2033	5,322,604	1,547,434	6,870,038
2034-2038	<u>2,476,553</u>	<u>263,078</u>	<u>2,739,631</u>
Total	<u><u>31,891,273</u></u>	<u><u>24,960,981</u></u>	<u><u>56,852,254</u></u>

**Line Of Credit:**

Garkane has a line of credit with National Rural Utilities Cooperative Financial Corporation. The authorized amount was \$5,000,000 at December 31, 2009, and \$2,000,000 at December 31, 2008. As of December 31, 2009, the balance owed on the credit line was zero, and at December 31, 2008, the amount was zero. The interest is based on the current rate of interest at the time the funds are advanced.

In addition to the line of credit mentioned above, Garkane Energy has \$4,000,000 of unadvanced loan funds available from CFC at year end.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

Garkane provides postretirement medical insurance benefits for eligible employees. During the year Garkane Energy increased the coverage period from eighteen months to forty-two months. Directors are eligible to earn a maximum coverage of thirty-six months of post-retirement coverage. In 2009 there was one director and one employee that were covered under the policy.

Garkane changed its accounting policy with respect to the program as of January 1, 1995 under the provisions of SFAS 106. The change in accounting policy had the effect of reducing 2009 operating margins by \$563,063 and 2008 margins by \$6,271 which represents the periodic postretirement benefit costs. The increase in the periodic postretirement benefits cost in 2008 was due to the future health care as estimated by management. The increase in 2009 was due to the increase in the length of coverage and estimated future health care costs.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)**

For measurement purposes a 2% rate of increase in per capita health care costs of covered benefits was assumed for the projection of future pension benefits based on past experience and is reflected in the accumulated postretirement benefit obligation.

Garkane has elected to pay the benefits as they become due and will not fund the projected liability due to the materiality of the estimated amounts payable in the future. However, Garkane has booked \$1,078,651 which represents the accrued portion of the total estimated liability at December 31, 2009, and \$478,457 at December 31, 2008.

Beginning in 2006, the Board approved paying into a deferred compensation plan for employees who have met certain retirement requirements. Garkane Energy paid \$62,407 in 2009 and \$70,734 in 2008.

**NOTE 12 - ACCOUNTS PAYABLE**

Accounts payable of \$1,649,748 for 2009, and \$1,811,202 for 2008 represents amounts due vendors at December 31, 2009 and 2008.

**NOTE 13 - OTHER CURRENT AND ACCRUED LIABILITIES**

Other current and accrued liabilities at year end consisted of the following accrued liabilities:

	<u>2009</u>	<u>2008</u>
Property Taxes	21,383	18,604
Payroll Taxes	38,066	36,179
Federal and State Withholding Taxes	32,225	36,926
Sales and Use Taxes	96,991	81,017
City and County Franchise Taxes	41,464	21,938
Compensated Absences	1,046,575	981,620
Patronage Capital Refunds	45,442	45,442
Federal and State Income Tax Payable	-	33,177
Interest Payable	<u>229,897</u>	<u>220,128</u>
	<u><u>1,552,043</u></u>	<u><u>1,475,031</u></u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 14 - DEFERRED CREDITS**

The following is a summary of the amounts recorded as deferred credits as of December 31, 2009 and 2008:

	2009	2008
WARM Program - Uncashed Capital Credit Checks	117,960	122,168
WARM Program - Customer Donations	740	300
Unamortized Impact Fees	1,416,412	1,269,360
Unamortized Gain of Reacquired Debt	683,544	738,492
Total	2,218,656	2,130,320

**NOTE 15 - RETIREMENT PLAN**

Retirement and insurance benefits are provided through the National Rural Electric Cooperative Association (NRECA) for all full time employees with at least one year of employment with the Association. There are two plans with NRECA.

(1) Pension benefits are provided through NRECA's Retirement and Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501 (a) of the Internal Revenue Code. The plan is designated to provide employees a 2% benefit level upon retirement.

