

**LASSEN MUNICIPAL UTILITY DISTRICT**

Susanville, California

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

# LASSEN MUNICIPAL UTILITY DISTRICT

## TABLE OF CONTENTS As of and for the Years Ended June 30, 2018 and 2017

---

Governing Body and Administration	1
Independent Auditors' Report	2 – 3
Management's Discussion and Analysis - (Unaudited)	4 – 11
Financial Statements	
Statements of Net Position	12 – 13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15 – 16
Notes to Financial Statements	17 – 42
Required Supplementary Information - (Unaudited)	
Schedule of Changes in Net OPEB Liability and Related Ratios – Last 10 Measurement Years	43
Schedule of OPEB Plan Contributions – Last 10 Fiscal Years	44
Schedule of Funding Progress for Other Post-Employment Benefits Plan – Based on GASB 45	45

# **LASSEN MUNICIPAL UTILITY DISTRICT**

## **GOVERNING BODY AND ADMINISTRATION**

June 30, 2018

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**

Fred Nagel	President
H.W. "Bud" Bowden	Vice President
Jess Urionaguena	Director
David Ernaga	Director
Darren Hagata	Treasurer

### **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, 2018 and 2017, 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.

### **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, 2018 and 2017, 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.

### **Emphasis of Matter**

As discussed in Note 1, Lassen Municipal Utility District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* effective, July 1, 2017. Our opinion is not modified with respect to this matter.

### **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 Virchow Krause, LLP*

Madison, Wisconsin  
November 20, 2018

**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, 2018 and 2017

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 2018. You are invited to read this narrative in conjunction with the financial statements.

---

### FINANCIAL HIGHLIGHTS

---

- The assets and deferred outflows of resources of LMUD exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$52,757,422 (Net Position). Of this amount, \$11,317,639 has been designated by the Board for specific purposes.
- LMUD's Net Position increased \$3,690,222 during the current fiscal year. Sales to customers decreased from the prior year by \$497,657. LMUD experienced an increase of \$609,632 in purchased power costs and decrease of \$571,864 in total operating expenses, excluding depreciation.
- Gross income from sales and other sources, was \$19,994,203 for Fiscal Year 2018 (FY 18). This represents an approximate decrease of 2.2% from Fiscal Year 2017 (FY 17).
- In FY 18 the District's overall retail energy sales decreased by 2.2 million kWh. General Service, Demand decreased by 0.8 million kWh and Agriculture decreased by 0.8 million kWh due to a good water year and a few Ag customers going to solar. All other revenue categories had a combined increase of 0.2 million kWh.
- LMUD experienced a 0.5% 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 purchased power expenses, operations and maintenance, and depreciation.

---

### 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.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

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

---

#### **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.

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

**Table 1  
Condensed Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Current and other assets	\$ 25,337,819	\$ 20,265,884	\$ 18,070,842
Deferred outflows of resources	474,505	-	-
Utility plant (net of accumulated depreciation)	<u>35,460,152</u>	<u>35,821,495</u>	<u>34,250,687</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>\$ 61,272,476</b></u>	<u><b>\$ 56,087,379</b></u>	<u><b>\$ 52,321,529</b></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
Liabilities			
Long-term liabilities	\$ 2,757,766	\$ 163,561	\$ 164,191
Other liabilities	2,572,341	2,175,081	2,397,882
Total Liabilities	<u>5,330,107</u>	<u>2,338,642</u>	<u>2,562,073</u>
Deferred inflows of resources	<u>3,184,947</u>	<u>1,739,005</u>	<u>1,200,000</u>
Net Position			
Investment in capital assets	35,460,152	35,821,495	34,250,687
Restricted	287,334	-	1,500,000
Unrestricted	<u>17,009,936</u>	<u>16,188,237</u>	<u>12,808,769</u>
Total Net Position	<u>52,757,422</u>	<u>52,009,732</u>	<u>48,559,456</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><b>\$ 61,272,476</b></u>	<u><b>\$ 56,087,379</b></u>	<u><b>\$ 52,321,529</b></u>

LMUD's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$52,757,422 at the close of FY 18. This represents an increase from FY 17 of \$747,690. 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.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

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

---

#### *Statements of Net Position (cont.)*

A portion of LMUD's Net Position totaling \$35,460,152, or 67.2%, 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 18. At the close of FY 18 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 18 is \$17,009,936, or 32.2% 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 \$11,317,639 of the "unrestricted" Net Position (i.e., cash) to help insulate the District from unforeseen expenses as well as for planned future system facilities.

An additional portion of LMUD's Net Position for FY 18, \$287,334, or 0.5%, represents resources that are subject to external restrictions on how they are used. These funds are for the future purchase of renewable energy credits.

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 in FY 17, FY 16, FY 15 and FY 14 for total contributions of \$2,800,000. The account value as of 6/30/2017 was \$3,150,184 which represents the valuation at the measurement date of the most recent actuarial report.

