

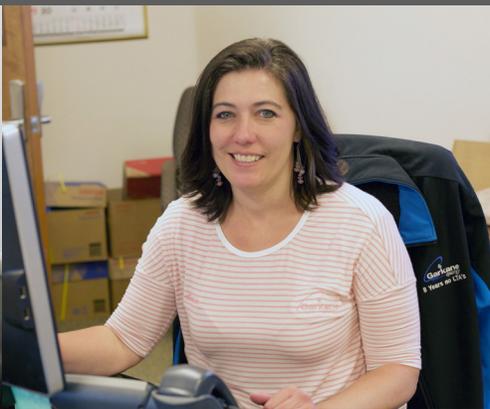


2017 ANNUAL REPORT

CREATING EXPERIENCES

CREATING RELATIONSHIPS

CREATING VALUE



Cooperative Statistics



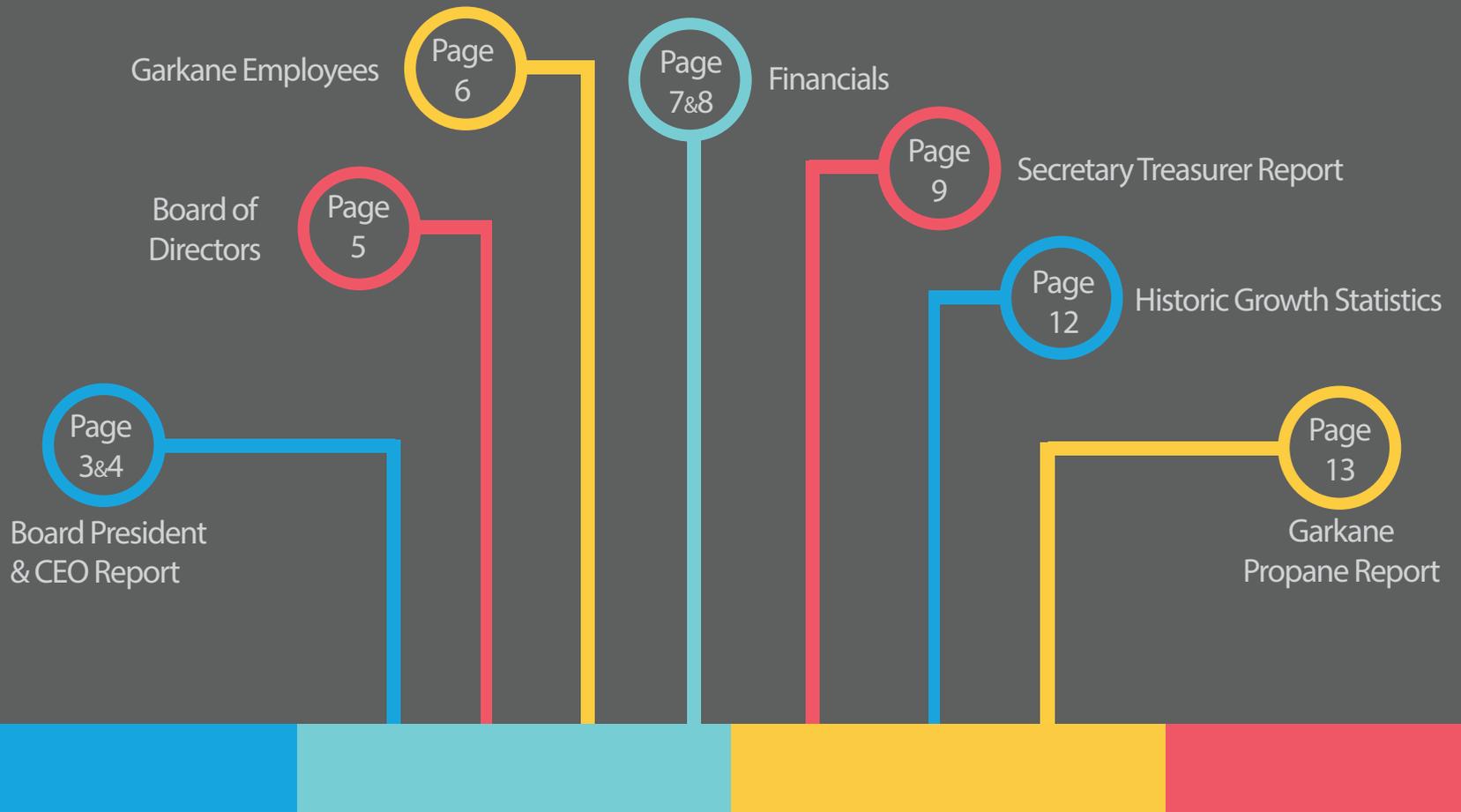
 Number of Members

 Miles of Line

 Members/Per Mile of Line

 # of Employees

Index



REPORT OF

BOARD PRESIDENT & CEO

In 2017, we worked hard to deliver safe, affordable, and reliable electricity to our 13,300 members. But because we are a cooperative and because we are owned by our members, we strive to do much more than just provide low cost power. We actively look for additional ways to provide value to the communities we serve. We not only provide reliable electricity at a low cost, we also work hard to build strong relationships and enhance the member experience. At Garkane, we are different because our members want us to be different. A Garkane member gets a lot more than just affordable power...they get the benefit of a cooperative family that pulls together.

Cooperatives Create Experiences

As your energy provider, Garkane's mission is to ensure that every interaction with our members is positive. That's why we constantly communicate about keeping costs down and finding ways we can work together to ease the burdens on our member's wallet. Garkane employs knowledgeable and friendly representatives to assist with account and billing inquiries. On the other hand, if you want to access your account information directly and if you prefer to do things on your own, our new telephone system empowers you to do so. At Garkane, we've provided members with a smart phone "Smarthub" application which enables members to check the status of their electric service, pay and view bills and receive real-time updates on energy use. These kinds of member interactions are designed to contribute to an overall positive experience with the co-op. Whether it's through using new technology or

good ole human interaction, we strive to provide our members with a "wow" experience.

Cooperatives Build Relationships

Listening improves understanding, builds trust, strengthens relationships and fosters cooperation. Great member/cooperative connections are critical for collaboration and success. Garkane has always been very active in the communities we serve, whether it's through scholarships, donations, or just basic reliable electric service, good community engagement is a priority for Garkane's Board and Management. In 2017, with the help of a grant from Deseret Power, Garkane was able to grow our scholarship program by offering two (2) additional \$1,000 scholarships per board district, which doubled the education opportunities for our students. In addition, the Garkane Board created an economic development committee to focus on opportunities in our service territory to help our members