LINCOLN COUNTY POWER DISTRICT NO. 1

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2020 AND 2019
AND
AUDITOR'S REPORT
****

LINCOLN COUNTY POWER DISTRICT NO. 1

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Lincoln County Power District No. 1 (the District) as of and for the years ended May 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basis financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Lincoln County Power District No. 1 as of May 31, 2020 and 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hafen, Buckner, Everett & Graff, PC

Hafen, Buckner, Everett & Graff, PC

August 31, 2020

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

This discussion and analysis provides an overview of the financial performance and activities of Lincoln County Power District No. 1 (the District) for the fiscal year ended May 31, 2020 and is prepared by the District's management. The information presented should be read in conjunction with the basic financial statements, the accompanying notes to the financial statements, and the Independent Auditor's report.

Financial Statements Overview

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

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

Condensed Statements of Net Position

The following condensed statements of net position summarize the financial position of the District for the years ended May 31, 2020 and 2019.

Statements of Net Position
May 31, 2020 and 2019

	2020	2019	Dollar Change
Assets			
Utility Plant, Net	$ 32,761,921	$ 30,139,438	$ 2,622,483
Investments and Other Assets	303,744	295,982	7,762
Current Assets	9,147,926	8,811,842	336,084
Deferred Outflows on Resources	664,014	669,046	(5,032)
Subtotal	$ 42,877,605	$ 39,916,308	$ 2,961,297
Liabilities and Deferred Inflows			
Long-Term Debt	$3,603,446	$1,697,554	$1,905,892
Net Pension Liability	2,467,410	2,564,197	(96,787)
Deferred Inflows on Resources	319,175	191,824	127,351
Other Current Liabilities	1,793,564	1,380,698	412,866
Subtotal	8,183,595	5,834,273	2,349,322

Net Position			
Invested in Utility Plant Net	29,067,632	28,370,189	697,443
Restricted	-	-	-
Unrestricted	5,626,377	5,711,845	(85,468)
Subtotal	34,694,009	34,082,034	611,975
Total Liabilities, and Net Position	$ 42,877,604	$ 39,916,307	$ 2,961,297

- Utility plant increased by approximately $2,622,000 during fiscal year 2020. This increase is attributable to work orders that were transferred to plant during the fiscal year. During the fiscal year 35 projects were completed and capitalized as utility plant assets. Among these were $1,544,089 on the 2019 main line contract, $303,310 on phase I of the AMI project, $190,316 on the Survalent SCADA conversion, $86,554 on the Viero Health service extension, $82,926 on paving at the Panaca administrative building, and $73,642 on the Clover Creek Organics service extension. Utility assets depreciated in the amount of $1,329,141 for fiscal year 2020.

- Current assets increased by approximately $336,000 primarily as the result of increases in cash and cash equivalents, and interest-bearing deposits. This increase in cash and cash equivalents is primarily due to the cash received from National Rural Utilities Cooperative Finance Corporation (CFC) in April of 2020 to finance construction of the District's new shop and warehouse building. Funds received from CFC are earmarked for payments to the general contractor for the building and will be expended in fiscal year 2021.

- Liabilities increased approximately $2,222,000 mainly due to the $2,000,000 draw on the PowerVision loan from CFC for the new shop and warehouse building.

- Total net position increased by nearly $612,000 in fiscal year 2020.

Condensed Statements of Revenue, Expenses and Changes in Net Position

The following comparative condensed statements of revenues, expenses and changes in net position summarizes the changes in financial position of the District for the years ended May 31, 2020 and 2019.