LMUD's assets exceeded its liabilities by and deferred inflows of resources 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 for FY 17 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.

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 pay the Annual Required Contribution (ARC). An explanation of the CalPERS' CERBT and the transfer of funds is fully addressed in Note 11.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

### CAPITAL ASSETS

---

#### *Statements of Net Position* (cont.)

LMUD's total net investment in capital assets as of June 30, 2018 amounted to \$35,460,152 (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 a decrease of \$361,343.

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land and land rights	\$ 1,098,116	\$ 1,098,116	\$ 842,528
Transmission	3,110,780	3,074,273	3,039,108
Distribution	39,570,315	38,130,313	37,099,307
General and construction work in progress	<u>8,775,137</u>	<u>9,599,156</u>	<u>8,245,402</u>
Total Capital Assets	52,554,348	51,901,858	49,226,345
Less: Accumulated depreciation	<u>(17,094,196)</u>	<u>(16,080,363)</u>	<u>(14,975,658)</u>
NET CAPITAL ASSETS	<u>\$ 35,460,152</u>	<u>\$ 35,821,495</u>	<u>\$ 34,250,687</u>

Additional information regarding capital assets can be found in Notes 1 and 3 beginning on pages 17 and 26 of this report, respectively.

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

The Notes provide 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 17 to 42 of this report.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

This statement presents information showing how Net Position changed between FY 18 and FY 17. 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 provide an indication of the District's financial stability and are presented in Table 2.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues (All Sources)			
Operating revenues	\$ 19,574,880	\$ 20,072,537	\$ 19,680,403
Other operating revenues	419,326	429,338	432,675
Non-operating revenues	<u>1,113,501</u>	<u>282,509</u>	<u>371,610</u>
Total Revenues	<u>21,107,707</u>	<u>20,784,384</u>	<u>20,484,688</u>
Expenses (All Sources)			
Purchased power	9,269,365	8,659,733	8,502,165
Operations and maintenance	2,684,197	2,586,680	2,334,823
Customer services	1,531,745	1,696,030	1,716,850
Administrative and general	2,243,012	2,748,108	2,114,180
Depreciation	<u>1,689,166</u>	<u>1,643,557</u>	<u>1,597,231</u>
Total Expenses	<u>17,417,485</u>	<u>17,334,108</u>	<u>16,265,249</u>
Increase in Net Position	3,690,222	3,450,276	4,219,439
Cumulative Effect of Change in Principle	(2,942,532)	-	-
Net Position, Beginning of Year	<u>52,009,732</u>	<u>48,559,456</u>	<u>44,340,017</u>
NET POSITION, END OF YEAR	<u>\$ 52,757,422</u>	<u>\$ 52,009,732</u>	<u>\$ 48,559,456</u>

LMUD's Net Position increased \$3,690,219 during FY 18. Primary sales to customers experienced a decrease of \$497,657 from FY 17. LMUD's expenses increased \$83,377 during FY 18 mostly due to an increase in purchased power costs, operations and maintenance expense and depreciation expenses.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

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 largely the result an increase in energy sold to customers and a facility charge increase effective beginning April 2016. LMUD's expenses decreased \$1,068,859 during FY 17 mostly due to a decrease in purchased power costs, administration costs and depreciation expenses.

#### *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 has, 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 2017-2018 fiscal year the District completed the following large capital projects that will increase service reliability and system efficiency.

- **NV Energy Interconnect/Skedaddle Substation** – Engineering planning estimates have been produced by LMUD's engineering consultants. Field environmental work has been completed including plant life, cultural resources, wildlife, and wetlands by Navigant Consulting and sub-contractors. LMUD is currently in negotiation with NV Energy on the Transmission Service and Interconnection Agreements.
- **Westwood Conversion** – A number of elements were completed on this multi-year project. \$76,000 was spent in replacing poles, cross-arms, and transformers. This project will continue into 2018-2019.
- **Transmission Pole Replacement** – LMUD replaced 12 transmission poles. This will improve system reliability.
- **Richmond Pole Replacement** – 17 poles were replaced on Richmond Road. This will improve system reliability.
- **Ordinary Pole Replacement** – 40 distribution poles were replaced. The pole replacement will improve system reliability.
- **Update Reclosers** – Four Form 4 recloser controls were replaced with Form 6 recloser controls. The new controls will provide more information, improve troubleshooting and limit outage durations.
- **Docuware** – The Docuware digital document storage solution has been implemented.

