

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

AUDIT REPORT

Years Ended June 30, 2017, and 2016

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TABLE OF CONTENTS

	<u>Page</u>
Board of Directors, Administrative Staff and Administrative Office	1
Independent Auditor's Report	2 to 4
Management's Discussion and Analysis	5 to 9
Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13 to 32
Required Supplementary Information:	
Schedule of Changes in the District's Net Pension Liability and Related Ratios for Defined Benefit Pension Plan	33
Schedule of District Contributions for Defined Benefit Pension Plan	34
Schedule of Funding Progress for Retiree Health Plan	35
Other Supplementary Information:	
Schedule of Electric Plant in Service	36
Independent Auditor's Comments Required by Oregon State Regulations	37 to 38

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Board of Directors

Curt Abbott	760 Range Drive Waldport, Oregon 97394	President
Judy Matheny	2196 13 th Street Florence, Oregon 97439	Vice-President
Ron Benfield	714 S.E. Marine Court Newport, Oregon 97365	Treasurer
Larkin Kaliher	P.O. Box 188 Toledo, Oregon 97391	Secretary & Assistant Treasurer
Keith Tymchuk	1405 Ranch Road Reedsport, Oregon 97467	Director

Administrative Staff

Debra Smith	General Manager and Registered Agent
Mark Freeman	Director of Employee, Customer & Community Services
Randy Grove	Director of Engineering & Operations
Brian Barth, CPA	Director of Shared Services
Sunnetta Capovilla	Executive Assistant
Brandon Hignite	Finance & Resource Planner
Teri Turner	Human Resources Manager
Gail Malcolm	Project Manager
Chris Chandler	Public Affairs Manager

Administrative Office

Location: 2129 N. Coast Highway
Newport, Oregon 97365

Mailing Address: P.O. Box 1126
Newport, Oregon 97365

Web Site: www.cencoast.com

Telephone: (541) 265-3211

INDEPENDENT AUDITOR'S REPORT

October 19, 2017

Board of Directors
Central Lincoln People's Utility District
Newport, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Central Lincoln People's Utility District, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Lincoln People's Utility District as of June 30, 2017 and 2016, and the results of its operations and its cash flows 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 13 to the financial statements, during the 2016-17 fiscal year the District changed the way it recognizes revenue from the sale of electricity. The District changed from recognizing revenues when customers are billed to recognizing revenues from electric power delivered but not yet billed. This change in accounting has also been applied retroactively to the 2015-16 financial statements presented. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 9 and the required supplementary information on pages 33 through 35 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 audits 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of electric plant in service on page 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of electric plant in service has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of electric plant in service is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated October 19, 2017 on our consideration of Central Lincoln People's Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. 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 the internal control over financial reporting or on compliance.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of the financial activities of Central Lincoln People's Utility District (Central Lincoln) with registered office in Newport, Oregon for the fiscal year ended June 30, 2017. This supplementary information is to be read with Central Lincoln's financial statements.

Administration

Central Lincoln is a municipal corporation duly authorized by Section 12, Article XI of the Constitution of the State of Oregon and organized under Chapter 261, Oregon Revised Statutes. Central Lincoln was formed in 1940 and took over operations of West Coast Power Company in 1943. The utility is governed by a five-member elected Board of Directors serving staggered four-year terms.

Service Area

Central Lincoln's service territory is located along the Oregon coast and extends through Lincoln, Lane, Douglas and Coos counties providing service to 38,874 customers. The area has a total length of 112 miles and varies in width from one to 25 miles. Central Lincoln purchases all required energy from the Bonneville Power Administration (BPA), who delivers power at nine points of delivery: Toledo, Florence, Mapleton, Berrydale, Gardiner, Reedsport, Lakeside, Hauser and Glasgow.

Financial Summary and Analysis

Rate Summary

Central Lincoln's largest customer operated under a rate schedule adopted October 19, 2016. All remaining customers were served through June 30, 2017 under a rate schedule adopted June 8, 2016, that went into effect July 1, 2016.

2016 Bonded Debt Issuance

On March 31, 2016 Central Lincoln sold \$29,455,000 worth of 30-year bonds at a true interest cost of 3.425%. Proceeds of the Series 2016 Revenue Bonds were used to provide funds for capital improvements including the Northern Operations Center (NOC) and Florence area Reinforcement Project and to pay issuance costs. As of June 30, 2017, all but \$3,229,169 of the bond proceeds had been spent as anticipated.

Major accounting Change

A major accounting change was implemented in fiscal 2015 that is reflected in the results as of June 30th, 2015 2016 and 2017. Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* was designed to improve accounting and financial reporting by state and local governments for pension costs. The new standard also significantly changes how government entities measure and report the long-term obligations and annual costs of the pension benefit they provide.

To manage the impact of GASB 68, Central Lincoln also adopted GASB Statement No. 62, Paragraphs 476-500 - Regulated Operations. This standard allows the utility to recognize certain expenses and credits at the time they are included in rates and recovered from customers. Adopting GASB 62 allowed Central Lincoln to record a ‘regulatory asset’ which offsets the previously unrecorded pension liability without reducing “Net Position.”

In FY17, Central Lincoln began accruing the revenue associated with sales that were delivered but not billed and this change required a restatement of net position as of July 1, 2014 and restated revenues for FY15 and FY16. See note 13 in the accompanying Notes to Financial Statements for details.

Analysis of Operating Revenues and Expenses

	Year Ended		
	6/30/2017	(Restated) 6/30/2016	(Restated) 6/30/2015
Operating Revenues			
Sales of electricity			
Residential	\$ 40,322,903	\$ 35,306,528	\$ 31,835,819
Commercial	15,525,708	14,384,525	13,114,296
Industrial	32,234,489	30,565,398	28,755,632
Other	1,135,596	1,198,444	1,125,191
Other Operating Revenues			
Rent from Electric Plant	723,731	720,389	698,343
Transmission of electricity for others	402,048	387,623	387,623
Miscellaneous Service Revenue	431,657	327,870	328,627
Total Operating Revenues	90,776,132	82,890,777	76,245,531
Operating Expenses			
Cost of Power	52,484,039	49,258,603	46,734,719
T&D - Operations	3,671,226	3,852,716	3,477,815
T&D - Maintenance	4,420,615	3,617,118	4,014,091
Customer Accounts	2,008,258	1,859,122	1,903,013
Customer Service & Informational	429,022	355,066	332,588
Administrations & General	11,176,182	11,221,500	11,074,668
Depreciation	7,424,190	9,705,377	9,521,969
Taxes & Franchise Fees	3,409,620	3,416,956	3,251,661
Total Operating Expenses	85,023,152	83,286,458	80,310,524
Net Operating Revenues/(Loss)	\$ 5,752,980	\$ (395,681)	\$ (4,064,993)

Operating revenues for FY17 increased by approximately 10% over FY16 levels; there were two primary drivers. A 5% rate increase that went into effect on July 1, 2016 contributed over \$3.0 million in additional revenue and increased sales associated with a particularly cold winter made up the bulk of the difference. Heating degree days in the Newport area were 15% higher than in either FY15 or FY16 and Florence and Reedsport experienced similar increases. In addition, the prolonged periods of cold also meant lower demand charges from BPA so more of the revenue dropped to the bottom line. Across all revenue categories, kWh sales increased by just under 6% from 1,252 million kWh during FY16 to 1,327 million kWh for FY17. The 6% included increases for residential and commercial customers of 11.8 and 5% respectively.