Statements of Revenues, Expenses and Changes in Net Position
May 31, 2020 and 2019

	2020	2019	Dollar Change
Power Sales to Customers	$ 5,496,552	$ 5,611,429	$ (114,877)
Other Operating Revenues	331,718	92,217	239,501
Total Operating Revenues	5,828,270	5,703,646	124,624
Operating Expenses	6,028,675	5,592,107	436,568
Electric Operating Income/Loss	(200,404)	111,540	(311,944)
Interest on Long Term Debt	(87,165)	(64,977)	(22,188)
Interest Income	59,739	52,399	7,340
Other Gains/(Losses)	39,220	401,841	(362,621)
Total Non-Operating Income	11,795	389,264	(377,468)
			-
Change In Net Position End of Year	$ (188,609)	$ 500,804	$ (689,412)

- Operating revenues from power sales decreased by approximately $115,000 between fiscal years 2020 and 2019. This decrease in sales revenue is the result of a decrease in energy sales in the current year over the prior year. Year over year energy sales decreased given the overall mild winter temperatures as compared to the prior year, and the wetter and cooler spring in 2020 as compared to 2019. During this period of time, the number of customers served by the District continued to increase, but these increases in the number of customers could not offset changes in energy sales stemming from weather variations. In fiscal year 2019 the District energy sales totaled 81,622,539 kWh. In fiscal year 2020 energy sales totaled 79,737,278 kWh, representing a 2.3% decrease.

- Other Operating Revenues increased by nearly $240,000 in fiscal year 2020. This increase is due almost entirely from revenues received from the City of Caliente (City) under the electric system operation and maintenance agreement entered into between the City and the District in June of 2019.

- Operating expenses increased by approximately $437,000 between fiscal year 2020 and 2019. This increase is due mainly to increases in labor costs. During fiscal year 2020 the District added two additional full-time, permanent staff members. In addition, labor costs increased due to cost of living adjustments to wages, performance adjustment to wages and increasing costs for employee benefits. Total labor costs for the District, including employees, directors, overtime, and benefits in fiscal year 2019 was $2,189,163. These costs increased by $276,588 to $2,465,751 in 2020 representing a 12.6% increase labor costs.

Long-Term Debt

During fiscal year 2019 the District entered into a loan program with CFC that will allow the District to borrow up to $5,000,000 over a five year period. The intent of the loan program is to allow the District to finance some or all of the relocation of its operations from Caselton, Nevada to Panaca, Nevada using long-term debt that can be repaid over a 35 year period. On July 24, 2018 the District drew $1,700,000 of the available funds in order to construct its new administrative building and operations building. This debt is amortized on a 30-year term at 4.95% interest. On April 14, 2019 the District dew $2,000,000 of the available funds in order to construct its new shop and warehouse building. The new shop and warehouse building is currently under construction and scheduled for completion in December of 2020. This debt is amortized on a 30-year term at 4.18% interest.

The District has no current plans to access additional funds from the CFC loan program.

Currently Known Facts, Decisions, and Conditions

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

- Overall the District's financial condition has deteriorated from the prior fiscal year. Given the District's reserve funds, the operating loss incurred in fiscal year 2020 does not present a significant concern at this time.

- The District's two largest operating costs are purchased power expense and labor costs. Based on information published in the Federal Register by the Western Area Power Administration, the cost of hydropower from Hoover Dam will remain approximately the same in fiscal year 2021 as compared to 2020. The District had planned to hire two new employees in the positions of right-of-way maintenance technicians in 2021. However, these plans have been postponed until realization of additional revenues from energy sales. Consequently no significant changes are expected in purchased power expense or labor costs in fiscal year 2021.

- Because operating costs are not expected to increase significantly during fiscal year 2021, the District has elected to forgo an increase in its rates for electric service until the summer of 2021. At that time a cost of service study will be completed and a change in rates will likely be implemented to eliminate the continuation of operating losses.

Request for Information

This financial report is designed to provide interested parties with a general overview of the District's financial status. Questions concerning any of the financial statements and/or information contained in this financial report should be addressed to the District's General Manager at P.O. Box 910, Panaca, Nevada 89042.

