

LASSEN MUNICIPAL UTILITY DISTRICT

Susanville, California

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

LASSEN MUNICIPAL UTILITY DISTRICT

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LASSEN MUNICIPAL UTILITY DISTRICT

GOVERNING BODY AND ADMINISTRATION

June 30, 2017

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

HW "Bud" Bowden	President
Fred Nagel	Vice President
Jess Urionaguena	Director
David Ernaga	Treasurer
Darren Hagata	Director

DISTRICT ADMINISTRATION

Doug Smith	General Manager
Pat Holley	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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Lassen Municipal Utility District's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. 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, 2017 and 2016, 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 management's discussion and analysis and 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 Veitchau Krause, LLP

Madison, Wisconsin
November 21, 2017

**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, 2017 and 2016

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 2017. You are invited to read this narrative in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of LMUD exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$52,009,372 (Net Position). Of this amount, \$10,325,962 has been designated by the Board for specific purposes.
- LMUD's Net Position increased \$3,450,276 during the current fiscal year. Sales to customers increased from the prior year by \$388,797 and LMUD experienced an increase of \$157,568 in purchased power and \$1,068,859 in total operating expenses.
- Gross income from sales and other sources, was \$20,501,875 for Fiscal Year 2017 (FY 17). This represents an approximate increase of 1.9% from Fiscal Year 2016 (FY 16).
- In FY 17 the District's overall retail energy sales decreased by 1.2 million kWh. Large Commercial decreased by 0.6 million kWh and Agriculture decreased by 2.5 million kWh due to a good water year. All other revenue categories had a combined increase of 1.9 million kWh.
- LMUD experienced a 6.57% increase 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 increase occurred in the administration expenses, purchased power expenses and depreciation expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

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

**Table 1
Condensed Statement of Net Position**

	2017	2016	2015
ASSETS			
Current and other assets	\$ 20,265,884	\$ 18,070,842	\$ 14,908,321
Utility plant (net of accumulated depreciation)	35,821,495	34,250,687	33,473,134
TOTAL ASSETS	\$ 56,087,379	\$ 52,321,529	\$ 48,381,455
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities			
Long-term liabilities	\$ 163,561	\$ 164,191	\$ 439,830
Other liabilities	2,175,081	2,397,882	2,838,425
Total Liabilities	2,338,642	2,562,073	3,278,255
Deferred Inflows of Resources	1,739,005	1,200,000	763,183
Net Position			
Investment in capital assets	35,821,495	34,250,687	33,473,134
Restricted	-	1,500,000	1,500,000
Unrestricted	16,188,237	12,808,769	9,366,883
Total Net Position	52,009,732	48,559,456	44,340,017
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 56,087,379	\$ 52,321,529	\$ 48,381,455

LMUD's assets exceeded its liabilities and deferred inflows by \$52,009,732 at the close of FY 17. This represents an increase from FY 16 of \$3,450,276. 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 \$35,821,496, or 68.9%, 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 17. At the close of FY 17 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, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

The "unrestricted" portion of LMUD's Net Position for FY 17 is \$16,188,237, or 31.1% 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 \$10,325,962 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 17, \$300,000 was transferred to the CERBT to contribute to the Annual Required Contribution (ARC). An explanation of the CalPERS' CERBT and the transfer of funds is fully addressed in Note 11.

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 fund the Annual Required Contribution (ARC) in FY 17, FY 16, FY 15 and FY 14 for total contributions of \$2,800,000.

LMUD's assets exceeded its liabilities and deferred inflows 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 for FY 16 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.

The "unrestricted" portion of LMUD's Net Position for FY 16 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 for FY 16, \$1,758,551, or 3.4%, represents resources that are subject to external restrictions on how they are used. \$1,500,000 of these funds are held as a certificate of deposit used as collateral for LMUD's wholesale power. The remaining externally restricted funds, \$258,551, 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, 2017 and 2016

CAPITAL ASSETS

LMUD's total net investment in capital assets as of June 30, 2017 amounted to \$35,821,496 (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 \$1,570,809.

