

Financial Statements and Report of Independent
Certified Public Accountants

Douglas County Lake Tahoe Sewer Authority

June 30, 2019

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Independent Auditor's Report

To the Board of Trustees
Douglas County Lake Tahoe Sewer Authority
Zephyr Cove, Nevada

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Douglas County Lake Tahoe Sewer Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 respective financial position of the business-type activities of the Authority, as of June 30, 2019, and the respective changes in financial position and cash flows thereof 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 pension information on page 23 and 24 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 pension 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The statements of net position by division, operating income (loss) by division, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of net position by division, operating income (loss) by division, and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 statements of revenues, expenses and changes in net position – budget and actual and statement of cash flows – budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the Douglas County Lake Tahoe Sewer Authority'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 solely 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 effectiveness of the Authority's 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 the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Reno, Nevada
November 26, 2019

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2019

As management of the Douglas County Lake Tahoe Sewer Authority (the "Authority," "DCLTSA"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2019.

Financial Highlights

Change was the biggest constant in this fiscal year. For the first time since the inception of Douglas County Sewer Improvement District No. 1 (DCSID) in 1953 and Douglas County Lake Tahoe Sewer Authority (DCLTSA) in 2017, this entity was required to bill its own sewer fees. That task was always done before by Douglas County proper as part of each homeowner's property taxes. However, when the legislative change from DCSID to DCLTSA was made in 2017, Douglas County was no longer required to do that. Little did we realize how much work would be required to set up and maintain a billing system, to collect payments and to track properties as they change hands. It became necessary to add an administrative accounting position. Office and banking expenses increased by 57%, more than \$6,000.

Since this entity began more than 65 years ago, the treatment plant had been staffed 24 hours a day, 7 days a week, year-round. Over the past several years, efforts have been made to increase security and redundancy and implement a Supervisory Control and Data Acquisition (SCADA) system which provides real-time information about plant processes remotely. In April of 2019, the long-time goal of safely moving away from 24 hour a day operation was achieved. The Authority's existing operations and maintenance staff rotate stand-by shifts for one week at a time, to respond in case of emergency, and the plant is now unstaffed from 8:00 p.m. until 7:00 a.m. the next day. This enables us to accomplish more maintenance tasks in the daytime because we have more people here, rather than spreading them over additional shifts. As long-time operators retire in the next couple of years, it may not be necessary to replace them. That will reduce staffing costs. The move away from 24/7 staffing will save more than \$14,000 in the coming fiscal year because Night-Time Differential will no longer be paid.

The Nevada side of the Lake Tahoe Basin contains five sewer collection systems, with the Authority as the sole entity treating wastewater. Sewer rates charged to Kingsbury General Improvement District (KGID), Round Hill General Improvement District (RHGID) and Tahoe Douglas District (TDD) and to the Authority's In-District users are determined by each entity's percentage of flow compared to total flows. The residences in Elk Point Sanitation District, for purposes of rate calculation, are treated as In-District users.

It became apparent in the prior fiscal year that there were problems with the flow percentage calculations, therefore in the 2019 fiscal year, DCLTSA's Board of Trustees commissioned a study of flows contributed. Independent meters were placed on the collection lines of each district and anomalies were found in every instance. One of the Authority's meters, at the Beach Pump Station which collects wastewater from the casino corridor and business community of South Lake Tahoe, Nevada, was more than 30 years old. Therefore, when it became apparent that inaccuracies were present in each district, DCLTSA immediately took steps to make sure its own meters were reliable. Both the Beach Pump Station and Plant Influent meters were replaced with new meters, calibrated by the manufacturer. The cost of replacing the meters was more than \$23,000. Almost all the installation of the new meters was done in-house, by the Authority's maintenance and operations staff. For the Beach Pump Station meter that required working with a hoist and scaffolding in the wee hours of the morning, while flows were low. The cost of that project would have been more than double had we not had capable staff.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2019

Financial Highlights - Continued

After grant funding dried up, over the past five years the Authority completed a number of environmental safety and redundancy projects from the reserves it had accumulated. However the Authority was still facing large capital projects to replace and upgrade Aeration Basins, Grit Removal and Headworks units, equipment so old that repair parts are no longer available. Therefore, last year the Authority's Board decided to seek a low-interest loan from the State Revolving Fund (SRF) to cover the large capital costs. To make that possible, sewer rates were raised 5.5% in the current year, and will be increased an additional 5.5% each year for four (4) more years, specifically to pay the debt service on the loan and to bring the construction reserves back up.

In the 2017 fiscal year, Underground Emergency Storage Tanks were installed at the Main Pump Station located near the beach in Lake Tahoe. Soon after the project was finished, it was discovered that the tanks had buckled and were filling up with groundwater. Action was immediately taken to make a claim for remediation against the general contractor and the tank manufacturer. That case is in litigation, and in this fiscal year approximately \$58,000 was paid for that matter in legal and consulting fees. Additionally, it was necessary for the Authority to pump more than 21 million gallons of groundwater out of the failed tanks after an extremely wet-weather year at a treatment cost of approximately \$200,000.

