

# **LASSEN MUNICIPAL UTILITY DISTRICT**

Susanville, California

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

# LASSEN MUNICIPAL UTILITY DISTRICT

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# LASSEN MUNICIPAL UTILITY DISTRICT

## GOVERNING BODY AND ADMINISTRATION

June 30, 2016

The Governing Board is composed of five citizens, elected to four year terms, by vote of the general public. The Board meets at 5:30 p.m. on the fourth Tuesday of each month in the Lassen Municipal Utility District Meeting Chambers at 65 South Roop Street, Susanville, California. Board meetings are open to the public.

### BOARD OF DIRECTORS

Fredric Nagel	President
Jess Urionaguena	Vice President
Bud Bowden	Director
Jay Dow	Treasurer
Richard Vial	Director

### DISTRICT ADMINISTRATION

Doug Smith	General Manager
Brian Beem	Assistant General Manager
Karen Rollings	Administrative Services Manager
Cort Cortez	Electric Operations Manager
Open	Electric Superintendent
Catherine Schroeder	Senior Accountant
Christina Nystrom	Customer Service Supervisor
Theresa Phillips	Public Relations Manager
Nicolas Dominguez	IT Manager
Eugene Chittock	General Counsel

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Lassen Municipal Utility District  
Susanville, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Lassen Municipal Utility District as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Lassen Municipal Utility Districts basic 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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Lassen Municipal Utility District'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 Lassen Municipal Utility District'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 opinion.

To the Board of Directors  
Lassen Municipal Utility District

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lassen Municipal Utility District as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as 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.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
November 18, 2016

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS  
UNAUDITED**

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

Management of Lassen Municipal Utility District (LMUD) offers to all persons interested in the financial position of LMUD this narrative overview and analysis of the District's financial performance during the fiscal year 2016. You are invited to read this narrative in conjunction with the financial statements.

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### FINANCIAL HIGHLIGHTS

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- The assets of LMUD exceeded its liabilities at the close of the most recent fiscal year by \$48,559,456 (Net Position). Of this amount, \$9,259,958 has been designated by the Board for specific purposes.
- LMUD's Net Position increased \$4,219,439 during the current fiscal year. Sales to customers increased from the prior year by \$1,404,242 and LMUD experienced a decrease of \$378,407 in purchased power and \$1,151,231 in total operating expenses.
- Gross income from sales and other sources, was \$20,113,078 for Fiscal Year 2016 (FY 16). This represents an approximate increase of 6.8% from Fiscal Year 2015 (FY 15).
- In FY 16 the District's retail energy sales increased by 3 million kWh, with the increased usage spread fairly evenly between the various revenue categories.
- LMUD experienced a 6.61% decrease in operating expenses. Operating expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the utility. Broad categories of these expenses are classified as "Operations and Maintenance," "Customer Services," "Administration and General," and "Depreciation." The majority of the decrease occurred in the administration expenses and purchased power expenses

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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The purpose of this discussion and analysis is an introduction to LMUD's financial statements.

- The financial statements include the Statements of Net Position (Balance Sheet); the Statement of Revenues, Expenses and Changes in Net Position (Income Statement); and the Statement of Cash Flows.
- Following the financial statements are the Notes to the Financial Statements. The notes provide detailed information about the methods of asset and liability valuations and other supplemental information critical to a proper analysis of the financial statements.

#### ***THE THREE FINANCIAL STATEMENTS***

##### ***Statements of Net Position***

Presents information on assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial condition of LMUD is improving or deteriorating.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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A summary of LMUD's Statement of Net Position is presented in Table 1.

**Table 1**  
**Condensed Statement of Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
Current and other assets	\$ 18,070,842	\$ 14,908,321	\$ 13,697,317
Utility plant (net of accumulated depreciation)	<u>34,250,687</u>	<u>33,473,134</u>	<u>33,410,634</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 52,321,529</u></b>	<b><u>\$ 48,381,455</u></b>	<b><u>47,107,951</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
Liabilities			
Long-term liabilities	\$ 164,191	\$ 439,830	\$ 596,456
Other liabilities	<u>2,397,882</u>	<u>2,838,425</u>	<u>2,997,954</u>
Total Liabilities	<u>2,562,073</u>	<u>3,278,255</u>	<u>3,594,410</u>
Deferred Inflows of Resources	<u>1,200,000</u>	<u>763,183</u>	<u>904,355</u>
Net Position			
Investment in capital assets	34,250,687	33,473,134	33,410,634
Restricted	1,500,000	1,500,000	1,500,000
Unrestricted	<u>12,808,769</u>	<u>9,366,883</u>	<u>7,698,552</u>
Total Net Position	<u>48,559,456</u>	<u>44,340,017</u>	<u>42,609,186</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b><u>\$ 52,321,529</u></b>	<b><u>\$ 48,381,455</u></b>	<b><u>\$ 47,107,951</u></b>

LMUD's assets exceeded its liabilities by \$48,559,456 at the close of FY 16. This represents an increase from FY 15 of \$4,219,439. The financial position of LMUD remains a balance between liquidity and "investing" in the infrastructure of LMUD's electric system (e.g., maintaining, expanding, replacing, upgrading, etc.), which management believes is a necessary business practice to help ensure reliability.

A portion of LMUD's Net Position totaling \$34,250,687, or 70.5%, reflects its investment in "Capital Assets," such as transmission and distribution facilities, less any related debt used to acquire such assets that remained outstanding as of the close of FY 16. At the close of FY 16 there was no debt related to the acquisition of assets. LMUD uses these capital assets to provide services to its customers.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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The "unrestricted" portion of LMUD's Net Position is \$12,808,769, or 26.4% of total Net Position. This portion may be used to meet LMUD's ongoing obligations to creditors and customers. LMUD's Board of Directors has designated \$9,259,958 of the "unrestricted" Net Position (i.e., cash) to help insulate the District from unforeseen expenses as well as for planned future system facilities.

In FY 16, \$300,000 was transferred to the CERBT to pay the Annual Required Contribution (ARC). An explanation of the CalPERS' CERBT and the transfer of funds is fully addressed in Note 11.

An additional portion of LMUD's Net Position, \$1,500,000, or 3.1%, represents resources that are subject to external restrictions on how they are used. These funds are held as a certificate of deposit used as collateral for LMUD's wholesale power. The remaining externally restricted funds are for the Public Benefits programs.

In FY 14 LMUD transferred \$1.6 million of unrestricted funds to CalPERS California Employee Benefits Trust (CERBT) for post-employment benefits. An additional \$300,000 was transferred to the CERBT to pay the Annual Required Contribution (ARC) in FY 16, FY 15 and FY 14 for total contributions of \$2,500,000.