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

Table 3
Lassen Municipal Utility District's Capital Assets

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land and land rights	\$ 1,098,116	\$ 842,528	\$ 842,528
Transmission	3,074,273	3,039,108	2,732,657
Distribution	38,130,311	37,099,307	30,607,337
General and construction work in progress	<u>9,599,156</u>	<u>8,245,402</u>	<u>14,213,964</u>
Total Capital Assets	51,901,856	49,226,345	48,396,486
Less: Accumulated depreciation	<u>(16,080,360)</u>	<u>(14,975,658)</u>	<u>(14,923,352)</u>
NET CAPITAL ASSETS	<u>\$ 35,821,496</u>	<u>\$ 34,250,687</u>	<u>\$ 33,473,134</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 – 35 of this report.

LASSEN MUNICIPAL UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

Statements of Revenues, Expenses and Changes in Net Position

Presents information showing how Net Position changed between FY 17 and FY 16. 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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues (All Sources)			
Operating revenues	\$ 20,072,537	\$ 19,680,403	\$ 18,276,161
Other operating revenues	429,338	432,675	555,555
Non-operating revenues	282,509	371,610	315,595
Total Revenues	<u>20,784,384</u>	<u>20,484,688</u>	<u>19,147,311</u>
Expenses (All Sources)			
Purchased power	8,659,733	8,502,165	8,880,572
Operations and maintenance	2,586,680	2,334,823	2,343,604
Customer services	1,696,030	1,716,850	1,769,569
Administrative and general	2,748,108	2,114,180	2,850,413
Depreciation	1,643,557	1,597,231	1,572,322
Total Expenses	<u>17,334,108</u>	<u>16,265,249</u>	<u>17,416,480</u>
Increase in Net Position	3,450,276	4,219,439	1,730,831
Net Position, Beginning of Year	<u>48,559,456</u>	<u>44,340,017</u>	<u>42,609,186</u>
NET POSITION, END OF YEAR	<u>\$ 52,009,732</u>	<u>\$ 48,559,456</u>	<u>\$ 44,340,017</u>

LMUD's Net Position increased \$3,450,276 during FY 17. Primary sales to customers experienced an increase of \$392,134 from FY 16 which is the result a facility charge increase effective beginning April 2016. LMUD's expenses increased \$1,068,859 during FY 17 mostly due to an increase in purchased power costs, administration costs and depreciation expenses.

LASSEN MUNICIPAL UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

Statements of Revenues, Expenses and Changes in Net Position (cont.)

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 largely the result 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.

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.

SIGNIFICANT EVENTS AND FUTURE PLANS

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 2016-2017 fiscal year the District completed the following large capital projects which will increase service reliability and system efficiency.

- **AMI Project** – Phase 1 of the AMI project consisted of installing new meters to approximately 1,500 customers on the Chestnut Substation's Eagle Lake line and was completed in July 2016. Phase 2 of the AMI project consisted of installing new meters to approximately 3,000 customers on the Westwood and Lambert substations along with installing additional infrastructure to the two substations. Phase 2 was completed in September 2017. No additional phases are planned for FY 2017/2018.
- **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 is complete with the two new breakers installed along with new fencing, ground grid, underground infrastructure and substation infrastructure.
- **Hamilton Mountain Re-conductor**– This project replaced two miles of direct buried underground high voltage cable. The cable goes up the side of a mountain and supplies power to a communication site. The two miles of cable was installed along with sectionalizing cabinets.
- **NV Energy Interconnect** – 240 acres of land was purchased in the Wendel area of Lassen County. This will be the site for the LMUD NV Energy interconnection substation. Property boundary surveys have been completed. Engineering planning estimates have been produced by LMUD's engineering consultants. Field environmental work has been completed for plant and wildlife by Navigant. NV Energy is currently in negotiation with LMUD on the Interconnect Agreement.

LASSEN MUNICIPAL UTILITY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2017 and 2016

SIGNIFICANT EVENTS AND FUTURE PLANS (cont.)

- **Westwood Conversion** – This project is continuing. The electrical infrastructure in the area of Pinetown has been rebuilt. This increases the reliability for customers and is continuing with LMUD's longer term objective of converting the Westwood circuit from 4kV to 12kV.
- **Transmission Pole Replacement** – LMUD replaced 20 transmission poles. This will improve system reliability.
- **SCADA Project** – Development of LMUD's SCADA software continued through FY 2016/2017. The District completed development and implementation for Richmond and Lambert Substation SCADA screens.
- **Janesville Main Street Pole Replacement** – 20 poles were replaced on Janesville Main Street. The pole replacement will add increased reliability to our Janesville customers.

