LINCOLN COUNTY POWER DISTRICT NO. 1

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2015 AND 2014
AND
AUDITOR'S REPORT
****

LINCOLN COUNTY POWER DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lincoln County Power District No. 1
Pioche, Nevada

We have audited the accompanying basic financial statements of Lincoln County Power District No. 1 (the District) as of and for the years ended May 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, an maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance auditing standards generally accepted in the United States of America. 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 performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Lincoln County Power District No. 1 as of May 31, 2015 and 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hafen, Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC

August 31, 2015

LINCOLN COUNTY POWER DISTRICT No.1
MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis provides an overview of the financial performance and activities of Lincoln County Power District No. 1 (the District) for the fiscal year ended May 31, 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes to the financial statements and Independent Auditor's report.

Financial Statements Overview

The District operates as a general improvement district under chapter 318 of the Nevada Revised Statutes and substantially follows the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The accompanying basic financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The District's basic financial statements include the balance sheet, the statements of revenue and net assets and the statement of cash flows.

The balance sheet provides information about the nature and amount of assets and obligations (liabilities) of the District as of the end of the fiscal year. The statements of revenue and net assets reports revenues and expenses for the current year. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities.

Condensed Balance Sheet and Analysis

The following comparative condensed balance sheets summarize the financial position of the District for the years ended May 31, 2015 and 2014.

Consolidated Balance Sheet
May 31, 2015 and 2014

	2015	2014	$ Change
Assets			
Utility Plant, Net	$ 27,755,116	$ 27,477,234	$ 277,882
Investments and Other Assets	811,497	842,956	(31,459)
Current Assets	6,020,571	5,857,353	163,218
Total Assets	$ 34,587,185	$ 34,177,543	$ 409,641
Liabilities			
Long-Term Debt	$ 251,876	$ 314,471	$ (62,595)
Deferred Credits	301,671	283,358	18,313
Other Current Liabilities	718,476	654,538	63,938
Total Liabilities	1,272,023	1,252,367	19,656
Net Assets			
Invested in Utility Plant Net	27,440,011	27,102,315	337,696
Reserved	397,808	397,808	-
Unreserved	5,477,343	5,425,053	52,290
Total Net Assets	33,315,162	32,925,176	389,986
Total Liabilities and Net Assets	$ 34,587,185	$ 34,177,543	$ 409,642

- Utility plant, net increased by approximately $277,882 during fiscal year 2015. This increase is attributable to the excess of utility plant additions including the Caselton underground project in excess of depreciation. Utility plant, net includes the District's construction work-in-process accounts which increased as several large scale projects such as the solar project and the 2015 Main Line replacement project were started.

- Current assets increased by approximately $163,218 primarily the result of increases in cash and cash equivalents, and interest-bearing deposits.

- Long-term liabilities decreased $62,595 due the continued decrease in the outstanding principle associated with the refinancing loan obtained from Nevada Bank and Trust in 2014.

- Deferred credits increased slightly in fiscal year 2015 by approximately $18,313 as the result of customer payments for line extension work, including payment received from the Union Pacific Railroad, Nevada Department of Transportation and others.

- Total net assets increased by $389,987 in fiscal year 2015. This increase can be attributed to the continued increase in plant assets from rehabilitation efforts, increases in cash and the reduction in long term debt.

Condensed Statements of Revenue and Net Assets and Analysis

The following comparative condensed Statements of Revenue and Net Assets summarizes the changes in financial position of the District for the years ended May 31, 2015 and 2014.

Condensed Statement of Revenues and Net Assets
May 31, 2015 and 2014

	2015	2014	$ Change
Power Sales	$ 5,093,026	$ 4,844,564	$ 248,462
Other Operating Revenues	100,229	112,820	(12,591)
Operating Revenues	5,193,255	4,957,384	235,871
Operating Expenses	5,199,267	4,984,720	214,547
Electric Operating Income	(6,012)	(27,336)	21,324
Interest on Long Term Debt	(16,548)	(29,928)	13,380
Interest Income	68,732	61,353	7,379
Other Non-Operating Income	1,538	952	586
Non-Operating Income	53,722	32,377	21,345
Change in Net Position End of Year	$ 47,710	$ 5,041	$ 42,669

- Operating revenues from power sales increased by approximately $248,462 between fiscal years 2015 and 2014. This increase in overall revenues is the result of several offsetting factors including, a continued decrease in energy sales resulting due higher than normal precipitation and temperatures during 2015, and the first full year impact of the increase in electric rates implemented by the District which became effective November 1, 2013.