LMUD's assets exceeded its liabilities by \$44,340,017 at the close of FY 15. This represents an increase from FY 14 of \$1,730,831. The financial position of LMUD remains a balance between liquidity and "investing" in the infrastructure of LMUD's electric system (e.g., maintaining, expanding, replacing, upgrading, etc.), which management believes is a necessary business practice to help ensure reliability.

A portion of LMUD's Net Position totaling \$33,473,134, or 75.5%, reflects its investment in "Capital Assets," such as transmission and distribution facilities, less any related debt used to acquire such assets that remained outstanding as of the close of FY 15. At the close of FY 15 there was no debt related to the acquisition of assets. LMUD uses these capital assets to provide services to its customers.

The "unrestricted" portion of LMUD's Net Position is \$9,366,883, or 21.1% of total Net Position. This portion may be used to meet LMUD's ongoing obligations to creditors and customers. LMUD's Board of Directors has designated \$8,217,257 of the "unrestricted" Net Position (i.e., cash) to help insulate the District from unforeseen expenses as well as for planned future system facilities.

In FY 15, \$300,000 was transferred to the CERBT to pay the Annual Required Contribution (ARC). An explanation of the CalPERS' CERBT and the transfer of funds is fully addressed in Note 11.

An additional portion of LMUD's Net Position, \$1,500,000, or 3.0%, represents resources that are subject to external restrictions on how they are used. These funds are held as a certificate of deposit used as collateral for LMUD's wholesale power. The remaining externally restricted funds are for the Public Benefits programs.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### CAPITAL ASSETS

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LMUD's total net investment in capital assets as of June 30, 2016 amounted to \$34,250,687 (including construction work in progress and net of accumulated depreciation). This includes investment in transmission and distribution related infrastructure, as well as general items such as buildings, office equipment, vehicles, etc. During the course of the year, the net change in capital assets, including improvements to LMUD's infrastructure, was \$777,553.

A summary of LMUD's Capital Assets is presented in Table 3.

**Table 3**  
**Lassen Municipal Utility District's Capital Assets**

	2016	2015	2014
Land and land rights	\$ 842,528	\$ 842,528	\$ 842,528
Transmission	3,039,108	2,732,657	2,676,248
Distribution	37,099,307	30,607,337	29,928,795
General and construction work in progress	<u>8,245,402</u>	<u>14,213,964</u>	<u>13,620,613</u>
Total Capital Assets	49,226,345	48,396,486	47,068,184
Less: Accumulated depreciation	<u>(14,975,658)</u>	<u>(14,923,352)</u>	<u>(13,657,550)</u>
Net Capital Assets	<u>\$ 34,250,687</u>	<u>\$ 33,473,134</u>	<u>\$ 33,410,634</u>

Additional information regarding capital assets can be found in Notes 1 and 3 beginning on pages 16 and 24 of this report, respectively.

#### ***Notes to Financial Statements***

Provides additional information that is essential for a full and complete understanding of the information provided in the basic financial statements. The Notes to the Financial Statements can be found on pages 16 to 33 of this report.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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#### *Statements of Revenues, Expenses and Changes in Net Position*

Presents information showing how Net Position changed between FY 16 and FY 15. Results of LMUD's operations are reported as the underlying events occur, regardless of the timing of cash flows. This simply means LMUD's revenues and its expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future period, but not the current period. This is called the "accrual" basis of accounting. The concept is more fully described in Note 1 to the financial statements.

The Statements of Revenue, Expenses and Changes in Net Position provides an indication of the District's financial stability and is presented in Table 2.

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	2016	2015	2014
Revenues (All Sources)			
Operating revenues	\$ 19,680,403	\$ 18,276,161	\$ 17,836,020
Other operating revenues	432,675	555,555	538,421
Non-operating revenues	371,610	315,595	411,039
Total Revenues	<u>20,484,688</u>	<u>19,147,311</u>	<u>18,785,480</u>
Expenses (All Sources)			
Purchased power	8,502,165	8,880,572	9,611,315
Operations and maintenance	2,349,823	2,343,604	2,310,680
Customer services	2,114,180	1,769,569	1,576,544
Administrative and general	1,701,850	2,850,413	3,045,113
Depreciation	1,597,231	1,572,322	1,486,962
Total Expenses	<u>16,265,249</u>	<u>17,416,480</u>	<u>18,030,614</u>
Increase in Net Position	4,219,439	1,730,831	754,866
Net Position, Beginning of Year	<u>44,340,017</u>	<u>42,609,186</u>	<u>41,854,320</u>
NET POSITION, END OF YEAR	<u>\$ 48,559,456</u>	<u>\$ 44,340,017</u>	<u>\$ 42,609,186</u>

LMUD's Net Position increased \$4,219,439 during FY 16. Primary sales to customers experienced an increase of \$1,404,242 from FY 15 which is the result of an increase in energy sold to customers and a facility charge increase effective beginning April 2016. LMUD's expenses decreased \$1,151,231 during FY 16 mostly due to a decrease in purchased power costs and administration costs.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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LMUD's Net Position increased \$1,730,831 during FY 15. Primary sales to customers experienced an increase of \$440,141 from FY 14 which is largely the result of a facility charge increase effective beginning February 2015. LMUD's expenses decreased \$614,134 during FY 15 mostly due to a decrease in purchased power costs associated with a 2.1% decrease in consumption which is partially offset by an increased in administrative and general expenses associated with meter reading of Honey Lake customers.

#### *Statements of Cash Flow*

Presents the cash flow changes occurring in "highly liquid" cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or had an original maturity date of 90 days or less.

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### SIGNIFICANT EVENTS AND FUTURE PLANS

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As the District continues to work and advance their mission of providing superior service levels while providing reliable electric service at a reasonable price, the District has completed many Board directives and has considered the future of LMUD.

During the 2015-2016 fiscal year the District completed the following large capital projects which will increase service reliability and system efficiency.

- **AMI Project** – This project consists of installing new meters to approximately 1,500 customers on the Chestnut Substation's Eagle Lake line. The new TWACS meters replaced the failing Turtle meters. The project required infrastructure to be installed in the substation along with servers, software, licensing agreements and all new meters.
- **Westwood Breaker Replacement** – This project was budgeted for the extension/renovation of the Westwood Substation to accommodate two new transmission breakers along with the infrastructure needed to replace the current 1968 vintage breakers. The renovation/extension of the substation was complete with the two new breakers installed along with new fencing, ground grid and underground infrastructure. The new steel structures were ordered and are awaiting installation.
- **Fish and Game Relocation** – The main distribution line that delivers power to outlying areas including the town of Wendel was moved to a more accessible location. The previous line (now retired) was in poor condition and was through property which has limited access and sometimes no access due to flooding. This should increase reliability to customers.
- **NV Energy Interconnect** - Funds are being set aside for a new substation at Viewland and an interconnection to the 345kV Reno to Alturas Transmission (RAT) line. When completed the RAT line will give LMUD a new source of power through the NV Energy system and greatly improve system reliability while lowering transmission costs. The District should see significant cost savings after completion of this multiyear project.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2016 and 2015

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### SIGNIFICANT EVENTS AND FUTURE PLANS (cont.)