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Net Position
May 31, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	2019
Utility Plant:		
Generation	$ 347,473	$ 347,473
Power lines, transmission	26,481,162	25,001,849
Power lines, distribution	16,384,989	15,727,519
Office, warehouse, and buildings	3,131,831	3,039,177
Land and land rights	68,097	68,097
Tools and maintenance equipment	1,612,025	1,612,025
Transportation equipment	748,029	747,257
Office furniture and fixtures	246,184	212,684
Radio communication equipment	159,174	198,786
Computer hardware and software	557,267	360,557
Construction work-in-progress	3,430,791	1,994,588
Total	53,167,022	49,310,012
Less accumulated depreciation and amortization	(20,405,101)	(19,170,574)
Net Utility Plant	32,761,921	30,139,438
Other Non-Current Assets:		
Investments in associated organizations	132,354	117,784
Contracts receivable (less amount due within one year)	149,238	178,198
Right-of-use assets	22,152	-
Total Other Non-Current Assets	303,744	295,982
Current Assets:		
Cash and cash equivalents:		
Cash	884,000	456,276
Interest-bearing deposits	6,353,380	6,458,171
Total cash and cash equivalents	7,237,380	6,914,447
Accounts receivable	605,283	858,757
Prepayments and other assets	94,155	103,721
Materials and supplies	1,166,605	894,471
Contracts receivable - Due within one year	44,503	40,444
Total Current Assets	9,147,926	8,811,842
Deferred Outflows of Resources:		
Deferred charge on pensions	664,014	669,046
Total deferred outflows of resources	664,014	669,046
Total Assets and Deferred Outflows of Resources	$ 42,877,605	$ 39,916,308

Liabilities, Net Position, and Deferred Inflows of Resources

	2020	2019
Current Liabilities:		
Accounts payable	$ 611,302	$ 490,201
Customer deposits	61,631	36,826
Accrued expenses	425,431	354,214
Long-term debt due within one year	107,456	71,694
Lease liability	5,538	-
Deferred credits	582,206	427,763
Total Current Liabilities	1,793,564	1,380,698
Non-Current Liabilities:		
Long-term debt, less amount due within one year	3,587,294	1,697,554
Lease Liability	16,152	-
Net pension liability	2,467,410	2,564,197
Total Non-current Liabilities	6,070,857	4,261,751
Deferred Inflows of Resources:		
Deferred charge on pensions	319,175	191,824
Total deferred inflows of resources	319,175	191,824
Net Position:		
Invested in utility plant net of related debt	29,067,171	28,370,189
Restricted	-	-
Unrestricted	5,626,839	5,711,845
Total Net Position	34,694,010	34,082,034
Total Liabilities, Net Position, and Deferred Inflows of Resources	$ 42,877,605	$ 39,916,308

The accompanying notes are an integral part of the financial statements

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Revenues, Expenses, and Changes In Net Position
For the Fiscal Years Ended May 31, 2020 and 2019

	2020	2019
Operating Revenues:		
Power sales to customers	$ 5,496,552	$ 5,611,429
Other	331,718	92,217
Total operating revenues	5,828,271	5,703,647
Operating Expenses:		
Operation-		
Power purchased	2,096,422	2,168,604
General and administrative	2,603,112	2,205,199
Depreciation and amortization	1,329,141	1,218,304
Total Operating Expenses	6,028,675	5,592,107
Operating Income / (Loss)	(200,404)	111,540
Non-Operating Revenues (Expenses):		
Interest income	59,739	52,399
Interest expense	(87,165)	(64,977)
Other Gains /(Losses)	39,220	401,841
Total Non-Operating Revenues (Expenses)	11,795	389,264
Total Net Position - Beginning of Year	34,082,034	33,062,452
Contributions In Aid of Construction-net	458,381	175,735
Main Line Contributions in Aid of Construction	342,204	343,043
Total Net Position - End of Year	$ 34,694,010	$ 34,082,034