financially. We strive to build relationships with key stakeholders in our communities to better understand the needs of our members. Another major benefit of the cooperative structure is the opportunity it provides members to help fund cooperative operations which keeps rates as low as possible. At the end of every year, Garkane uses left over capital and invests it back into poles and wires. This investment value is eventually returned to the members when the board approves a retirement of capital credits. In 2017, the Garkane Board approved a retirement of \$500,000 in capital credits...which was a huge financial boost for our communities. Capital structure "sharing" is just one of the major benefits of being a cooperative member, rather than just being a customer of a "for-profit" utility. In a co-op, all money

CREATING EXPERIENCES

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collected that exceeds costs, eventually goes back to the members.

Cooperatives Create Value

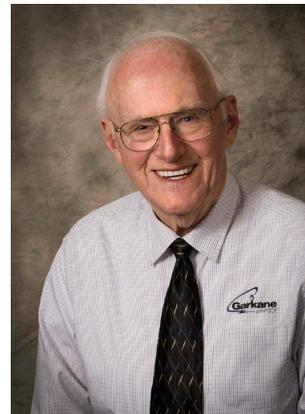
Behind all the poles and wires are the great Garkane employees who serve the members. We believe our employees perform at a superior level and we promote accountability. They are expected to make good decisions and provide service in a way that demonstrates and supports cooperative principles and values. To help the effort, we recently reorganized and added staff to help with new construction requests. We've invested in technology that makes the outage management process more efficient, and we've equipped our staff with the best resources available to provide excellent member service. In 2017, crews worked diligently on the Tropic-to-Hatch transmission line. As this project nears completion, it will better serve future growth in that area. One of our major goals in 2017 was to catch up on tree trimming and right-of-way maintenance projects. Thanks to the efforts of our operations crews, this effort should greatly reduce power outages. Other projects included retiring the Pigeon Canyon Line, improving 12,000 ft of underground lines in the Kanab Creek Ranchos area and replacing the Sleeping Rainbow underground line in Wayne County. In 2017, Garkane won a national award for its implementation of the Half-Price Power program. This program is designed to help members save money while helping reduce overall electricity demand during peak periods of use. Over 500 members have actively participated in this program. Also, we rolled out a new telephone based, Outage Management System (OMS) that provides our members faster recovery when the electric system goes down. On the other hand, we understand that technology doesn't always replace a friendly voice, so our member

service reps are always available when communication with a computer isn't wanted.