Planned capital projects for fiscal year 2017-2018 include the following:

- **Transmission Pole Replacement** – This is an ongoing project to improve system reliability.
- **Millwood Substation Capacitor Bank** – Evaluation is being done to see what effect the interconnection with NV Energy will have on this project.
- **NV Energy Interconnection** – Work will continue on this multiyear project which is expected to be completed in 2020.
- **SCADA (Supervisory Control and Data Acquisition)** – Complete and implement the SCADA system. Purchase and install equipment for communications with remote reclosers. Complete additional training and configure SCADA alarms.
- **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.
- **Richmond Road Pole Replacement** – Replace 15 poles on Richmond Road. This is an ongoing project.
- **Update Reclosers** – Replace four older reclosers at Antelope Mt, Chestnut Substation, Westwood Substation and Five Mile Substation with newer models that are more user friendly and more reliable.

REQUESTS FOR INFORMATION

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, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and investments	\$ 2,772,235	\$ 1,501,838
Customer accounts receivable, net of allowance for uncollectible accounts	2,087,314	2,255,310
Insurance claim receivable	246,711	172,224
Interest receivable	18,000	8,700
Inventories		
Emission allowances	1,273,000	1,200,000
Materials and supplies	563,633	572,059
Prepaid expenses	1,944,889	954,324
Total Current Assets	<u>8,905,782</u>	<u>6,664,455</u>
NONCURRENT ASSETS		
Restricted Assets		
Pledged amount for letter of credit	-	1,500,000
Public benefit fund	166,315	258,551
Other Assets		
Board restricted cash reserves	1,500,000	1,500,000
Funded post-employment benefits	674,809	270,123
Construction fund	8,825,962	7,759,958
Preliminary survey and investigation	193,016	117,755
Capital Assets		
Utility plant, net of accumulated depreciation	33,321,713	33,015,625
Construction work in progress	2,499,782	1,235,062
Total Noncurrent Assets	<u>47,181,597</u>	<u>45,657,074</u>
TOTAL ASSETS	<u>\$ 56,087,379</u>	<u>\$ 52,321,529</u>

	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 319,515	\$ 249,075
Purchased power payable	830,392	937,669
Customer deposits	339,968	342,639
Public benefit payable - restricted	166,315	258,551
Solar rebates payable	66,299	81,369
Accrued compensation and related costs	123,123	176,308
Pension plan payable	19,707	22,003
Accrued leave	309,762	330,268
Total Current Liabilities	<u>2,175,081</u>	<u>2,397,882</u>
NONCURRENT LIABILITIES		
Accrued sick leave	163,561	164,191
Total Noncurrent Liabilities	<u>163,561</u>	<u>164,191</u>
Total Liabilities	<u>2,338,642</u>	<u>2,562,073</u>
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue - emission allowances	<u>1,739,005</u>	<u>1,200,000</u>
NET POSITION		
Net investment in capital assets	35,821,495	34,250,687
Restricted		
Pledged amount for letter of credit	-	1,500,000
Unrestricted	<u>16,188,237</u>	<u>12,808,769</u>
Total Net Position	<u>52,009,732</u>	<u>48,559,456</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 56,087,379</u>	<u>\$ 52,321,529</u>

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, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Domestic	\$ 11,247,770	\$ 10,635,494
Commercial	6,948,454	6,884,443
Industrial	918,108	772,089
Agricultural	796,779	1,228,174
Public street lighting	94,635	93,470
Area street lighting	66,791	66,733
Other operating revenues	429,338	432,675
Total Operating Revenues	20,501,875	20,113,078
OPERATING EXPENSES		
Purchased power	8,659,733	8,502,165
Operations and maintenance	2,586,680	2,334,823
Customer services	1,696,030	1,716,850
Administration and general	2,748,108	2,114,180
Depreciation	1,643,557	1,597,231
Total Operating Expenses	17,334,108	16,265,249
OPERATING INCOME	3,167,767	3,847,829
NONOPERATING REVENUES		
Investment income	60,397	43,307
Miscellaneous nonoperating income	180,034	153,643
Gain on sale of emission allowances	12,132	174,660
Gain on disposal of fixed assets	29,946	-
Total Nonoperating Revenues	282,509	371,610
CHANGE IN NET POSITION	3,450,276	4,219,439
NET POSITION – Beginning of Year	48,559,456	44,340,017
NET POSITION – END OF YEAR	\$ 52,009,732	\$ 48,559,456

See accompanying notes to the financial statements.

