

LINCOLN COUNTY POWER DISTRICT NO. 1

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2018 AND 2017

AND

AUDITOR'S REPORT

LINCOLN COUNTY POWER DISTRICT NO. 1

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Balance Sheets	7
Statements of Operations	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10-20
Required Supplementary Information:	
Schedule of Contributions.....	21
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	22-23

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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, 2018 and 2017, 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, and 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 with 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, 2018 and 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension schedules listed in the table of contents 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2018, on our consideration of the District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hafen, Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC

July 19, 2018

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

This 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, 2018 and is prepared by the District's management. The information presented should be read in conjunction with the basic financial statements, the accompanying notes to the financial statements, and the 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 statements of net position (balance sheet), the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provides information about the nature and amount of assets and liabilities of the District as of the end of the current fiscal year and for the prior fiscal year. A summary appears below. The statements of revenues, expenses and changes in net position reports revenues and expenses for the current fiscal year and for the prior fiscal year. A summary appears on the following page. The statements of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing activities, and investing activities. These statements can be found the attached basic financial statements.

Condensed Statements of Net Position

The following condensed statements of net position summarize the financial position of the District for the years ended May 31, 2018 and 2017.

Statements of Net Position May 31, 2018 and 2017			
	2018	2017	Dollar Change
Assets			
Utility Plant, Net	\$ 27,187,845	\$ 27,363,056	\$ (175,211)
Investments and Other Assets	332,616	762,934	(430,318)
Current Assets	8,128,111	7,374,999	753,112
Deferred Outflows on Resources	707,123	796,038	(88,915)
Total Assets	<u>\$ 36,355,695</u>	<u>\$ 36,297,027</u>	<u>\$ 58,668</u>
Liabilities			
Long-Term Debt	\$	\$ 118,633	\$ (118,633)
Net Pension Liability	2,509,656	2,618,692	(109,036)
Deferred Inflows on Resources	229,881	175,354	54,527
Other Current Liabilities	553,706	882,014	(328,308)
Total Liabilities	<u>\$ 3,293,243</u>	<u>\$ 3,794,693</u>	<u>\$ (501,450)</u>
Net Position			
Invested in Utility Plant Net	\$ 27,187,845	\$ 27,178,214	\$ 9,631
Restricted		403,957	(403,957)
Unrestricted	5,874,607	4,920,163	\$ 954,444
Total Net Position	<u>\$ 33,062,452</u>	<u>\$ 32,502,334</u>	<u>\$ 560,118</u>
Total Liabilities and Net Position	<u>\$ 36,355,695</u>	<u>\$ 36,297,027</u>	<u>\$ 58,668</u>

- Utility plant, net decreased by approximately \$175,211 during fiscal year 2018. This decrease is attributable to a significant amount of retirements booked in fiscal year 2018 for assets that had been retired in prior years. Although utility plant additions, including the completion of numerous distribution projects, continued at a pace equal to prior years, the retirement of assets allows the books and records of the District to more accurately reflect the value of its plant assets. Utility assets depreciated in the amount of \$1,187,423 for fiscal year 2018.
- Current assets increased by approximately \$753,112 primarily as the result of increases in cash and cash equivalents, and interest-bearing deposits. This increase in cash and cash equivalents continues to demonstrate the District's strong overall fiscal position.
- Liabilities decreased \$501,450 due the retirement of the loan obtained from Nevada Bank and Trust in 2014, the retirement of several of the District's higher salaried employees, the timing of invoices payable from the District's power suppliers, and a reduction in deferred credits (funds advanced by District customers for projects not yet capitalized) as of the end of the fiscal year.
- Total net position increased by \$560,118 in fiscal year 2018 primarily the result of increased cash and cash equivalents. In addition, unrestricted cash decreased by \$403,957 given the change in the District's contract with the Colorado River Commission of Nevada regarding reserve funding obligations.

Condensed Statements of Revenue, Expenses and Changes in Net Position

The following comparative condensed statements of revenues, expenses and changes in net position summarizes the changes in financial position of the District for the years ended May 31, 2018 and 2017.