The accompanying notes are an integral part of the financial statements

LINCOLN COUNTY POWER DISTRICT NO. 1
Statements of Cash Flows
For the Fiscal Years Ended May 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities:		
Cash received from power sales to customers	$ 5,750,026	$ 5,331,049
Cash received from other operating revenues	331,718	92,217
Cash paid to cost of power	(2,096,421)	(2,168,602)
Cash paid to general and administrative	(2,732,378)	(1,612,641)
Cash Flows From Operating Activities	1,252,945	1,642,023
Cash Flows From Investing Activities:		
Additions to utility plant	(3,857,010)	(4,272,706)
(Increase)/decrease in contracts receivable	24,901	39,692
Interest earnings	59,739	52,399
Investments in associated organizations	(14,570)	(5,187)
Leased assets	(22,152)	-
Other gains / (losses)	39,220	401,841
Cash Flows From Investing Activities	(3,769,872)	(3,783,960)
Cash Flows From Financing Activities:		
Proceeds from long-term debt	1,974,977	1,818,723
Proceeds from leases	22,152	-
Repayment of principal on long-term debt	(49,475)	(49,475)
Lease payments	(462)	-
Interest paid	(87,165)	(64,977)
Increase/(decrease) in customer deposits	24,805	950
advances	955,028	905,108
Cash Flows From Financing Activities	2,839,860	2,610,329
Net Change in Cash and Cash Equivalents	322,933	468,391
Cash and Cash Equivalents, Beginning of Year	6,914,447	6,446,056
Cash and Cash Equivalents, End of Year	$ 7,237,380	$ 6,914,447
Reconcilation of Operating Income / (Loss) to Net Cash Flows from Operating Activities:		
Operating income / (loss)	$ (200,404)	$ 111,540
Adjustments to reconcile operating income / (loss) to cash flows from operating activities-		
Depreciation and amortization	1,234,527	1,321,113
(Increase)/decrease in accounts receivable (683,226)		
(Increase)/decrease in accounts receivable	253,474	(280,381)
(Increase)/decrease in prepayments and other assets	9,567	9,718
(Increase)/decrease in materials and supplies	(272,133)	57,452
Increase/(decrease) in accounts payable	121,101	395,114
Increase/(decrease) in accrued expenses	71,217	(27,096)
Increase/(decrease) in deferred charge on pensions	132,383	22
Increase/(decrease) in net pension liability	(96,787)	54,541
Cash Flows From Operating Activities	$ 1,252,945	$ 1,642,023

Supplemental Schedule of Non Cash Investing Activities:
None

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

Other Investments in Associated Organizations - This account represents an equity interest in various cooperatives representing allocated unretired margins as of May 31, 2020 and 2019 as follows:

	Balance at May 31, 2020	Balance at May 31, 2019
Federated Electric Insurance Corporation	$ 125,706	$ 117,784
National Rural Utilities Cooperative Finance Corporation	3,056	-
Arizona Electric Power Cooperative, Inc.	3,592	-
	$ 132,354	$ 117,784

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

	Annual Percentage Range
Generation	2.78 - 5.56
Transmission Plant	2.00 - 3.33
Distribution Plant	2.86 - 10.00
General Plant:	
Communication Equipment	6.66 -10.00
Computers and Equipment	20.00
Office Furniture and Equipment	6.66
Other Equipment	6.66 - 10.00
Power Equipment	5.00 - 6.66
Structures and Improvements	3.33
Transportation	4.00 - 14.29

Accounts Receivable - Accounts receivable are recorded at the amount the District expects to collect on balances outstanding, net of allowances for doubtful accounts. The District determines the allowance for doubtful accounts based on accounts receivable aging and bad debt history. In addition, the District closely monitors outstanding balances and writes off all balances that are known not to be collectable against the allowance. The allowance for doubtful accounts as of May 31, 2020 and 2019 were $1,737 and $1,737 respectively.