LASSEN MUNICIPAL UTILITY DISTRICT

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 21,323,884	\$ 20,343,484
Paid to suppliers for goods and services	(14,113,403)	(13,236,175)
Paid to employees for operating payroll	<u>(3,320,539)</u>	<u>(3,189,277)</u>
Net Cash Flows from Operating Activities	<u>3,889,942</u>	<u>3,918,032</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	<u>(3,196,874)</u>	<u>(2,531,935)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(3,196,874)</u>	<u>(2,531,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Marketable securities sold	1,500,000	-
Investment income	<u>51,097</u>	<u>43,307</u>
Net Cash Flows from Investing Activities	<u>1,551,097</u>	<u>43,307</u>
Net Change in Cash and Cash Equivalents	2,244,165	1,429,404
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>11,020,347</u>	<u>9,590,943</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 13,264,512</u>	<u>\$ 11,020,347</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Unearned revenue - emission allowances	<u>\$ 539,005</u>	<u>\$ 436,817</u>

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 3,167,767	\$ 3,847,829
Nonoperating revenues	192,166	328,301
Noncash items in operating income		
Depreciation	1,643,557	1,597,231
Changes in assets, liabilities and deferred inflows of resources		
Customer accounts receivable	167,996	(382,687)
Emission allowance inventory	(73,000)	(493,685)
Materials and supplies inventory	8,426	48,005
Prepaid expenses	(990,565)	(344,648)
Accounts payable	7,634	(414,723)
Purchased power payable	(107,277)	(25,297)
Claims payable	(74,487)	(280,286)
Customer deposits	(2,671)	20,199
Public benefit payable	(92,236)	82,308
Solar rebates payable	(15,070)	14,954
Accrued compensation and related costs	(53,185)	17,858
Pension plan payable	(2,296)	3,156
Accrued vacation and sick leave	(21,136)	7,682
Postemployment benefits	(404,686)	(544,982)
Deferred carbon allowances	539,005	436,817
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 3,889,942</u>	<u>\$ 3,918,032</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS		
Cash and investments	\$ 2,772,235	\$ 1,501,838
Restricted assets	166,315	1,758,551
Board restricted cash reserves	1,500,000	1,500,000
Construction fund	8,825,962	7,759,958
Total Cash and Restricted Investments	<u>13,264,512</u>	<u>12,520,347</u>
Noncash equivalents	<u>-</u>	<u>(1,500,000)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 13,264,512</u>	<u>\$ 11,020,347</u>

See accompanying notes to the financial statements.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2017 and 2016

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

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, 2017 and 2016, \$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 17, 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 Skedaddle Substation. The balance of this construction fund at June 30, 2017 and 2016 was \$8,825,962 and \$7,759,958, respectively.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2017 and 2016

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

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 and subsequently recognized when the allowances are consumed. 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, 2017 and 2016

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

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 solar rebate program that was mandated by California Legislation SB-1 which began January 2008, sunset on January 1, 2017, and no longer requires funding.

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, 2017 and 2016

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

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 2017 or 2016.

REVENUES AND EXPENSES

The District distinguishes operating revenues and expenses from non-operating 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, 2017 and 2016 totaled \$989,257 and \$1,086,389, 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 non-operating revenues and expenses.