Although less weather dependent, the totals noted above also included increases in our large industrial loads and associated revenues. Unit (kWh) sales to customers served under Rate Schedules 300 and 350 increased by 5.3% and those accounts were also subject to the 5% rate increase that went into effect on July 1, 2016. Unit (kWh) sales to our largest industrial customer increased by approximately 2.3%; however, the terms of that contract call for a “pass through” of BPA power costs and the non-power cost adjustment on July 1, 2016 was nominal. Overall, revenue from industrial sales increased by approximately 5% during FY17.

Total Operating Expenses increased by 2.1% between FY16 and FY17; the biggest drivers were increases in the Cost of Power (7%), T&D – Maintenance (22%), Customer Accounts (8%), and Customer Service & Informational (21%.) These increases were partially offset by a small decrease in T&D – Operations (5%), and Depreciation (24%.) General and Administrative costs were largely unchanged. Many of these variances are attributable to the implementation of NISC’s iVue App Suite during FY17. The overall implementation strategy included using “best practice, off the shelf” choices as offered by NISC. In some cases, the resulting accounting conventions have created variances during the transition year as described below.

The increase in power cost was largely the result of higher sales and lower than forecast demand charges. There was no BPA rate increase during FY17 and nine-months of the FY16 cost was based on BPA rates that went into effect on October 1, 2015. As previously mentioned, sustained periods of colder than normal weather resulted in increased revenues and power costs but also lower than forecast demand charges.

On a combined basis Transmission & Distribution – Operations and Maintenance went up by 8% in FY17 over FY16. There were several drivers for the increase. In FY17, significant resources were deployed in the iVUE implementation which meant less design work associated with capital projects. Labor hours were charged to T&D – Operations and Maintenance, including allocated overhead costs (payroll taxes and benefits). That change in accounting practice impacted a number of accounts during FY17; the offset can be seen in General and Administrative expense and Taxes and Franchise Fees.

In December and January of FY17, Central Lincoln crews delivered a significant amount of mutual aid to neighboring utilities. The reimbursements were internally allocated to fund additional tree trimming work, including helicopter trimming. Lastly, non-capital transportation expense was also up significantly during FY17 due to unplanned major maintenance and fleet enhancements.

Customer Accounts expense was up in large part due to payment of iVUE license payments for a portion of FY17, as well as increased bad debt expense associated with higher revenues and a temporary suspension of collection activities during the iVUE Customer Care & Billing implementation. This expense item will go up again in the coming year. Customer Service & Informational expense was also up (21%) due to timing differences with respect to energy efficiency incentive payments and receipt of reimbursement dollars from BPA. In addition, costs associated with hosting the Oregon PUD Association Annual meeting during FY17 were included in this expense category although the reimbursement from Special Districts Association of Oregon was included in revenue.

Depreciation Expense in FY17 was down significantly from FY16 for two reasons. One, the depreciable life of some assets was increased to 40 years from 30 which lowers the annual non-cash charge and two, the bulk of our communication equipment and towers were fully depreciated. The Northern Operations Center had not been put into service at fiscal year-end but will increase depreciation expense in FY18. Administrative and General Expense was flat year-over-year due to the previously mentioned increase in overhead allocations and the capitalized labor associated with the NISC iVUE implementation project.

Taxes and Franchise Fees for FY17 were down compared with FY16 due to the allocation of payroll taxes with labor dollars, offset by increased franchise fees associated with increased sales.

Net Operating Revenue of 5,752,980 was significantly improved over the FY16 (restated) loss of \$395,681, and represents a return to profitable operations. Recent losses, including those in FY15 and FY16 were a result of not fully incorporating BPA power cost increases into Central Lincoln's retail rate structure. Subsequent rate actions taken by the Board of Directors, including the July 1, 2016 increase, were designed to change that trajectory and the Five-Year Financial Plan forecast the change to occur during FY17. The unseasonably cold temperatures and higher than forecast sales, accelerated the turnaround.

Analysis of Balance Sheet Accounts

Net Electric Plant increased by \$22.1 million from fiscal year end 2016 due primarily to construction of the Northern Operations Center (NOC) in Newport. The project was put into service in August 2017.

Current Assets dropped accordingly as unspent bond proceeds as of June 2016 were spent on the NOC construction project. The bulk of those funds were spent by FYE June 30, 2017. The balances in Other Assets as well as Deferred Outflows and Deferred Inflows Related to Pension changed as a result of adjustment of the net pension liability based on the latest plan actuarial valuation. See notes 1 and 7 in the accompanying Notes to Financial Statements for additional explanation.

		As of	
		(Restated)	(Restated)
	6/30/2017	6/30/2016	6/30/2015
Assets:			
Net Electric Plant	\$ 131,058,448	\$ 108,951,899	\$ 105,105,029
Current Assets	50,707,249	64,736,070	35,624,943
Other Assets	21,123,494	22,333,138	23,525,409
Deferred Charges	531,623	588,082	644,732
Total Assets	203,420,814	196,609,189	164,900,113
Deferred Outflows Related to Pension	1,561,390	1,949,754	2,248,563
Liabilities:			
Long-Term Debt	38,121,154	39,462,683	8,333,320
Current Liabilities	14,462,583	10,807,427	8,748,972
Other Liabilities	27,000,310	28,058,540	28,937,838
Total Liabilities	79,584,047	78,328,650	46,020,130
Deferred Inflows Related to Pension	202,579		
Net Position			
Net Investment in Capital Assets Restricted for Bond Debt Service Unrestricted	94,971,463	90,286,354	96,251,709
	3,467,529	3,259,343	1,075,609
	26,756,586	26,684,596	23,801,228
Total Net Position	\$ 125,195,578	\$ 120,230,293	\$ 121,128,546

Long-Term Debt increased at FYE June 30, 2016 due to the sale of the 2016 Bonds but will continue to decrease as Central Lincoln makes principal payments on the 2013 and 2016 Bonds according to schedule. Current liabilities were up significantly (\$3.6 million) due to increased accounts payable (\$3.4 million) associated with the Northern Operations Center construction project, as well as increases in accrued interest and principal on the new bonds (\$190,000). Other Liabilities decreased by \$1.06 million as result of reduced pension liability (\$1.8 million), partially offset by an increase in post-employment healthcare benefits (\$718,000).

The \$4,965,000 increase in Net Position was primarily due to the rate increase and cooler winter temperatures. Central Lincoln's Five-Year Financial Plan will continue to focus on managing costs, maintaining affordable rates for customers while passing on power cost increases as appropriate. The return to profitable operations during FY17 was an important and hard-earned milestone.

FINANCIAL STATEMENTS

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Net Position

<u>Assets</u>	June 30,	
	2017	2016 (as restated)
Electric plant: (Notes 1 and 2)		
In service - at cost	\$ 231,890,429	\$ 226,895,182
Construction in progress	31,156,230	9,400,154
Total electric plant	263,046,659	236,295,336
Less:		
Accumulated provision for depreciation	(131,988,211)	(127,343,437)
Net electric plant	131,058,448	108,951,899
Current assets:		
Cash and investments (Notes 1 and 3):		
Current cash	32,106,839	28,300,172
Restricted for capital improvements	3,229,169	21,802,138
Restricted for bond debt service	3,582,593	3,376,082
Customer accounts receivable (net of allowance for doubtful accounts of \$150,000 in 2017 and \$149,984 in 2016)	7,614,140	6,623,635
Other receivables	665,128	706,873
Materials and supplies (Note 1)	2,866,836	3,307,420
Prepayments	575,804	546,498
Other	66,740	73,252
Total current assets	50,707,249	64,736,070
Other assets:		
Regulatory asset related to pension (Notes 1 and 7)	21,123,494	22,333,138
Unamortized transmission agreement expense (Note 4)	531,623	588,082
Total other assets	21,655,117	22,921,220
Total assets	203,420,814	196,609,189
 <u>Deferred Outflows of Resources</u>		
Deferred outflows related to pension (Notes 1 and 7)	1,561,390	1,949,754
Total assets and deferred outflows of resources	\$ 204,982,204	\$ 198,558,943