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- **SCADA Project** – Development of LMUD's SCADA software continued through FY 2015-2016. The District purchased licensing for GE iPower SCADA Software and has been working toward completion. Frontier completed installation of fiber communications to Milwood, Westwood, Richmond and Lambert substations. LMUD has identified additional equipment to be ordered for completing the project. This equipment has been budgeted for FY 2016-2017.
- **Shaffer Mountain Redesign** – This line is the power supply to a communication site on top of Shaffer Mountain. There have been numerous outages over the past few years. The construction design was changed, new materials were installed, and poles were replaced with the intent to make the line more dependable.

Planned capital projects for fiscal year 2016-2017 include the following:

- **Hamilton Mountain Re-conductor** – This project is to replace two miles of direct bury underground high voltage cable. This cable goes up the side of a mountain and supplies power to a communication site. This cable was installed approximately 40 years ago and is starting to fail. The cable has been ordered and contractors are manufacturing equipment for the cable installation.
- **Millwood Substation Capacitor Bank** – The District has budgeted for the installation of a 16 MegaVar capacitor bank at the Millwood substation. The capacitor bank will improve the power factor in LMUD's distribution system and provide increased voltage support. The capacitor bank project is currently being designed and engineered.
- **Janesville Main Street Pole Replacement** – This job is designed to replace 20 poles on Janesville Main Street. The replaced poles are old and this line is the main feeder line for Janesville customers.
- **NV Energy Interconnection** – Work will continue on this multiyear project which is expected to be completed in 2019.
- **SCADA (Supervisory Control and Data Acquisition)** – Complete and implement the SCADA system. Purchase additional equipment needed to complete installation of SCADA in Richmond and Lambert substations. Purchase and install equipment for communications with remote reclosers.
- **Westwood Conversion** – Funds have been budgeted to continue with the conversion of the Westwood line from 4kV to 12kV. This is a multi-year project.

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### REQUESTS FOR INFORMATION

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This Financial Report is designed to provide a general overview of LMUD's finances. Questions concerning any information provided in this report, or requests for additional information, should be addressed to the Accounting and Finance Manager, Lassen Municipal Utility District, 65 South Roop Street, Susanville, CA 96130.

## **FINANCIAL STATEMENTS**

**LASSEN MUNICIPAL UTILITY DISTRICT**

STATEMENTS OF NET POSITION  
As of June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 1,501,838	\$ 1,194,443
Customer accounts receivable, net of allowance for uncollectible accounts	2,255,310	1,872,623
Insurance claim receivable	172,224	-
Interest receivable	8,700	8,700
Inventories		
Emission allowances	1,200,000	706,315
Materials and supplies	572,059	620,064
Prepaid expenses	954,324	609,676
Total Current Assets	6,664,455	5,011,821
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Pledged amount for letter of credit	1,500,000	1,500,000
Public benefit fund	258,551	179,243
Other Assets		
Board restricted cash reserves	1,500,000	1,500,000
Funded post-employment benefits	270,123	-
Construction fund	7,759,958	6,717,257
Preliminary survey and investigation	117,755	-
Capital Assets		
Utility plant, net of accumulated depreciation	33,015,625	32,811,976
Construction work in progress	1,235,062	661,158
Total Noncurrent Assets	45,657,074	43,369,634
<b>TOTAL ASSETS</b>	<b>\$ 52,321,529</b>	<b>\$ 48,381,455</b>

	2016	2015
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 248,800	\$ 699,921
Purchased power payable	937,669	962,966
Insurance claims payable	-	108,062
Customer deposits	342,914	322,715
Public benefit payable - restricted	258,551	179,243
Solar rebates payable	81,369	66,415
Accrued compensation and related costs	176,308	158,450
Pension plan payable	22,003	18,847
Accrued leave	330,268	321,806
Total Current Liabilities	2,397,882	2,838,425
<b>NONCURRENT LIABILITIES</b>		
Accrued sick leave	164,191	164,971
Unfunded post-employment benefits	-	274,859
Total Noncurrent Liabilities	164,191	439,830
Total Liabilities	2,562,073	3,278,255
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned revenue - emission allowances	1,200,000	763,183
<b>NET POSITION</b>		
Net investment in capital assets	34,250,687	33,473,134
Restricted		
Pledged amount for letter of credit	1,500,000	1,500,000
Unrestricted	12,808,769	9,366,883
Total Net Position	48,559,456	44,340,017
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 52,321,529</b>	<b>\$ 48,381,455</b>

See accompanying notes to the financial statements.

## LASSEN MUNICIPAL UTILITY DISTRICT

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES</b>		
Domestic	\$ 10,635,494	\$ 9,717,108
Commercial	6,884,443	6,513,556
Industrial	772,089	694,162
Agricultural	1,228,174	1,193,969
Public street lighting	93,470	91,787
Area street lighting	66,733	65,579
Other operating revenues	432,675	555,555
Total Operating Revenues	20,113,078	18,831,716
<b>OPERATING EXPENSES</b>		
Purchased power	8,502,165	8,880,572
Operations and maintenance	2,349,823	2,343,604
Administration and general	2,114,180	2,850,413
Customer services	1,701,850	1,769,569
Depreciation	1,597,231	1,572,322
Total Operating Expenses	16,265,249	17,416,480
<b>OPERATING INCOME</b>	3,847,829	1,415,236
<b>NONOPERATING REVENUES</b>		
Investment income	43,307	27,208
Miscellaneous nonoperating income	153,643	139,443
Gain on sale of emission allowances	174,660	141,172
Gain on disposal of fixed assets	-	7,772
Total Nonoperating Revenues	371,610	315,595
<b>CHANGE IN NET POSITION</b>	4,219,439	1,730,831
NET POSITION – Beginning of Year	44,340,017	42,609,186
<b>NET POSITION – END OF YEAR</b>	\$ 48,559,456	\$ 44,340,017

See accompanying notes to the financial statements.