Statements of Revenues, Expenses and Changes in Net Position May 31, 2018 and 2017			
	2018	2017	Dollar Change
Power Sales	\$ 5,471,752	\$ 5,255,237	\$ 216,515
Other Operating Revenues	86,639	84,619	2,020
Operating Revenues	5,558,391	5,339,857	218,534
Operating Expenses	\$ 5,641,333	\$ 5,442,476	\$ 198,857
Electric Operating Income/Loss	\$ (82,942)	\$ (102,619)	\$ 19,677
Interest on Long Term Debt	(5,965)	(11,692)	5,727
Interest Income	57,078	37,356	19,722
Other Non-Operating Income	6,770	22,217	(15,447)
Non-Operating Income	\$ 57,882	\$ 47,881	\$ 10,001
Change in Net Position End of Year	\$ (25,060)	\$ (54,738)	\$ 29,678

- Operating revenues from power sales increased by approximately \$216,515 between fiscal years 2018 and 2017. This increase in overall revenue is the result of an increase in energy sales in the current year over the prior year. Year over year energy sales increased given the overall cooler average winter temperatures as compared to the prior year, increased pumping of water by the

Virgin Valley Water District, additional service in Coyote Springs, and a slight increase in residential customers served by the District. In fiscal year 2017 the District energy sales totaled 78,439,441 kWh. In fiscal year 2018 energy sales totaled 80,539,915 kWh, representing a 2.7% increase.

- Operating expenses increased by approximately \$198,857 between fiscal year 2018 and 2017. This increase is due mainly to increases in the cost of power purchases in the wholesale market. The District received 76,402,969 kWh of Hoover Dam hydroelectric generation in fiscal year 2018 as compared to 71,606,377 kWh in fiscal year 2017. This increase was due to slightly better hydrologic conditions in the Colorado River basin in the prior year. This resulted in an overall decrease in the wholesale market purchases of energy made by the District from 22,952,000 kWh in fiscal year 2017 to 21,281,600 kWh in fiscal year 2018. However, the hourly rate for energy on the wholesale market increased considerably during the same period of time, resulting in a net increase in the cost of power purchases.

Long-Term Debt

During 2014 the District obtained a commercial loan of \$400,000 from Nevada Bank and Trust (NB&T) and used these funds in conjunction with cash reserves to retire Special Revenue Obligation Bonds that had been sold to the USDA, Farmers Home Administration. In anticipation of entering into a long-term loan agreement and mortgage with the National Rural Utilities Cooperative Finance Corporation (CFC), the District retired the NB&T debt during fiscal year 2018. As of the end of the fiscal year, the District carried no long-term debt.

Currently Known Facts, Decisions, and Conditions

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

- Overall the District's financial condition remained healthy and improved slightly from the prior fiscal year. Although the District posted a \$25,060 decrease in net position, cash and cash equivalents actually increased significantly during the year. During the spring of 2018 the District reviewed its financial condition, forecast of future expenses, and forecast of future revenues and elected to defer any adjustment of its rates for an additional 12 month period. The last adjustment of the District's rates for electric service occurred on November 1, 2013. A full evaluation of the adequacy of the District's rates for electric service will be completed in the spring of 2019. It is expected the District will proceed with a rate adjustment at that time given changes in expected wholesale power costs. Any decisions regarding a rate adjustment will be made only after a formal public process.
- On April 3, 2018 the District approved a long-term financing program with CFC that will allow the District to borrow up to \$5,000,000 over a five year period. The closing with CFC did not occur until after the end of the District's fiscal year on May 31, 2018. The intent of the loan program with CFC will be to allow the District to relocate its headquarters facilities from the current location in Caselton to a new site near Panaca, Nevada. The District expects to fund phase I of the relocation for new administrative and operations buildings in fiscal year 2019 and to fund phase II for new shop and warehouse buildings in fiscal year 2021 with fund requests to CFC.
- Due to recent action of the Nevada Division of Water Resources, the quantity of available water for development of the Coyote Springs master planned community has been called into question. Litigation between the developers of the community and the State of Nevada is proceeding. These legal activities will likely prevent further electrical load that would be served by the District in the Coyote Springs area from developing during the foreseeable future.

- Although the hydrologic conditions in the Colorado River basin improved slightly during the winter of 2016/2017 which resulted in slightly improved hydropower output from Hoover Dam during the District's 2018 fiscal year, hydrologic conditions significantly worsened during the winter of 2017/2018. Consequently, the amount of Hoover Dam generation the District may receive during the upcoming fiscal year is expected to decline, thereby increasing the District's reliance on wholesale market purchases and increasing wholesale power supply costs.