As your co-op leaders, we understand the importance of making sound business decisions. We constantly work to make sure the decisions we make will have a positive impact on the future. Every decision we make requires careful consideration and collaboration in order to benefit our entire membership. Looking back, 2017 was a great year...now, we look forward to an even brighter and better 2018.

Respectfully,

Carl B. Boyd Jr. - Board President



Dan McClendon - CEO





DISTRICT 1

LaDon Torgersen

Koosharem, UT



DISTRICT 2

Chad Williams

Teasdale, UT



DISTRICT 3

Tracy Potter

Torrey, UT



DISTRICT 4

Reed Munson

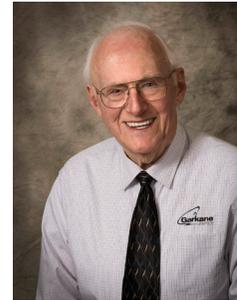
Escalante UT



DISTRICT 5

Terry Griffiths

Orderville, UT



DISTRICT 6

Carl Boyd Jr.

Tropic UT



DISTRICT 7

Andy Gant

Kanab, UT



DISTRICT 8

Rod Ence

Duck Creek, UT



DISTRICT 9

William Hammon

Centennial Park, AZ



DISTRICT 10

Nanell Robinson

Kanab, UT



DISTRICT 11

Guy Timpson

Colorado City, AZ

2017
BOARD OF DIRECTORS

HATCH

Susie Anderson - Member Service Rep
Kay Brooks - Journeyman Lineman
Josh Chappell - Journeyman Lineman
Flint Chynoweth - Journeyman Lineman
Nikki Dinges - Meter Tech Supervisor
Clayton Johnson - Journeyman Lineman
Ed Marshall - Staking Technician
Justin Miller - Journeyman Lineman
Trace Miller - Apprentice Lineman
Guy Renzello - Journeyman Lineman
Cole Twitchell - Substation Technician
Ralph Wilcok - Meter Reader Tech
Rob Wolfley - Hatch Operations Manager

LOA

Taylor Albrecht - Meter Technician
Cory Anderson - Accountant
Mindi Brian - Member Service Rep
Phillip Burr - Loa Operations Manager
Courtney Cropper - Journeyman Lineman
Saige Edwards - Accounting Supervisor
Scott Grundy - Journeyman Lineman
Marcus Lewis - Finance Manager / CFO
Denise Macklin - Accountant
Heather Torgerson - Accountant
Brad Webb - Journeyman Lineman
Derek Woolsey - Meter Reader

KANAB

Mike Avant - Chief Operations Officer
Tony Baird - Journeyman Lineman
Tom Barton - Substation Technician
Neal Brown - Marketing & Member Service Mgr.
Brett Bunting - Meter Reader
James Clegg - Energy Advisor
Scott Colson - Meter Technician
Leon Christensen - Mapping
Lisa Crane - Meter Technician
Todd Crowther - Apprentice Lineman
Travis Fox - Staking Technician
Casey Glover - Operations Manager
Kit Goulding - Journeyman Lineman
Jeff Hafen - Maintenance Foreman
Ryan Hirschi - Apprentice Lineman
Gerry Hoyt - Journeyman Lineman
Wes Hoyt - Substation Tech. Foreman
Amanda Jessop - Member Service Rep
Troy Johnson - Warehouseman
Mark Kabonic - Journeyman Lineman
Jason Kirby - IT Supervisor
Nate Lyman - Journeyman Lineman
Dan McClendon - General Manager/CEO
Mark Palmer - Mapping Technician
Keri Ramsay - Human Resource Manager
Bryant Shakespear - Engineer Supervisor
Charles Steed - Journeyman Lineman
Rick Stewart - Substation Technician
Dan Taylor - Safety Training Compliance
Daniel Thompson - Engineer Supervisor
Wes Troy - Journeyman Lineman
Jeff Vaughn - Kanab Operations Manager
Taleana Virostko - Engineer Assistant
Birkette Willis - Member Service Rep
Landon Zaborowski - IT Manager