# LASSEN MUNICIPAL UTILITY DISTRICT

## STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 20,343,484	\$ 18,988,930
Paid to suppliers for goods and services	(13,236,175)	(11,800,311)
Paid to employees for operating payroll	<u>(3,189,277)</u>	<u>(3,715,033)</u>
Net Cash Flows from Operating Activities	<u>3,918,032</u>	<u>3,473,586</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	<u>(2,531,935)</u>	<u>(2,152,320)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(2,531,935)</u>	<u>(2,152,320)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<u>43,307</u>	<u>27,208</u>
Net Cash Flows from Investing Activities	<u>43,307</u>	<u>27,208</u>
<b>Net Change in Cash and Cash Equivalents</b>	1,429,404	1,348,474
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>9,590,943</u>	<u>8,242,469</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 11,020,347</u>	<u>\$ 9,590,943</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Unearned revenue - emission allowances	<u>\$ 436,817</u>	<u>\$ 763,183</u>

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income	\$ 3,847,829	\$ 1,415,236
Nonoperating revenues	328,301	280,615
Noncash items in operating income		
Depreciation	1,597,231	1,572,322
Changes in assets, liabilities and deferred inflows of resources		
Customer accounts receivable	(382,687)	5,365
Emission allowance inventory	(56,868)	(283,987)
Materials and supplies inventory	48,005	(12,669)
Prepaid expenses	(344,648)	287,589
Accounts payable	(414,723)	383,783
Purchased power payable	(25,297)	35,175
Claims payable	(280,286)	78,062
California state energy surcharge tax payable	-	(13,089)
Customer deposits	20,199	12,406
Public benefit payable	82,308	7,215
Solar rebates payable	14,954	(79,473)
Accrued compensation and related costs	17,858	(16,639)
Pension plan payable	3,156	(2,867)
Accrued vacation and sick leave	7,682	(46,611)
Post-employment benefits	(544,982)	(148,847)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 3,918,032</b>	<b>\$ 3,473,586</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
<b>TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 1,501,838	\$ 1,194,443
Restricted assets	1,758,551	1,679,243
Board restricted cash reserves	1,500,000	1,500,000
Construction fund	7,759,958	6,717,257
Total Cash and Restricted Investments	12,520,347	11,090,943
Noncash equivalents	(1,500,000)	(1,500,000)
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 11,020,347</b>	<b>\$ 9,590,943</b>

See accompanying notes to the financial statements.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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### ***REPORTING ENTITY***

Lassen Municipal Utility District (the District) was formed in 1986 by General Election of the voters. The District operates under the State of California Municipal Utility District Act (Act). The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations. As a public utility, the District is not subject to regulation or oversight by the California Public Utilities Commission (CPUC). The District is responsible for the acquisition, transmission and distribution of electric power to its service area which includes within its boundaries approximately 50% of Lassen County in Northeastern California and approximately 65% of the population of the county. The Board of Directors (Board) determines the District's rates. The District is exempt from payment of federal and state income taxes and real and personal property taxes. On May 10, 1988, the District purchased the Lassen Electric System from CP National Corporation.

The accounting records of the District are in accordance with accounting principles generally accepted in the United States of America as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

### ***MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION***

The District utilizes a Proprietary Fund category and an Enterprise Fund type. The District's measurement focus is total economic resources; operations are similar to businesses in that services are rendered to the general public on a fee basis.

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received; and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In February 2015, the GASB issued Statement No. 72 - *Fair Value Measurement and Application*. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles to improve financial reporting. This standard was implemented effective July 1, 2015.

Preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, the actual amounts could differ from those estimates.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION*

##### *Cash and Investments*

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of the District's funds is restricted by the California State and Municipal codes. Investments are limited to:

1. Its own bonds, whether issued by, or on behalf of the entire District or any special district.
2. Treasury notes, certified indebtedness, bills, bonds of the United States, or any other evidence of indebtedness secured by the full faith and credit of the United States.
3. Obligations issued pursuant to the Federal Home Loan Bank Act or the National Housing Act.
4. Treasury notes or bonds of California or any public corporation, municipal corporation, public district, or political subdivision within California which are legal as security for the deposit of public funds.
5. Obligations issued by federal intermediate credit banks, federal land banks and banks for cooperatives.
6. Obligations issued or assumed by the International Bank for Reconstruction and Development, the Tennessee Valley Authority, the Inter-American Development Bank, or Export-Import Bank of Washington participation certificates.
7. Banker's acceptance of banks having total deposits of \$1 billion or more.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

The Board set a goal of internally setting aside \$9.3 million in reserve funds which will be available for unexpected expenditures, future system facilities, and to offset the District's other post-employment benefits (OPEB) liability. As of June 30, 2016 and 2015, \$1.5 million was held in Board restricted funds for unexpected expenditures. During FY 2014, the Board approved the transfer of \$1.6 million in OPEB restricted funds to the California Public Employee Retirement System (CalPERS) California Employment Retirement Benefit Trust (CERBT). An additional \$300,000 was transferred to the CERBT in FY 16, 15 and 14 to fund the Annual Required Contribution (ARC). See Note 11 for further information regarding the OPEB fund.

The Board continues to set aside \$.01 of the total kWh charge billed to fund construction of the Viewland Substation. The balance of this construction fund at June 30, 2016 and 2015 was \$7,759,958 and \$6,717,257, respectively.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### *ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (cont.)*

##### ***Emission Allowance Inventory***

The District receives emission allowances from the California Air Resources Board (CARB) under cap-and-trade regulations. Emission allotments received from the CARB are placed for auction and subsequently purchased and sold depending on the level of need by the District. The initial allocation of free allowances to the District is valued at zero and purchases and sales are valued at purchase price. Allowances are ultimately transferred or applied to the District's primary power provider. Allowance inventory consists of those allowances not yet transferred at year-end. A deferred gain on the sale of these allowances is recorded when they are transferred to the power provider. Inventory is valued at the lower of cost or market utilizing the first-in, first-out method.

##### ***Materials and Supplies Inventory***

Materials and supplies inventory is stated at cost and determined on a weighted average cost basis. The District accounts for this inventory using a perpetual inventory system and conducts a physical inventory count at each year end.

##### ***Prepaid Expenses***

The District's prepaid expenses consist mainly of prepaid purchased power, operation and maintenance amounts to Western Area Power Authority and insurance premiums for the upcoming fiscal year.

##### ***Restricted Assets***

Certain resources set aside for external party designated funds are classified as restricted assets in the statements of net position.

In accordance with Assembly Bill 1890, the District has also set aside a percentage of revenues for public benefit programs. The use of these funds is restricted to various beneficial programs and services.

##### ***Preliminary Survey and Investigation***

The balance represents initial project engineering costs related to district plant construction. The balance will be capitalized upon commencement of the project.

##### ***Utility Plant***

Capital assets are generally defined by the District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. District plant assets are valued at historical or estimated historical cost if actual historical cost is not available. Cost includes materials and labor costs including associated payroll taxes and costs of benefits. Contributed plant assets are valued at estimated fair market value on the date contributed. Capital acquisitions and major improvements of assets are capitalized while maintenance and repairs are charged to operations as incurred.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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### ***ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (cont.)***

#### ***Utility Plant (cont.)***

Depreciation is determined by the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

	<u>Years</u>
Transmission Plant	40
Distribution Plant	40
General Plant	5 - 40

#### ***Accounts and Purchased Power Payable***

These payables represent the balance of unpaid operational expenses the District has incurred.