In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual cooperatives.

The amount of Garkane's current-year covered payroll was \$3,120,367. The total current-year payroll for all employees was \$4,159,998. The pension expense was \$562,402 in 2009 and \$432,786 in 2008.

(2) Garkane's employees with one year of service participate in a contributory NRECA savings plan to which Garkane contributes an amount equal to 2% of the base salary of participating employees. The expense related to this plan was \$58,713 in 2009 and \$49,559 in 2008.

Garkane has an additional supplemental contributory savings plan with Mountain America Credit Union wherein Garkane contributes 2% of the base wage of participating employees to this plan. The expense related to this plan was \$64,902 in 2009 and \$59,292 in 2008 which was included as part of the employees taxable payroll.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 16 - PERSONAL LEAVE**

Garkane combined sick leave, vacation leave, and holiday pay into one category entitled "Personal Leave".

The accumulated personal leave maximum account balance is 900 hours. Upon termination or retirement Garkane will pay 100% of the unused amount of the accrued liability at the employees current wage rate. In the event of death, 100% of the unused amount will be paid to the designated beneficiaries of the employee.

In addition, in January, May or November, the employee can elect to sell back to Garkane one-third of their accumulated personal account balance over 520 hours at 100% of the accrued liability. Of this sell-back the employee is required to contribute 25% to his/her 401K account as an "employee contribution" to be used by the employee for health care costs after termination or retirement. The amount of sell back related to this plan was \$111,686 in 2009 and \$68,267 in 2008.

**NOTE 17 - COMMITMENTS**

Under its current wholesale power contract, Garkane is committed to purchase all of its electric power requirements from Deseret Generation and Transmission Cooperative (Deseret) under the terms and conditions of the Deseret restructuring agreement dated October 16, 1996. Garkane still retains ownership of its Western Area Power Administration (WAPA) contract. This contract was assigned to Deseret in 2001 but can be taken back on a thirty day notice. Garkane retains ownership in its own hydro generation facilities. However, Deseret includes these two resources in their total resource pool. Deseret then credits Garkane for these two sources on Garkane's bill form the gross amount purchased from Deseret under the terms and conditions of Rate Schedule A as contained in the Resource Integration Agreement between Deseret and Garkane effective April 1, 1996, and the Wholesale Power Contract effective April 1, 1996.

Garkane, under the terms of the power sales contract with the Intermountain Power Agency (IPA), has contracted to receive up to a 1.267% share of the total power output from the Intermountain Power Project (IPP). During 2002 Garkane terminated its 2002 seasonal callback of 3,104 KW from its entitlement of the IPP. Garkane will continue, along with the other Utah municipal and cooperative electric participants, to provide the remaining excess to various California Cities (Burbank, Glendale, Pasadena, Riverside and Los Angeles) for these Cities to purchase unless Deseret determines it is in their best interest to withdraw this allocation on a seasonal basis which they have done in recent years. The Excess Power Sales Agreement is to remain in force for the duration of the original Power Sales Contract, providing that there is, in fact, an excess power availability beyond the needs of the Utah participants. Garkane could be responsible, in the event of a shutdown of the IPP plant for 1.267% of the debt service associated with the plant as well as 1.267% of the maintenance of the facility. This is highly unlikely with today's energy situation in the United States.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 18 - TWIN CITIES ACQUISITION**

On July 1, 2009, Garkane Energy completed the purchase of the Twin Cities Power System (Colorado City and Hildale, Utah). The acquisition included approximately 1100 retail electric customers.

Garkane purchased the distribution facilities of each community as well as a 69kv transmission line from Hurricane, Utah to Hildale, Utah from Wells Fargo Bank, the trustee from the bondholders, who held the bonds for the Twin Cities System.