Cory - Loa, UT



Heather - Loa, UT

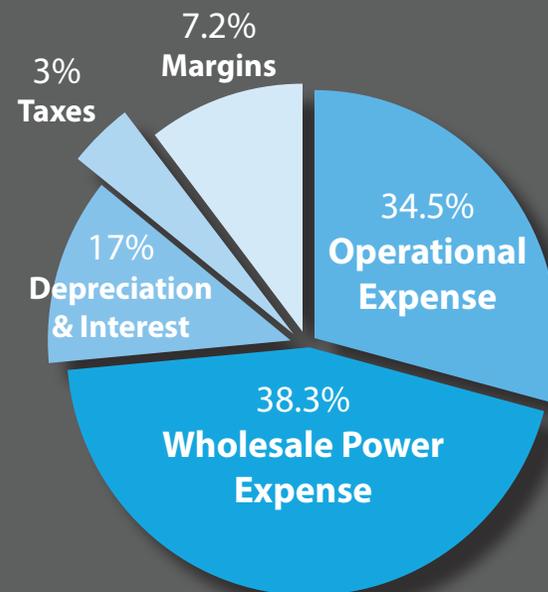


Justin - Hatch, UT

WE CREATE
VALUE

Consolidated Statements of Revenue & Patronage Capital, as of Dec. 31

	2017	2016
Operating Revenue		
Revenues	\$27,395,734	\$27,904,817
Expenses & Deductions		
Cost of Sales	11,170,998	10,191,803
Transmission Expense	207,256	270,122
Distribution Expense	2,282,619	1,826,985
Consumer Accounts Expense	766,527	730,756
Customer Service Expense	231,532	194,094
Administrative & General Expense	5,643,433	5,329,331
Depreciation & Amortization Expense	3,187,293	3,118,454
Tax Expense	734,275	753,414
Interest Expense	1,125,799	1,299,174
Other Deductions	47,764	43,288
TOTAL COST OF SERVICE	\$25,397,496	\$23,757,421
OPERATING MARGINS	\$1,998,238	\$4,147,396
Non-Operating Margins & Other Credits		
Interest Earnings	37,201	50,446
Other Capital Credits & Allocations	450,144	497,549
Misc. Non-Operating Income	6,819	8,580
Gain/Loss on Disposition of Property	-81,811	152,143
Other (Including Extraordinary Items)	50,702	26,215
Provision for Income Taxes	-54,010	-58,198
NET MARGINS	2,407,283	4,824,131
Patronage Capital - Beginning of Year	47,700,573	43,272,635
Prior Period Adjustment	205,207	0
Refund of Patronage Capital Credits	-406,792	-396,193
PATRONAGE CAPITAL - END OF YEAR	\$49,906,271	\$47,700,573



Consolidated Balance Sheets, as of Dec. 31

	2017	2016
ASSETS		
Long-Term Assets		
Plant	\$122,453,777	\$117,642,390
Less: Depreciation	<u>(49,290,317)</u>	<u>(46,410,743)</u>
NET PLANT	73,163,460	71,231,647
Non-Utility Property	2,910,595	2,435,448
Investments in Assoc. Organizations	1,962,735	1,915,466
Other Investments	<u>61,629</u>	<u>55,245</u>
TOTAL LONG-TERM ASSETS	\$78,098,419	\$75,637,806
Current Assets		
Cash	1,849,657	3,052,209
Accounts Receivable - Net	4,157,382	4,280,871
Materials & Supplies	2,880,318	2,806,538
Prepayments & Other Accrued Assets	1,051,736	1,072,333
Total Current Assets	<u>9,939,093</u>	<u>11,211,951</u>
TOTAL ASSETS	<u>\$88,037,512</u>	<u>\$86,849,757</u>
LIABILITIES & PATRONAGE		
Patronage Capital	\$49,906,271	\$47,700,573
LONG-TERM DEBT		
Deferred Income Tax Liability - NET	427,656	586,307
Accumulated Operating Provisions	35,824	20,832
Other Long-Term Debt	501,992	516,062
CFC Mortgage Notes	27,102,428	28,797,238
TOTAL LONG TERM DEBT	<u>\$28,067,900</u>	<u>\$29,920,439</u>
CURRENT LIABILITIES		
Accounts Payable	2,585,259	2,318,609
Consumer Deposits	681,974	774,791
Other Current Liabilities	4,667,266	3,694,700
TOTAL CURRENT LIABILITIES	<u>7,934,499</u>	<u>6,788,100</u>
Deferred Credits	2,128,842	2,440,645
TOTAL LIABILITIES & PATRONAGE	<u>\$88,037,512</u>	<u>\$86,849,757</u>