- Operating expenses increased by approximately $214,547 between fiscal year 2015 and 2014. This increase is due mainly increases in the overall cost of purchased power, increases in depreciation, and increases in labor costs and associated overheads. Overall supplemental power purchases increased by 743,000 kwh from 10,596,000 kwh in fiscal year 2014 to 11,339,000 kwh in fiscal year 2015.

Long-Term Debt

During 2014 the District borrowed $400,000 from Nevada Bank and Trust and used cash reserves to retire the Special Revenue Obligation Bonds. The District expects full retirement of the Nevada Bank and Trust debt within five years.

Currently Known Facts, Decisions, and Conditions

A description of currently known facts, decisions, and conditions that are expected to have a significant affect on the future financial position or results of operations are as follows:

In fiscal year 2015 approximately 86% of the electric energy used by the District's customers was hydroelectric generation produced at Hoover Dam and sold to the District under a long-term contract. The balance needed to meet the needs of the District's customers was purchased by the District as supplemental power from the wholesale power market. Prior to 2005, the District's allocation of hydroelectric generation was sufficient to meet 100% of the energy requirement of the District. Energy production from Hoover Dam in the upcoming fiscal year is expected to be at a level equivalent to that which occurred in 2015. However, should the long term drought in the Colorado River basin not begin to abate in the near future, hydroelectric generation will be curtailed and the District may be required to significantly increase supplemental power purchases in fiscal year 2017. The net impact of these purchases would be a significant increase in the District's cost of purchased power.

Request For Information

This financial report is designed to provide interested parties with a general overview of the District's financial status. Questions concerning any of the financial statements and/or information contained in this financial report should be addressed to the District's General Manager at HC 74 - Box 101, Pioche, Nevada 89043.

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Net Position
May 31, 2015 and 2014

Assets

	2015	2014
Utility Plant:		
Power lines, transmission	$ 24,621,420	$ 24,374,612
Power lines, distribution	13,192,131	12,897,429
Office, warehouse, and buildings	973,770	912,409
Land and land rights	68,097	68,097
Tools and maintenance equipment	1,464,208	1,286,970
Transportation equipment	773,981	705,989
Office furniture and fixtures	146,902	146,902
Radio communication equipment	289,313	273,541
Computer hardware and software	266,273	244,517
Construction work-in-progress	2,019,477	1,358,491
Total	43,815,571	42,268,956
Less accumulated depreciation and amortization	(16,060,454)	(14,791,722)
Net Utility Plant	27,755,116	27,477,234
Other Non-Current Assets:		
Investments in associated organizations	76,201	64,816
Interest-bearing deposits - Reserved	397,808	397,808
Contracts receivable (less amount due within one year)	337,488	380,332
Total Other Non-Current Assets	811,497	842,956
Current Assets:		
Cash and cash equivalents:		
Cash	964,667	673,287
Interest-bearing deposits	3,656,125	3,631,517
Total cash and cash equivalents	4,620,792	4,304,804
Interest receivable	-	-
Accounts receivable	412,168	548,778
Prepayments and other assets	56,864	31,567
Materials and supplies	898,168	927,496
Contracts receivable - Due within one year	32,580	44,708
Total Current Assets	6,020,571	5,857,353
Total Assets	$ 34,587,185	$ 34,177,543