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, 2018 and 2017

<u>Assets and Deferred Outflows of Resources</u>		
	2018	2017
Utility Plant:		
Generation	\$ 347,473	\$ 347,473
Power lines, transmission	24,648,309	25,498,054
Power lines, distribution	15,366,740	14,794,653
Office, warehouse, and buildings	963,442	986,568
Land and land rights	68,097	68,097
Tools and maintenance equipment	1,607,200	1,659,546
Transportation equipment	646,672	827,387
Office furniture and fixtures	163,877	413,175
Radio communication equipment	153,263	292,264
Computer hardware and software	226,647	226,647
Construction work-in-progress	845,587	687,415
Total	45,037,306	45,801,279
Less accumulated depreciation and amortization	(17,849,461)	(18,438,223)
Net Utility Plant	27,187,845	27,363,056
Other Non-Current Assets:		
Investments in associated organizations	112,597	99,770
Interest-bearing deposits - Reserved	-	403,957
Contracts receivable (less amount due within one year)	220,019	259,207
Total Other Non-Current Assets	332,616	762,934
Current Assets:		
Cash and cash equivalents:		
Cash	172,578	227,793
Interest-bearing deposits	6,273,478	5,562,477
Total cash and cash equivalents	6,446,056	5,790,271
Interest receivable	-	-
Accounts receivable	578,376	543,768
Prepayments and other assets	113,439	85,834
Materials and supplies	951,923	918,675
Contracts receivable - Due within one year	38,316	36,451
Total Current Assets	8,128,111	7,374,999
Deferred Outflows of Resources:		
Deferred charge on pensions	707,123	796,038
Total deferred outflows of resources	707,123	796,038
Total Assets and Deferred Outflows of Resources	\$ 36,355,695	\$ 36,297,027
<u>Liabilities, Net Position, and Deferred Inflows of Resources</u>		
Current Liabilities:		
Accounts payable	\$ 95,087	\$ 247,805
Customer deposits	35,876	35,806
Accrued expenses	381,310	404,948
Long-term debt due within one year	-	66,209
Deferred credits	41,433	127,247
Total Current Liabilities	553,706	882,014
Non-Current Liabilities:		
Long-term debt, less amount due within one year	-	118,633
Net pension liability	2,509,656	2,618,692
Total Non-current Liabilities	2,509,656	2,737,325
Deferred Inflows of Resources:		
Deferred charge on pensions	229,881	175,354
Total deferred inflows of resources	229,881	175,354
Net Position:		
Invested in utility plant net of related debt	27,187,845	27,178,214
Restricted	-	403,957
Unrestricted	5,874,607	4,920,163
Total Net Position	33,062,452	32,502,334
Total Liabilities, Net Position, and Deferred Inflows of Resources	\$ 36,355,695	\$ 36,297,027