The purchase price was \$3,000,000. Garkane Energy subsequently sold a portion of the 69kv transmission line to Rocky Mountain Power for \$3,048,416 on September 23, 2009. As part of the agreement with Rocky Mountain Power, Garkane Energy received a delivery point at the Cliff Wilson Substation in Hurricane, Utah for future capacity in the transmission line. The transaction resulted in a gain of \$1,672,551 since only a portion of the total assets acquired were sold.

Approvals for the purchase were received from the Arizona Corporation Commission (ACC) and the Utah Public Service Commission (Utah PSC) along with all other appropriate regulatory authorities.

**NOTE 19 - RISK MANAGEMENT**

Garkane is exposed to various risks of loss related to torts; theft of, damage to, or the destruction of assets; errors and omissions; injuries to employees and natural disasters. The Company addresses these risks with the following coverages:

**Liability:**

Garkane through the Federated Rural Electric Insurance Corporation maintains general liability, automobile liability, personal injury liability, errors or omissions liability, and directors, officers and managers liability, \$10,000,000 per occurrence or claim resulting from any situation with a \$5,000 deductible. Also, an all risk blanket policy for automobile and general liability of \$2,000,000 and a commercial umbrella policy of \$7,000,000, with a retained limit of \$10,000.

**Physical Damage to Property:**

Garkane, through Federated Rural Electric Insurance Corporation, maintains an all risk blanket for buildings/personal property of \$21,157,213, with a \$500 deductible. Damage to owned automobiles; comprehensive and collision at actual cash value, with a \$250 and a \$500 deductible respectively.

**Worker's Compensation:**

Garkane provides worker's compensation insurance through the Worker's Compensation Fund of Utah. This worker's compensation insurance applies to bodily injury by accident or bodily injury by disease caused or aggravated by the conditions of employment. The insurance limit for bodily injury by accident, (each accident), bodily injury by disease, (policy limit), and bodily injury by disease, (each employee), is based on statutory and policy limits.

Garkane has not experienced any significant reduction in insurance coverage from the previous year nor has it paid any settlements in excess of insurance coverage in the past three years.

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**Continued**

**NOTE 20 - RELATED PARTY TRANSACTIONS**

There were no related party transactions that were considered to be material, either individually or in the aggregate.

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**COMBINING FINANCIAL  
STATEMENTS AND SCHEDULES**

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**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**COMBINING BALANCE SHEET**  
December 31, 2009

ASSETS	Garkane Energy	Subsidiary Garkane Propane	Consolidated	Eliminations		Consolidated After Eliminations
				DR	CR	
Utility Plant:						
Electric Plant in Service	75,926,221	-	75,926,221	-	-	75,926,221
Construction Work-in-Progress	8,649,840	-	8,649,840	-	-	8,649,840
Total	84,576,061	-	84,576,061	-	-	84,576,061
Less: Accumulated Depreciation and Amortization	<u>(29,488,357)</u>	<u>-</u>	<u>(29,488,357)</u>	<u>-</u>	<u>-</u>	<u>(29,488,357)</u>
Total Utility Plant - Net	<u>55,087,704</u>	<u>-</u>	<u>55,087,704</u>	<u>-</u>	<u>-</u>	<u>55,087,704</u>
Other Property and Investments (At Cost):						
Investment in Wholly Owned Subsidiary	1,920,256	-	1,920,256	-	1,920,256 (1)	-
Non-Utility Property - Net	-	1,859,736	1,859,736	-	-	1,859,736
Investments in Associated Companies	1,442,688	-	1,442,688	-	-	1,442,688
Other Investments	<u>246,615</u>	<u>-</u>	<u>246,615</u>	<u>-</u>	<u>-</u>	<u>246,615</u>
Total Other Property and Investments	<u>3,609,559</u>	<u>1,859,736</u>	<u>5,469,295</u>	<u>-</u>	<u>1,920,256</u>	<u>3,549,039</u>
Current Assets:						
Cash in Banks	1,115,067	193,174	1,308,241	-	-	1,308,241
Accounts Receivable (Less Allowance for Doubtful Accounts, \$96,561 in 2009, \$105,613 in 2008)	3,135,485	293,900	3,429,385	-	-	3,429,385
Materials and Supplies (Average Cost)	3,292,063	60,850	3,352,913	-	-	3,352,913
Other Current and Accrued Assets	<u>72,462</u>	<u>42,845</u>	<u>115,307</u>	<u>-</u>	<u>-</u>	<u>115,307</u>
Total Current Assets	<u>7,615,077</u>	<u>590,769</u>	<u>8,205,846</u>	<u>-</u>	<u>-</u>	<u>8,205,846</u>
TOTAL ASSETS	<u>66,312,340</u>	<u>2,450,505</u>	<u>68,762,845</u>	<u>-</u>	<u>1,920,256</u>	<u>66,842,589</u>