Liabilities and Net Position

	2015	2014
Current Liabilities:		
Accounts payable	$ 239,362	$ 204,952
Customer deposits	37,128	35,628
Accrued expenses	378,756	353,510
Long-term debt due within one year	63,230	60,448
Deferred credits	301,671	283,358
Total Current Liabilities	1,020,147	937,897
Non-Current Liabilities:		
Long-term debt, less amount due within one year	251,876	314,471
Total Non-current Liabilities	251,876	314,471
Net Position:		
Invested in utility plant net of related debt	27,440,011	27,102,315
Restricted	397,808	397,808
Unrestricted	5,477,343	5,425,053
Total Net Position	33,315,162	32,925,175
Total Liabilities and Net Position	$ 34,587,185	$ 34,177,543

The accompanying notes are an integral part of the financial statements

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Revenues, Expenses, and Changes In Net Position
For the Fiscal Years Ended May 31, 2015 and 2014

	2015	2014
Operating Revenues:		
Power sales to customers	$ 5,093,026	$ 4,844,564
Other	100,229	112,820
Total operating revenues	5,193,255	4,957,384
Operating Expenses:		
Operation-		
Power purchased	1,916,036	1,901,913
General and administrative	1,982,962	1,842,971
Depreciation and amortization	1,300,269	1,239,836
Total Operating Expenses	5,199,267	4,984,720
Operating Income / (Loss)	(6,012)	(27,336)
Non-Operating Revenues (Expenses):		
Interest income	68,732	61,353
Interest expense	(16,548)	(29,928)
Other Gains /(Losses)	1,538	952
Total Non-Operating Revenues (Expenses)	53,722	32,377
Change in Net Position	47,710	5,041
Total Net Position - Beginning of Year	32,925,175	26,564,513
Contributions In Aid of Construction-net	81,173	6,059,298
Main Line Contributions in Aid of Construction	261,104	296,323
Total Net Position - End of Year	$ 33,315,162	$ 32,925,175

The accompanying notes are an integral part of the financial statements

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Cash Flows
For the Fiscal Years Ended May 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Cash received from power sales to customers	$ 5,229,635	$ 4,757,275
Cash received from other operating revenues	100,229	112,820
Cash paid to cost of power	(1,907,900)	(1,926,320)
Cash paid to general and administrative	(1,927,411)	(2,030,748)
Cash Flows From Operating Activities	1,494,553	913,027
Cash Flows From Investing Activities:		
Additions to utility plant	(1,578,150)	(587,805)
(Increase)/decrease in contracts receivable	54,972	19,363
Net increase in interest bearing deposits with an original maturity date of three months or longer (reserved)	-	107,064
Interest earnings	68,732	61,353
Investments in associated organizations	(11,385)	(15,745)
Other gains / (losses)	1,538	952
Cash Flows From Investing Activities	(1,464,293)	(414,818)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	-	400,000
Repayment of principal on long-term debt	(59,814)	(871,081)
Interest paid	(16,548)	(29,928)
Increase/(decrease) in customer deposits	1,500	1,211
Contributions in aid of construction and customer advances	360,590	(234,779)
Cash Flows From Financing Activities	285,728	(734,577)
Net Change in Cash and Cash Equivalents	315,988	(236,368)
Cash and Cash Equivalents, Beginning of Year	4,304,804	4,541,172
Cash and Cash Equivalents, End of Year	$ 4,620,792	$ 4,304,804
Reconcilation of Operating Income / (Loss) to Net Cash Flows from Operating Activities:		
Operating income / (loss)	$ (6,012)	$ (27,336)
Adjustments to reconcile operating income / (loss) to cash flows from operating activities-		
Depreciation and amortization	1,300,269	1,239,836
Changes in assets and liabilities-		
(Increase)/decrease in accounts receivable	136,610	(87,289)
(Increase)/decrease in prepayments and other assets	(25,297)	(5,262)
(Increase)/decrease in materials and supplies	29,329	(120,383)
Increase/(decrease) in accounts payable	34,409	(114,762)
Increase/(decrease) in accrued expenses	25,245	28,223
Cash Flows From Operating Activities	$ 1,494,553	$ 913,027

Supplemental Schedule of Non Cash Investing Activities:

None

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Lincoln County Power District No. 1's (the District) significant accounting policies.