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Net Position

<u>Net Position</u>	June 30,	
	2017	2016 (as restated)
Net investment in capital assets	\$ 94,971,463	\$ 90,286,354
Restricted for bond debt service	3,467,529	3,259,343
Unrestricted	26,756,586	26,684,596
Total net position	125,195,578	120,230,293
<u>Liabilities</u>		
Long-term debt:		
Bonds payable, less current maturities (Note 5)	34,910,000	36,105,000
Unamortized bond premium (Note 5)	3,211,154	3,357,683
Total long-term debt	38,121,154	39,462,683
Current liabilities:		
Current maturities of long-term debt (Note 5)	1,195,000	1,005,000
Accounts payable	10,025,971	6,653,285
Accrued compensated absences (Note 1)	2,129,710	2,069,476
Customer deposits	988,476	954,326
Accrued interest - long term debt	115,064	116,739
Accrued interest - customer deposits	8,362	8,601
Total current liabilities	14,462,583	10,807,427
Other liabilities:		
Net pension liability (Notes 1 and 7)	22,482,305	24,282,892
Post-employment health care benefits (Note 9)	3,944,847	3,227,051
Liability reserves (Note 6)	320,794	308,711
Deferred credits	252,364	239,886
Total other liabilities	27,000,310	28,058,540
Total liabilities	79,584,047	78,328,650
<u>Deferred Inflows of Resources</u>		
Deferred inflows related to pension (Notes 1 and 7)	202,579	-
Total net position, liabilities and deferred inflows of resources	\$ 204,982,204	\$ 198,558,943

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2017	2016 (as restated)
Operating revenues:		
Sales of electricity:		
Residential	\$ 40,322,903	\$ 35,306,528
Commercial	15,525,708	14,384,525
Industrial	32,234,489	30,565,398
Other	1,135,596	1,198,444
Other operating revenues:		
Rent from electric plant	723,731	720,389
Transmission of electricity of others	402,048	387,623
Miscellaneous service revenue	431,657	327,870
Total operating revenues	90,776,132	82,890,777
Operating expenses:		
Cost of power	52,484,039	49,258,603
Transmission and distribution expense - operations	3,671,226	3,852,716
Transmission and distribution expense - maintenance	4,420,615	3,617,118
Customer accounts expense	2,008,258	1,859,122
Customer service and informational expense	429,022	355,066
Administrative and general expense	11,176,182	11,221,500
Depreciation	7,424,190	9,705,377
Taxes and franchise fees	3,409,620	3,416,956
Total operating expenses	85,023,152	83,286,458
Net operating revenues-(loss)	5,752,980	(395,681)
Nonoperating revenues-(expenses):		
Interest on investments	457,194	166,730
Interest expense - long term debt	(1,389,144)	(540,353)
Interest expense - other	(2,274)	(2,219)
Amortization of bond premium	146,529	77,604
Bond issuance costs	-	(204,334)
Total nonoperating revenues-(expenses)	(787,695)	(502,572)
Net income-(loss)	4,965,285	(898,253)
Net position - beginning of year, as originally reported	120,230,293	118,835,243
Restatement of beginning of year net position	-	2,293,303
Net position - beginning of year, as restated	120,230,293	121,128,546
Net position - end of year	\$ 125,195,578	\$ 120,230,293

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Statement of Cash Flows

	Year Ended June 30,	
	2017	2016 (as restated)
Cash flows from operating activities:		
Cash received from customers	\$89,564,498	\$ 82,035,008
Cash payments for purchased power	(52,308,550)	(49,024,519)
Cash payments to suppliers for goods and services	(11,090,469)	(10,920,148)
Cash payments to employees for services	(12,209,818)	(12,904,704)
Net cash provided by operating activities	<u>13,955,661</u>	<u>9,185,637</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(29,421,505)	(13,478,790)
Contributions in aid of construction	2,553,125	974,747
Proceeds from sale of property and equipment	294,066	29,603
Proceeds from issuance of revenue bonds	-	29,455,000
Premium on issuance of revenue bonds	-	2,756,967
Bond issuance costs	-	(204,334)
Principal payments on bonds payable	(1,005,000)	(520,000)
Interest payments on bonds payable	(1,390,819)	(444,768)
Other interest payments	(2,513)	(2,819)
Net cash provided by-(used in) capital and related financing activities	<u>(28,972,646)</u>	<u>18,565,606</u>
Cash flows from investing activities:		
Interest on investments	<u>457,194</u>	<u>166,730</u>
Net increase-(decrease) in cash and cash equivalents	(14,559,791)	27,917,973
Cash and cash equivalents - beginning of year	<u>53,478,392</u>	<u>25,560,419</u>
Cash and cash equivalents - end of year	<u>\$ 38,918,601</u>	<u>\$ 53,478,392</u>
Reconciliation of net operating revenues-(loss) to net cash provided by operating activities:		
Net operating revenues-(loss)	<u>\$ 5,752,980</u>	<u>\$ (395,681)</u>
Adjustments to reconcile net operating revenues-(loss) to net cash provided by operating activities:		
Depreciation	7,424,190	9,705,377
Decrease-(increase) in:		
Customer accounts receivable	(990,505)	(914,710)
Other receivables	(274,269)	58,896
Materials and supplies	440,584	111,473
Prepayments	(29,306)	(120,836)
Other current assets	6,512	(11,963)
Unamortized transmission agreement expense	56,459	56,650
Increase-(decrease) in:		
Operating accounts payable	732,275	84,381
Accrued compensated absences	60,234	(10,533)
Customer deposits	34,150	10,801
Post-employment health care benefits	717,796	582,327
Liability reserves	12,083	28,248
Deferred credits	12,478	1,207
Total adjustments	<u>8,202,681</u>	<u>9,581,318</u>
Net cash provided by operating activities	<u>\$ 13,955,661</u>	<u>\$ 9,185,637</u>
Noncash investing, capital and related financing activities:		
Regulatory asset, deferred outflows and deferred inflows related to pension	\$ 1,800,587	\$ 1,491,080
Net pension liability	(1,800,587)	(1,491,080)
Unamortized bond premium	(146,529)	(77,604)
Amortization of bond premium	<u>146,529</u>	<u>77,604</u>
Total noncash investing, capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements June 30, 2017, and 2016

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

Central Lincoln People's Utility District is a municipal corporation organized under Oregon Revised Statutes (ORS) Chapter 261. The District has provided electric services to residential, commercial and industrial customers along a one hundred twelve mile section of the central Oregon coast since 1943. The District is governed by a five member elected Board of Directors serving staggered four-year terms. The Board has the authority to set rates and charges for commodities and services furnished. Substantially all revenues are derived from the sale of electric power to residential, industrial and commercial customers.

The District is empowered and required by law to establish, maintain and collect rates and charges for electric power which are fair and nondiscriminatory. It has received from the Oregon Public Utilities Commission the exclusive rights to approximately 95% of its voter-authorized territory. This represents approximately 99% of the District's load excluding the District's largest customer, Georgia-Pacific Corporation. Georgia-Pacific Corporation is in a nonexclusive portion of the District's service area.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Additionally, although the District is not subject to the regulations of the Federal Energy Regulatory Commission (FERC), its accounting policies generally conform to the accounting requirements of the FERC.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Significant policies are described below.