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Power sales to customers	\$ 5,471,752	\$ 5,255,237
Other	86,639	84,619
Total operating revenues	<u>5,558,391</u>	<u>5,339,857</u>
Operating Expenses:		
Operation-		
Power purchased	2,289,013	2,095,487
General and administrative	2,164,897	2,205,784
Depreciation and amortization	1,187,423	1,141,205
Total Operating Expenses	<u>5,641,333</u>	<u>5,442,476</u>
Operating Income / (Loss)	(82,942)	(102,619)
Non-Operating Revenues (Expenses):		
Interest income	57,078	37,356
Interest expense	(5,965)	(11,692)
Patronage Credits	-	1,575
Other Gains /(Losses)	6,770	20,642
Total Non-Operating Revenues (Expenses)	<u>57,882</u>	<u>47,881</u>
Change in Net Position	(25,060)	(54,738)
Total Net Position - Beginning of Year	32,502,334	31,712,256
Contributions In Aid of Construction-net	246,696	530,528
Main Line Contributions in Aid of Construction	338,481	314,289
Total Net Position - End of Year	<u>\$ 33,062,452</u>	<u>\$ 32,502,334</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Cash received from power sales to customers	\$ 5,437,144	\$ 5,275,699
Cash received from other operating revenues	86,639	84,619
Cash paid to cost of power	(2,419,747)	(2,084,676)
Cash paid to general and administrative	(4,106,118)	(2,443,962)
Cash Flows From Operating Activities	<u>(1,002,082)</u>	<u>831,680</u>
Cash Flows From Investing Activities:		
Additions to utility plant	856,938	(1,367,278)
(Increase)/decrease in contracts receivable	37,324	38,111
Interest earnings	57,078	37,356
Investments in associated organizations	(12,827)	(9,829)
Patronage credits	-	1,575
Other gains / (losses)	6,770	20,642
Cash Flows From Investing Activities	<u>945,283</u>	<u>(1,279,423)</u>
Cash Flows From Financing Activities:		
Proceeds from long-term debt	-	-
Repayment of principal on long-term debt	(184,842)	(66,243)
Interest paid	(5,965)	(11,692)
Increase/(decrease) in customer deposits	70	2,080
Contributions in aid of construction and customer advances	499,364	825,316
Cash Flows From Financing Activities	<u>308,627</u>	<u>749,461</u>
Net Change in Cash and Cash Equivalents	251,828	301,718
Cash and Cash Equivalents, Beginning of Year	6,194,228	5,892,510
Cash and Cash Equivalents, End of Year	<u>\$ 6,446,056</u>	<u>\$ 6,194,228</u>
Reconciliation of Operating Income / (Loss) to Net Cash Flows from Operating Activities:		
Operating income / (loss)	\$ (82,942)	\$ (102,619)
Adjustments to reconcile operating income / (loss) to cash flows from operating activities-		
Depreciation and amortization	(681,727)	1,046,120
Changes in assets and liabilities-		
(Increase)/decrease in accounts receivable	(34,608)	20,462
(Increase)/decrease in prepayments and other assets	(27,605)	(55,883)
(Increase)/decrease in materials and supplies	(33,249)	(7,836)
Increase/(decrease) in accounts payable	(152,718)	(64,414)
Increase/(decrease) in accrued expenses	(23,637)	(40,979)
Increase/(decrease) in deferred charge on pensions	143,441	(502,299)
Increase/(decrease) in net pension liability	(109,036)	539,128
Cash Flows From Operating Activities	<u>\$ (1,002,081)</u>	<u>\$ 831,680</u>

Supplemental Schedule of Non Cash Investing Activities:

None

The accompanying notes are an integral part of the financial statements

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO 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

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO 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 6, 2018.

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
Generation	2.78 - 5.56
Transmission Plant	2.00 - 3.33
Distribution Plant	2.86 - 10.00
General Plant:	
Communication 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, 2018 and 2017 were \$887 and \$2,210 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.

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

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) 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, 2017 were insured by the Federal Deposit Insurance Corporation up to \$750,000. As of May 31, 2017, the District's uninsured balance was approximately \$5,462,761. For the year ended May 31, 2018, balances were insured by the Federal Deposit Insurance Corporation up to \$670,852. As of May 31, 2018, the District's uninsured balance was \$5,773,478. The District's uninsured balances as of May 31, 2018 and 2017 were 100% collateralized through the Nevada Collateral Pool and through securities pledged by Bank of America and held by Bank of New York Mellon.

2. ASSETS PLEDGED

The District currently does not have any assets pledged in support of financing activities.

3. UTILITY PLANT AND ACCUMULATED DEPRECIATION

The following summary shows the changes in the utility plant accounts for the year ended May 31, 2018:

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

Description	Balance May 31, 2017	Additions	Retirements	Balance May 31, 2018
Structures and Improvements-Generation	\$ 75,354	\$ -	\$ -	75,354
Generators-Generation	213,533	-	-	213,533
Accessory Equipment-Generation	58,586	-	-	58,586
	<u>347,473</u>	<u>-</u>	<u>-</u>	<u>347,473</u>
Land and Land Rights-Transmission	711,286	-	-	711,286
Structures and Improvements-Transmission	1,514,391	-	536,931	977,460
Station Equipment-Transmission	12,039,446	86,874	192,878	11,933,442
Poles and Fixtures-Transmission	8,409,971	-	204,248	8,205,723
OH Conductors and Devices- Transmission	2,760,476	-	4,563	2,755,913
UG Conduit- Transmission	16,662	-	-	16,662
UG Conductors and Devices- Transmission	45,822	-	-	45,822
	<u>25,498,054</u>	<u>86,874</u>	<u>938,620</u>	<u>24,646,308</u>
Land and Land Rights-Distribution	269,088	-	-	269,088
Structures and Improvements-Distribution	40,658	-	8,465	32,193
Station Equipment- Distribution	4,011,255	31,511	100,154	3,942,612
Poles Towers and Fixtures-Distribution	2,487,760	87,085	33,713	2,541,132
OH Conductors and Equip.-Distribution	1,720,780	184,416	7,873	1,897,323
UG Conduit-Distribution	3,260,068	270,252	-	3,530,320
Line Transformers-Distribution	822,372	61,923	-	884,295
Services-Distribution	2,045,895	32,891	22,531	2,056,255
Meters-Distribution	107,337	2,662	-	109,999
Installation of Customers Premises	29,439	74,085	-	103,524
	<u>14,794,652</u>	<u>744,825</u>	<u>172,736</u>	<u>15,366,741</u>
Land and Land Rights	68,097	-	-	68,097
Nonutility Property -Dwellings	59,554	-	8,364	51,190
Structures and Improvements-General	927,014	-	14,763	912,251
Office Furniture and Equipment	400,189	-	249,298	150,891
Computer Hardware & Software	226,647	-	-	226,647
Transportation Equipment	827,387	123,389	304,105	646,671
Tools Shop and Garage Equipment	105,926	-	52,372	53,554
Test and Laboratory Equipment	39,338	-	-	39,338
Power Operated Equipment	1,514,282	27	-	1,514,309
Communication Equipment	292,264	-	139,001	153,263
Other Tangible Property	12,986	-	-	12,986
	<u>4,473,684</u>	<u>123,416</u>	<u>767,903</u>	<u>3,829,197</u>
	<u>\$ 45,113,863</u>	<u>\$ 955,115</u>	<u>\$ 1,879,259</u>	<u>\$ 44,189,719</u>

The following summary shows the changes in the utility plant – operating additions accumulated depreciation accounts for the year ended May 31, 2018:

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

Description	Balance May 31, 2017	Additions	Retirements	Balance May 31, 2018
Structures and Improvements-Generation	\$ 3,569	\$ 3,303	\$ -	6,872
Generators-Generation	11,906	10,677	-	22,583
Accessory Equipment-Generation	3,376	2,983	-	6,359
	<u>18,850</u>	<u>16,963</u>	<u>-</u>	<u>35,813</u>
Land and Land Rights-Transmission	151,283	23,711	-	174,994
Structures and Improvements-Transmission	1,253,033	26,268	536,931	742,370
Station Equipment-Transmission	5,750,346	373,812	192,878	5,931,280
Poles and Fixtures-Transmission	2,780,616	167,004	202,248	2,745,372
OH Conductors and Devices- Transmission	1,522,860	49,904	4,563	1,568,201
UG Conduit- Transmission	4,324	555	-	4,879
UG Conductors and Devices- Transmission	11,026	1,527	-	12,553
	<u>11,473,489</u>	<u>642,781</u>	<u>936,620</u>	<u>11,179,650</u>
Land and Land Rights-Distribution	48,149	8,895	-	57,044
Structures and Improvements-Distribution	37,314	224	8,465	29,073
Station Equipment- Distribution	1,118,415	125,617	100,154	1,143,878
Poles Towers and Fixtures-Distribution	1,058,459	65,570	33,713	1,090,316
OH Conductors and Equipment-Distribution	247,180	48,725	7,873	288,032
UG Conduit-Distribution	526,753	107,433	-	634,186
Line Transformers-Distribution	124,286	28,001	-	152,287
Services-Distribution	1,214,516	59,723	19,785	1,254,454
Meters-Distribution	20,612	5,406	-	26,018
Installation of Customers Premises	2,735	1,806	-	4,541
	<u>4,398,419</u>	<u>451,400</u>	<u>169,990</u>	<u>4,679,829</u>
Land and Land Rights	-	-	-	-
Nonutility Property -Dwellings	59,552	-	8,364	51,188
Structures and Improvements-General	314,691	26,430	14,763	326,358
Office Furniture and Equipment	141,992	7,499	249,298	(99,807)
Computer Hardware & Software	241,928	22,665	304,105	(39,512)
Transportation Equipment	634,511	43,439	52,372	625,578
Tools Shop and Garage Equipment	100,031	750	-	100,781
Test and Laboratory Equipment	5,151	3,934	-	9,085
Power Operated Equipment	814,534	54,889	139,001	730,422
Communication Equipment	229,577	14,252	-	243,829
Other Tangible Property	5,498	749	-	6,247
	<u>2,547,465</u>	<u>174,607</u>	<u>767,903</u>	<u>1,954,169</u>
	<u>\$ 18,438,223</u>	<u>\$ 1,285,751</u>	<u>\$ 1,874,513</u>	<u>\$ 17,849,461</u>