Sales to customers consisted of the following for the fiscal years ending June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Domestic accounts	\$ 11,247,771	\$ 10,635,494
Area light accounts	66,791	66,733
Commercial accounts	6,948,454	6,884,443
Agricultural accounts	796,779	1,228,174
Industrial accounts	918,108	772,089
Street lights	94,635	93,470
Miscellaneous service revenues	121,392	111,667
Other Service Revenues		
Contract work and fees	157,208	83,022
Wheeling, ownership	<u>150,737</u>	<u>237,986</u>
Total Sales to Customers	<u>\$ 20,501,875</u>	<u>\$ 20,113,078</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 1.7 cents per kilowatt hour.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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

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 34,980 megawatt hours at an estimated delivered cost of 1.7 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 21, 2017, 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. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 83 – *Certain Asset Retirement Obligations*, Statement No. 84 – *Fiduciary Activities*, Statement No. 87 - *Leases*. 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, 2017 and 2016

NOTE 2 – CASH AND INVESTMENTS

Cash, cash equivalents and investments at June 30, 2017 and 2016 consist of the following stated at fair value:

	2017	2016	Risks
Checking and Savings	\$ 1,739,873	\$ 1,365,725	Custodial credit
Certificates of Deposit	-	1,500,000	Custodial credit
Local Agency Investment Fund	11,524,089	9,654,072	Credit and interest rate
Petty Cash	550	550	n/a
	<u>\$ 13,264,512</u>	<u>\$ 12,520,347</u>	

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

	2017	2016
Cash and Investments	\$ 13,098,197	\$ 10,761,796
Restricted Investments	<u>166,315</u>	<u>1,758,551</u>
	<u>\$ 13,264,512</u>	<u>\$ 12,520,347</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, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016, 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, 2017 and June 30, 2016, 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, 2017, the District's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less than 1	1 - 5	> 5
Local Agency Investment Fund	\$ 11,524,089	\$ 11,524,089	\$ -	\$ -
Totals	<u>\$ 11,524,089</u>	<u>\$ 11,524,089</u>	<u>\$ -</u>	<u>\$ -</u>

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>

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, 2017 and 2016

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, 2017				June 30, 2016
	Level 1	Level 2	Level 3	Total	Level 2
LAIF	\$ -	\$ 11,524,089	\$ -	\$ 11,524,089	\$ 9,654,072
Total	<u>\$ -</u>	<u>\$ 11,524,089</u>	<u>\$ -</u>	<u>\$ 11,524,089</u>	<u>\$ 9,654,072</u>

NOTE 3 – CHANGES IN UTILITY PLANT

A summary of changes in utility plant for 2017 follows:

	Balance 7/1/16	Increases	Decreases	Balance 6/30/17
Capital assets, not being depreciated				
Land and land rights	\$ 842,528	\$ 255,588	\$ -	\$ 1,098,116
Construction work in progress	<u>1,235,062</u>	<u>2,169,123</u>	<u>904,403</u>	<u>2,499,782</u>
Total Capital Assets Not Being Depreciated	<u>2,077,590</u>	<u>2,424,711</u>	<u>904,403</u>	<u>3,597,898</u>
Capital assets being depreciated				
Transmission	3,039,108	44,213	9,048	3,074,273
Distribution	37,099,308	1,463,432	432,427	38,130,313
General	<u>7,010,339</u>	<u>206,248</u>	<u>117,213</u>	<u>7,099,374</u>
Total Capital Assets Being Depreciated	<u>47,148,755</u>	<u>1,713,893</u>	<u>558,688</u>	<u>48,303,960</u>
Total Capital Assets	49,226,345	4,138,604	1,463,091	51,901,858
Less: Accumulated Depreciation	<u>(14,975,658)</u>	<u>(1,644,165)</u>	<u>539,460</u>	<u>(16,080,363)</u>
Net Capital Assets	<u>\$ 34,250,687</u>	<u>\$ 2,494,439</u>	<u>\$ 923,631</u>	<u>\$ 35,821,495</u>

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 – CHANGES IN UTILITY PLANT (cont.)