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

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

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

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

Statements of Cash Flows - For purposes of the statements of cash flows, the District considers interest-bearing deposits with original maturities of less than three months to be cash equivalents.

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

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

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

Concentrations - The District predominately maintains its cash balance in two financial institutions. Balances at May 31, 2020 and 2019 were insured by the Federal Deposit Insurance Corporation up to $744,497 and $750,000 respectively. As of May 31, 2020 and 2019, the District's uninsured balances were approximately $6,103,380 and $6,214,492 respectively. The District's uninsured balances as of May 31, 2020 and 2019 were 100% collateralized through the Nevada Collateral Pool and through securities pledged by Bank of America and held by Bank of New York Mellon.

2. ASSETS PLEDGED

In support of the District financing with the National Rural Utilities Cooperative Finance Corp. (CFC), see Note 4 for details, the District entered into a Mortgage and Security Agreement with CFC on April 3, 2018 (the Mortgage). Pursuant to the Mortgage, the District has pledged its real property as security for existing and future loans that may be obtained by the District from CFC. Real property includes real estate and buildings owned by the District as well as any electric generating plant or plants and facilities and all electric transmission and distribution lines or other electric or non-electric systems and facilities and all rights of way and easements granted or given to the District. The Mortgage shall continue until retirement of all debt to CFC.

3. UTILITY PLANT AND ACCUMULATED DEPRECIATION

The following summary shows the changes in the utility plant accounts for the year ended May 31, 2020:

Description	Balance May 31, 2019	Additions	Retirements	Balance May 31, 2020
Structures and Improvements-Generation	$ 75,354	$ -	$ -	75,354
Generators-Generation	213,533	-	-	213,533
Accessory Equipment-Generation	58,586	-	-	58,586
	347,473	-	-	347,473
Land and Land Rights-Transmission	711,286	-	-	711,286
Structures and Improvements-Transmission	977,460	-	59,659	917,801
Station Equipment-Transmission	11,933,443	27,379	14,500	11,946,322
Poles and Fixtures-Transmission	8,422,248	1,543,845	17,997	9,948,096
OH Conductors and Devices- Transmission	2,894,928	245	-	2,895,173
UG Conduit- Transmission	16,662	-	-	16,662
UG Conductors and Devices- Transmission	45,822	-	-	45,822
	25,001,849	1,571,469	92,156	26,481,162
Land and Land Rights-Distribution	269,088	-	-	269,088
Structures and Improvements-Distribution	32,193	-	-	32,193
Station Equipment- Distribution	3,942,611	-	-	3,942,611
Poles Towers and Fixtures-Distribution	2,619,023	35,747	-	2,654,770
OH Conductors and Equip.-Distribution	2,123,358	68,807	-	2,192,165
UG Conduit-Distribution	3,537,503	134,343	-	3,671,846
Line Transformers-Distribution	894,719	82,608	-	977,327
Services-Distribution	2,091,102	117,442	-	2,208,544
Meters-Distribution	113,397	217,058	-	330,455
Installation of Customers Premises	104,525	1,466	-	105,991
	15,727,519	657,471	-	16,384,990
Land and Land Rights	68,097	-	-	68,097
Nonutility Property -Dwellings	51,191	-	-	51,191
Structures and Improvements-General	2,987,986	92,654	-	3,080,640
Office Furniture and Equipment	196,093	-	-	196,093
Computer Hardware & Software	360,557	196,710	-	557,267
Transportation Equipment	747,257	772	-	748,029
Tools Shop and Garage Equipment	53,554	-	-	53,554
Test and Laboratory Equipment	44,163	-	-	44,163
Power Operated Equipment	1,514,308	-	-	1,514,308
Communication Equipment	198,786	66,928	106,540	159,174
Miscellaneous	3,605	-	-	3,605
Other Tangible Property	12,986	33,500	-	46,486
	6,238,583	390,564	106,540	6,522,607
	$ 47,315,424	$ 2,619,504	$ 198,696	$ 49,736,231