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**COMBINING BALANCE SHEET**  
December 31, 2009

	Garkane Energy	Subsidiary		Consolidated	Eliminations		Consolidated After Eliminations
		Garkane Propane	Garkane Propane		DR	CR	
<b>EQUITIES AND LIABILITIES</b>							
Equities and Margins:							
Patrons Capital	20,192,207	-	-	20,192,207	1,920,256 (1)	-	18,271,951
Operating Margins	1,652,241	-	-	1,652,241	-	-	1,652,241
Non-Operating Margins	3,832,476	1,920,255	1,920,255	5,752,731	-	-	5,752,731
Total Equities and Margins	<u>25,676,924</u>	<u>1,920,255</u>	<u>1,920,255</u>	<u>27,597,179</u>	<u>1,920,256</u>	<u>-</u>	<u>25,676,923</u>
Long-Term Debt:							
RUS and CFC Mortgage Notes	32,483,374	-	-	32,483,374	-	-	32,483,374
Other Noncurrent Liabilities:							
Accumulated Operating Provisions	984,674	93,977	93,977	1,078,651	-	-	1,078,651
Deferred Income Tax Liability	-	241,963	241,963	241,963	-	-	241,963
Total Other Noncurrent Liabilities	<u>984,674</u>	<u>335,940</u>	<u>335,940</u>	<u>1,320,614</u>	<u>-</u>	<u>-</u>	<u>1,320,614</u>
Current Liabilities:							
Accounts Payable	1,649,748	127,426	127,426	1,777,174	-	-	1,777,174
Customer Deposits	547,922	17,436	17,436	565,358	-	-	565,358
Current Maturities of Long-Term Debt	1,248,446	-	-	1,248,446	-	-	1,248,446
Other Current and Accrued Liabilities	1,502,596	49,448	49,448	1,552,044	-	-	1,552,044
Total Current Liabilities	<u>4,948,712</u>	<u>194,310</u>	<u>194,310</u>	<u>5,143,022</u>	<u>-</u>	<u>-</u>	<u>5,143,022</u>
Deferred Credits	2,218,656	-	-	2,218,656	-	-	2,218,656
TOTAL EQUITIES AND LIABILITIES	<u>66,312,340</u>	<u>2,450,505</u>	<u>2,450,505</u>	<u>68,762,845</u>	<u>1,920,256</u>	<u>-</u>	<u>66,842,589</u>
(1) Eliminate inter-company accounts	<u>1,920,256</u>						

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**COMBINING STATEMENT OF REVENUE AND PATRONAGE CAPITAL**  
**For the Year Ended December 31, 2009**