#### ***Vacation and Sick Leave***

All employees can accrue sick days annually with no limit. However, employees who have at least 10 years of service and leave the District for any reason are entitled to a 35% payout of all unused sick time. Employees who accumulate 250 hours of unused sick time are given an additional 40 hours of vacation time the following year for each 250 hour increment.

Regular full-time employees and part-time employees shall be allowed annual vacation accrual relative to years of service. Employees may use accrued vacation as it is earned. Vacation allowances in excess of 80 hours shall not be carried over from one anniversary year to the next without approval from the District.

#### ***Customer Deposits***

This account represents amounts deposited with the District by customers as security for payment of bills.

#### ***Public Benefits Payable***

Public benefits are used to fund expenditures for energy efficiency programs and renewable energy resources.

#### ***Solar Rebates Payable***

The District is required to adequately fund a solar rebate program as mandated by California Legislation SB-1. The annual budget for photo voltaic rebates is \$140,000 or \$1.4 million over the 10 year life of the program which began January 2008 and is scheduled to sunset January 2017.

#### ***Deferred Inflows of Resources***

Deferred inflows of resources is an acquisition of net assets that is applicable to a future reporting period. Deferred inflows of resources are recorded in accordance with GASB numbers 63 and 65. The District's deferred inflows consist of unearned revenue on the sale of emission allowances.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

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## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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### *ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (cont.)*

#### *Long-Term Obligations*

Long-term debt and other obligations are reported as District liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The District did not have any debt in 2016 or 2015.

#### *REVENUES AND EXPENSES*

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are billings to customers based on meter readings and flat fee arrangements. Meters are read on a cycle basis throughout each month and the District has adopted the policy of recording an estimate of revenue earned but not billed to customers at year end. Unbilled accounts receivable at June 30, 2016 and 2015 totaled \$1,086,389 and \$860,502, respectively. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Sales to customers consisted of the following for the fiscal years ending June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Domestic accounts	\$ 10,635,494	\$ 9,717,108
Area light accounts	66,733	65,579
Commercial accounts	6,884,443	6,513,556
Agricultural accounts	1,228,174	1,193,969
Industrial accounts	772,089	694,162
Street lights	93,470	91,787
Miscellaneous service revenues	111,667	151,525
Other Service Revenues		
Contract work and fees	83,022	168,100
Wheeling, ownership	<u>237,986</u>	<u>235,930</u>
Total Sales to Customers	<u>\$ 20,113,078</u>	<u>\$ 18,831,716</u>

#### *Purchased Power*

The District's power needs are provided through two power purchase contracts with Western Area Power Administration (Western) including a Base Resource contract and a Custom Product contract. Currently, the cost of Western Base Resource power delivered to Westwood is approximately 3.1 cents per kilowatt hour.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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#### **REVENUES AND EXPENSES** (cont.)

##### ***Purchased Power*** (cont.)

However, because of the expiration of agreements Western had with Pacific Gas & Electric (PG&E), and PG&E's refusal to renew the agreements, Western no longer provides its "Preferred" customers, (such as the District), with the Contract Rate of Delivery (CRD) 24/7/365. Western can only now deliver to its customers their percentage of what the Central Valley Project actually produces at the time of the production, which, since it is from the U.S. Bureau of Reclamation dams, is more abundant in the spring and summer but falls off during the fall and winter. The District's base percentage of Western CVP Project averaged .5832%. For this fiscal year, Base Resource provided approximately 13,900 megawatt hours at an estimated delivered cost of 3.1 cents per kilowatt hour delivered to the Westwood substation.

Additional energy needs are provided by Western under another District/Western Custom Product – Full Load Service contract. On the District's behalf, Western purchases and sells short and long term contracts as needed.

Expenses from the Western agreements, along with associated transmission costs, are charged to purchased power expense on the statements of revenues, expenses and changes in net position in the period the power is received. The costs, or credits, associated with energy swap agreements or other arrangements that affect the net cost of purchased power, are recognized in the period in which the underlying power delivery occurs. Adjustments to prior billings are included in purchased power expense once the adjustments can be reasonably estimated.

##### ***Comparative Data***

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

##### ***Subsequent Events***

Management has evaluated subsequent events through November 18, 2016, the date the basic financial statements were available to be issued.

##### ***Effect of New Accounting Standards on Current Period Financial Statements***

GASB has approved Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*, Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. When they become effective, application of these standards may restate portions of these financial statements.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

**NOTE 2 – CASH AND INVESTMENTS**

Cash, cash equivalents and investments at June 30, 2016 and 2015 consist of the following stated at fair value:

	<u>2016</u>	<u>2015</u>	<u>Risks</u>
Checking and Savings	\$ 1,365,725	\$ 1,838,066	Custodial credit
Certificates of Deposit	1,500,000	1,500,000	Custodial credit
Local Agency Investment Fund	9,654,072	7,752,327	Credit and interest rate
Petty Cash	<u>550</u>	<u>550</u>	n/a
	<u>\$ 12,520,347</u>	<u>\$ 11,090,943</u>	

The amounts above are reflected in the accompanying financial statements as:

	<u>2016</u>	<u>2015</u>
Cash and Investments	\$ 10,761,796	\$ 9,411,700
Restricted Investments	<u>1,758,551</u>	<u>1,679,243</u>
	<u>\$ 12,520,347</u>	<u>\$ 11,090,943</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

The Local Agency Investment Fund (LAIF) has an equity interest in the State of California (State) Pooled Money Investment Account (PMIA). PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. LAIF is reported at the value of its pool shares. The District's deposits with LAIF are comprised of cash representing demand deposits up to \$40.0 million maximum and cash equivalents representing amounts above \$40.0 million which are able to be withdrawn after a three day period.

***Custodial Credit Risk***

**Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to the District.

As of June 30, 2016 and 2015, the District did not have any deposits exposed to custodial credit risk.

The District's investment policy does not address this risk.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

**NOTE 2 – CASH AND INVESTMENTS (cont.)**

***Custodial Credit Risk*** (cont.)

**Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

As of June 30, 2016 and 2015, the District did not have any investments exposed to custodial credit risk.

The District's investment policy does not address this risk.

***Credit Risk***

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2016 and June 30, 2015, the District held investments in the Local Agency Investment Fund which is an external pool that is not rated.

The District's investment policy does not address credit risk.