4. LONG-TERM DEBT

In December 2013 the 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. This note was retired during the current fiscal year.

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

The following summarizes the District's long-term debt as of May 31, 2018, and 2017:

	2018	2017
Note Payable Nevada Bank & Trust Company	\$ -	\$ 184,842
Less - Current maturities	-	66,210
Total Long-term Debt	\$ -	\$ 118,632

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

Year Ending May 31-	
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	-
Total	\$ -

The District has a line-of-credit from National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of \$1,500,000, to be used for short-term emergency needs and is to be repaid within one year or converted to long-term debt. As of May 31, 2018, and 2017, nothing had been drawn on the line-of-credit.

On April 3, 2018 the District approved a long-term financing program with National Rural Utilities Cooperative Finance Corporation (CFC) that will allow the District to borrow up to \$5,000,000 over a five-year period. Interest rates and amortization periods will be determined by the District at the time funds are requested. Amortization periods may extend up to 40 years. The intent of the loan agreement with CFC is to allow the District to relocate its headquarters facilities from the current location in Caselton, Nevada to a new site near Panaca, Nevada. The District expects to fund phase I of the relocation for new administrative and operations buildings in fiscal year 2019 and phase II for new shop and warehouse buildings in fiscal year 2021 with fund requests to CFC. As of May 31, 2018, no funds had been requested.

5. COMMITMENTS

The District has entered into a contract with the Colorado River Commission of Nevada to purchase electric power and energy from the Boulder Canyon Project (Hoover Dam) through September 30, 2067. The rates paid for such purchases are subject to review annually.

Under the terms of the contract, the District is required to have funds reserved to fund the District's pro rata share of the cost to operate and maintain the Boulder Canyon Project in the event revenues received by the U.S. Bureau of Reclamation for generation from the Hoover Dam

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

are insufficient are insufficient to meet the cost of its operation and maintenance. As of May 31, 2017, the District was required by the Colorado River Commission of Nevada to have \$403,957 reserved. For 2018 there is no longer a reserve requirement.

6. PENSION PLANS AND RETIREMENT BENEFITS

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.

Benefits Provided. Benefits, as required by the Nevada Revised Statutes (NRS or statute), are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months with special provisions for members entering the System on or after January 2010. Benefit payments to which participants of their beneficiaries may be entitled under the plan included pension benefits, disability benefits, and survivor benefits. Monthly benefit allowances for members are computed as 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on and after July 1, 2001, this multiplier is 2.67% of average compensation. For members entering the System on or after January 1, 2010, there is a 2.5% multiplier. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept reduced service retirement allowance payable monthly during his or her lifetime and various optional monthly payments to a named beneficiary after his or her death. Post-retirement increases are provided by authority of NRS 286.575-.579.

Regular members are eligible for retirement at age 65 with five years of service, at 60 with 10 years of service, or at any age with 30 years of service. Regular members entering the System on or after January 1, 2010, are eligible for retirement at age 65 with five years of service, at age 62 with 10 years of service, or any age with thirty years of service.

Police/Fire members are eligible for retirement at age 65 with five years of service, at age 55 with ten years of service, at age 50 with twenty years of service, or at any age with twenty-five years of service. Police/Fire members entering the System on or after January 1, 2010, are eligible are eligible for retirement at 65 with five years of service, or age 60 with ten years of service, or age 50 with twenty years of service, or at any age with thirty years of service. Only service performed in a position as a police officer or firefighter may be counted towards eligibility for retirement as Police/Fire accredited service.