In the wastewater treatment field, the primary cost drivers are utilities and staffing. This year, utilities were down 3.2% from the prior year. As noted elsewhere in this analysis, the Authority had been planning the move away from 24/7 staffing for several years. As staff members retired this year, some were not replaced. Therefore, Salaries and Benefits were down 2.51% from the prior year. Overall, operating expenses excluding depreciation were down 5.33% from the 2018 fiscal year.

The Authority's capital investment in new meters and operating equipment this year totaled \$386,535. In addition to the new flow meters, some of the larger capital expenditures included in that sum were \$97,500 for paving the private road from US Highway 50 to the plant and the purchase of a skid steer for \$63,500 to haul biosolids bins and remove snow.

Regarding the projects on the Authority's ongoing Capital Development Plan, besides the litigation costs associated with the Underground Emergency Storage System, \$8,170 was spent to begin design on the Aeration Basin and Plant Upgrades project and to seek bids for a Construction Manager at Risk. Utilizing that process as opposed to the Design-Bid-Build process enables the selected construction firm to collaborate with the design engineers on a practical level early in the design process. It also will provide the Authority with a Guaranteed Maximum Price for the project at the 90% design phase, so there are no surprises and adjustments can be made prior to actual construction.

In the 2015 fiscal year, as required by the Government Accounting Standards Board (GASB), the Authority implemented GASB Pronouncement 68. That standard required that local governments report a proportionate share of the Public Employees Retirement System (PERS) net liability on the local government's financial statements. In July 2019, Nevada PERS issued a report entitled Schedule of Employer Allocations, Schedule of Pension Amounts by Employer, and Related Notes for the Fiscal Year Ended June 30, 2018. Per that report, the Authority's proportionate share of the PERS liability decreased by \$122,032 or .5%.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2019

Financial Highlights - Continued

In the 2018 fiscal year, the Authority adopted GASB Pronouncement 75, which replaced GASB 45, related to Other Post-Employment Benefits (OPEB) which consist of health care benefits paid currently and in the future on behalf of retirees. GASB 45 dictated that OPEB liabilities actuarially determined and accrued since 2012 be recognized on the face of the Authority financial statements. GASB 75 states that all OPEB liabilities even prior to 2012 be recognized in the financial statements. An updated actuarial evaluation was performed this year by MacLeod Watts, resulting in a reduction to the Authority's OPEB liability of \$32,185.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of two components: 1) the financial statements, and 2) notes to the financial statements that explain in more detail the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information about the Authority's accounting methods which are similar to those methods used by private-sector companies. These statements provide both long-term and short-term information about the Authority's overall financial status.

The statement of net position provides information about the nature and the amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It provides one way to measure the financial health of the Authority by providing the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial position of the Authority. However, to fully understand the Authority's financial picture it is necessary to consider non-financial factors such as changes in economic conditions, population and commercial customer growth, and new or changed government legislation.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the financial results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities. This statement also provides answers to such questions as where cash came from, what cash was used for, and what was the change in the cash balance during the reporting period.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2019

Financial Analysis of the Authority

Net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by more than \$35 million at the close of the most recent fiscal year. The current fiscal year's net position is \$196,318 more than the prior year's.

As can be seen in Table A-1, the largest portion of the Authority's net position reflects its investment in capital assets (i.e., sewer lines, treatment facilities, buildings, machinery and equipment). The Authority uses these capital assets to provide sewage treatment services for its customers. Consequently, these assets are not available for future spending.

15% or \$5,270,454 of the Authority's net position represents resources that are subject to external restrictions on how those resources may be used. The remaining balance of unrestricted net position in the amount of \$2,195,284 as of June 30, 2019 may be used to support operating and maintenance expenses.

While the Condensed Summary of Statement of Net Position (Table A-1) shows the change in our financial position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As shown in Table A-2, for the fiscal year 2019, total revenues increased by \$124,391 or 2.6% while total expenses including depreciation and amortization decreased \$122,095 or 2.5%. The increase in revenues is due to the rate hike specifically for capital development.

Sewer user charges increased \$214,870 or 4.9%, while operating expenses excluding depreciation decreased \$169,858 or 5.3%. Nonoperating revenues increased by \$51,829 or 21.1% attributable to higher interest earnings on investments.

Budgetary Highlights

The Authority adopts annual Operations and Maintenance and Capital budgets outlining the estimated expenditures for programs or projects already authorized or to be considered by the Authority's Board of Trustees. Annually, unspent funds may be carried over to the succeeding fiscal year budget if a budgetary surplus exists.

In fiscal year 2019, the Authority budgeted a decrease in net position of \$154,078, however the Authority's actual net position increased by \$196,318.

At the end of each fiscal year, the actual operating expenses attributable to each contracted participating district are adjusted against the estimated and budgeted amounts. Actual operating expenses were lower than budgeted and the relative flow percentages attributable to each entity were somewhat lower than estimated. That resulted in refunds for each of the three participating districts ranging from a high of 14% to a low of 1.7%. Overall, the rate adjustment for these districts resulted in an approximate 6.8% decrease.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2019

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the Authority's capital assets amounted to \$28,498,935 net of accumulated depreciation and amortization as shown in Table A-3. During the year a comprehensive asset inventory was performed and assets that had been replaced over the years were removed along with their accumulated and remaining depreciation. \$524,492 of assets were removed, some of them dating back to the 1970's. Some very early assets had been assigned 50- year service lives, so despite the fact that they were no longer in service, some asset value was still on the books. Removing that remaining asset value resulted in a \$22,929 loss on disposal of assets.