Total Assets
\$88,037,512

Member Equity
\$49,906,271

Report of the Secretary-Treasurer

We are happy to report that Garkane Energy experienced another good year, ending 2017 in a strong financial position with a net margin of \$2,407,283.

Residential consumers make up 51.8% of Garkane's customer mix which represents the largest segment, followed by small commercial customers at 30.2%. Operational expenses make up 34.5% of Garkane's cost with the cost of wholesale power representing 38.3% of the expenditure mix. At Garkane Energy, rates are determined locally by the Board of Directors, elected by you. The board agreed to refund \$400,000 in capital credits in 2017.

I invite you to review the Auditor's Report and the Financial Statements and encourage you to stay informed and involved in the issues facing your Cooperative. We appreciate your support, and your comments are always welcome.

Respectfully Submitted,

Nanell Robinson
Secretary / Treasurer





Taleana - Kanab, UT



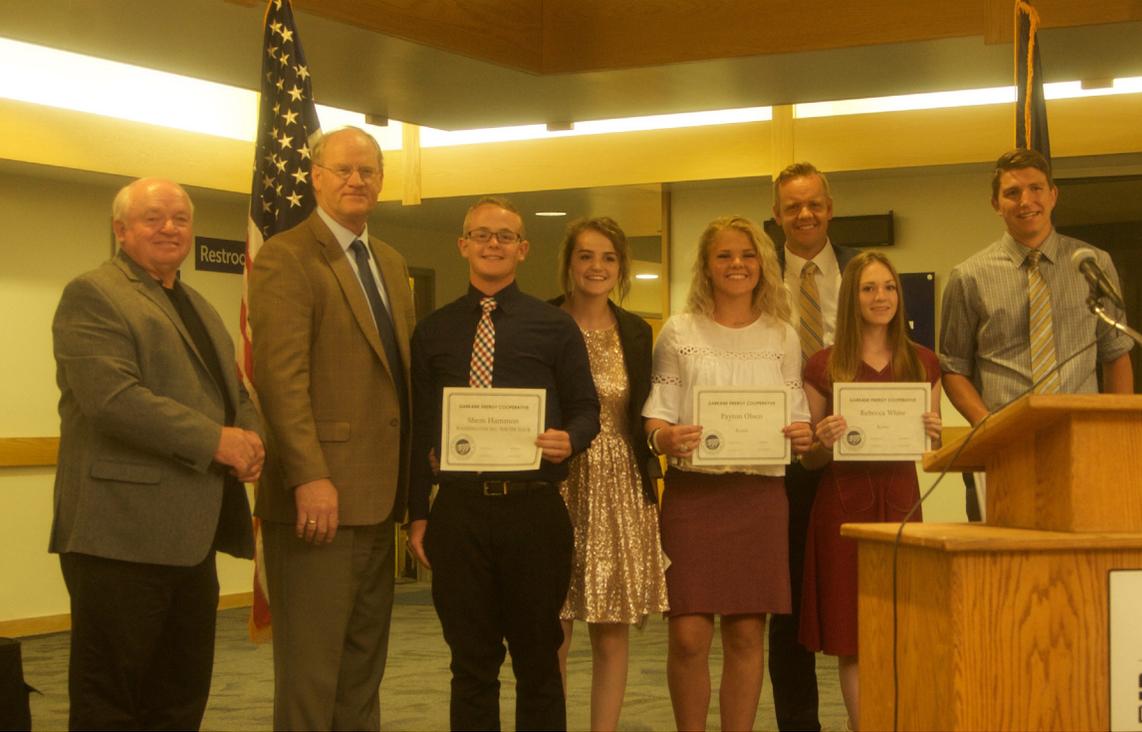
Mindi - Loa, UT

WE CREATE

EXPERIENCES

It is our mission to provide excellent customer service to all of our members. We are dedicated to living up to our vision of having every employee/member interaction end with a positive experience.