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2016, the District's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less than 1	1 - 5	> 5
Local Agency Investment Fund	\$ 9,654,072	\$ 9,654,072	\$ -	\$ -
Totals	<u>\$ 9,654,072</u>	<u>\$ 9,654,072</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2015, the District's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less than 1	1 - 5	> 5
Local Agency Investment Fund	\$ 7,752,327	\$ 7,752,327	\$ -	\$ -
Totals	<u>\$ 7,752,327</u>	<u>\$ 7,752,327</u>	<u>\$ -</u>	<u>\$ -</u>

The District's investment policy addresses this risk by only allowing investments with maturities of five years or less.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

### NOTE 2 – CASH AND INVESTMENTS (cont.)

#### *Fair Value*

Lassen Municipal Utility District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

LAIF: Quoted quarter end principal balance.

Investment Type	Balance at June 30, 2016				June 30, 2015
	Level 1	Level 2	Level 3	Total	Level 2
LAIF	\$ -	\$ 9,654,072	\$ -	\$ 9,654,072	\$ 7,752,327
Total	\$ -	\$ 9,654,072	\$ -	\$ 9,654,072	\$ 7,752,327

### NOTE 3 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2016 follows:

	Balance 7/1/15	Increases	Decreases	Balance 6/30/16
Capital assets, not being depreciated				
Land and land rights	\$ 842,528	\$ -	\$ -	\$ 842,528
Construction work in progress	661,158	9,304,800	8,730,896	1,235,062
Total Capital Assets Not Being Depreciated	1,503,686	9,304,800	8,730,896	2,077,590
Capital assets being depreciated				
Completed construction not classified	6,615,112	-	6,615,112	-
Transmission	2,732,657	480,225	173,774	3,039,108
Distribution	30,607,337	7,739,237	1,247,266	37,099,308
General	6,937,694	72,645	-	7,010,339
Total Capital Assets Being Depreciated	46,892,800	8,292,107	8,036,152	47,148,755
Total Capital Assets	48,396,486	17,596,907	16,767,048	49,226,345
Less: Accumulated Depreciation	(14,923,352)	(1,601,129)	1,548,823	(14,975,658)
Net Capital Assets	\$ 33,473,134	\$ 15,995,778	\$ 15,218,225	\$ 34,250,687

## LASSEN MUNICIPAL UTILITY DISTRICT

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

#### **NOTE 3 – CHANGES IN UTILITY PLANT (cont.)**

A summary of changes in utility plant for 2015 follows:

	Balance 7/1/14	Increases	Decreases	Balance 6/30/15
Capital assets, not being depreciated				
Land and land rights	\$ 842,528	\$ -	\$ -	\$ 842,528
Construction work in progress	<u>6,756,446</u>	<u>1,829,254</u>	<u>7,924,542</u>	<u>661,158</u>
Total Capital Assets Not Being Depreciated	<u>7,598,974</u>	<u>1,829,254</u>	<u>7,924,542</u>	<u>1,503,686</u>
Capital assets being depreciated				
Completed Construction not Classified	-	6,615,112	-	6,615,112
Transmission	2,676,248	78,329	21,920	2,732,657
Distribution	29,928,793	997,955	319,411	30,607,337
General	<u>6,864,170</u>	<u>99,977</u>	<u>26,453</u>	<u>6,937,694</u>
Total Capital Assets Being Depreciated	<u>39,469,211</u>	<u>7,791,373</u>	<u>367,784</u>	<u>46,892,800</u>
Total Capital Assets	47,068,185	9,620,627	8,292,326	48,396,486
Less: Accumulated Depreciation	<u>(13,657,551)</u>	<u>(1,572,322)</u>	<u>306,521</u>	<u>(14,923,352)</u>
Net Capital Assets	<u>\$ 33,410,634</u>	<u>\$ 8,048,305</u>	<u>\$ 7,985,805</u>	<u>\$ 33,473,134</u>

#### **NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Customer accounts	\$ 2,868,454	\$ 2,464,989
Accounts placed for collection	572,027	575,010
Other accounts	77,716	147,192
Allowance for uncollectible accounts	<u>(1,262,887)</u>	<u>(1,314,568)</u>
Totals	<u>\$ 2,255,310</u>	<u>\$ 1,872,623</u>

An allowance for uncollectible accounts is maintained for District and miscellaneous accounts receivable. The balance in this account is adjusted each month to include customer accounts and other receivables greater than 90 days delinquent.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2016 and 2015

**NOTE 5 – LONG-TERM OBLIGATIONS**

***LONG-TERM OBLIGATIONS SUMMARY***

Long-term obligation activity for the year ended June 30, 2016 is as follows:

	<u>7/1/2015 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2016 Balance</u>	<u>Due Within One Year</u>
Unfunded post-employment benefits	\$ 274,859	\$ 279,419	\$ 824,401	\$ (270,123)	\$ -
Accrued sick leave	<u>164,971</u>	<u>153,523</u>	<u>154,303</u>	<u>164,191</u>	<u>-</u>
	<u>\$ 439,830</u>	<u>\$ 432,942</u>	<u>\$ 978,704</u>	<u>\$ (105,932)</u>	<u>\$ -</u>

Long-term obligation activity for the year ended June 30, 2015 is as follows:

	<u>7/1/2014 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2015 Balance</u>	<u>Due Within One Year</u>
Unfunded post-employment benefits	\$ 423,706	\$ 279,419	\$ 428,266	\$ 274,859	\$ -
Accrued sick leave	<u>172,750</u>	<u>161,873</u>	<u>169,652</u>	<u>164,971</u>	<u>-</u>
	<u>\$ 596,456</u>	<u>\$ 441,292</u>	<u>\$ 597,918</u>	<u>\$ 439,830</u>	<u>\$ -</u>

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

### NOTE 6 – NET POSITION

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

**Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

The Board has internally designated \$9,259,958 and \$8,217,257 in 2016 and 2015, respectively, of net position as a reserve fund which will be available for unexpected expenditures, future system facilities, and to offset the District's other post-employment benefits (OPEB) liability. This amount is included in the "unrestricted net position" section of statements of net position.

When both restricted and unrestricted resources are available for use, it is the District's policy to use unrestricted resources first, then restricted resources as needed. See Note 7 for information describing restricted assets.

The following calculation supports the District's net position:

	2016	2015
Net Investment in Capital Assets		
Utility plant, net of depreciation	\$ 33,015,625	\$ 32,811,976
Construction work in progress	1,235,062	661,158
Net Investment in Capital Assets	34,250,687	33,473,134
Restricted		
Pledged amount for letter of credit	1,500,000	1,500,000
Unrestricted	12,808,769	9,366,883
Total Net Position	\$ 48,559,456	\$ 44,340,017

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

### NOTE 7 – RESTRICTED ASSETS

#### *RESTRICTED ACCOUNTS*

Certain proceeds of the District's net assets are classified as restricted assets on the statement of net position because their use is limited. The Board has established a public benefit account and restricted funds as required by the District's outstanding letter of credit discussed in Note 16. The following accounts are reported as restricted assets:

- Pledged letter of credit – Used to collateralize the standby District's power purchases with Western Area Power Administration.
- Public benefit fund – Used for public benefit program expenditures.