The following summary shows the changes in the utility plant – operating additions accumulated depreciation accounts for the year ended May 31, 2020:

Description	Balance May 31, 2019	Additions	Retirements	Balance May 31, 2020
Structures and Improvements-Generation	$ 10,174	$ 3,303	$ -	13,477
Generators-Generation	33,260	10,677	-	43,937
Accessory Equipment-Generation	9,342	2,983	-	12,325
	52,776	16,963	-	69,740
Land and Land Rights-Transmission	198,706	23,711	-	222,417
Structures and Improvements-Transmission	768,638	26,268	59,659	735,248
Station Equipment-Transmission	6,307,983	370,242	14,500	6,663,725
Poles and Fixtures-Transmission	2,911,230	202,540	17,997	3,095,773
OH Conductors and Devices- Transmission	1,618,104	53,880	-	1,671,984
UG Conduit- Transmission	5,435	555	-	5,990
UG Conductors and Devices- Transmission	14,081	1,527	-	15,608
	11,824,178	678,724	92,156	12,410,746
Land and Land Rights-Distribution	65,939	8,895	-	74,833
Structures and Improvements-Distribution	29,297	224	-	29,522
Station Equipment- Distribution	1,270,545	125,889	-	1,396,434
Poles Towers and Fixtures-Distribution	1,158,444	70,089	-	1,228,533
OH Conductors and Equipment-Distribution	342,226	60,423	-	402,649
UG Conduit-Distribution	750,685	118,016	-	868,701
Line Transformers-Distribution	182,343	30,382	-	212,725
Services-Distribution	1,315,109	61,752	-	1,376,861
Meters-Distribution	31,603	5,700	-	37,303
Installation of Customers Premises	8,009	3,501	-	11,510
	5,154,199	484,871	-	5,639,070
Land and Land Rights	-	-	-	-
Nonutility Property -Dwellings	51,188	-	-	51,188
Structures and Improvements-General	352,818	69,783	-	422,601
Office Furniture and Equipment	144,025	7,168		151,193
Computer Hardware & Software	56,575	43,931	(1,116)	101,622
Transportation Equipment	421,878	39,452	-	461,330
Tools Shop and Garage Equipment	49,119	500	-	49,619
Test and Laboratory Equipment	13,379	4,416	-	17,795
Power Operated Equipment	924,302	54,862	-	979,164
Communication Equipment	118,790	9,298	87,005	41,083
Miscellaneous	350	737	-	1,087
Other Tangible Property	6,995	1,865	-	8,860
	2,139,420	232,012	85,889	2,285,543
	$ 19,170,574	$ 1,412,570	$ 178,045	$ 20,405,101

4. LONG-TERM DEBT

The following summarizes the District's long-term debt as of May 31, 2020, and 2019:

	2019	Additions	Retirements	2020
National Rural Utilities Cooperative Finance Corp.	$ 1,678,885	$ 2,000,000	$ 29,317	$ 3,649,568
Capital Lease Payable	90,363	-	45,182	45,181
Total	$ -	$ 1,821,723	$ 49,475	3,694,749
Less - Current maturities				(107,456)
Total Long-term Debt				$3,587,293

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

Year Ending May 31-	Principal	Interest
2021	$ 107,456	$ 163,994
2022	63,741	162,528
2023	68,163	158,106
2024	71,314	154,955
2025	74,612	151,657
Thereafter	3,309,463	2,517,559
Total	$ 3,694,749	$ 3,308,799

The District has a line-of-credit from National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of $1,500,000, to be used for short-term emergency needs and is to be repaid within one year or converted to long-term debt. As of May 31, 2020, and 2019, nothing had been drawn on the line-of-credit.