Scholarship Winners at the 2017 Michael F. Peterson Youth Leadership Challenge

Left to Right: Director LaDon Torgersen, CEO Dan McClendon, Shem Hammon, Margie Hammon, Payton Olsen, Neal Brown, Rebecca White, Jake Shakespear



Employees James Clegg & Cory Anderson

Accepting the 2017 Spotlight in Excellence awards for the Half-Price Power Program

WE CREATE

RELATIONSHIPS

Historic Growth Statistics Electric only numbers (does not include Propane)

* Kanab City Acquisition

** Twin Cities Acquisition

Year	No. of Members	Annual Electric Revenues	KWHs Sold (Millions)	Plant (Millions)	Wholesale Power Costs	Miles of Line	Members/per Line Mile
1960	1,786	\$ 314,823	14.8	\$ 4.50	\$ 19,610	722	2.50
1970	2,665	924,651	42.1	8.00	151,927	1,085	2.50
1980	4,646	3,443,740	112.9	13.20	1,693,783	1,499	3.10
1990	6,273	8,527,906	120.3	28.10	3,448,521	1,672	3.75
2000	7,964	9,372,769	120.8	44.40	2,221,999	1,826	4.36
*2004	10,318	10,992,825	138.8	53.35	3,061,284	1,979	5.21
**2009	12,721	18,596,689	211.7	84.58	5,618,945	2,168	5.87
2010	12,731	21,659,647	231.4	88.79	7,271,209	2,181	5.84
2011	12,798	21,925,338	231.5	92.65	7,369,190	2,202	5.81
2012	12,842	21,187,447	229.8	95.74	7,171,567	2,212	5.81
2013	12,825	22,746,974	248.4	102.42	7,974,991	2,225	5.83
2014	12,922	22,184,562	239.8	108.36	7,378,971	2,245	5.76
2015	13,079	23,102,962	240.5	113.01	8,380,091	2,294	5.70
2016	13,293	25,182,149	255.9	117.6	8,804,659	2,310	5.75
2017	13,320	23,818,704	241.5	122.5	9,190,139	2,393	5.57

CUSTOMER MIX: ELECTRICITY SALES

	2017	2016
Residential	51.8%	53.9%
Small Commercial	30.2%	29.8%
Large Commercial	6.3%	4.9%
Street Lights/Public Facilities	9.1%	9.1%
Irrigation	2.6%	2.3%

EXPENDITURE MIX: COST OF SERVICE AS A % OF REVENUE

	2017	2016
Operational Expenses	34.5%	30.2%
Cost of Wholesale Power	38.3%	35.1%
Depreciation & Interest	17.0%	16.6%
Taxes	3.0%	2.8%
Margin	7.2%	15.3%

Garkane Propane Report

Garkane Propane enjoyed another successful year, reporting a net profit of \$169,627. Net sales grew continued to grow to \$2,794,248. The Propane subsidiary returned \$50,000 in dividends to the cooperative.

Garkane Propane serves its customers in a similar way that Garkane Energy has run its electricity business for over 78 years; providing consistent reliable service, at consistent reliable prices. Garkane Propane now serves just approximately 4,400 customers. That number continues to grow as customers realize the great prices and quality service that Garkane Propane offers.

Respectfully submitted,

Klint Chynoweth
Propane Manager



Chad Williams
Propane Board President



Garkane Propane Employees

Treena Bridges - Customer Service Rep
Merrill Burrows - Propane Delivery
Robert Matthews- Propane Delivery
Douglas Owens - Propane Delivery
Derrick Pollock - Propane Delivery
Sheri Revels - Billing & Customer Service
Dusty Riddle - Service Technician
Justin Spencer - Propane Delivery



Construction on the Kanab Solar Pavilion was initiated in 2017 and was completed in 2018
Multi-use facility will act as a performance shade pavilion for community members while providing renewable energy to Kanab residents

WE CREATE

 VALUE

CREATING EXPERIENCES

CREATING RELATIONSHIPS

CREATING VALUE



www.GarkaneEnergy.com

Loa

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Loa, UT 84747
(800) 747-5403

Hatch

468 North HWY 89
Hatch, UT 84735
(888) 735-4288

Kanab

1802 South HWY 89A
Kanab, UT 84741
(888) 644-5026

Colorado City/Hildale

1185 West Utah Avenue
Hildale, UT 84784
(435) 874-2810