Business Activity – The District through its wholesale power agreement purchases and transmits electric power from the Colorado River Commission of Nevada and others, and distributes such power through its distribution power lines and equipment to retail and sales for resale customers located within the District's service area.

The accounting records of the district conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities borrowers of the Rural Utilities Service.

Regulation - The District's rates are determined by the Board of Directors, subject to certain restrictions. The District's accounting practices and policies are generally consistent with regulatory authorities and the accounting records are maintained in accordance with the Uniform System of Accounts prescribed by regulatory authorities.

Basis of Accounting and Presentation - The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

GASB Statement No. 20 requires that the District apply all GASB pronouncements as well as the pronouncements issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB) and its predecessor organizations, unless those pronouncements conflict with or contradict GASB pronouncements. As provided for in GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

Application of Accounting Standards - Recognizing that the District is a governmental entity organized under Nevada Revised Statute 318, during 2007 the District adopted the accounting and financial reporting policies of the Governmental Accounting Standards Board which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

As prescribed by GASB 34, management's discussion and analysis is included as required supplementary information.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements, in conformity with U.S. Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Materials and Supplies (Inventories) – Inventories are reported at cost as determined on an average cost method.

Other Investments in Associated Organizations - This account represents an equity interest in Federated Electric Insurance Corporation representing allocated unretired margins as of March 4, 2015.

Utility Plant - Property is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives, according to Federal Energy Regulatory Commission (FERC) guidelines, of the related assets as follows:

	Annual Percentage Range
Transmission Plant	2.00 - 3.33
Distribution Plant	2.86 - 10.00
General Plant:	
Communicatin Equipment	6.66 -10.00
Computers and Equipment	20.00
Office Furniture and Equipment	6.66
Other Equipment	6.66 - 10.00
Power Equipment	5.00 - 6.66
Structures and Improvements	3.33
Transportation	4.00 - 14.29

Accounts Receivable - Accounts receivable are recorded at the amount the District expects to collect on balances outstanding, net of allowances for doubtful accounts. The District determines the allowance for doubtful accounts based on accounts receivable aging and bad debt history. In addition, the District closely monitors outstanding balances and writes off all balances that are known not to be collectable against the allowance. The allowance for doubtful accounts as of May 31, 2015 and 2014 were $2,106 and $2,280 respectively.

Concentrations of credit with respect to accounts receivables are generally not significant due to the diversity of the District's customers.

Revenue Recognition - The District recognizes revenue from the sale of power upon distribution to the customer.

Contributions in Aid of Construction - Contributions in aid of construction are charges to fund construction of the utility plant necessary to extend service to new customers. The payments are initially recorded as liabilities (deferred credits), then are reclassified to contributed capital when construction is completed.

Income Taxes - The District is considered a quasi-municipal corporation and is therefore not subject to federal or state taxation.

Statements of Cash Flows - For purposes of the statements of cash flows, the District considers interest-bearing deposits with original maturities of less than three months in excess of the District's reserve requirement with the Colorado River Commission of Nevada (see Note 5) and the required debt-service reserve (see Note 4) to be cash equivalents.

Deposits and Investments - It is the policy of the District to invest their funds not immediately needed for operating or other purposes in a manner that will provide the greatest investment return consistent with maintaining maximum security. All investments will conform to the provisions of the Nevada Revised Statutes (NRS) and any direction by the governing board.

Pursuant to NRS and the District's investment policy the District may only invest in the following types of securities:

- U.S. Treasuries
- U.S. Agencies
- Money Market Mutual Funds
- Negotiable and Non-Negotiable Certificates of Deposit
- Repurchase Agreements

Concentrations - The District predominately maintains its cash balance in two financial institutions. Balances at May 31, 2014 were insured by the Federal Deposit Insurance Corporation up to $500,000. As of May 31, 2014, the District's uninsured balance was approximately $4,179,452. For the year ended May 31, 2015, balances were insured by the Federal Deposit Insurance Corporation up to $500,000. As of May 31, 2015, the District's uninsured balance was $4,522,790. The District has arranged in the case of both financial institutions, to have FHMLC and US Agency bonds pledged as collateral and held by third party banks. The total market value of the collateral pledged at May 31, 2015, is approximately, $5,664,363.