# LASSEN MUNICIPAL UTILITY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED

As of and for the Years Ended June 30, 2018 and 2017

---

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

---

Planned capital projects for fiscal year 2018-2019 include the following:

- **Transmission and Distribution Pole Replacement** – These are ongoing projects to improve system reliability.
- **NV Energy Interconnection/Skedaddle Substation** – The CEQA Environmental Impact Report is being drafted for completion by the end of year 2018. Work will continue on this multi-year project which is expected to be completed in 2021.
- **Eagle Lake Underground (Not Planned)** – Due to the Whaleback Fire in July 2018, a seven mile section of distribution line through lava beds on the west side of Eagle Lake was destroyed. Due to the remoteness and rough terrain of the existing path, it was decided to build the line underground along a paved County road. Construction started in late August 2018 and was completed and energized on October 5, 2018.
- **Hamilton Mr. Transformer** – Install new transformer for the Hamilton Mt. repeater site.
- **LED Street Light Conversion** – Replace old sodium street lights to new LED street lights. The reliability and longevity of the LED lights will decrease maintenance in the future.
- **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 area from 4kV to 12kV. This is a multi-year project.
- **Richmond Road and Janesville Main Street Pole Replacement** – Funds have been budgeted to replace poles on Richmond Road and Janesville Main Street to improve system reliability. This is an ongoing project.
- **AMI** – AMI Phase 3 and Phase 4 will be implemented in 2018/2019. This will bring AMI to the Milwood, Richmond, Johnstonville and Five Mile substations and all customers on those substations. It will add approximately 7,500 AMI meters. After these phases are completed, all District customers will have AMI meters.
- **Accounting and Customer Service Software** – The District will be migrating to NISC hosted software. Planning, implementation and training will begin in 2018-2019. The system will be fully functional in 2019-2020.

# **LASSEN MUNICIPAL UTILITY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED**

As of and for the Years Ended June 30, 2018 and 2017

---

### **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, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 5,771,435	\$ 2,772,235
Accounts receivable, net of allowance for uncollectible accounts	1,917,857	2,087,314
Insurance claim receivable	162,497	246,711
Interest receivable	45,000	18,000
Inventories		
Emission allowances	2,768,589	1,273,000
Materials and supplies	580,006	563,633
Prepaid expenses	1,981,947	1,944,889
Total Current Assets	13,227,331	8,905,782
<b>NONCURRENT ASSETS</b>		
Restricted Assets		
Assembly bill 32 fund	287,334	-
Public benefit fund	99,946	166,315
Other Assets		
Board restricted cash reserves	1,500,000	1,500,000
Funded post-employment benefits	-	674,809
Construction fund	9,817,639	8,825,962
Preliminary survey and investigation	405,569	193,016
Capital Assets		
Utility plant, net of accumulated depreciation	34,074,156	33,321,713
Construction work in progress	1,385,996	2,499,782
Total Noncurrent Assets	47,570,640	47,181,597
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
OPEB related deferrals	474,505	-
Total Deferred Outflows	474,505	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
	\$ 61,272,476	\$ 56,087,379

	2018	2017
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 205,510	\$ 319,515
Purchased power payable	1,398,542	830,392
Customer deposits	394,335	339,968
Public benefit payable - restricted	99,946	166,315
Solar rebates payable	-	66,299
Accrued compensation and related costs	113,227	123,123
Pension plan payable	11,908	19,707
Accrued leave	348,873	309,762
Total Current Liabilities	<u>2,572,341</u>	<u>2,175,081</u>
<b>NONCURRENT LIABILITIES</b>		
Net OPEB liability	2,593,425	-
Accrued sick leave	164,341	163,561
Total Noncurrent Liabilities	<u>2,757,766</u>	<u>163,561</u>
Total Liabilities	<u>5,330,107</u>	<u>2,338,642</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned revenue - emission allowances	<u>3,184,947</u>	<u>1,739,005</u>
<b>NET POSITION</b>		
Net investment in capital assets	35,460,152	35,821,495
Restricted		
Assembly bill 32 fund	287,334	-
Unrestricted	17,009,936	16,188,237
Total Net Position	<u>52,757,422</u>	<u>52,009,732</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 61,272,476</u>	<u>\$ 56,087,379</u>

See accompanying notes to financial statements.

## LASSEN MUNICIPAL UTILITY DISTRICT

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>OPERATING REVENUES</b>		
Domestic	\$ 11,256,869	\$ 11,247,770
Commercial	6,763,276	6,948,454
Industrial	581,874	918,108
Agricultural	813,147	796,779
Public street lighting	94,763	94,635
Area lighting	64,951	66,791
Other operating revenues	419,326	363,741
Total Operating Revenues	19,994,206	20,436,278
<b>OPERATING EXPENSES</b>		
Purchased power	9,269,365	8,659,733
Operations and maintenance	2,684,197	2,586,680
Customer services	1,531,745	1,696,030
Administration and general	2,243,012	2,748,108
Depreciation	1,689,166	1,643,557
Total Operating Expenses	17,417,485	17,334,108
<b>OPERATING INCOME</b>	2,576,721	3,102,170
<b>NONOPERATING REVENUES</b>		
Investment income	156,466	60,397
Miscellaneous nonoperating income	174,201	245,631
Gain on sale of emission allowances	782,834	12,132
Gain on disposal of fixed assets	-	29,946
Total Nonoperating Revenues	1,113,501	348,106
<b>CHANGE IN NET POSITION</b>	3,690,222	3,450,276
NET POSITION – Beginning of Year	52,009,732	48,559,456
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	(2,942,532)	-
<b>NET POSITION – END OF YEAR</b>	\$ 52,757,422	\$ 52,009,732

See accompanying notes to financial statements.