Recognizing that electronic assets are requiring replacement more quickly than they used to, whether from planned obsolescence by the manufacturer, or the caustic effect of being in a wastewater treatment environment, the Authority has recently begun depreciating computer equipment over 3 years, rather than 5 and variable frequency drives over 5 years instead of 7. This change will of course slightly increase depreciation expense in the coming years.

During the year, \$453,846 was spent on the Authority's capital improvement projects. Those projects included the installation of new flow meters at the Beach Pump Station and the Treatment Plant, upgrading the export pumps' electronics to a soft-start system to reduce the sudden pressure on pipes and valves, the purchase of a skid steer to move biosolids bins and blow snow, and refurbishing pumps at the Main Pump Station. Design work also began on the Aeration Basin and Plant Upgrades Project.

Authority capital expenditures are expected to increase significantly in fiscal 2020. Design will continue and then actual construction work will begin on the Aeration Basin and Plant Upgrades Project. That work will be funded through the State Revolving Fund loan which is expected to close in early October, 2019.

Economic Factors and Next Year's Budgets and Rates

A valid indicator of the economy in the area can be based on sewer flows within the service area. Casinos and hotels comprise the major industry in the area, accounting for 90% of all commercial flows within the Authority. The balance of revenue from in-Authority users is received from small commercial and residential users. Commercial users are assessed on metered water flows. Residential users are flat rated. Commercial flows in 2018 increased by 2.5% from the previous year. Overall, flows decreased by 6.3%. This decrease is likely a result of slightly less ground water infiltration into manholes following two even wetter winters. Each of the districts served is cognizant that leaking pipes result in higher sewer rates, and they are working to prevent that.

The fiscal year 2020 operating budget reflects operating expenses that total \$5,141,979 including depreciation and amortization, an increase of 9.9% over fiscal year 2019 actual operating expenses. The increase in operating expenses is attributable to cost of living increases passed on by vendors, and higher fuel and chemical costs. For the 2020 fiscal year in-Authority residential rates were raised 5.3% to \$493 per year. Commercial rates were raised 4.9% to \$9.91 per 1,000 gallons. All of the rate increases, In-Authority and to the participating districts, total \$250,000 and are strictly for use on Capital Development Plan projects in the future.

Douglas County Lake Tahoe Sewer Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

June 30, 2019

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Douglas County Lake Tahoe Sewer Authority, P.O. Box 578, Zephyr Cove, NV 89448.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
(Unaudited)

June 30, 2019

Table A-1
Condensed Summary of Statement of Net Position

	June 30,		Increase/ (Decrease)
	2019	2018	
Current, restricted and other assets	\$ 11,294,558	\$ 10,072,321	\$ 1,222,237
Capital assets	28,498,935	29,725,940	(1,227,005)
Total assets	39,793,493	39,798,261	(4,768)
Deferred outflows of resources	512,803	544,195	(31,392)
Total liabilities	4,702,397	4,968,154	(265,757)
Deferred inflows of resources	576,323	543,409	32,914
Net position			
Invested in capital assets	27,561,839	28,679,882	(1,118,043)
Restricted	5,270,452	4,164,543	1,105,909
Unrestricted	2,195,284	1,986,468	208,816
Total net position	\$ 35,027,575	\$ 34,830,893	\$ 196,682

Table A-2
Condensed Summary of Revenues,
Expenses and Changes in Net Position

	June 30,		Increase/ (Decrease)
	2019	2018	
Operating revenues			
Sewer user charges	\$ 4,561,387	\$ 4,346,517	\$ 214,870
Other income	67,010	189,753	(122,743)
Nonoperating revenues	298,064	245,870	52,194
	4,926,461	4,782,140	144,321
Operating expenses			
Maintenance and operations	3,019,086	3,188,944	(169,858)
Depreciation and amortization	1,657,922	1,610,159	47,763
Loss on disposal of assets	22,929	-	22,929
Debt service interest	29,842	33,205	(3,363)
Total expenses	4,729,779	4,832,308	(102,529)
CHANGE IN NET POSITION	196,682	(50,168)	246,850
Net position, beginning of year	34,830,893	34,881,061	(50,168)
Net position, end of year	\$ 35,027,575	\$ 34,830,893	\$ 196,682

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

June 30, 2019

Table A-3
Capital Assets

	June 30,		Increase/ (Decrease)
	2019	2018	
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	49,656,450	49,029,728	626,722
Equipment and other assets	4,511,889	4,647,609	(135,720)
Leasehold improvements	798,812	798,812	-
Construction in progress	4,715,702	5,277,350	(561,648)
	<u>60,786,287</u>	<u>60,856,933</u>	<u>(70,646)</u>
Less: Accumulated deprecation and amortization	<u>(32,287,352)</u>	<u>(31,130,993)</u>	<u>(561,648)</u>
Net property, plant, equipment and leasehold improvements	<u>\$ 28,498,935</u>	<u>\$ 29,725,940</u>	<u>\$ (1,227,005)</u>