On April 3, 2018 the District approved a long-term financing program with National Rural Utilities Cooperative Finance Corporation (CFC) that will allow the District to borrow up to $5,000,000 over a five-year period. Interest rates and amortization periods will be determined at the time funds are requested. Amortization periods may extend up to 35 years. The intent of the loan agreement with CFC is to allow the District to relocate its headquarters facilities from the current location in Caselton, Nevada to a new site near Panaca, Nevada. The District requested funds for phase I of the relocation project to construct a new administrative building and a new operations building in fiscal year 2019. In fiscal year 2020 the District began construction on the warehouse and shop for phase II of the relocation.

On July 24, 2018 the District received $1,700,000 of the $5,00000 for the phase I portion of the relocation project. This first loan is payable in 360 monthly payments of $8,556 including interest at 4.95%. This portion of the loan matures on June 30, 2048. On April 14, 2020 the District received an additional $2,000,000 for phase II of the relocation project. The phase II portion of the loan is payable in 359 monthly payments of $9771 including interest at 4.18%. This portion of the loan matures on May 31, 2050.

On January 2, 2019 the District entered into a capital lease agreement with DeLage Landen Public Finance, LLC, for computer hardware and software. The lease is payable in three installments of $45,181 at which time the District owns the hardware and software

5. Lease

The District entered into a lease agreement with Farm Credit Leasing, a division of CoBank, on May 29, 2020 for an electric vehicle. The lease is payable in 48 monthly payments of $462. At the end of the lease term there is an option to purchase the vehicle. The District has not made a decision as to whether the option will be exercised. The vehicle is being carried at the total of the lease payments with a corresponding liability. The lease payments will be amortized over the term of the lease.

6. COMMITMENTS

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

Under the terms of the contract, the District is required to have funds reserved to fund the District's pro rata share of the cost to operate and maintain the Boulder Canyon Project in the event revenues received by the U.S. Bureau of Reclamation for generation from the Hoover Dam are insufficient are insufficient to meet the cost of its operation and maintenance. For 2018 and thereafter there is no longer a reserve requirement.

7. PENSION PLANS AND RETIREMENT BENEFITS

Plan Description. The District contributes to the Public Employees Retirement System of the State of Nevada (PERS) which is a multiple-employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to public employees of the State of Nevada and participating entities. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. The System issues a publicly available financial report. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, Nevada 89703-1599.

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

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

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

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

Funding Policy. Benefits for plan members are funded under the employer pay method. Under the employer pay contribution plan, the District is required to contribute all amounts due under the plan. PERS receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis. The contribution requirements of the Plan members and the District are established by the Nevada Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450. The payroll for employees covered by PERS for the years ended May 31, 2020 and 2019 were $1,412,263 and $1,242,850 respectively. The District's total payroll for the years ended May 31, 2020 and 2019 were $1,489,515 and $1,302,476 respectively.

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

Year	Contribution Rate Regular Members	Total Contributions
2020	28% - 29.25%	$ 411,796
2019	28.00%	$ 347,998
2018	28.00%	$ 387,196

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At May 31, 2020 and 2019, the District reported a liability of $2,467,410 and $2,564,197, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net position liability was determined by an actuarial valuation as of that dated. The District's allocation percentage of the net pension liability was based on the total contributions due on wages paid during the measurement period. Each employer's proportion of the net pension liability is based on their combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2019. At June 30, 2019, the District's proportion was 0.01809 percent.

For the year ended May 31, 2020, the District recognized pension expense of $447,392. At May 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	$ 92,523	$ 71,169
Changes in assumptions	$ 100,413	
Net difference between projected and actual earnings on pension plan investments	$ -	$ 122,744
Changes in proportion and differences between District contributions and proportional share of contributions	$ 63,614	$ 125,262
District contributions subsequent to measurement date	$ 407,464	$ -

$407,464 was reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the ended May 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended May 31:	
2021	$ 6,944
2022	(46,787)
2023	12,853
2024	15,922
2025	9,049
2026	1,043

Actuarial Assumptions. The System's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	2.75%
Investment rate of return	7.50%
Productivity salary increases	0.50%
Projected salary increases	Regular: 4.25% to 9.15%, depending on service Police/Fire: 4.55% to 13.9%, depending on service Rates include inflation and productivity increeases
Other assumptions	Same as those used in the June 30, 2019 funding actuarial valuation.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of the experience study for the period July 1, 2012 through June 30, 2016.