# LASSEN MUNICIPAL UTILITY DISTRICT

## STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 22,705,221	\$ 21,323,884
Paid to suppliers for goods and services	(13,847,257)	(14,113,403)
Paid to employees for operating payroll	(3,172,407)	(3,320,539)
Net Cash Flows from Operating Activities	<u>5,685,557</u>	<u>3,889,942</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(1,603,181)	(3,196,874)
Net Cash Flows from Capital and Related Financing Activities	<u>(1,603,181)</u>	<u>(3,196,874)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities sold	-	1,500,000
Investment income	129,466	51,097
Net Cash Flows from Investing Activities	<u>129,466</u>	<u>1,551,097</u>
<b>Net Change in Cash and Cash Equivalents</b>	4,211,842	2,244,165
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>13,264,512</u>	<u>11,020,347</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 17,476,354</u>	<u>\$ 13,264,512</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Unearned revenue - emission allowances	<u>\$ 1,445,942</u>	<u>\$ 539,005</u>

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net operating income	\$ 2,576,721	\$ 3,167,767
Nonoperating revenues	957,035	192,166
Noncash items in operating income		
Depreciation	1,689,166	1,643,557
Changes in assets, liabilities and deferred inflows of resources		
Customer and other accounts receivable	169,457	167,996
Emission allowance inventory	(1,495,589)	(73,000)
Materials and supplies inventory	(16,373)	8,426
Prepaid expenses	(37,058)	(990,565)
Deferred outflow of resources - OPEB	(474,505)	-
Accounts payable	(51,200)	7,634
Purchased power payable	568,150	(107,277)
Claims payable	84,214	(74,487)
Customer deposits	54,367	(2,671)
Public benefit payable	(66,369)	(92,236)
Solar rebates payable	(66,299)	(15,070)
Accrued compensation and related costs	(9,896)	(53,185)
Pension plan payable	(7,799)	(2,296)
Accrued vacation and sick leave	39,891	(21,136)
Postemployment benefits	325,702	(404,686)
Deferred carbon emission allowances	1,445,942	539,005
	<u>1,445,942</u>	<u>539,005</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 5,685,557</u>	<u>\$ 3,889,942</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
<b>TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 5,771,435	\$ 2,772,235
Restricted assets	387,280	166,315
Board restricted cash reserves	1,500,000	1,500,000
Construction fund	9,817,639	8,825,962
	<u>9,817,639</u>	<u>8,825,962</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 17,476,354</u>	<u>\$ 13,264,512</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, 2018 and 2017

---

## **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.

***Other Post Employment Benefits (OPEB) GASB Standard 75.*** The District implemented the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. This statement establishes standards for financial reporting and disclosure by governments that provide postemployment benefits. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense of the District, information about California Employers' Retirement Benefits Trust (CERBT) fund and additions to/deductions from District's fiduciary net position have been determined on the same basis as they are reported by District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. See Note 16 for a summary of the Cumulative Effect of Change in Accounting Principle related to this standard.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

---

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

---

### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, 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, 2018 and 2017, \$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. 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, 2018 and 2017 was \$9,817,639 and \$8,825,962, respectively.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

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

The District receives carbon emission allowances from the California Air Resources Board (CARB) under cap-and-trade regulations created by California Assembly Bill 32 (AB-32). Emission allotments received from the CARB are placed for auction and sold. Inventory balances are tracked by vintage year and priced at market value based on the most recent quarterly auction at the end of the fiscal year. See Note 5 for further information regarding the CARB program.

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

Materials and supplies inventory is used for internal improvements and maintenance and not held for resale. 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.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

#### ***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.

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

#### ***Deferred Outflows of Resources***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

#### ***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.

# LASSEN MUNICIPAL UTILITY DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

#### ***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, sun-setted on January 1, 2017, and no longer requires funding.

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

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### ***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 2018 or 2017.

### ***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, 2018 and 2017 totaled \$854,713 and \$989,257, 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.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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

Sales to customers consisted of the following for the fiscal years ending June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Domestic accounts	\$ 11,256,869	\$ 11,247,770
Area light accounts	64,951	66,791
Commercial accounts	6,763,276	6,948,454
Agricultural accounts	813,147	796,779
Industrial accounts	581,874	918,108
Street lights	94,763	94,635
Miscellaneous service revenues	<u>419,326</u>	<u>363,741</u>
Total Sales to Customers	<u>\$ 19,994,206</u>	<u>\$ 20,436,278</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 2.6 cents per kilowatt hour.

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 21,811 megawatt hours at an estimated delivered cost of 2.5 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.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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

**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 20, 2018, the date the basic financial statements were available to be issued.