FINANCIAL STATEMENTS

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF NET POSITION

June 30, 2019

ASSETS		<u>2019</u>	<u>2018</u>
CURRENT ASSETS			
Cash		\$ 454,336	\$ 409,110
Cash equivalents		2,818,828	2,861,463
Cash in custody of other governments		22,997	23,108
Short-term certificate of deposit investments		1,225,000	245,000
Accounts receivable		129,716	137,220
Supply inventory		29,600	27,359
Prepaid expenses		108,654	104,693
Interest receivable		17,015	11,820
Total current assets		<u>4,806,146</u>	<u>3,819,773</u>
RESTRICTED ASSETS			
Repair and replacement			
Cash		12,409	7,183
Cash equivalents		1,124,710	1,181,460
Short-term certificate of deposit investments		980,000	1,715,000
Interest receivable		12,454	9,691
		<u>2,129,574</u>	<u>2,913,334</u>
Construction			
Cash		403,054	83,431
Cash equivalents		708,620	8,620
Restricted investments		225,853	225,853
		<u>1,337,527</u>	<u>317,904</u>
Total current restricted assets		<u>3,467,101</u>	<u>3,231,238</u>
LONG-TERM ASSETS			
Long-term certificate of deposit investments		1,114,215	1,960,000
Total long-term assets		<u>1,114,215</u>	<u>1,960,000</u>
RESTRICTED LONG-TERM ASSETS			
Repair and replacement			
Long-term certificate of deposit investments		1,825,785	980,000
Total restricted long-term assets		<u>1,825,785</u>	<u>980,000</u>
CAPITAL ASSETS			
Capital assets not being depreciated		5,819,135	23,345,157
Capital assets being depreciated, net		22,679,801	6,380,784
		<u>28,498,936</u>	<u>29,725,940</u>
OTHER ASSETS			
Deposits		81,310	81,310
Total other assets		<u>81,310</u>	<u>81,310</u>
Total assets		<u>\$ 39,793,493</u>	<u>\$ 39,798,261</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension requirement		\$ 450,671	\$ 462,125
Postemployment retirement obligation		62,132	82,070
Total deferred outflows of resources		<u>\$ 512,803</u>	<u>\$ 544,195</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF NET POSITION - CONTINUED

June 30, 2019

LIABILITIES

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES, payable from current assets		
Accounts payable	\$ 234,911	\$ 228,806
Accrued compensation and other expenses	146,664	131,738
Current portion of long-term debt	<u>112,376</u>	<u>108,961</u>
Total current liabilities payable from current assets	<u>493,951</u>	<u>469,505</u>
CURRENT LIABILITIES, payable from restricted assets		
Construction		
Accounts payable	<u>22,433</u>	<u>46,695</u>
Total current liabilities payable from restricted assets	<u>22,433</u>	<u>46,695</u>
ACCRUED COMPENSATION - noncurrent	<u>48,719</u>	<u>48,067</u>
OPEB LIABILITY - noncurrent	<u>959,992</u>	<u>992,177</u>
PERS proportionate liability - noncurrent	<u>2,352,581</u>	<u>2,474,613</u>
LONG-TERM DEBT, less current portion	<u>824,721</u>	<u>937,097</u>
Total liabilities	<u>4,702,397</u>	<u>4,968,154</u>
DEFERRED INFLOWS OF RESOURCES		
Pension requirement	537,977	499,718
Postemployment retirement obligation	<u>38,346</u>	<u>43,691</u>
Total deferred inflows of resources	<u>576,323</u>	<u>543,409</u>
NET POSITION		
Net investment in capital assets	27,561,839	28,679,882
Restricted for construction	1,315,094	271,209
Restricted for repair and replacement	<u>3,955,359</u>	<u>3,893,334</u>
	5,270,452	4,164,543
Unrestricted	<u>2,195,284</u>	<u>2,486,186</u>
Total net position	<u>\$ 35,027,575</u>	<u>\$ 35,330,611</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended June 30, 2019

	<u>2019</u>	<u>2018</u>
Operating revenues		
Charges for services and assessments	\$ 4,561,387	\$ 4,346,517
Other income	67,010	189,753
	<u>4,628,397</u>	<u>4,536,270</u>
Operating expenses before depreciation and amortization		
Salaries, wages and benefits	1,865,367	1,913,391
Electrical and other utilities	349,634	361,197
Chemicals and supplies	87,078	83,817
Legal and accounting	91,500	110,487
Engineering and consulting	138,868	188,033
Repairs and maintenance	234,224	306,149
Insurance	71,192	63,523
Fuels and lubricants	22,416	16,082
Other operating expenses	158,807	146,265
Depreciation and amortization	1,657,922	1,610,159
	<u>4,677,008</u>	<u>4,799,103</u>
Operating loss	<u>(48,611)</u>	<u>(262,833)</u>
Nonoperating revenues (expenses)		
Consolidated taxes	137,984	137,984
Interest income	158,800	111,966
Debt service interest	(29,842)	(33,205)
Loss on Disposal of Assets	(22,929)	-
Capacity fees	1,280	(4,080)
	<u>245,293</u>	<u>212,665</u>
CHANGE IN NET POSITION	<u>196,682</u>	<u>(50,168)</u>
Net position - beginning of year	34,830,893	34,881,061
Net position - end of year	<u>\$ 35,027,575</u>	<u>\$ 34,830,893</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF CASH FLOWS