	Garkane Energy	Subsidiary Garkane Propane	Consolidated	Eliminations		Consolidated After Eliminations
				DR	CR	
<b>Operating Revenue and Patronage Capital</b>	<u>18,596,689</u>	<u>2,171,396</u>	<u>20,768,085</u>	<u>79,314</u>	<u>(1) -</u>	<u>20,688,771</u>
<b>Operating Expenses:</b>						
Power Production	369,561	-	369,561	-	-	369,561
Cost of Purchased Power	5,618,945	-	5,618,945	-	-	5,618,945
Cost of Propane Sales	-	1,522,097	1,522,097	-	29,064 (1)	1,493,033
Transmission Expenses	183,495	-	183,495	-	-	183,495
Distribution Expenses - Operation	654,149	-	654,149	-	-	654,149
Distribution Expenses - Maintenance	945,677	-	945,677	-	-	945,677
Consumer Accounts	645,662	-	645,662	-	-	645,662
Customer Service Informational Expense	107,878	-	107,878	-	-	107,878
Sales Expenses	8,809	-	8,809	-	-	8,809
Administrative and General Expense	3,867,924	412,293	4,280,217	-	50,250 (1)	4,229,967
Depreciation and Amortization Expense	2,249,509	99,226	2,348,735	-	-	2,348,735
Taxes	367,627	17,306	384,933	-	-	384,933
Interest on Long-Term Debt	1,831,442	-	1,831,442	-	-	1,831,442
Other Interest	25,503	-	25,503	-	-	25,503
Other Deductions	68,267	-	68,267	-	-	68,267
<b>Total Operating Expenses and Interest</b>	<u>16,944,448</u>	<u>2,050,922</u>	<u>18,995,370</u>	<u>-</u>	<u>79,314</u>	<u>18,916,056</u>
<b>Net Operating Margins (Deficit)</b>	<u>1,652,241</u>	<u>120,474</u>	<u>1,772,715</u>	<u>79,314</u>	<u>79,314</u>	<u>1,772,715</u>
<b>Non-Operating Margins:</b>						
Interest Income	45,252	3,038	48,290	-	-	48,290
Gain (Loss) on Disposition of Property	1,675,510	-	1,675,510	-	-	1,675,510
Amortized Gain on RUS Loan Discount	54,948	-	54,948	-	-	54,948
Amortized Gain from Impact Fees	190,641	-	190,641	-	-	190,641
Miscellaneous Non-Operating Income	40,012	(1,341)	38,671	-	-	38,671
Net Income From Municipal Operations	21,942	-	21,942	-	-	21,942
<b>Total Non-Operating Margins</b>	<u>2,028,305</u>	<u>1,697</u>	<u>2,030,002</u>	<u>-</u>	<u>-</u>	<u>2,030,002</u>
<b>Other Capital Credits and Allocations</b>	<u>150,556</u>	<u>-</u>	<u>150,556</u>	<u>-</u>	<u>-</u>	<u>150,556</u>
<b>Net Margins Before Taxes</b>	<u>3,831,102</u>	<u>122,171</u>	<u>3,953,273</u>	<u>79,314</u>	<u>79,314</u>	<u>3,953,273</u>
<b>Provision for Federal Income Taxes</b>	<u>-</u>	<u>(31,522)</u>	<u>(31,522)</u>	<u>-</u>	<u>-</u>	<u>(31,522)</u>
<b>Net Margins for Period</b>	<u>3,831,102</u>	<u>90,649</u>	<u>3,921,751</u>	<u>79,314</u>	<u>79,314</u>	<u>3,921,751</u>
<b>Patronage Capital - Beginning of Year</b>	<u>21,755,173</u>	<u>423,503</u>	<u>22,178,676</u>	<u>-</u>	<u>-</u>	<u>22,178,676</u>
Earnings from Subsidiary	90,649	-	90,649	-	-	90,649
Dividends from Subsidiary	-	(72,126)	(72,126)	-	-	(72,126)
Eliminate Subsidiary Retained Earnings	-	-	-	-	-	(442,026)
<b>Patronage Capital - End of Year</b>	<u>25,676,924</u>	<u>442,026</u>	<u>26,118,950</u>	<u>79,314</u>	<u>79,314</u>	<u>25,676,924</u>
(1) Sales of Propane to Parent	29,064					
Lease Payments to Parent	26,250					
Administrative Fee	24,000					
	<u>79,314</u>					