**EFFECT OF NEW ACCOUNTING STANDARDS ON FUTURE PERIOD FINANCIAL STATEMENTS**

GASB has approved GASB Statement No. 83, *Certain Asset Retirement Obligations*, GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 85, *Omnibus 2017*, GASB Statement No. 87, *Leases*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. When these statements become effective, application of these standards may restate portions of these financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

Cash, cash equivalents and investments at June 30, 2018 and 2017 consist of the following stated at fair value:

	2018	2017	Risks
Checking and Savings	\$ 1,282,454	\$ 1,739,873	Custodial credit
Local Agency Investment Fund	16,192,550	11,524,089	Credit and interest rate
Petty Cash	1,350	550	n/a
	<u>\$ 17,476,354</u>	<u>\$ 13,264,512</u>	

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

	2018	2017
Cash and Investments	\$ 17,089,074	\$ 13,098,197
Restricted Investments	387,280	166,315
	<u>\$ 17,476,354</u>	<u>\$ 13,264,512</u>

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

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

---

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, 2018 and 2017, the District did not have any deposits exposed to custodial credit risk.

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

##### **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, 2018 and 2017, 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, 2018 and June 30, 2017, 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.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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

***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, 2018, the District's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less than 1	1 - 5	> 5
Local Agency Investment Fund	\$ 16,192,550	\$ 16,192,550	\$ -	\$ -
Totals	<u>\$ 16,192,550</u>	<u>\$ 16,192,550</u>	<u>\$ -</u>	<u>\$ -</u>

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>

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

***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, 2018				June 30, 2017
	Level 1	Level 2	Level 3	Total	Level 2
LAIF	\$ -	\$ 16,192,550	\$ -	\$ 16,192,550	\$ 11,524,089
Totals	<u>\$ -</u>	<u>\$ 16,192,550</u>	<u>\$ -</u>	<u>\$ 16,192,550</u>	<u>\$ 11,524,089</u>

## LASSEN MUNICIPAL UTILITY DISTRICT

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

#### **NOTE 3 – CHANGES IN UTILITY PLANT**

A summary of changes in utility plant for 2018 follows:

	Balance 7/1/17	Increases	Decreases	Balance 6/30/2018
Capital assets, not being depreciated				
Land and land rights	\$ 1,098,116	\$ -	\$ -	\$ 1,098,116
Construction work in progress	<u>2,499,782</u>	<u>1,203,891</u>	<u>2,317,677</u>	<u>1,385,996</u>
Total Capital Assets Not Being Depreciated	<u>3,597,898</u>	<u>1,203,891</u>	<u>2,317,677</u>	<u>2,484,112</u>
Capital assets being depreciated				
Transmission	3,074,273	52,262	15,755	3,110,780
Distribution	38,130,313	2,254,474	814,472	39,570,315
General	<u>7,099,374</u>	<u>289,767</u>	<u>-</u>	<u>7,389,141</u>
Total Capital Assets Being Depreciated	<u>48,303,960</u>	<u>2,596,503</u>	<u>830,227</u>	<u>50,070,236</u>
Total Capital Assets	51,901,858	3,800,394	3,147,904	52,554,348
Less: Accumulated Depreciation	<u>(16,080,363)</u>	<u>(1,875,236)</u>	<u>861,403</u>	<u>(17,094,196)</u>
Net Capital Assets	<u>\$ 35,821,495</u>	<u>\$ 1,925,158</u>	<u>\$ 2,286,501</u>	<u>\$ 35,460,152</u>

A summary of changes in utility plant for 2017 follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
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, 2018 and 2017

---

### NOTE 4 – ACCOUNTS RECEIVABLE

---

Accounts receivable as of June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Customer accounts	\$ 1,848,157	\$ 2,111,131
Accounts placed for collection	1,229,723	1,220,873
Other accounts	128,486	42,372
Allowance for uncollectible accounts	<u>(1,288,509)</u>	<u>(1,287,062)</u>
Totals	<u>\$ 1,917,857</u>	<u>\$ 2,087,314</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.

---

### NOTE 5 – CALIFORNIA ASSEMBLY 32 – CARBON EMISSION ALLOWANCES

---

California Assembly Bill 32 (AB 32) was passed in 2006. AB 32 requires California to reduce greenhouse gas emissions to 1990 levels by 2020. The bill directs the California Air Resources Board (CARB) to be the lead agency and required the CARB to develop a scoping plan to lay out the strategy for meeting the goals. The initial scoping plan was approved in December 2008 and updated in May 2014.

A portion of the CARB scoping plan included the development of a Cap & Trade program that gives publicly owned utilities carbon credits to offset carbon emitting generation sources imported into the state of California. Utilities are allocated their allotments based upon load requirements and are required to transfer each allotment at back to the CARB to be sold at one of four quarterly auctions. The District then has two options which include purchasing the allowances in the auction at the auction price depending on the level of need by the District or retain the funds from the sale of credits to use for purposes consistent with the goals of AB-32.