Year ended June 30, 2019

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,663,207	\$ 4,806,702
Cash payments to suppliers for goods and services	(1,181,121)	(1,416,004)
Cash payments to employees for services including benefits	(1,939,700)	(2,017,731)
Net cash provided by operating activities	<u>1,542,386</u>	<u>1,372,967</u>
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(478,109)	(2,423,607)
Consolidated taxes	137,984	137,984
Cash (used) received for capacity fees	1,280	(4,080)
Debt service interest	(29,841)	(33,205)
Payments on long-term debt	(108,961)	(105,649)
Net cash used in capital and related financing activities	<u>(477,647)</u>	<u>(2,428,557)</u>
 Cash flows from investing activities:		
Purchase of investments	(245,000)	-
Interest income on investments	150,841	108,515
Net cash provided by investing activities	<u>(94,159)</u>	<u>108,515</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	970,580	(947,075)
 Cash and cash equivalents at beginning of year	<u>4,574,375</u>	<u>5,521,450</u>
 Cash and cash equivalents at end of year	<u>\$ 5,544,955</u>	<u>\$ 4,574,375</u>
 Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (48,611)	\$ (262,833)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,657,922	1,610,159
Net pension expense	(33,940)	122,497
Net other post employment benefits expense	(55,971)	255,765
Change in assets and liabilities:		
Supply inventory	(2,241)	(2,224)
Prepaid expenses	(3,961)	(12,889)
Accounts receivable	7,504	161,588
Deposits	-	10,000
Accounts payable and accrued liabilities	21,683	(509,096)
Total adjustments	<u>1,590,997</u>	<u>1,635,800</u>
Net cash provided by operating activities	<u>\$ 1,542,386</u>	<u>\$ 1,372,967</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Authority's significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Reporting Entity

The District was formed in 1953 to provide a public agency for collection, treatment, and disposal of sewage from the unincorporated area known as Stateline, Nevada. After Douglas County proposed an Ordinance to take over the District, and the Ordinance was not passed, in 2017 the Nevada State Legislature heard and adopted Senate Bill 472, now codified as Nevada Revised Statute 335, abolishing the District and replacing it with the Douglas County Lake Tahoe Sewer Authority. All duties of the District, all assets, liabilities, contracts, and accounting procedures were adopted by the Authority at the time of the switch-over.

Governmental Accounting and Financial Reporting Standards, adopted by the Governmental Accounting Standards Board, set forth the criteria for determining oversight responsibility. Manifestations of oversight responsibility, which the Authority possesses, include (1) financial interdependency, (2) accountability for fiscal matters, (3) ability to select the governing authority, (4) the ability to designate management, and (5) the ability to significantly influence operations. The Authority is located in Douglas County, Nevada; however, it is not included in the financial statements of Douglas County.

The Authority's financial statements have been prepared on the basis of the governmental proprietary fund concept, as adopted by the Governmental Accounting Standards Board. The governmental proprietary fund concept provides that activities operated in a manner similar to private business enterprises and financed through fees and charges assessed primarily to the users of the services, be presented as a single enterprise fund.

Certain liquid assets of the Authority are restricted for emergency repair and replacement and construction, and are thus categorized separately on the Statement of Net Position. The sources and nature of these restrictions are discussed in Note B.

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. This means that all assets, deferred outflows of resources, all liabilities and deferred inflows of resources (whether current or non-current) associated with their activity are included on their statement of net position. Their reported net position is segregated into invested in capital assets, restricted and unrestricted components. Under the accrual basis of accounting method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
- Continued

Capacity fees are charged to a third party for the purchase of the capacity right of gallons per day of average daily flow in the treatment plant facilities and are recognized as revenue when such rights are sold. The properties within the boundaries of this Authority are charged annual assessments for maintenance, operation and modification of the system. In addition, four other participating districts are charged annual assessments for their share of maintenance, operation and modifications of the system. Annual assessments are recognized as revenue when the services are provided.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Cash and Cash Equivalents

The Authority considers cash and all short-term investments with original maturities of three months or less to be cash equivalents, as well as cash in custody with the County or State.

4. Accounts Receivable

The Authority considers receivables at June 30, 2019 to be fully collectible; therefore, no allowance for doubtful accounts is required.

5. Inventories

All inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

6. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

New capital assets and construction projects are capitalized when completed and/or placed in service. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest expense was capitalized in fiscal year 2019.