The following calculation supports the amount of restricted net position:

	2016	2015
Restricted Assets		
Public benefit fund	\$ 258,551	\$ 179,243
Pledged amount for letter of credit	1,500,000	1,500,000
Total Restricted Assets	1,758,551	1,679,243
Current Liabilities Payable From Restricted Assets	(258,551)	(179,243)
Total Restricted Net Assets as Calculated	\$ 1,500,000	\$ 1,500,000

### NOTE 8 – SELF INSURANCE

The District participates in a self-funded health insurance program with claims processed by an administrative firm on behalf of the District. A separate fund has been established into which deposits are made and actual claims are paid out. As part of the plan, a reinsurance policy has been purchased which covers claims above \$30,000 per beneficiary after a single \$50,000 deductible has been met. Deposits to the self-insured fund in excess of the claims and other costs paid are retained by the District. The District's total contributions to the program during the years 2016 and 2015 were \$1,517,307 and \$1,204,009 respectively.

	2016	2015	2014
<b>Self Insurance Reserve</b>			
Reserve Liability, Beginning of Year	\$ 108,062	\$ 30,000	\$ 57,431
Less: Payments on Reserve	(164,345)	(30,000)	(57,431)
Add: Spec Claims Received	56,283	-	-
Add: Incurred but not Reported Claims	40,822	164,345	30,000
Less: Spec Claims Reimbursable	(213,046)	(56,283)	-
Reserve Liability, End of Year	\$ (172,224)	\$ 108,062	\$ 30,000

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### NOTE 9 – COMMITMENTS AND CONTINGENCIES

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#### *CLAIMS AND JUDGMENTS*

From time to time, the District is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the District's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial position or results of operations.

*Amedee Geothermal Venture:* The Amedee Geothermal Venture (Amedee) is seeking \$1.5 million in damages from the District. Amedee alleges the District is liable to Amedee for breach of contract and tort, damages to geothermal wells and loss of revenue due to reduced transmitting capacity as a result of the District's reconfiguration of a 34.5 kV electric line to a 12.47 kV electric line. The District has rejected these claims and in turn, Amedee has filed a complaint in U.S. District Court, Eastern District of California, and subsequently served its complaint on the District. Lassen was successful in filing a Motion for Summary Judgment with the U.S District Court which ruled to dismiss the claim. Subsequently, Amedee filed a claim with the Superior Court in San Francisco, November 2013. Lassen was successful in changing the venue from Superior Court in San Francisco to Superior Court in Lassen County. Lassen has answered Amedee's complaint, denying all claims. Lassen believes that the allegations against it by Amedee have no merit. Lassen has been and intends to continue to vigorously defend against the complaint.

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### NOTE 10 – PENSION PLANS

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#### *DEFINED CONTRIBUTION PLAN*

The District sponsors a qualified defined contribution pension plan, the Lassen Municipal Utility District Pension Plan, covering all eligible employees. As of June 30, 2016, 31 employees were participants of the plan. The assets of the plan are held and administered by American Funds Service Company and Minnesota Mutual Life. The plan is qualified under Code section 401(a) of the Internal Revenue Code. District contributions to the plan are currently 15% and are based on an employee's base wages. Total contributions for the fiscal years ending 2016, 2015, and 2014 were \$430,109, \$444,512 and \$407,525, respectively. Employees are immediately 100% vested in all contributions and plan earnings. Total District payroll subject to retirement contribution for fiscal years ending 2016, 2015, and 2014 was \$2,867,393, \$3,065,600 and \$2,818,187, respectively.

#### *SECTION 401(k), DEFERRED COMPENSATION PLAN*

The District implemented a 401(k) retirement plan effective January 1, 2007, consistent with the agreements reached with the Bargaining Unit in negotiations ratified in April 2007. Terms of the MOU, with respect to the 401(k), provide that the District will match an employee's deferral on a dollar for dollar basis, not to exceed 6% of the employee's base compensation. The District's contributions made under this provision as of June 30, 2016, 2015, and 2014 were \$152,723, \$165,925, and \$152,563, respectively.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### NOTE 11 – POST-EMPLOYMENT BENEFITS

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The District provides post-retirement health care benefits in accordance with California Government Code, to all employees who retire from the District on or after attaining age 55 with at least ten years of service and who were hired prior to July 1, 2011. Employees hired after July 1, 2011 receive the same benefit upon attaining fifteen years of service and the age of 55. Some exceptions exist for those hired under contract. The District contributes 100% of the amount of premium incurred by pre-Medicare retirees and their dependents. For qualifying retirees, the District pays the full cost of the health and welfare benefits. The health and welfare benefits terminate upon the plan member's attainment of age 65, at which time the retired plan member qualifies for Medicare benefits, and for benefits under the District's Medicare Supplemental Health Benefit Plan.

As of June 30, 2016 and 2015, twenty-two and twenty retirees met those eligibility requirements as retired employees, respectively. The District pays directly for Medicare supplement for sixteen of the retirees and spouses if applicable. The District pays for Medicare supplement for the retiree and full benefits for family members of three retirees. The District pays for pre-Medicare benefits for two retirees and dependents if applicable. These expenses are recorded in the period paid.

The District contributes 100% of the current year premiums and aggregate fund for a family and a single plan, for eligible retired plan member and their spouse. The District contributed \$113,860 for fiscal year 2016, \$132,258 for fiscal year 2015 and \$140,283 for fiscal year 2014 on the behalf of retirees.

The benefits are based on contractual agreements with employee groups, local ordinances, or employee benefit policies. The cost of those premiums is recognized as an expenditure as the premiums are paid. The entire cost is paid by the District. Funding for those costs is provided out of the current operating budget of the District. The contributions are financed on a pay as you go basis. Total expenditures for such premiums during the year were not material. The actuarial accrued liability for the years ended June 30, 2016 and 2015 was \$4,458,623. The number of retired participants currently eligible to receive benefits is twenty-two.

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provided health insurance contributions for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and state that eligible retirees and their spouses receive lifetime healthcare insurance at established contribution rates.

The District's group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates. This results in other post-employment benefits (OPEB) for retirees, commonly referred to as an implicit rate subsidy.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the District and the union. The District makes the same monthly health insurance contribution on behalf of the retiree as it makes on behalf of all other active employees during that year.

In FY2014 the District implemented the procedure of charging all new, non-collective bargaining unit employees, a portion of their dependents' health insurance coverage. As of June 30, 2016 and 2015, twenty-five employees and two employees qualified to pay a portion of their dependents' health insurance coverage.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

### **NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)**

On May 5, 2014 the District executed an Agreement for Lassen Municipal Utility District to contribute to the CERBT fund, administered by CalPERS. At that point the District transferred \$1.6 million from the OPEB board restricted cash reserve fund to the CERBT. In June 2016, 2015 and 2014 the District transferred an additional \$300,000 each year for the Annual Required Contribution (ARC) to the CERBT for a total contribution of \$2,500,000 as of June 30, 2016. As a result of these transfers, the District's contributions exceeded the net OPEB obligation as of June 30, 2016 and now reports an asset termed funded post-employment benefits as calculated below.