Description of Reporting Entity

The financial statements of the District include all accounts of the District, and the Board of Directors is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in generally accepted accounting principles, primarily on the basis of authority to appoint voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific financial benefits or impose specific financial burdens and that organization's fiscal dependency.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Basis of Accounting

The District uses the accrual basis of accounting for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when incurred. Revenues related to the District's principal operations are considered to be operating revenues. All other revenues are considered to be nonoperating.

Because the District's rates are regulated by its Board of Directors, the District accounts for the financial effects of regulation in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, Paragraphs 476-500, Regulated Operations. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery.

Electric Plant

Electric plant is stated substantially at cost. Cost includes materials, labor, payments to contractors and indirect costs, such as transportation and construction equipment use and employee benefits.

Other than general plant assets, the costs of additions, renewals and betterments with a useful life exceeding one year are capitalized regardless of dollar amount. General plant additions of \$5,000 or more with a useful life exceeding one year are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property retired, together with removal cost less salvage, is charged to accumulated depreciation when property is removed.

Contributions in Aid of Construction (CIAC)

Payments are received from customers and grantors for construction costs primarily relating to the expansion of the electric system. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC of \$2,553,125 for the year ended June 30, 2017, and \$974,747 for the year ended June 30, 2016, was recorded as a reduction of utility plant assets.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Depreciation

Provision for depreciation of electric plant is computed using composite rates over the following estimated useful lives:

Structures and improvements	40 years
Station equipment, line transformers, meters and street lighting equipment	various
Overhead conductor and devices	30 years
Underground conductor and devices	30 years
Poles, towers and fixtures	30 years
Office furniture and equipment	6 years
Transportation equipment	12 years

Investments

Investments included in cash and investments are reported at fair value.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash, demand deposits, the Oregon Local Government Investment Pool and short-term investments purchased with original maturities of three months or less are considered to be cash and cash equivalents.

Materials and Supplies

Materials and supplies are carried at average cost.

Unamortized Bond Premium

The unamortized premium on the Series 2016 and Series 2013 bonds is being amortized over the lives of the respective bond issues using the straight-line method.

Compensated Absences

Accumulated unpaid vested personal leave is accrued as earned by employees.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Contd)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, information about the fiduciary net position of the Central Lincoln People's Utility District Pension Plan and Trust (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by its Board of Directors. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension expense.

Operating Revenues

Georgia-Pacific Corporation currently accounts for 44.1% of the District's total kilowatt-hour sales. The next largest customer of the District accounted for 0.3% of the District's total kilowatt-hour sales and 0.3% of the District's revenues from the sale of electricity in the current year.

Restricted net position

Restricted net position reported in the statement of net position represents amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations. The District's policy is to first use restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

2 - ELECTRIC PLANT:

Electric plant activity for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Electric plant not being depreciated:				
Intangible	\$ 147,817	\$ -	\$ -	\$ 147,817
Land	7,275,431	47,277	-	7,322,708
Construction in progress	9,400,154	29,392,089	7,636,013	31,156,230
Total electric plant not being depreciated	<u>16,823,402</u>	<u>29,439,366</u>	<u>7,636,013</u>	<u>38,626,755</u>
Electric plant being depreciated:				
Transmission	18,423,419	973,964	254,212	19,143,171
Distribution	149,805,339	5,488,529	1,317,973	153,975,895
General	51,243,176	920,945	863,283	51,300,838
Total electric plant being depreciated	<u>219,471,934</u>	<u>7,383,438</u>	<u>2,435,468</u>	<u>224,419,904</u>
Accumulated depreciation:				
Transmission	8,865,888	626,966	288,712	9,204,142
Distribution	73,404,813	4,918,170	2,171,553	76,151,430
General	45,072,736	2,067,442	507,539	46,632,639
Total accumulated depreciation	<u>127,343,437</u>	<u>7,612,578</u>	<u>2,967,804</u>	<u>131,988,211</u>
Total electric plant being depreciated, net	<u>92,128,497</u>	<u>(229,140)</u>	<u>(532,336)</u>	<u>92,431,693</u>
Electric plant, net	<u>\$108,951,899</u>	<u>\$29,210,226</u>	<u>\$ 7,103,677</u>	<u>\$ 131,058,448</u>

Electric plant activity for the year ended June 30, 2016 was as follows:

	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Electric plant not being depreciated:				
Intangible	\$ 147,817	\$ -	\$ -	\$ 147,817
Land	4,712,111	2,563,320	-	7,275,431
Construction in progress	7,773,633	12,367,465	10,740,944	9,400,154
Total electric plant not being depreciated	<u>12,633,561</u>	<u>14,930,785</u>	<u>10,740,944</u>	<u>16,823,402</u>
Electric plant being depreciated:				
Transmission	18,129,439	484,828	190,848	18,423,419
Distribution	144,997,208	5,561,462	753,331	149,805,339
General	49,439,949	3,170,925	1,367,698	51,243,176
Total electric plant being depreciated	<u>212,566,596</u>	<u>9,217,215</u>	<u>2,311,877</u>	<u>219,471,934</u>
Accumulated depreciation:				
Transmission	8,337,902	736,621	208,635	8,865,888
Distribution	68,613,427	5,713,110	921,724	73,404,813
General	43,143,799	3,255,646	1,326,709	45,072,736
Total accumulated depreciation	<u>120,095,128</u>	<u>9,705,377</u>	<u>2,457,068</u>	<u>127,343,437</u>
Total electric plant being depreciated, net	<u>92,471,468</u>	<u>(488,162)</u>	<u>(145,191)</u>	<u>92,128,497</u>
Electric plant, net	<u>\$105,105,029</u>	<u>\$14,442,623</u>	<u>\$10,595,753</u>	<u>\$ 108,951,899</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

3 - CASH AND INVESTMENTS:

Cash and investments are comprised of the following as of June 30, 2017, and 2016:

	<u>2017</u>	<u>2016</u>
Working funds	\$ 3,650	\$ 3,650
Deposits with financial institutions	1,179,590	6,428,172
Investments	<u>37,735,361</u>	<u>47,046,570</u>
Total cash and investments	<u>\$ 38,918,601</u>	<u>\$ 53,478,392</u>

Deposits

Deposits with financial institutions include bank demand deposits. The total bank balance, as shown on the banks' records, was \$1,593,505 at June 30, 2017, and \$6,670,832 at June 30, 2016. Of these deposits, the total covered by federal depository insurance was \$547,172 at June 30, 2017, and \$546,307 at June 30, 2016.

The Oregon State Treasurer is responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts, and for assuring that public funds on deposit are collateralized to the extent required by Oregon Revised Statutes (ORS) Chapter 295. ORS Chapter 295 requires depository banks to place and maintain on deposit with a third-party custodian bank securities having a value of 10%, 25% or 110% of public funds on deposit depending primarily on the capitalization level of the depository bank.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District follows State law with respect to custodial credit risk and has not adopted a separate policy. Of the District's bank balance, \$1,046,333 was exposed to custodial credit risk as of June 30, 2017, and \$6,124,525 was exposed to custodial credit risk as of June 30, 2016, because deposits in excess of FDIC insurance were uncollateralized and/or were collateralized but not held by the third-party custodian bank in the District's name.