Property, plant, equipment and leasehold improvements of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Capital Assets - Continued

Assets	Years
Land	Not depreciated
Facilities	25-50 years
Plant lines	15-30 years
Equipment and other assets	3-20 years
Leasehold improvements	Over life of lease

7. Accrued Vacation and Sick Leave

All vacation pay is accrued in the financial statements when it is earned. DCLTSA's employee policies allow employees to buy-out or be paid for a portion of their vacation leave on a yearly basis. Remaining vacation time may be accumulated by employees at fiscal year-end up to 240 hours and compensatory time may be accrued up to 96 hours. Unused vacation and compensatory hours up to the maximum accrual are payable to employees upon retirement or termination. Additionally, employees receive accrued sick pay of up to 960 hours, at 25% of their current hourly rate upon retirement or voluntary termination. The financial statements reflect the vacation and compensatory time accrual plus 25% accrual of sick pay for all employees calculated at the June 30, 2019 rate of pay.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Nevada (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

9. Other Post Employment Benefit

Regarding the measurement of OPEB liabilities, the Authority relies on actuarial studies performed by MacLeod Watts to determine the total liability. Due to the complexity of setting up a trust for OPEB purposes, the Authority reports the total liability as determined in the actuarial studies, and pays the retiree health benefits as they come due

10. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. The Authority has pension and OPEB related amounts that qualify for reporting in this category. Pension and other post-employment benefits related deferred outflows of resources are discussed in depth in Note G and Note H, respectively.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Deferred Outflows/Inflows of Resources – Continued

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until that time. The Authority has pension and OPEB related amounts that qualify for reporting in this category. Pension and other post-employment benefits related deferred outflows of resources are discussed in depth in Note G and Note H, respectively..

11. Fair Value

The Authority follows the provisions of the fair value measurement standard which defines the fair value of assets, establishes a framework for measuring the fair value of assets, and outlines the required disclosures related to fair market measurements. The standard defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

The standard established a fair value hierarchy for disclosure that classified inputs for valuation techniques into three levels as follows:

Level 1 – Observable inputs are readily available quoted prices (unadjusted) for *identical* assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – Inputs for the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 – Inputs are unobservable inputs for an asset or liability in which there is little or no market date. Assets in this category generally include investments where independent pricing information was not obtainable for a significant portion of the underlying assets.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

12. Estimates

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 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. Significant estimates made by the Authority include the accrued other post-employment benefits (OPEB) and PERS net pension liability. Actual results could differ from those estimates.

13. New Accounting Pronouncements

There were no new accounting pronouncements relevant to or adopted by the Authority this year.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

14. Summarized

The summarized information in the financial statements of Douglas County Lake Tahoe Sewer Authority as of June 30, 2018, were audited by other auditors, whose report dated November 27, 2018, express an unmodified opinion on those statements. The summarized columns are presented only to facilitate financial analysis.

NOTE B - RESTRICTED ASSETS

1. Repair and Replacement

As provided under the Authority ordinance dated April 18, 2003, annexation and out-of-Authority capacity fees charged for connection to the Authority's sewage system shall be deposited in the Plant Repair and Replacement Fund and restricted as to application for the purpose of making emergency repairs, reconstructing repairs or expanding the Authority's sewage system.

NOTE B - RESTRICTED ASSETS- CONTINUED

2. Construction

As provided under the Authority ordinance dated April 18, 2003, special assessments collected from properties within this Authority, and the participating districts with whom the Authority is engaged by contract to provide wastewater treatment, are restricted to capital expenditures for the construction and improvements of the Authority's sewage system.

NOTE C - CASH AND CASH EQUIVALENTS

As of June 30, 2019, the Authority has cash deposits in the amount of \$869,615 and the amount is carried at cost. The bank's balance of \$970,314 is FDIC insured up to \$250,000, and fully collateralized with the Nevada State Collateral Pool, as described below.

In the case of deposits, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to voluntarily participate in the Nevada State Collateral Pool for public fund deposits. Depository banks are required to place acceptable securities of no less than 102% market value of the total deposits of public entities in Nevada with a third party custodian. The collateral pool is administered and monitored by the Nevada State Treasurer's Office. Due to its participation in the Nevada State Collateral Pool, the Authority's deposits were fully insured and collateralized, and as such, were not exposed to any custodial credit risk at June 30, 2019.

Cash equivalents consist of deposits in the Nevada State Local Government Investment Pool (LGIP), deposits in interest bearing checking and money market accounts and certificates of deposit investments having an initial maturity date of three months or less. At June 30, 2019, cash equivalents of \$2,767,468 are on deposit with LGIP and \$1,884,690 are on deposit in interest bearing checking and money market accounts. In addition, cash in custody of other governments is considered a cash equivalent.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE C - CASH AND CASH EQUIVALENTS – Continued

Cash and cash equivalents totaled the following at June 30:

	2019	2018
Operating		
Cash	\$ 454,336	\$ 409,110
Cash equivalents	2,818,828	2,861,463
Cash in custody of other governments	22,997	23,108
Repair and replacement		
Cash	12,409	7,183
Cash equivalents	1,124,710	1,181,460
Construction		
Cash	403,054	83,431
Cash equivalents	708,620	8,620
	\$ 5,544,955	\$ 4,574,375

NOTE D - INVESTMENTS

The Authority’s investment holdings as of June 30, 2019 consisted of certificates of deposit, which are categorized as Level 2 investments in accordance with the fair value hierarchy.

1. Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as interest rate risk and credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates.

Nevada Revised Statute sections 355.165, 355.167, and 355.170 authorize the Authority to invest in obligations of the U.S. Treasury, certificates of deposit, and money market mutual funds which are registered with the Securities and Exchange Commission, are rated “AAA” by a nationally recognized rating service, and in securities issued by the federal government or agencies of the federal government. All of the Authority’s investments meet those criteria.

2. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment; generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s Investment Policy requires that investments mature in no more than three years, with at least 60% of the investment portfolio maturing in less than three years. The certificates of deposit are “laddered” in such a way that nine (9) certificates of deposit of \$245,000 each will mature before June 30, 2020. These policies minimize the Authority’s interest rate risk.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE D – INVESTMENTS - CONTINUED

3. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Authority manages credit risk by diversifying its investments by institution, and continuously investing a portion of its portfolio in pooled investment funds, money market accounts and interest bearing checking accounts to ensure appropriate liquidity.

NOTE E - PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, plant, equipment and leasehold improvements consist of the following as of June 30:

	<u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</u>
Capital assets being depreciated				
Wastewater reclamation				
plant and lines	\$37,739,718	\$ 113,269	\$ (179,278)	\$ 37,673,709
Collection lines	1,196,828	701,835	(9,104)	1,889,559
Equipment and other assets	4,647,609	200,391	(336,110)	4,511,890
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>54,476,149</u>	<u>1,015,495</u>	<u>(524,492)</u>	<u>54,967,152</u>
Less accumulated depreciation and amortization				
Wastewater reclamation				
plant and lines	(22,335,618)	(1,052,350)	162,463	(23,225,505)
Collection lines	(900,997)	(54,527)	6,709	(948,815)
Equipment and other assets	(2,063,153)	(346,091)	332,391	(2,076,853)
Leasehold improvements	(798,798)	-	-	(798,798)
Effluent disposal facility	(5,032,426)	(204,954)	-	(5,237,380)
	<u>(31,130,992)</u>	<u>(1,657,922)</u>	<u>501,563</u>	<u>(32,287,351)</u>
Net capital assets being depreciated	23,345,157	(642,427)	(22,929)	22,679,801
Capital assets not being depreciated				
Land	1,103,434	-	-	1,103,434
Construction in progress	5,277,350	185,049	(746,698)	4,715,701
Net capital assets not being depreciated	<u>6,380,784</u>	<u>185,049</u>	<u>(746,698)</u>	<u>5,819,135</u>
	<u>\$29,725,941</u>	<u>\$ (457,378)</u>	<u>\$ (769,627)</u>	<u>\$ 28,498,936</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F - LONG-TERM DEBT

On May 25, 2006, the Authority entered into a loan contract with the State of Nevada in order to complete Phases II and III of the Reservoir Lining Project. The maximum amount available on that contract from the “Clean Water State Revolving Fund” was \$2,000,000. Interest on loan funds disbursed under that contract shall accrue interest at the rate of 3.2375%, payable semiannually on January 1st and July 1st, of each year. In connection with that loan, the Authority delivered a \$2 million bond to the State Treasurer as collateral. Seven draws were made on the loan in the total amount of \$1,225,304. Principal and interest payments are due on this loan twice a year in the amount of \$45,392. During the 2019 year, \$70,783 of the loan principal was repaid, leaving the Authority with a balance of \$564,560 at June 30, 2019. In connection with this loan, \$225,853 of the Authority’s funds are held by the Local Government Investment Pool as collateral and are restricted for use by the Authority.

On August 28, 2007, the Authority entered into another loan contract with the State of Nevada to complete the main pump station Redundant Force Main Project. The maximum amount available on the contract from the “Clean Water State Revolving Fund” was \$1,200,000. In connection with this loan, \$84,092 was transferred to the Authority’s account at the Local Government Investment Pool as collateral and is also restricted for use by the Authority. Interest on loan funds disbursed under that contract shall accrue interest at the rate of 2.875%, payable semiannually on January 1st and July 1st, of each year. In connection with that loan, the Authority delivered a \$1.2 million bond to the State Treasurer as collateral. Two draws were made on the loan in the total amount of \$694,766. Principal and interest payments are due twice a year in the amount of \$24,857. During the 2019 year, \$38,178 of the loan principal was repaid, leaving the Authority with a balance of \$372,537 at June 30, 2019.

Following is a summary of the activity in the notes payable account for the year ended June 30, 2019:

	Principal Outstanding July 1, 2018	Additions/ Issued	Payments	Principal Outstanding June 30, 2019	Current Portion June 30, 2019
Note 1	\$ 635,343	\$ -	\$ 70,782	\$ 564,561	\$ 73,092
Note 2	410,714	-	38,178	372,536	39,284
	<u>\$ 1,046,057</u>	<u>\$ -</u>	<u>\$ 108,960</u>	<u>\$ 937,097</u>	<u>\$ 112,376</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE F - LONG-TERM DEBT - Continued

The annual requirements to amortize the existing principal drawn on the loans are as follows:

Years ending June 30,	Principal	Interest	Total
2020	\$112,376	\$28,121	\$140,497
2021	115,899	24,598	140,497
2022	119,533	20,964	140,497
2023	123,281	17,216	140,497
2024	127,147	13,350	140,497
2025-2028	338,861	16,705	355,565
	\$937,097	\$120,954	\$1,058,050

NOTE G - PENSION PLAN

1. Plan Description

The Authority contributes to the Public Employees Retirement System (PERS or the System), a cost-sharing, and multiple-employer defined benefit public employees' pension plan administered by the State of Nevada. PERS has 206 participating employers. There are no non-employer contributing entities identified in the 2018 GASB 68 Report or the 2018 CAFR issued by the System. PERS provides retirement benefits, disability benefits, annual cost-of-living adjustments, and death benefits to plan members, both Regular and Police/Fire classes, and beneficiaries. DCLTSA's employees are considered Regular members. The System was established by the Nevada Legislature in 1947, and the provisions are set forth in Nevada Revised Statutes Chapter 286. PERS issues a Comprehensive Annual Financial Report, which may be obtained by writing to the Public Employees Retirement System of Nevada, 693 West Nye Lane, Carson City, Nevada 89703 or by visiting the website at www.nvpers.org.