**GARKANE ENERGY COOPERATIVE, INC. AND SUBSIDIARY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**For The Year Ended December 31, 2009**

	Garkane Energy	Subsidiary Garkane Propane	Consolidated
<b>Cash Flows from Operating Activities:</b>			
Net Margins	3,831,102	90,649	3,921,751
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	2,249,509	99,226	2,348,735
Increase (Decrease) in Operating Assets:			
Accounts Receivable	(1,089,693)	(70,652)	(1,160,345)
Inventory	139,514	43,015	182,529
Other Current and Accrued Assets	10,437	(42,845)	(32,408)
Customer Deposits	182,501	(2,520)	179,981
Accounts Payable	(98,500)	58,987	(39,513)
Accrued Liabilities	117,897	(40,884)	77,013
Net Cash Provided By Operating Activities	<u>5,342,767</u>	<u>134,976</u>	<u>5,477,743</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Increase (Decrease) in Deferred Credits	88,333	-	88,333
Increase (Decrease) in Deferred Tax Liability	-	31,522	31,522
Increase (Decrease) in Accumulated Operating Provisions	506,217	53,496	559,713
Net Cash Provided By Noncapital Financing Activities	<u>594,550</u>	<u>85,018</u>	<u>679,568</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Subsidiary Earnings and Dividends	90,649	(72,126)	18,523
Long-Term Borrowing	3,000,000	-	3,000,000
Principal Payments on Long-Term Debt	(1,159,452)	-	(1,159,452)
Net Cash Used for Capital and Related Financing Activities	<u>1,931,197</u>	<u>(72,126)</u>	<u>1,859,071</u>
<b>Cash Flows From Investing Activities:</b>			
Increase in Property, Plant and Equipment	(8,973,162)	(251,317)	(9,224,479)
Increase in Investment in Subsidiary	(18,523)	-	(18,523)
Investments in Associated Companies	(225,250)	-	(225,250)
(Increase) Decrease in Other Investments	(51,675)	-	(51,675)
Net Cash Used in Investing Activities	<u>(9,268,610)</u>	<u>(251,317)</u>	<u>(9,519,927)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,400,096)	(103,449)	(1,503,545)
Cash and Cash Equivalents - Beginning of Year	<u>2,515,163</u>	<u>296,623</u>	<u>2,811,786</u>
Cash and Cash Equivalents - End of Year	<u>1,115,067</u>	<u>193,174</u>	<u>1,308,241</u>
<b>Supplemental Information for Statement of Cash Flows:</b>			
Interest Paid	<u>1,845,834</u>	<u>1,341</u>	<u>1,847,175</u>

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is used to assist in formatting for easier reading)**

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# **COMPLIANCE SECTION**

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is used to assist in formatting for easier reading)**

# Kimball & Roberts

*Certified Public Accountants*

*A Professional Corporation*

*Box 663*

*Richfield, Utah 84701*

*Phone 896-6488*

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Garkane Energy Cooperative, Inc. and Subsidiary  
P. O. Box 465  
Loa, Utah 84747

We have audited the consolidated financial statements of the business-type activities of Garkane Energy Cooperative, Inc. and Subsidiary as and for the years ended December 31, 2009 and 2008, which collectively comprise Garkane Energy Cooperative, Inc. and Subsidiary's basic financial statements and have issued our report thereon dated February 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garkane Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Garkane Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Garkane Energy Cooperative, Inc. and Subsidiary's internal control over financial reporting.

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

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


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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Garkane Energy Cooperative, Inc. in a separate letter dated February 5, 2010.

This report is intended solely for the information of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used anyone other than these specified parties.

  
KIMBALL & ROBERTS, P. C.  
Certified Public Accountants

February 5, 2010  
Richfield, Utah