Investments

State statutes authorize the District to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the Oregon Local Government Investment Pool, among others. The District has no investment policy that would further limit its investment choices.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

3 - CASH AND INVESTMENTS: (Contd)

Investments (Contd)

At June 30, 2017, and 2016, the District's investments consisted of:

	<u>2017</u>	<u>2016</u>
Investment in Oregon Local Government Investment Pool	<u>\$ 37,735,361</u>	<u>\$ 47,046,570</u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. Participants' account balances in the pool are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the Oregon Short-Term Fund. The District's investment in the Oregon Local Government Investment Pool is 100% of total investments.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2017 were: 65% mature within 93 days, 20% mature from 94 days to one year, and 15% mature from one to three years. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2016 were: 72% mature within 93 days, 12% mature from 94 days to one year, and 16% mature from one to three years.

The District has restricted cash and investments for bond debt service totaling \$3,582,593 at June 30, 2017, and \$3,376,082 at June 30, 2016. The District has restricted cash and investments for capital improvements totaling \$3,229,169 at June 30, 2017, and \$21,802,138 at June 30, 2016.

4 - UNAMORTIZED TRANSMISSION AGREEMENT EXPENSE:

The District entered into a transmission agreement with Consumers Power, Inc. for the use of transmission facilities for emergency and backup service for District transmission facilities south of the Yaquina River. Under the agreement the District paid Consumers Power, Inc. \$1,640,035 during 1995. The District is amortizing this cost over the thirty year term of the agreement.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

5 - LONG-TERM DEBT:

During January 2013, the District issued Series 2013 Electric System Revenue Bonds totaling \$9,185,000. Proceeds of the Series 2013 Revenue Bonds were used to provide funds for capital improvements, to fund a reserve account and to pay costs of issuance. Series 2013 Revenue Bonds are special limited obligations of the District payable solely from and secured by a pledge of the net revenues of the electric system and amounts on deposit in the debt service account and bond reserve account.

During March 2016, the District issued Series 2016 Electric System Revenue Bonds totaling \$29,455,000. Proceeds of the Series 2016 Revenue Bonds are being used to provide funds for capital improvements, to fund a reserve account and to pay costs of issuance. Series 2016 Revenue Bonds are special limited obligations of the District payable solely from and secured by a pledge of the net revenues of the electric system and amounts on deposit in the debt service account and bond reserve account.

At June 30, 2017, and 2016, bonds payable consist of the following:

	<u>2017</u>	<u>2016</u>
Series 2013 Revenue Bonds, principal payable annually on December 1 beginning in 2013. Interest at 2% to 4% per annum payable semi-annually on June 1 and December 1 each year.	\$ 7,125,000	\$ 7,655,000
Series 2016 Revenue Bonds, principal payable annually on December 1 beginning in 2016. Interest at 1.6% to 5% per annum payable semi-annually on June 1 and December 1 each year.	<u>28,980,000</u>	<u>29,455,000</u>
	36,105,000	37,110,000
Less current maturities	<u>1,195,000</u>	<u>1,005,000</u>
Long-term debt	<u>\$ 34,910,000</u>	<u>\$ 36,105,000</u>

Bond principal and interest transactions for 2016-17 are as follows:

	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017	Due Within One Year	Interest Matured and Paid
Series 2013	\$ 7,655,000	\$ -	\$ 530,000	\$ 7,125,000	\$ 540,000	\$ 238,150
Series 2016	29,455,000	-	475,000	28,980,000	655,000	1,152,669
	<u>\$37,110,000</u>	<u>\$ -</u>	<u>\$1,005,000</u>	<u>\$ 36,105,000</u>	<u>\$ 1,195,000</u>	<u>\$ 1,390,819</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

5 - LONG-TERM DEBT: (Contd)

Bond principal and interest transactions for 2015-16 are as follows:

	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016	Due Within One Year	Interest Matured and Paid
Series 2013	\$ 8,175,000	\$ -	\$ 520,000	\$ 7,655,000	\$ 530,000	\$ 248,650
Series 2016	-	29,455,000	-	29,455,000	475,000	196,118
	<u>\$ 8,175,000</u>	<u>\$29,455,000</u>	<u>\$ 520,000</u>	<u>\$ 37,110,000</u>	<u>\$ 1,005,000</u>	<u>\$ 444,768</u>

As of June 30, 2017, scheduled annual maturities of Series 2013 bond principal and interest are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 540,000	\$ 227,450	\$ 767,450
2019	555,000	213,725	768,725
2020	575,000	193,900	768,900
2021	600,000	170,400	770,400
2022	625,000	145,900	770,900
2023-2027	3,470,000	383,800	3,853,800
2028	760,000	11,400	771,400
Total	<u>\$ 7,125,000</u>	<u>\$ 1,346,575</u>	<u>\$ 8,471,575</u>

As of June 30, 2017, scheduled annual maturities of Series 2016 bond principal and interest are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 655,000	\$ 1,141,369	\$ 1,796,369
2019	675,000	1,124,694	1,799,694
2020	695,000	1,100,669	1,795,669
2021	720,000	1,075,969	1,795,969
2022	740,000	1,055,469	1,795,469
2023-2027	4,120,000	4,865,044	8,985,044
2028-2032	5,715,000	4,068,181	9,783,181
2033-2037	5,870,000	2,765,968	8,635,968
2038-2042	4,990,000	1,640,528	6,630,528
2043-2046	4,800,000	495,000	5,295,000
Total	<u>\$ 28,980,000</u>	<u>\$ 19,332,891</u>	<u>\$ 48,312,891</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

5 - LONG-TERM DEBT: (Contd)

The unamortized premium on the Series 2016 and Series 2013 bonds is being amortized over the lives of the respective bond issues using the straight-line method.

6 - LIABILITY RESERVES:

Liability reserves consist of the following at June 30, 2017, and 2016:

	<u>2017</u>	<u>2016</u>
Unemployment claims	\$ 5,248	\$ 5,248
Medical, dental and optical	308,500	297,000
Unclaimed checks	<u>7,046</u>	<u>6,463</u>
Total	<u>\$ 320,794</u>	<u>\$ 308,711</u>

7 - DEFINED BENEFIT PENSION PLAN:

General Information about the Pension Plan

Plan description. The Central Lincoln People's Utility District Pension Plan and Trust (Plan) is a single-employer defined benefit pension plan. Assets are held separately and may be used only for the payment of benefits to its members. The Pension Trust covers the District's union and non-union employees. The District's Board of Directors has the power to alter, amend or terminate the Trust.

The Plan issues a separate financial report which is available from the Pension Trustees.

Benefits provided. The Plan provides retirement, disability and death benefits. Members are eligible for normal retirement benefits on the first of the month after age 65. The normal retirement benefit, payable as a life annuity with 120 monthly payments certain, is equal to 1/12th of a) plus b) plus c) below.

- a) 2.00% of average annual compensation times credited service prior to July 1, 2000.
- b) 2.25% of average annual compensation times credited service between July 1, 2000 and the June 30 prior to the plan year of termination or retirement, or the June 30 of the plan year of termination or retirement if active in June of that plan year.
- c) 2.25% of compensation received after the period reflected in b) above.

Average annual compensation is updated at the end of each plan year for members active during June to be the average annual compensation received for the current and two prior years. No such average annual pay update shall cause a member's benefit to decrease.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Credited service means continuous employment while a member. For periods prior to July 1, 1962, continuous employment is deemed to begin on the July 1 after the date of hire or the date of election of membership, whichever is later. If a member was required to complete a period greater than twelve months of initial employment before becoming a member, the member will be allowed to buy back twelve months of credited service.

Members may retire early with reduced benefits based on age and years of employment at date of retirement.

Any member who becomes totally and permanently disabled, as determined by the Trustees, is entitled to a benefit at age 65 equal to the normal retirement benefit accrued as of the date of disablement.