Purchased allowances are ultimately transferred or applied to the District's primary power provider as needed. The allowance inventory consists of allowances not yet transferred at year-end and are tracked by vintage year. 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. At the end of the year, the inventory is valued at market value based on the most recent CARB auction price. These allowances can be sold at a later date to a third party carbon credit vendor or transferred to the power provider at the District's discretion.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### **NOTE 5 – CALIFORNIA ASSEMBLY 32 – CARBON EMISSION ALLOWANCES** (cont.)

The District adopted Resolution 2017-05 on October 24, 2017 to address the secondary option to retain the auction proceeds for application of another AB-32 use. This resolution states that the District shall abide by CARB's regulation for the use of auction proceeds and allowance value obtained from the District's allocated allowances. The District established the following permitted uses of proceeds from the sale of carbon credits that are consistent with the allowed uses established in the regulations developed by CARB:

- 1) Purchases or investments in renewable resources for the electric portfolio
- 2) Investment in energy efficiency programs for the electric portfolio and retail customers
- 3) Rebates to retail electric ratepayers (separate Board approval will be required for any rebates to electric ratepayers proposed under this resolution)
- 4) Investments or expenditures associated with carbon reducing measures at retail customer facilities

During the 2018 fiscal year, the District retained the proceeds from their 2017 vintage year allowance allotment and applied a portion them towards the purchase of renewable energy credits (REC's). The REC's were purchased from the District's primary power provider and used to meet their renewable energy portfolio and offset their purchase power costs. The remaining cash proceeds not used to purchase REC's is classified as a restricted cash asset.

### **NOTE 6 – LONG-TERM OBLIGATIONS**

#### ***LONG-TERM OBLIGATIONS SUMMARY***

Long-term obligation activity for the year ended June 30, 2018 is as follows:

	7/1/2017 Balance	Additions	Reductions	6/30/2018 Balance	Due Within One Year
Net OPEB Liability	\$ (674,809)	\$ 3,936,336	\$ 668,102	\$ 2,593,425	\$ -
Accrued sick leave	<u>163,561</u>	<u>152,911</u>	<u>151,766</u>	<u>164,706</u>	<u>-</u>
	<u>\$ (511,248)</u>	<u>\$ 4,089,247</u>	<u>\$ 819,868</u>	<u>\$ 2,758,131</u>	<u>\$ -</u>

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

	7/1/2016 Balance	Additions	Reductions	6/30/2017 Balance	Due Within One Year
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>

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 7 – 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 \$11,317,639 and \$10,325,962 in 2018 and 2017, respectively, of net position as a reserve fund which will be available for unexpected expenditures and 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:

	2018	2017
Net Investment in Capital Assets		
Utility plant, net of depreciation	\$ 34,074,156	\$ 33,321,713
Construction work in progress	1,385,996	2,499,782
Net Investment in Capital Assets	35,460,152	35,821,495
Restricted		
Assembly bill 32 fund	287,334	-
Unrestricted	17,009,936	16,188,237
Total Net Position	\$ 52,757,422	\$ 52,009,732

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 8 – 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:

- Assembly bill 32 fund – Unspent cash from CARB auction proceeds
- Public benefit fund – Used for public benefit program expenditures

The following calculation supports the amount of restricted net position:

	2018	2017
Restricted Assets		
Public benefit fund	\$ 99,946	\$ 166,315
Assembly bill 32 fund	287,334	-
Total Restricted Assets	387,280	166,315
Current Liabilities Payable From Restricted Assets	(99,946)	(166,315)
Total Restricted Net Assets as Calculated	\$ 287,334	\$ -

**NOTE 9 – 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 2018 and 2017 were \$1,115,066 and \$1,381,522 respectively.

	2018	2017	2016
<b>Self Insurance Reserve</b>			
Reserve Liability, Beginning of Year	\$ (246,711)	\$ (172,224)	\$ 108,062
Less: Payments on Reserve	165,793	(40,822)	(164,345)
Add: Spec Claims Received	80,917	213,046	56,283
Add: Incurred but not Reported Claims	52,036	52,326	40,822
Less: Spec Claims Reimbursable	(214,532)	(299,037)	(213,046)
Reserve Liability (Asset), End of Year	\$ (162,497)	\$ (246,711)	\$ (172,224)

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

### NOTE 10 – 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 asked the Judge to set aside the jury's verdict and to award damages notwithstanding the jury's verdict. Lassen filed briefs in opposition to the Amedee request, and in February 2018 the Judge ruled in favor of LMUD on all claims. In April 2018 Amedee filed a notice of appeal. LMUD filed a notice of cross appeal in May 2018.

#### *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 11 – 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, 2018, 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 2018, 2017, and 2016 were \$418,888, \$401,785 and \$430,109, respectively. Employees are immediately 100% vested in all contributions and plan earnings. Total District payroll subject to retirement contribution for fiscal years ending 2018, 2017, and 2016 was \$2,792,588, \$2,678,567 and \$2,867,393, respectively.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

### NOTE 11 – PENSION PLANS (cont.)

---

#### **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, 2018, 2017, and 2016 were \$150,921, \$138,042, and \$152,723, respectively.