2. ASSETS PLEDGED

The Caliente 69 kv line and switchstation were pledged as security for the Series 1994, Special Obligation Revenue Bonds. The bonds were retired in January 2014, so the District no longer has any pledged assets.

3. UTILITY PLANT AND ACCUMULATED DEPRECIATION

The following summary shows the changes in the utility plant accounts for the year ended May 31, 2015:

Transmission	Balance May 31, 2014	Additions	Retirements	Balance May 31, 2015
Land and Land Rights-Transmission	$ 711,286	$ -	$ -	$ 711,286
Structures and Improvements-Transmission	1,514,391	-	-	1,514,391
Station Equipment-Transmission	12,007,592	-	-	12,007,592
Tower and Fixtures-Transmission	568,550	-	-	568,550
Poles and Fixtures-Transmission	6,919,561	148,084	-	7,067,645
OH Conductors and Devices- Transmission	2,319,984	98,723	-	2,418,707
UG Conduit- Transmission	16,662	-	-	16,662
UG Conductors and Devices- Transmission	45,822	-	-	45,822
Roads and Trails-Transmission	270,764	-	-	270,764
	24,374,612	246,807	-	24,621,419
Land and Land Rights-Distribution	268,429	-		268,429
Structures and Improvements-Distribution	74,607	-	-	74,607
Station Equipment- Distribution	3,940,936	70,319	-	4,011,255
Poles Towers and Fixtures-Distribution	2,251,514	29,713	-	2,281,227
OH Conductors and Equip.-Distribution	1,194,190	88,213	-	1,282,403
UG Conduit-Distribution	171,236	8,670	-	179,906
UG Conductor and Devices-Distribution	2,410,734	17,487	-	2,428,221
Line Transformers-Distribution	519,061	56,216	-	575,277
Services-Distribution	1,953,376	21,460	-	1,974,836
Meters-Distribution	89,180	2,624	-	91,804
Installation of Customers Premises	24,166	-	-	24,166
	12,897,429	294,702	-	13,192,131
Land and Land Rights	68,097	-	-	68,097
Nonutility Property -Dwellings	59,554	-	-	59,554
Structures and Improvements-General	852,855	61,361	-	914,216
Office Furniture and Equipment	133,916	-	-	133,916
Computer Hardware & Software	244,517	21,756	-	266,273
Transportation Equipment	705,989	99,874	31,882	773,981
Tools Shop and Garage Equipment	105,926	-	-	105,926
Power Operated Equipment	1,181,044	177,238	-	1,358,282
Communication Equipment	273,541	15,773	-	289,314
Miscellaneous Equipment	11,232	-	-	11,232
Other Tangible Property	1,754	-	-	1,754
	3,638,425	376,002	31,882	3,982,545
	$ 40,910,466	$ 917,511	$ 31,882	$ 41,796,095

The following summary shows the changes in the utility plant – operating additions accumulated depreciation accounts for the year ended May 31, 2015:

Description	Balance May 31, 2014	Additions	Retirements	Balance May 31, 2015
Land and Land Rights-Transmission	$ 80,152	$ 23,710	$ -	$ 103,862
Structures and Improvements-Transmission	1,174,079	26,380	-	1,200,459
Station Equipment-Transmission	4,623,076	379,447	-	5,002,523
Tower and Fixtures-Transmission	76,442	11,638	-	88,080
Poles and Fixtures-Transmission	2,053,837	224,585	-	2,278,422
OH Conductors and Devices- Transmission	1,382,828	47,471	-	1,430,299
UG Conduit- Transmission	2,658	555	-	3,213
UG Conductors and Devices- Transmission	6,735	1,309	-	8,044
Roads and Trails-Transmission	45,991	10,831	-	56,822
	9,445,798	725,926	-	10,171,724
Land and Land Rights-Distribution	21,465	8,894	-	30,359
Structures and Improvements-Distribution	70,531	269	-	70,800
Station Equipment- Distribution	746,822	125,974	-	872,796
Poles Towers and Fixtures-Distribution	875,452	66,606	-	942,058
OH Conductors and Equipment-Distribution	183,122	37,174	-	220,296
UG Conduit-Distribution	24,129	6,273	-	30,402
UG Conductor and Devices-Distribution	227,372	80,593	-	307,965
Line Transformers-Distribution	54,490	20,051	-	74,541
Services-Distribution	1,034,434	63,970	-	1,098,404
Meters-Distribution	5,813	4,552	-	10,365
Installation of Customers Premises	180	806	-	986
	3,243,810	415,162	-	3,658,972
Land and Land Rights	-	-	-	-
Nonutility Property -Dwellings	59,259	-	-	59,259
Structures and Improvements-General	236,125	25,679	-	261,804
Office Furniture and Equipment	120,803	4,555	-	125,358
Computer Hardware & Software	187,866	24,738	-	212,604
Transportation Equipment	544,432	43,306	31,882	555,856
Tools Shop and Garage Equipment	97,115	1,250	-	98,365
Power Operated Equipment	658,677	52,142	-	710,819
Communication Equipment	194,585	7,107	-	201,692
Miscellaneous Equipment	1,498	749	-	2,247
Other Tangible Property	1,754	-	-	1,754
	2,102,114	159,526	31,882	2,229,758
	$ 14,791,722	$ 1,300,614	$ 31,882	$ 16,060,454

4. LONG-TERM DEBT

In July 1994, the District sold, $2,115,000 of Special Obligation Revenue Bonds, Series 1994 (the Bonds) to the United States Department of Agriculture - Rural Economic and Community Development Services. The Bonds require semi-annual payments of interest at 5% in July and December of each year with the principal due in 30 annual installments of $70,500 payable in July of each year.

The bonds were retired as of January 6, 2014.

In December 2013the District borrowed $400,000, from Nevada Bank & Trust Company. The note bears interest at 4.5% annually and is payable in 72 monthly installments of $6,361 including interest.

The following summarizes the District's long-term debt as of May 31, 2014, and 2013:

	2015	2014
Special Obligation Revenue Bonds, Series 1994	$ -	$ -
Note Payable Nevada Bank & Trust Company	315,106	374,919
Less - Current maturities	63,230	60,448
Total Long-term Debt	$ 251,876	$ 314,471

Scheduled maturities of long-term debt by year are as follows:

2016	$ 63,230
2017	66,200
2018	69,295
2019	72,523
2020	43,858
Thereafter	-
Total	$ 315,106

5. COMMITMENTS

Under its wholesale power agreement, the District is committed to purchase its electric power and energy requirements from the Colorado River Commission of Nevada through May 31, 2017. The rates paid for such purchases are subject to review annually.

Under the terms of the contract, the District will be required to have funds reserved in the event insufficient power is generated from the Boulder Canyon Project to meet the District's anticipated needs. As of May 31, 2015 and 2014, the District was required by the Colorado River Commission of Nevada to have $397,808 and $397,808 respectively reserved.

6. RETIREMENT PLANS

Plan Description. The District contributes to the Public Employees Retirement System of the State of Nevada (PERS) which is a multiple-employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to public employees of the State of Nevada and participating entities. Chapter 286 of the Nevada Revised

Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. The System issues a publicly available financial report. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, Nevada 89703-1599.

Funding Policy. Benefits for plan members are funded under the employer pay method. Under the employer pay contribution plan, the District is required to contribute all amounts due under the plan. The contribution requirements of the Plan members and the District are established by Chapter 286 of Nevada Revised Statutes. The payroll for employees covered by PERS for the years ended May 31, 2015 and 2014 were $1,080,761 and $1,039,704 respectively. The District's total payroll for the years ended May 31, 2015 and 2014 were $1,107,180 and $1,090,477 respectively.

The District's contribution rates and amounts contributed for the last three years are as follows:

Year	Contribution Rate Regular Members	Total Contributions	
2015	25.75%	$	278,296
2014	25.75%	$	269,194
2013	23.75%	$	237,959

The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other systems and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at June 30, 2014 for the System as a whole, determined through an actuarial valuation performed as of that date, was $43.997 billion. The actuarial value of the System's net assets available for benefits on that date was $33.575 billion. The pension benefit obligation and net assets available for benefits at May 31, 2015, was unavailable as of August 31, 2015. This information, along with ten- year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due, will be presented in the System's June 30, 2015, comprehensive annual financial report.