The District's annual OPEB cost (expense) is calculated on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for employers in plans with fewer than one hundred total plan members. Per Statement No. 45, the calculation is required every three years, however, CalPERS requires a new valuation every two years as a condition of holding CERBT funds. The latest valuation was completed as of July 1, 2015. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

	2016	2015
Annual required contribution	\$ 279,419	\$ 279,419
Annual OPEB cost	279,419	279,419
Interest on net OPEB obligation	19,240	29,659
Adjustment to annual required contribution	(17,849)	(27,514)
Contributions made	(825,792)	(430,411)
Decrease in net OPEB obligation	(544,982)	(148,847)
Net OPEB Obligation - Beginning of Year	274,859	423,706
Net OPEB Obligation - End of Year	\$ (270,123)	\$ 274,859

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability
2014	\$ 547,870	372%	\$ 423,706
2015	279,419	154%	274,859
2016	279,419	296%	(270,123)

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

### **NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)**

The funded status of the plan as of June 30, 2016 and 2015 was as follows:

	2016	2015
Actuarial accrued liability (AAL)	\$ 4,458,623	\$ 4,458,623
Actuarial value of plan assets	2,579,254	2,276,575
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,879,369	\$ 2,182,048
Funded ratio (actuarial value of plan assets/AAL)	57.8%	51.1%
Covered payroll (active plan members)	\$ 3,204,425	\$ 3,376,166
UAAL as a percentage of covered payroll	59%	65%

The projection of future benefit payments for an ongoing plan involves estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes of the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan is understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

1. Retirement age for active employees – Based on the plan benefits, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.
2. Inflation – An inflation rate of 2.75% per year was used.
3. Investment Return/Discount Rate – A rate of 7% per year was assumed. This is based on assumed long-term return on plan assets assuming 100% funding through CERBT. The “Building Block Method” was used.
4. Payroll Increase – An increase of 2.75% was assumed. This assumption applies only to the extent that either or both of the normal costs and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume and increase in staff or merit increases.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### **NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)**

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5. Healthcare cost trend rate – A rate of 4% per year was assumed. The long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. They do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

A simplified version for the entry age normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percent, closed 30 year amortization period for the initial UAAL, a level percent, open 25 year amortization period was used for any residual UAAL. The remaining amortization period as of June 30, 2015 was twenty-five years.

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### **NOTE 12 – MEMBERSHIP AND JOINT VENTURE PROJECTS**

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The District is actively participating in various forums, such as Western Area Power Administration, California Municipal Utilities Association (CMUA), Utah Associated Municipal Power Systems (UAMPS), Central Valley Corporation (CVP Corp.), and Northwest Public Power Association (NWPPA) to protect the interests of its ratepayers as challenges are addressed by the FERC, the California Legislature, the CPUC, the Bankruptcy courts and various other jurisdictional entities.

On November 10, 2003, the District, along with all the other Central Valley Project customers (Western customers) formed and joined the CVP Corp. The purpose of the CVP Corp. is to establish mechanisms to steady the delivery of Western's power as was done prior to the expiration of the PG&E Agreement (referred to in Note 1) so that Western customers can once again have a dependable "Contract Rate of Delivery" on a 7/24/365 basis.

The CVP Corp. was also established to advance fund operations and maintenance costs of the U.S. Bureau of Reclamation CVP dams and generation facilities for which Western customers are obligated to pay. As of June 30, 2016 and 2015, the District paid \$171,086 and \$213,652, respectively, which is credited back to the District the following month.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

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### **NOTE 12 – MEMBERSHIP AND JOINT VENTURE PROJECTS (cont.)**

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The District has committed to advance a fund up to the following amounts listed below. Terms of the funding agreement provide for monthly billing of agreed upon amounts based on the CVP Corporation's funding plan. In the subsequent month a credit equal to the amount withdrawn for operation and maintenance needs is credited towards the District's purchased power. The net result of the commitment is an approximate "Fair Share" operation and maintenance cost of \$175,000.

Fiscal Year	Amount
2017	\$ 250,000
Total Fair-Share Funding Commitment	\$ 250,000

The CVP Corp. also is a facilitator for generation or transmission projects that come along and require quick analysis and action to secure a reasonable due diligence period for evaluation. The CVP Corp. has at least one such project in the works.

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### **NOTE 13 – PUBLIC BENEFIT LIABILITY**

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Effective January 1, 1998, Assembly Bill 1890 requires all non-investor owned utility Districts to commit 2.85% of their annual energy related sales for public benefit programs. The District has and will spend these funds on conservation, education, energy assistance programs, weatherization programs, and other public projects. For the fiscal years ended June 30, 2016, and 2015, the District's total energy sales subject to this commitment were \$17,268,949 and \$17,994,399, respectively. This results in a commitment to spend \$492,165 and \$512,840, respectively, for public benefit programs. As of June 30, 2016, and 2015, the District's unspent reserve for these programs was \$258,551 and \$179,243, respectively.

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### **NOTE 14 – SOLAR ENERGY INCENTIVE PROGRAM**

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SB1, California's Solar Initiative was passed into law August 31, 2006 and was effective January 1, 2007. The law requires California publicly owned utilities to provide rebate incentives for their customers who install qualified solar electric systems. The District's share of the mandate (if utilized) is approximately \$1,400,000 over ten years. This law sunsets on January 1, 2017.

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### **NOTE 15 – LETTER OF CREDIT – POWER PURCHASES AND PLEDGED INVESTMENT**

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At June 30, 2016, the District has an outstanding irrevocable letter of credit in the amount of \$1,500,000. The letter of credit was renewed by the District on September 30, 2014 with an expiration date of September 30, 2015 and will have an expiration date of September 30, 2016. The letter of credit collateralizes the standby District's power purchases with Western Area Power Administration.

The District has pledged a certificate of deposit in the amount of \$1,500,000 for the letter of credit mentioned above.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LASSEN MUNICIPAL UTILITY DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION  
As of and for the Years Ended June 30, 2016 and 2015

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***Schedule of Funding Progress for  
Other Post-Employment Benefits Plan***  
(Unaudited)

<b>Valuation Date</b>	<b>Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2010	\$ -	\$ 2,946,487	\$ 2,946,487	0%	\$ 2,801,798	105%
6/30/2013	-	5,490,401	5,490,401	0	3,053,487	180
7/01/2015	2,276,575	4,458,623	2,182,048	51.1	3,376,166	65