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

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Customer accounts	\$ 2,111,131	\$ 2,868,454
Accounts placed for collection	1,220,873	572,027
Other accounts	42,372	77,716
Allowance for uncollectible accounts	(1,287,062)	(1,262,887)
Totals	\$ 2,087,314	\$ 2,255,310

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, 2017 and 2016

NOTE 5 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended June 30, 2017 is as follows:

	<u>7/1/2016 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2017 Balance</u>	<u>Due Within One Year</u>
Unfunded post-employment benefits	\$ (270,123)	\$ 418,540	\$ 823,226	\$ (674,809)	\$ -
Accrued sick leave	<u>164,191</u>	<u>144,171</u>	<u>144,801</u>	<u>163,561</u>	<u>-</u>
	<u>\$ (105,932)</u>	<u>\$ 562,711</u>	<u>\$ 968,027</u>	<u>\$ (511,248)</u>	<u>\$ -</u>

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>

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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 \$10,325,962 and \$9,259,958 in 2017 and 2016, respectively, of net position as a reserve fund which will be available for unexpected expenditures, future system facilities.. 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:

	<u>2017</u>	<u>2016</u>
Net Investment in Capital Assets		
Utility plant, net of depreciation	\$ 33,321,713	\$ 33,015,625
Construction work in progress	<u>2,499,782</u>	<u>1,235,062</u>
Net Investment in Capital Assets	<u>35,821,495</u>	<u>34,250,687</u>
Restricted		
Pledged amount for letter of credit	<u>-</u>	<u>1,500,000</u>
Unrestricted	<u>16,188,237</u>	<u>12,808,769</u>
Total Net Position	<u>\$ 52,009,732</u>	<u>\$ 48,559,456</u>

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2017 and 2016

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 15. The following accounts are reported as restricted assets:

- Pledged letter of credit – No longer needed. Letter of Credit was closed, funds deposited to WAPA to hold as collateral.
- Public benefit fund – Used for public benefit program expenditures.

The following calculation supports the amount of restricted net position:

	2017	2016
Restricted Assets		
Public benefit fund	\$ 166,315	\$ 258,551
Pledged amount for letter of credit	-	1,500,000
Total Restricted Assets	166,315	1,758,551
Current Liabilities Payable From Restricted Assets	(166,315)	(258,551)
Total Restricted Net Assets as Calculated	\$ -	\$ 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 2017 and 2016 were \$1,381,552 and \$1,517,307 respectively.

	2017	2016	2015
Self Insurance Reserve			
Reserve Liability, Beginning of Year	\$ (172,224)	\$ 108,062	\$ 30,000
Less: Payments on Reserve	(40,822)	(164,345)	(30,000)
Add: Spec Claims Received	213,046	56,283	-
Add: Incurred but not Reported Claims	52,326	40,822	164,345
Less: Spec Claims Reimbursable	(299,037)	(213,046)	(56,283)
Reserve Liability, End of Year	\$ (246,711)	\$ (172,224)	\$ 108,062

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2017 and 2016

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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. In April 2017, a Lassen County jury ruled that LMUD had breached its contract with Amedee because it had not provided written notice of the voltage change. However, the jury also found that Lassen was not liable for any damages to the Amedee plant. Amedee has asked the Judge to set aside the jury's verdict and to award damages notwithstanding the jury's verdict. Lassen has filed briefs in opposition to the Amedee request, and is awaiting the Judge's decision in the matter.

RISK MANAGEMENT

The District participates in risk pools with the Special district Risk Management Authority (SDRMA) which provides worker's compensation insurance to its member districts. The District pays premiums commensurate with the levels of coverage requested. The authority is governed by a board consisting of members elected from the participating districts, which control the operation so the authorities independent of any influence by the District beyond the District's representation on the governing board. The District's share of year-end assets, liabilities or fund equity is not calculated by the Joint Powers Authority.

NOTE 10 – PENSION PLANS

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, 2017, 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 2017, 2016, and 2015 were \$401,785, \$430,109 and \$444,512, respectively. Employees are immediately 100% vested in all contributions and plan earnings. Total District payroll subject to retirement contribution for fiscal years ending 2017, 2016, and 2015 was \$2,678,567, \$2,867,393 and \$3,065,600, respectively.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 10 – PENSION PLANS

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, 2017, 2016, and 2015 were \$138,042, \$152,723, and \$165,925, respectively.

NOTE 11 – POST-EMPLOYMENT BENEFITS

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, 2017 and 2016, twenty-four and twenty-two retirees met those eligibility requirements as retired employees, respectively. The District pays directly for Medicare supplement for eighteen 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 three retirees and dependents if applicable. These expenses are recorded in the period paid.