Pursuant to a Board of Directors' Resolution dated April 29, 1997, the District entered into an agreement with the Hartford Insurance Company, now Massachusetts Mutual Life Insurance Company, which will provide for a deferral of employees' current compensation until death, retirement, termination of employment, or other event. It is intended that such deferral of compensation shall qualify as an eligible Deferred Compensation Plan (the Plan) within the meaning of section 457(b) of the Internal Revenue Code. The maximum amount an employee may defer during a year shall not exceed the lesser 100% of the employee's compensation or $16,500 for calendar years 2015 and 2014. The District does not contribute to the Plan.

7. ASSET RETIREMENT OBLIGATIONS

In June 2001, the Financial Accounting Standards Board issued SFAS No, 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 provides accounting requirements for costs associated with legal obligations to retire tangible long- lived assets: SFAS No. 143 requires the fair value of an asset retirement obligation to be recorded as a liability in the period in which the obligation is incurred, if a reasonable estimate of fair value can be made. At the same time the liability is recorded, the costs of the asset retirement obligation is recorded as an addition to the carrying amount of the related asset. Overtime, the liability is accreted to its present value and the addition to the carrying amount of the asset is depreciated over the asset's useful life. Upon retirement of the asset, the District will settle the retirement obligation against the recorded balance of the liability. Any difference in the final retirement obligation cost and the liability will result in either a gain or loss.

The District's transmission facilities are generally located upon land that is leased from either the Federal government or through private leases. Upon termination of the leases, the structures, improvements, and equipment are to be removed and the land is to be restored. Because these leases are expected to be renewed indefinitely and because of the inherent value of the transmission facilities, the leases have no foreseeable termination date and, therefore, the fair value of asset retirement obligations related to the transmission facilities cannot be reasonably estimated. The District will continue to evaluate its asset retirement obligation and adjust its asset retirement liabilities accordingly.

In March 2005, the FASB issued interpretation No, 47, Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143. More specifically, an asset retirement obligation is unconditional, even though the timing or methods of settlement are conditional on a future event which may or may not be within the control of the District. FIN 47 requires recognition of a liability for the fair value of a conditional asset retirement obligation when sufficient information exists for the measurement of the liability. FIN 47 became effective for fiscal year 2006. The adoption of FIN 47 did not have a material impact on the financial statements.

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Lincoln County Power District No. 1
Pioche, NV

We have audited, in accordance with the 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, the financial statements of Lincoln County Power District No. 1 (the District), as of and for the year ended May 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did, however, identify a deficiency in internal control that we consider to be a significant deficiency. We noted that contributions in aide of construction were not timely transferred form a liability account to an equity account. We also noted that even though bank reconciliations were prepared and reviewed each month that the bank reconciliation did not agree with the general ledger.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hafen Buckner, Everett & Graff, PC

Hafen, Buckner, Everett, & Graff, PC

August 31, 2015

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MANAGEMENT LETTER

The Board of Directors
Lincoln County Power District No. 1
Pioche, Nevada

In planning and performing our audit of the financial statements of Lincoln County Power District No. 1 (the District) as of and for the year ended May 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in District's internal control to be significant deficiencies:

<u>Open Work Orders</u>

It was noted that open work orders are not being timely reconciled.

We recommend that open work orders be reconciled each month as completed work orders are closed.

Inventory

It was noted that at yearend inventory was not reconciled.

We recommend that at least annually that inventory be reconciled.

It was noted during inventory testing that some items of inventory were not clearly identified.

We recommend that inventory items be clearly identified and marked.

This communication is intended solely for the information and use of management, Lincoln County Power District No. 1's board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Hafen, Buckner, Everett, & Graff, PC

Hafen, Buckner, Everett & Graff, PC
St. George, Utah

August 31, 2015