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

The following is the Board adopted policy target asset allocation as of June 30, 2019:

Asset Class	Target Allocation	Long-term Geometric Expected Real Rate of Return *
U.S. Stocks	42%	5.50%
International Equity	18%	5.50%
Domestic Fixed Income	28%	0.75%
Private Markets	12%	6.65%

*As of June 30, 2019, PERS' long-term inflation assumption was 2.75%.

Discount Rate. The discount rate used to measure the total pension liability was 7.5% as of June 30, 2019. The projections of cash flows used to determine the discount rate assumed that employee and employer contributions will be made in amounts consistent with statutory provisions and recognizing the plan's current funding policy and cost-sharing mechanism between employers and members. For this purpose, all contributions that are intended to fund benefits for all plan members and their beneficiaries are included, except that projected contributions that are intended to fund the service cost of future plan members and their beneficiaries are not included

Sensitivity of the District's proportionate share of the net pension liability to change in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent higher or lower than the current rate.

	1.0% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1.0% Increase in Discount Rate (8.50%)
District's proportionate share of the net pension liability	$ 3,820,486	$ 2,467,410	$ 1,342,661

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

8. ASSET RETIREMENT OBLIGATIONS

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

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

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

9. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 31, 2020, the date that the financial statements were available to be issued.

LINCOLN COUNTY POWER DISTRICT NO. 1
Schedule of the Proportionate Share of The Net Pension Liability
Public Employees Retirement System of Nevada
Last Five Fiscal Years

Year Ended June 30	District's proportion of the net pension liability	District's proportional share of the net pension liability	District's covered-employee payroll	District's proportionate share of the net pension liablitiy as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.01787%	$ 2,349,837	$ 1,080,761	217.424%	76.31%
2016	0.01815%	$ 2,079,564	$ 1,176,992	176.685%	75.10%
2017	0.01946%	$ 2,618,692	$ 1,209,329	216.541%	72.20%
2018	0.01887%	$ 2,509,656	$ 1,382,843	181.485%	74.40%
2019	0.01880%	$ 2,564,197	$ 1,242,850	206.316%	75.24%
2020	0.01809%	$ 2,467,410	$ 1,412,263	174.713%	76.46%

Schedule of Contributions
Public Employees Retirement System of Nevada
Last Five Fiscal Years

Year Ended June 30	Contractually Determined Contributions	Contributions in Relation to the Actuarially Determined ContributiOns	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	$ 278,296	$ 278,296	$ -	$ 1,080,761	25.75%
2016	$ 326,377	$ 326,377	$ -	$ 1,176,992	27.73%
2017	$ 338,612	$ 338,612	$ -	$ 1,209,329	28.00%
2018	$ 387,196	$ 387,196	$ -	$ 1,382,843	28.00%
2019	$ 347,988	$ 347,988	$ -	$ 1,242,850	28.00%
2020	$ 411,796	$ 411,796	$ -	$ 1,412,263	29.16%

The pension schedules in the required supplementary incformation are intended to show information for ten years, and additional information will be displayed as it becomes available.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lincoln County Power District No. 1 (the District), as of and for the year ended May 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 31, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did, however, identify a deficiency in internal control that we consider to be a significant deficiency. We noted that material inventory counts did not always agree with material inventory records.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Hafen Buckner, Everett & Graff, PC

Hafen, Buckner, Everett, & Graff, PC

August 31, 2020