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

The normal ceiling limitation on monthly benefits allowances is 75% of average compensation. However, a member who has an effective date of membership before July 1, 1985, is entitled to a benefit of up to 90% of average compensation. Both Regular and Police/Fire members become fully vested as to benefits upon completion of five years of service.

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. PERS receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis. The contribution requirements of the Plan members and the District are established by the Nevada Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450. The payroll for employees covered by PERS for the years ended May 31, 2018 and 2017 were \$1,382,843 and \$1,209,329 respectively. The District's total payroll for the years ended May 31, 2018 and 2017 were \$1,338,053 and \$1,262,308 respectively.

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

Year	Contribution Rate Regular	Total Contributions
	Members	
2018	28.00%	\$ 387,196
2017	28.00%	\$ 338,612
2016	28.00%	\$ 278,296

The actuary funding method used is the Entry Age Normal Cost Method. It is intended to meet the funding objective and result in a relatively level long-term contribution requirement as a percentage of salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At May 31, 2018 and 2017, the District reported a liability of \$2,509,656 and \$2,618,692, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net position liability was determined by an actuarial valuation as of that date. The District's allocation percentage of the net pension liability was based on the total contributions due on wages paid during the measurement period. Each employer's proportion of the net pension liability is based on their combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2017. At June 30, 2017, the District's proportion was 0.01887 percent.

For the year ended May 31, 2018, the District recognized pension expense of \$375,442. At May 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 16,295	\$ 164,684
Net difference between projected and actual earnings on pension plan investments	\$ 166,492	\$ -
Changes in proportion and differences between District contributions and proportional share of contributions	\$ 137,140	\$ 65,197
District contributions subsequent to measurement date	\$ 387,196	\$ -

\$387,196 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the ended May 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended May 31:	
2019	\$ (45,007)
2020	58,261
2021	15,046
2022	(41,024)
2023	21,213
2024	9,614
	<u>\$ 18,103</u>

Actuarial Assumptions. The System's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

Inflation rate	2.75%
Payroll Growth	5.00% , including inflation
Investment rate of return	7.50%
Productivity salary increases	0.75%
Projected salary increases	Regular: 4.25% to 9.15%, depending on service Police/Fire: 4.55% to 13.9%, depending on service Rates include inflation and productivity increases
Consumer Price Index	2.75%

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of the experience review completed in 2017.

The System's policies which determine the investment portfolio target asset allocation are established by the Public Employees' Retirement Board. The asset allocation is reviewed annually and is designed to meet the future risk and return needs to the System.

The following is the Board adopted policy target asset allocation as of June 30, 2017:

Asset Class	Target Allocation	Long-term Geometric Expected Real Rate of Return *
Domestic Equity	42%	5.50%
International Equity	18%	5.75%
Domestic Fixed Income	30%	0.25%
Private Markets	10%	6.80%

*As of June 30, 2017, PERS' long-term inflation assumption was 2.75%.

Discount Rate. The discount rate used to measure the total pension liability was 7.5% as of June 30, 2017. The projections of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2017, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return pm pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the District's proportionate share of the net pension liability to change in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the District's

LINCOLN COUNTY POWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent higher or lower than the current rate.

	1.0% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1.0% Increase in Discount Rate (8.50%)
District's proportionate share of the net pension liability	\$ 3,793,936	\$ 2,509,681	\$ 1,443,086

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the PERS Comprehensive Annual Financial Report, available on the PERS website.

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.

LINCOLN COUNTY POWER DISTRICT NO. 1
Schedule of Contributions
Public Employees Retirement System of the State of Nevada
May 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 387,196	\$ 338,612	\$ 326,377	\$ 278,296	\$ 269,194
Contributions in relation to the contractually required contribution	<u>387,196</u>	<u>338,612</u>	<u>326,377</u>	<u>278,296</u>	<u>269,194</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$1,382,843	\$1,209,329	\$1,176,992	\$1,080,761	\$1,045,414
Contributions as a percentage of covered-employee payroll	28.00%	28.00%	27.73%	25.75%	25.75%

Employers will be required to prospectively develop this table in future years to show 10-years of information. The schedule above is only for the current and prior four years.

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 19, 2018.

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 material inventory counts did not always agree with material inventory records.

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

July 19, 2018