If a member dies prior to retiring and prior to eligibility for early retirement, the beneficiary will receive a lump sum payment of the return of all member contributions including interest. If a member dies prior to retiring and after eligibility for early retirement, the beneficiary will receive a benefit equal to one-half of the accrued early retirement benefit the member would have received had the member retired on the date of death.

If a member has 5 years of employment and terminates employment for any reason other than death, disability or retirement, the member may elect to leave his contributions in the Trust and begin a monthly benefit at age 65 equal to the accrued normal retirement benefit as of the date of termination. If a member is not vested and terminates employment for any reason other than death or disability, the member will receive a lump sum refund of all member contributions including interest.

The Plan does not provide for annual cost-of-living adjustments.

Employees covered by benefit terms. The following employees were covered by the benefit terms:

	July 1,	
	2017	2016
Inactive employees or beneficiaries currently receiving benefits	7	3
Inactive employees entitled to but not yet receiving benefits	13	14
Active employees	69	75
Total	89	92

In June 2010, the Board of Directors amended the Plan such that no employees hired on or after July 1, 2010 will be eligible to participate in the Plan. Employees hired on or after July 1, 2010 will be able to participate in a 401(k) plan.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Contributions. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, the District's average contribution rate was 54.8 percent of annual payroll and for the year ended June 30, 2016, the District's average contribution rate was 54.1 percent of annual payroll. Additionally, employees must contribute 1.0 percent of annual payroll and the District must contribute a supplemental contribution of 2% of annual payroll.

Net Pension Liability

The District's net pension liability as of June 30, 2017 was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's net pension liability as of June 30, 2016 was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The significant actuarial assumptions used in the July 1, 2017 valuation were the same as those used in the July 1, 2016 valuation.

Actuarial assumptions. The total pension liability in the July 1, 2017, and July 1, 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	5.0 percent per annum
Investment rate of return	6.0 percent, net of all fees

Mortality rates were based on the RP-2000 Healthy Combined Tables, projected using Scale AA to 2010 for non-retired members, and to 2020 for retirees and beneficiaries.

The actuarial assumptions used in the actuarial valuations were based on prior experience and the assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns for 30 years, net of pension 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 the asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's asset allocations as of June 30, 2017 and 2016, are summarized in the following table:

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Asset Class	June 30, 2017		June 30, 2016	
	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	50.7%	4.69%	45.6%	5.02%
Fixed income	38.3%	2.02%	40.5%	1.67%
International equity	10.7%	5.68%	12.2%	6.18%
Cash and deposits	0.3%	0.36%	1.7%	0.32%

Discount rate. The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions were made based on the projected actuarially determined contributions. Historically the District and its employees have, at a minimum, always contributed the actuarially determined contribution. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the expected rate of return on plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Changes in the Net Pension Liability

Changes in the net pension liability for the year ended June 30, 2017 are shown below.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balances as of June 30, 2016	\$ 33,766,922	\$ 9,484,030	\$ 24,282,892
Changes for the year:			
Service cost	1,137,436	-	1,137,436
Interest on total pension liability	2,045,582	-	2,045,582
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	467,346	-	467,346
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(1,646,605)	(1,646,605)	-
Employer contributions	-	4,008,798	(4,008,798)
Member contributions	169,252	242,277	(73,025)
Net investment income	-	1,369,128	(1,369,128)
Administrative expenses	-	-	-
Net changes	2,173,011	3,973,598	(1,800,587)
Balances as of June 30, 2017	\$ 35,939,933	\$ 13,457,628	\$ 22,482,305

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Changes in the Net Pension Liability (Contd)

Changes in the net pension liability for the year ended June 30, 2016 are shown below.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balances as of June 30, 2015	\$ 32,911,515	\$ 7,137,543	\$ 25,773,972
Changes for the year:			
Service cost	1,243,490	-	1,243,490
Interest on total pension liability	1,971,792	-	1,971,792
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	77,662	-	77,662
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(2,621,784)	(2,621,784)	-
Employer contributions	-	4,240,730	(4,240,730)
Member contributions	184,247	279,818	(95,571)
Net investment income	-	447,723	(447,723)
Administrative expenses	-	-	-
Net changes	855,407	2,346,487	(1,491,080)
Balances as of June 30, 2016	<u>\$ 33,766,922</u>	<u>\$ 9,484,030</u>	<u>\$ 24,282,892</u>

During the year ended June 30, 2016 the District purchased participating annuity contracts totaling \$2,006,488 to provide benefits to retirees. Although the annuities purchased are participating contracts, the participation portion of these contracts has not been reflected in the valuation other than as past gains and losses in performance. They are treated as allocated insurance contracts for reporting purposes. The Plan's policy was changed during 2015-16 to make future ongoing annuity payments from the trust instead of purchasing annuity contracts.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Sensitivity Analysis

The following presents the net pension liability of the District, calculated using the pre-retirement discount rate of 6.0 percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.0 percent) or 1 percentage point higher (7.0 percent) than the current rate.

	As of June 30, 2017		
	1% Decrease 5.0%	Current Discount Rate 6.0%	1% Increase 7.0%
	Total pension liability	\$ 37,701,869	\$ 35,939,933
Fiduciary net position	13,457,628	13,457,628	13,457,628
Net pension liability	<u>\$ 24,244,241</u>	<u>\$ 22,482,305</u>	<u>\$ 20,800,398</u>

	As of June 30, 2016		
	1% Decrease 5.0%	Current Discount Rate 6.0%	1% Increase 7.0%
	Total pension liability	\$ 35,399,310	\$ 33,766,922
Fiduciary net position	9,484,030	9,484,030	9,484,030
Net pension liability	<u>\$ 25,915,280</u>	<u>\$ 24,282,892</u>	<u>\$ 22,705,748</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The District recognized pension expense of \$4,008,798 for the year ended June 30, 2017 and \$4,240,730 for the year ended June 30, 2016. At June 30, 2017, and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Differences between expected and actual experience	\$ 495,946	\$ 112,496	\$ -	\$ -
Changes to assumptions	1,065,444	1,278,533	-	-
Net difference between projected and actual earnings on investments	-	558,725	202,579	-
Contributions made subsequent to measurement date	-	-	-	-
Year Ended December 31	<u>\$ 1,561,390</u>	<u>\$ 1,949,754</u>	<u>\$ 202,579</u>	<u>\$ -</u>

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

7 - DEFINED BENEFIT PENSION PLAN: (Contd)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Contd)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>		
2018	\$	336,338
2019		336,337
2020		160,092
2021		152,594
2022		296,982
Thereafter		<u>76,468</u>
Total	\$	<u><u>1,358,811</u></u>

8 - DEFINED CONTRIBUTION PENSION PLAN:

The District provides pension benefits for all of its qualified employees through a defined contribution plan (Internal Revenue Code Section 401(k)) administered by the District. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All employees hired on or after July 1, 2010 are eligible for the plan after completing a six-month trial employment period. The plan was authorized by and may be amended by the District's Board of Directors and requires the District to match employee contributions to the plan based on the following percentage of the employee's base salary:

<u>Employee Contribution</u>	<u>Employer Contribution</u>	<u>Total</u>
2%	3%	5%
3%	5%	8%
4%	8%	12%
5%	10%	15%

The District will provide for 1% on an employee's base salary to go toward the employee's contribution to the plan. District contributions for each employee (and earnings allocated to the employee's account) are fully vested. The total employer contribution was \$392,596 for the year ended June 30, 2017, and \$246,224 for the year ended June 30, 2016, equal to the required employer contribution.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