The District contributes 100% of the current year premiums and payments of benefits directly to or on behalf of a retiree or beneficiary. The District contributed \$504,318 for fiscal year 2017, \$525,792 for fiscal year 2016 and \$130,411 for fiscal year 2015 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, 2017 was \$5,743,609 and 2016 was \$4,458,623. The number of retired participants currently eligible to receive benefits is twenty-four.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)

The District is a member of the California Employers Retiree Benefit Trust (CERBT) for prefunding of OPEB obligations. The CERBT fund is an IRC Section 115 Trust set up for the purpose of receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries. The plan is an agent multiple employer plan administered by PERS, which provides medical, dental and long-term disability benefits for retirees and their beneficiaries. The plan provides 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. Any changes to these benefits would be approved by the District's board and unions. To obtain a CERBT report, please contact PERS at 888-CALPERS.

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 and all collective bargaining unit employees a portion of their dependents' health insurance coverage. As of June 30, 2017 and 2016, twenty-seven employees and twenty-five employees qualified to pay a portion of their dependents' health insurance coverage.

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 2017, 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 \$2,800,000 as of June 30, 2017. As a result of these transfers, the District's contributions exceeded the net OPEB obligation as of June 30, 2017 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 June 30, 2017. 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:

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)

	2017	2016
Annual required contribution	\$ 400,576	\$ 279,419
Interest on net OPEB asset	(18,909)	19,240
Adjustment to annual required contribution	17,964	(17,849)
Annual OPEB cost	399,631	280,810
Contributions made	(804,317)	(825,792)
Change in net OPEB asset	(404,686)	(544,982)
Net OPEB asset - Beginning of Year	(270,123)	274,859
Net OPEB Asset - End of Year	\$ (674,809)	\$ (270,123)

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 three preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Liability (Asset)
2015	\$ 279,419	154%	\$ 274,859
2016	279,419	296%	(270,123)
2017	400,576	201%	(640,281)

The funded status of the plan as of June 30, 2017 and 2016 was as follows:

	2017	2016
Actuarial accrued liability (AAL)	\$ 5,743,609	\$ 4,458,623
Actuarial value of plan assets	3,149,248	2,579,254
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,594,361	\$ 1,879,369
Funded ratio (actuarial value of plan assets/AAL)	54.8%	57.8%
Covered payroll (active plan members)	\$ 3,235,480	\$ 3,204,425
UAAL as a percentage of covered payroll	80%	59%

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.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 – POST-EMPLOYMENT BENEFITS (cont.)

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.
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 24 year amortization period was used for any residual UAAL. The remaining amortization period as of June 30, 2017 was twenty-four years.

NOTE 12 – MEMBERSHIP AND JOINT VENTURE PROJECTS

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.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

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

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, 2017 and 2016, the District paid \$189,383 and \$171,086, respectively, which is credited back to the District the following month.

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.

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 250,000
Total Fair-Share Funding Commitment	<u>\$ 250,000</u>

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.

NOTE 13 – PUBLIC BENEFIT LIABILITY

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, 2017, and 2016, the District’s total energy sales subject to this commitment were \$17,412,904 and \$17,268,949, respectively. This results in a commitment to spend \$496,268 and \$492,165, respectively, for public benefit programs. As of June 30, 2017, and 2016, the District’s unspent reserve for these programs was \$166,315 and \$258,551, respectively.

NOTE 14 – SOLAR ENERGY INCENTIVE PROGRAM

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 had a sunset date of January 1, 2017, therefore this program is no longer active.

LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2017 and 2016

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

At June 30, 2016, the District had 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 had an expiration date of September 30, 2016. The letter of credit was discontinued and funds were deposited to Western Area Power Administration to collateralize the standby District's power purchases.

The District has \$873,647 on deposit with Western Area Power Administration in lieu of letter of credit.

REQUIRED SUPPLEMENTARY INFORMATION

LASSEN MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION
As of and for the Years Ended June 30, 2017 and 2016

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

Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2013	\$ -	\$ 5,490,401	\$ 5,490,401	0.0%	\$ 3,053,487	180.0%
7/01/2015	2,276,575	4,458,623	2,182,048	51.1	3,376,166	65.0
7/01/2017	3,149,248	5,743,609	2,594,361	54.8	3,235,480	80.2