---

### NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

---

#### **GENERAL INFORMATION ABOUT THE OPEB PLAN**

**Plan description.** The District is a member of the California Employers Retiree Benefit Trust (CERBT) for funding 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.

**Benefits provided.** 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 total OPEB liability (TOL) for the year ended June 30, 2018 was \$5,743,609. The number of retired participants currently eligible to receive benefits is twenty-three.

**Employees covered by benefit terms.** At June 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	23
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>35</u>
	<u>58</u>

**Contributions.** 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 \$474,505 for fiscal year 2018 on the behalf of retirees.

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

### NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)

---

#### *GENERAL INFORMATION ABOUT THE OPEB PLAN* (cont.)

##### **NET OPEB LIABILITY**

The District's net liability for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan's fiduciary net position through the CERBT fund. The net OPEB liability of the Plan for June 30, 2018 was measured using actuarial valuations as of June 30, 2017 and rolled forward to the current year end, using standard procedures. A summary of the principle assumptions and methods used to determine the net OPEB liability is shown below.

**Actuarial assumptions.** The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Inflation	2.75 percent
Salary Increases/Payroll Growth	2.75 percent, average, including inflation
Investment Return/Discount Rate	7.0 percent, net of OPEB plan investment expenses
Healthcare Cost Trend Rates	4.0 percent per year

Mortality rates were based on the 2014 CalPERS Active Mortality for Miscellaneous Employees Table and the 2014 CalPERS Retiree Mortality for Miscellaneous Employees Table, as appropriate.

Healthcare Cost Trends Rates are 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.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2015-June 30, 2016.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

**GENERAL INFORMATION ABOUT THE OPEB PLAN (cont.)**

**NET OPEB LIABILITY (cont.)**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap	43%	7.795%
US Small Cap	23	7.795
Long-Term Corporate Bonds	12	5.295
Long-Term Government Bonds	6	4.500
Treasury Inflation Protected	5	7.795
US Real Estate	8	7.795
All Commodities	3	7.795
Total	<b>100%</b>	

**Discount rate.** The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. For an unfunded plan, the discount rate is based on an index of 20 year General Obligation municipal bonds.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

**CHANGES IN THE NET OPEB LIABILITY**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
<b>Balances at 6/30/2017</b>	\$ 5,515,975	\$ 2,580,151	\$ 2,935,824
<b>Changes for the year:</b>			
Service cost	215,177	-	215,177
Interest	380,559	-	380,559
Differences between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Contributions-employer	-	668,102	(668,102)
Contributions-employee	-	-	-
Net investment income	-	271,424	(271,424)
Benefit payments	(368,102)	(368,102)	-
Administrative expense	-	(1,391)	1,391
<b>Net changes</b>	<b>227,634</b>	<b>570,033</b>	<b>(342,399)</b>
<b>Balances at 6/30/2018</b>	<b>\$ 5,743,609</b>	<b>\$ 3,150,184</b>	<b>\$ 2,593,425</b>

**Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.** The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability	\$ 3,179,079	\$ 2,593,425	\$ 2,093,729

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

**CHANGES IN THE NET OPEB LIABILITY (cont.)**

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.** The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates OF 4% that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current healthcare cost trend rates:

	1% Decrease (3.0%)	Healthcare Cost Trend Rates (4.0%)	1% Increase (5.0%)
Net OPEB liability	\$ 1,735,387	\$ 2,593,425	\$ 3,650,272

**OPEB plan fiduciary net position.** Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERBT financial report.

**OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB**

Under GASB Statement No. 75, OPEB expense includes service cost, interest cost, change in TOL due to plan changes; all adjusted for deferred inflows and outflows. The District determined that it was not reasonable to rerun prior valuations under GASB 75. Therefore, the actuary used the transition approach provided in GASB 75, Paragraph 244. That means there are no deferred inflows/outflows in the first year (with the exception of contributions after the measurement date).

Certain types of TOL changes are subject to deferral, as are investment gains/losses. To qualify for deferral, gains and losses must be based on GASB 75 compliant valuations. Since the District's prior valuation was performed in accordance with GASB 45, it is not possible to calculate compliant gains and losses. Therefore, valuation-based deferred items will not begin until the next valuation.

For the year ending June 30, 2018, the District incurred OPEB expenses of (\$148,802). At June 30, 2018, the District has deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ -
Difference between actual and expected experience	-	-
Net differences between projected and actual earnings on plan investments	-	-
Subsequent contributions	474,505	-
Totals	\$ 474,505	\$ -

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

***OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (cont.)***

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/ (Inflows) of Resources
2018	\$ -
2019	-
2020	-
2021	-
2022	-
Thereafter	-
Total	\$ -

***Payable to the OPEB Plan.*** At June 30, 2018 and 2017, the District did not have any outstanding amount of contributions payable to the OPEB plan required for the year end.

***PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB No. 45***

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 twenty-four retirees met those eligibility requirements as retired employees. 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 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.

## LASSEN MUNICIPAL UTILITY DISTRICT

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

#### **NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

---

##### ***PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB No. 45 (cont.)***

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. The number of retired participants currently eligible to receive benefits is twenty-four.

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, twenty-seven 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.

**LASSEN MUNICIPAL UTILITY DISTRICT**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)**

***PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB No. 45 (cont.)***

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:

	2017
Annual required contribution	\$ 400,576
Interest on net OPEB asset	(18,909)
Adjustment to annual required contribution	17,964
Annual OPEB cost	399,631
Contributions made	(804,317)
Change in net OPEB asset	(404,686)
Net OPEB asset - Beginning of Year	(270,123)
Net OPEB Asset - End of Year	\$ (674,809)

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)
2016	\$ 279,419	296%	\$ (270,123)
2017	400,576	201%	(640,281)

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

### NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)

---

#### *PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB No. 45* (cont.)

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

	<u>2017</u>
Actuarial accrued liability (AAL)	\$ 5,743,609
Actuarial value of plan assets	<u>3,149,248</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,594,361</u>
Funded ratio (actuarial value of plan assets/AAL)	54.8%
Covered payroll (active plan members)	<u>\$ 3,235,480</u>
UAAL as a percentage of covered payroll	80%

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, 2018 and 2017

---

### NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (cont.)

---

#### *PRIOR YEAR DISCLOSURE REQUIRED UNDER GASB No. 45 (cont.)*

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 13 – 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.

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, 2018 and 2017, the District paid \$228,505 and \$189,383, 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	<u>\$ 250,000</u>
Total Fair-Share Funding Commitment	<u>\$ 250,000</u>

# LASSEN MUNICIPAL UTILITY DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

---

### **NOTE 13 – MEMBERSHIP AND JOINT VENTURE PROJECTS (cont.)**

---

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 14 – 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, 2018, and 2017, the District's total energy sales subject to this commitment were \$16,494,994 and \$17,412,904, respectively. This results in a commitment to spend \$472,477 and \$496,268, respectively, for public benefit programs. As of June 30, 2018, and 2017, the District's unspent reserve for these programs was \$99,946 and \$166,315, respectively.

---

### **NOTE 15 – 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.

---

### **NOTE 16 – PLEDGED INVESTMENT**

---

The District has \$722,947 on deposit with Western Area Power Administration in lieu of letter of credit.

---

### **NOTE 17 – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

---

The District implemented the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. The cumulative effect of the implementation is reflected as a change in net position at June 30, 2018 as follows:

Net OPEB liability - January 1, 2017	\$ (2,942,532)
Cumulative Effect of Change in Accounting Principle	\$ (2,942,532)

Additional information required for retroactive implementation was not provided by the plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

# LASSEN MUNICIPAL UTILITY DISTRICT

## SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS Last 10 Measurement Years

	FY 2017
<b>Total OPEB Liability</b>	
Service cost	\$ 215,177
Interest	380,559
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(368,102)
<b>Net Change in Total OPEB Liability</b>	227,634
<b>Total OPEB Liability - Beginning</b>	5,515,975
<b>Total OPEB Liability - Ending (a)</b>	\$ 5,743,609
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 668,102
Net investment income	271,424
Benefit payments	(368,102)
Administrative expenses	(1,391)
Net Change in Plan Fiduciary Net Position	570,033
Plan Fiduciary Net Position - Beginning	2,580,151
Plan Fiduciary Net Position - Ending (b)	\$ 3,150,184
<b>Net OPEB Liability - Ending (a) - (b)</b>	\$ 2,593,425
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	54.85%
<b>Covered-employee payroll</b>	\$ 3,117,512
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	83.19%

**Notes to Schedule:**

*Benefit changes.* There were no changes in benefits for the fiscal year.

*Changes of assumptions.* There were no changes in assumptions for the fiscal year

The District implemented GASB Statement No. 75 in fiscal year 2018. Information prior to fiscal year 2018 is not available.

# LASSEN MUNICIPAL UTILITY DISTRICT

## SCHEDULE OF OPEB PLAN CONTRIBUTIONS Last 10 Fiscal Years

---

	<u>FY 2018</u>
Actuarially determined contribution	\$ 668,102
Contributions in relation to the actuarially determined contribution	<u>(668,102)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 3,052,987
Contributions as a percentage of covered-employee payroll	21.88%

### Notes to Schedule

#### **Actuarially determined contributions:**

Actuarially determined contribution rates were not determined as the District contributes on an add hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

The District implemented GASB Statement No. 75 in fiscal year 2018. Information prior to fiscal year 2018 is not available.

**LASSEN MUNICIPAL UTILITY DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION  
As of and for the Years Ended June 30, 2018 and 2017

---

***Schedule of Funding Progress for  
Other Post-Employment Benefits Plan  
Based on GASB 45  
(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>
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