9 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description

The District administers a single-employer defined benefit health care plan. The plan provides post-employment health care benefits for eligible retirees (until age 65) and their spouses through the District's health care plan, which covers both active and retired participants. Benefit provisions are established through District policy. The criteria to determine eligibility includes employee age, years of service and date of hire. No non-union employees hired on or after July 1, 2010 will be eligible for the plan benefits. No union employees hired on or after October 1, 2017 will be eligible for the plan benefits. The District's post-employment health care plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are established through District policy. In general, retirees are required to contribute 14% of the standard COBRA premium. Funding is on a pay-as-you-go basis. During 2016-17, the District contributed \$300,637 and participants receiving benefits contributed \$66,990 to the plan. During 2015-16, the District contributed \$378,607 and participants receiving benefits contributed \$66,658 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 10-15 year period. The following table shows the components of the District's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 1,179,596
Interest on net OPEB obligation	129,082
Adjustment to annual required contribution	<u>(290,245)</u>
Annual OPEB cost	1,018,433
Contributions made	<u>(300,637)</u>
Increase in net OPEB obligation	717,796
Net OPEB obligation - beginning of year	<u>3,227,051</u>
Net OPEB obligation - end of year	<u>\$ 3,944,847</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016-17, 2015-16 and 2014-15 were as follows:

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

9 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (Contd)

Annual OPEB Cost and Net OPEB Obligation (Contd)

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$ 1,018,433	30%	\$ 3,944,847
6/30/2016	960,934	39%	3,227,051
6/30/2015	745,894	46%	2,644,724

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$4,709,103 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,709,103. The anticipated covered payroll (annual payroll of active employees covered by the plan) was \$10,914,785, and the ratio of the UAAL to the anticipated covered payroll was 43%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events 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 the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

In the actuarial valuation conducted as of June 30, 2015, the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized using the level-dollar method over various open and closed periods ranging from 10-15 years. Actuarial assumptions included a discount rate of 4% and an annual healthcare cost trend rate of 5% initially, reduced gradually to an ultimate rate of 3.75% in 2045 and thereafter.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

10 - RISK MANAGEMENT:

Health and Unemployment

The District administers risk management programs for employee health and unemployment on a cost-reimbursement basis. Significant losses are covered by commercial insurance. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage in any of the past three years. Claims liability for health insurance is adjusted monthly based on actual claims submitted weekly to the District. All known liabilities have been disclosed.

		Liability July 1	Claims Paid	Claims Estimates and Adjustments	Liability June 30
2016-17	Health insurance	\$ 297,000	\$ (2,494,733)	\$ 2,506,233	\$ 308,500
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 302,248</u>	<u>\$ (2,494,733)</u>	<u>\$ 2,506,233</u>	<u>\$ 313,748</u>
2015-16	Health insurance	\$ 268,800	\$ (2,218,084)	\$ 2,246,284	\$ 297,000
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 274,048</u>	<u>\$ (2,218,084)</u>	<u>\$ 2,246,284</u>	<u>\$ 302,248</u>
2014-15	Health insurance	\$ 217,800	\$ (2,400,642)	\$ 2,451,642	\$ 268,800
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 223,048</u>	<u>\$ (2,400,642)</u>	<u>\$ 2,451,642</u>	<u>\$ 274,048</u>
2013-14	Health insurance	\$ 274,200	\$ (2,199,452)	\$ 2,143,052	\$ 217,800
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 279,448</u>	<u>\$ (2,199,452)</u>	<u>\$ 2,143,052</u>	<u>\$ 223,048</u>
2012-13	Health insurance	\$ 175,000	\$ (2,184,550)	\$ 2,283,750	\$ 274,200
	Unemployment	5,248	-	-	5,248
	Total	<u>\$ 180,248</u>	<u>\$ (2,184,550)</u>	<u>\$ 2,283,750</u>	<u>\$ 279,448</u>

Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District is a member of Special Districts Insurance Services (SDIS) and pays an annual premium to SDIS for risks of loss including general liability, automobile liability, public official liability, property coverage and workers' compensation coverage. Under the membership agreement with SDIS, SDIS is to be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits. The District also carries commercial insurance for other risks of loss including boiler and machinery coverage. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Notes to Financial Statements
June 30, 2017, and 2016

11 - INCOME TAX STATUS:

The District is a people's utility district organized under Oregon Revised Statutes Chapter 261. As a political subdivision of the State of Oregon, the District is exempt from taxation under the provisions of Section 115 of the Internal Revenue Code.

12 - POWER PURCHASE AGREEMENTS:

The District is a statutory preference customer of the Bonneville Power Administration (Bonneville) and historically purchased all of its power from Bonneville. Starting October 1, 2011, the District began purchasing power from Bonneville under a long-term power supply agreement which will last through September 30, 2028. Under this agreement, the District may purchase a certain portion of the output of the Federal System (the District's High Water Mark "HWM") at cost-based or "Tier 1" rates. Bonneville will set its rates as well as each of its customer's HWM every two years through a rate case process in which the District participates along with several trade groups of which the District is a member.

If the District's load is forecast to exceed its HWM, it may purchase "Tier 2" power from Bonneville or procure the power through a market purchase or its own generating resource. Currently, the District has committed to supply its above HWM load through a market purchase with Northwest Energy Management Services through 2024. This includes a 1 aMW purchase which began October 1, 2012 and continued through September 30, 2013. Aside from this first year, the District forecasts no above HWM load for at least the following 7 years.

13 - RESTATEMENT:

During the year ended June 30, 2017, the District changed the way it recognizes revenue from the sale of electricity. The District changed from recognizing revenues when customers are billed to recognizing revenues from electric power delivered but not yet billed. As a result of this change, net position as of July 1, 2015, and 2016, and revenues from the sale of electricity for the year ended June 30, 2016, have been restated as follows:

	As originally reported	Restatement	As restated
	<u> </u>	<u> </u>	<u> </u>
Net position - July 1, 2015	\$ 118,835,243	\$ 2,293,303	\$ 121,128,546
Sales of electricity:			
Residential	35,228,548	77,980	35,306,528
Commercial	14,290,590	93,935	14,384,525
Industrial	30,482,806	82,592	30,565,398
Other	<u>1,193,825</u>	<u>4,619</u>	<u>1,198,444</u>
Net position - July 1, 2016	<u>\$ 117,677,864</u>	<u>\$ 2,552,429</u>	<u>\$ 120,230,293</u>

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Changes in the District's Net Pension Liability and Related Ratios
for Defined Benefit Pension Plan

Last Four Fiscal Years

	Year Ended			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total pension liability				
Service cost	\$ 1,137,436	\$ 1,243,490	\$ 1,168,482	\$ 960,128
Interest on total pension liability	2,045,582	1,971,792	2,136,472	1,604,466
Effect of plan changes	-	-	126,416	6,316,633
Effect of economic/demographic gains or losses	467,346	77,662	59,390	1,570,266
Effect of assumptions changes or inputs	-	-	1,704,711	1,393,405
Benefit payments	(1,646,605)	(2,621,784)	(3,524,512)	(5,911,889)
Voluntary member contributions	169,252	184,247	195,607	195,188
Net change in total pension liability	2,173,011	855,407	1,866,566	6,128,197
Total pension liability - beginning	33,766,922	32,911,515	31,044,949	24,916,752
Total pension liability - ending (a)	<u>\$ 35,939,933</u>	<u>\$ 33,766,922</u>	<u>\$ 32,911,515</u>	<u>\$ 31,044,949</u>
Plan fiduciary net position				
Employer contributions	\$ 4,008,798	\$ 4,240,730	\$ 4,178,918	\$ 2,812,117
Total member contributions	242,277	279,818	282,512	302,877
Net investment income	1,369,128	447,723	(387,274)	445,374
Benefit payments	(1,646,605)	(2,621,784)	(3,524,512)	(5,911,889)
Administrative expenses	-	-	-	-
Net change in plan fiduciary net position	3,973,598	2,346,487	549,644	(2,351,521)
Plan fiduciary net position - beginning	9,484,030	7,137,543	6,587,899	8,939,420
Plan fiduciary net position - ending (b)	<u>\$ 13,457,628</u>	<u>\$ 9,484,030</u>	<u>\$ 7,137,543</u>	<u>\$ 6,587,899</u>
District's net pension liability - ending (a) - (b)	<u>\$ 22,482,305</u>	<u>\$ 24,282,892</u>	<u>\$ 25,773,972</u>	<u>\$ 24,457,050</u>
Plan fiduciary net position as a percentage of the total pension liability	37.44%	28.09%	21.69%	21.22%
Covered-employee payroll	\$ 6,792,068	\$ 7,641,327	\$ 8,500,992	\$ 8,978,341
District's net pension liability as a percentage of covered-employee payroll	331.01%	317.78%	303.19%	272.40%

Notes to Schedule:

Schedule Presentation: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

Benefit Change: The year ended June 30, 2014 reflects a plan amendment to automatically update a member's annual compensation to include the most recent three years at each plan year end for members active in June.

Changes of Assumptions: For the year ended June 30, 2014 the load for participants choosing an annuity instead of a lump sum was increased to 7% from 2%. For the year ended June 30, 2015 future investment earnings were updated from 7.0% to 6.0% to reflect current market expectations and retirement rates were updated to reflect recent plan experience.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of District Contributions for Defined Benefit Pension Plan

Last Ten Fiscal Years

	Year Ended June 30,			
	2017	2016	2015	2014
Actuarially determined contribution	\$ 3,990,255	\$ 4,240,730	\$ 4,126,720	\$ 2,809,677
Contributions in relation to the actuarially determined contribution	<u>4,008,798</u>	<u>4,240,730</u>	<u>4,178,918</u>	<u>2,812,117</u>
Contribution deficiency (excess)	<u>\$ (18,543)</u>	<u>\$ -</u>	<u>\$ (52,198)</u>	<u>\$ (2,440)</u>
Covered-employee payroll	\$ 6,792,068	\$ 7,641,327	\$ 8,500,992	\$ 8,978,341
Contributions as a percentage of covered-employee payroll	59.02%	55.50%	49.16%	31.32%

Notes to Schedule:

Benefit Change: The contributions for the year ended June 30, 2015 reflects a plan amendment to automatically update a member's annual compensation to include the most recent three years at each plan year end for members active in June.

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of District Contributions for Defined Benefit Pension Plan

Last Ten Fiscal Years

Year Ended June 30,					
2013	2012	2011	2010	2009	2008
\$ 2,689,448	\$ 2,514,414	\$ 2,518,989	\$ 2,251,305	\$ 1,776,288	\$ 1,391,798
<u>2,689,448</u>	<u>2,514,899</u>	<u>2,518,990</u>	<u>2,251,305</u>	<u>1,776,288</u>	<u>1,391,798</u>
<u>\$ -</u>	<u>\$ (485)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 9,572,847	\$ 9,389,207	\$ 9,867,775	\$ 9,814,764	\$ 9,383,851	\$ 9,076,394
28.09%	26.78%	25.53%	22.94%	18.93%	15.33%

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Funding Progress for Retiree Health Plan

	Actuarial Valuation Date		
	6/30/2015	6/30/2012	6/30/2009
Actuarial value of assets (a)	\$ -	\$ -	\$ -
Actuarial accrued liability (b)	<u>4,709,103</u>	<u>4,984,974</u>	<u>6,288,849</u>
Unfunded actuarial accrued liability (b-a)	<u>\$ 4,709,103</u>	<u>\$ 4,984,974</u>	<u>\$ 6,288,849</u>
Funded ratio (a/b)	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered payroll (c)	<u>\$ 10,914,785</u>	<u>\$ 9,448,814</u>	<u>\$ 9,380,438</u>
Unfunded actuarial accrued liability as a percentage of covered payroll ((b-a)/c)	<u>43%</u>	<u>53%</u>	<u>67%</u>

Notes to Schedule:

In the actuarial valuation conducted as of June 30, 2012, several actuarial assumptions were changed from those used in the actuarial valuation conducted as of June 30, 2009. The changes include reducing the healthcare cost trend rate used each year by 1%, reducing the percentage of active employees who are assumed to be married from 75% to 65%, and modifying the retirement decrement rates.

OTHER SUPPLEMENTARY INFORMATION

CENTRAL LINCOLN PEOPLE'S UTILITY DISTRICT

Schedule of Electric Plant in Service

	June 30,	
	2017	2016
Intangible plant:		
Organization	\$ 14,743	\$ 14,743
Franchises and consents	1,387	1,387
Miscellaneous	131,687	131,687
Total intangible plant	<u>147,817</u>	<u>147,817</u>
Transmission plant:		
Land and land rights	2,239,585	2,239,585
Station equipment	50,344	50,344
Poles, towers and fixtures	12,598,004	11,965,602
Overhead conductors and devices	6,142,686	6,055,336
Underground conduit	54,999	54,999
Underground conductors and devices	297,138	297,138
Total transmission plant	<u>21,382,756</u>	<u>20,663,004</u>
Distribution plant:		
Land and land rights	1,991,827	1,991,827
Structures and improvements	4,267,909	4,267,909
Station equipment	43,039,740	43,005,379
Poles, towers and fixtures	19,052,839	18,611,771
Overhead conductors and devices	16,867,293	16,443,253
Underground conduit	14,555,050	13,827,092
Underground conductors and devices	16,511,452	14,709,080
Line transformers	23,766,937	23,406,108
Services	6,356,839	6,289,061
Meters and devices	6,420,842	6,333,224
Installations on customers' premises	677,709	665,424
Street lighting equipment	2,459,285	2,247,038
Total distribution plant	<u>155,967,722</u>	<u>151,797,166</u>
General plant:		
Land and land rights	3,091,296	3,044,019
Structures and improvements	11,444,448	11,947,675
Office furniture and equipment	15,825,765	15,856,987
Transportation equipment	7,196,724	6,869,773
Stores equipment	8,529	8,529
Tools and shop equipment	1,472,111	1,452,746
Laboratory equipment	675,922	622,752
Communications equipment	14,615,584	14,422,959
Miscellaneous equipment	61,755	61,755
Total general plant	<u>54,392,134</u>	<u>54,287,195</u>
Total electric plant in service	<u>\$ 231,890,429</u>	<u>\$ 226,895,182</u>

**INDEPENDENT AUDITOR'S COMMENTS REQUIRED BY
OREGON STATE REGULATIONS**

INDEPENDENT AUDITOR'S COMMENTS
REQUIRED BY OREGON STATE REGULATIONS

October 19, 2017

Board of Directors
Central Lincoln People's Utility District
Newport, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Central Lincoln People's Utility District as of and for the year ended June 30, 2017, and have issued our report thereon dated October 19, 2017.

Internal Control Over Financial Reporting

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

Compliance

As part of obtaining reasonable assurance about whether Central Lincoln People's Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions and repayment.
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing nothing came to our attention that caused us to believe Central Lincoln People's Utility District was not in substantial compliance with certain provisions of laws, regulations, contracts and grant agreements, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

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. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these specified parties.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.