A. 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 1, 2010 and July 1, 2015.

Monthly benefit allowances for members are computed as 2.50% 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 2.50% service time factor and for members entering the System on or after July 1, 2015, there is a 2.25% factor. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept a 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.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G - PENSION PLAN - Continued

1. Plan Description - Continued

B. Vesting

Regular plan members entering the System prior to January 1, 2010 are eligible for retirement at age 65 with five years of service, at age 60 with ten years of service, or at any age with thirty years of service. Regular plan members entering the System on or after January 1, 2010 are eligible for retirement at age 65 with five years of service or age 62 with 10 years of service, or any age with thirty years of service. Regular members who entered the System on or after July 1, 2015 are eligible for retirement at age 65 with 5 years of service, at age 62 with 10 years of service, at age 55 with 30 years of service, or any age with 33 1/3 years of 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. Members become fully vested as to benefits upon completion of five years of service.

C. Contributions

The authority for establishing and amending the obligation to make contributions and member contribution rates is set by statute. Contributions are shared equally by employer and employee. DCLTSA is an Employer-Paid agency which means that employees take a reduced salary and the contributions are paid by the Authority.

The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime in order to accumulate sufficient assets to pay benefits when due.

The System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis. Contributions made are in accordance with the required rates established by the Nevada Legislature. These statutory rates are increased or decreased pursuant to NRS 286.421 and 286.450.

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 contributions requirement as a percentage of salary.

For the fiscal years ended June 30, 2019 and 2018 the Statutory Employer-Pay contribution rate for Regular Members was 28%. One-half of the contribution is considered employees' salaries, and their portion of the contribution.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G - PENSION PLAN - Continued

2. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Authority reported a liability of \$2,352,581 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 pension liability was determined by an actuarial valuation as of that date. The Authority's allocation percentage of the net pension liability was based on the employer portion of the total contributions due on wages paid during the measurement period relative to the total employer contributions for all employers for the period ended June 30, 2018. At June 30, 2018, the Authority's portion was .01725 percent of the total.

<u>Reconciliation of net pension liability</u>	
Beginning net pension liability, July 1, 2018	\$2,474,613
Pension expense	86,666
New net deferred inflows/outflows	<u>(208,698)</u>
Ending net pension liability, June 30, 2018	<u><u>\$2,352,581</u></u>

For the year ended June 30, 2019 the Authority recognized pension expense of \$86,666. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	73,700	109,200
Changes of assumptions	123,966	-
Net difference between projected and actual earnings on investments	-	11,200
Changes in proportion and differences between actual contributions and proportionate share of contributions	94,657	417,577
Contributions subsequent to the measurement date	158,348	-
	<u><u>\$ 450,671</u></u>	<u><u>\$ 537,977</u></u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G - PENSION PLAN - Continued

2. **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - Continued

The \$158,348 reported as deferred outflows of resources resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year 2020. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2020	\$ (4,559)
2021	(54,649)
2022	(110,481)
2023	(47,349)
2024	(25,427)
2025	(3,189)
	<u>\$ (245,654)</u>

3. **Actuarial Assumptions**

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Payroll Growth	5.00%, including inflation
Productivity pay increases	0.5%
Projected salary increases	4.25% - 9.15%, depending on service and including inflation and productivity increases
Investment rate of return	7.500%
Consumer Price Index	2.75%
Post-Retirement Benefit increases	2.75%, in line with inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table, set back one year for females (no age setback for males), reasonably reflect the projected mortality experience of the Plan as of the measurement date. The additional projection of 13 years is a provision made for future mortality improvement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial valuation completed that same date. There were no changes in actuarial assumptions since the preceding valuation.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE G - PENSION PLAN – Continued

3. Actuarial Assumptions - Continued

The following was the PERS' Board adopted policy target asset allocation as of June 30, 2018:

Asset Class	Target Allocation	Long-Term Geometric Expected Real Rate of Return*
Domestic equity	42%	5.50%
International equity	18%	5.75%
Domestic fixed income	30%	0.25%
Private markets	10%	6.80%

*As of June 30, 2018, PERS' long-term inflation assumption was 2.75%

Discount rate. The discount rate used to measure the total pension liability was 7.50% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2018 was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Pension liability discount rate sensitivity. The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
The Authority's proportional share of the net pension liability	<u>\$3,587,590</u>	<u>\$2,352,581</u>	<u>\$1,326,360</u>

The System's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer 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 the employer contributions relative to the total employer contributions for all employers for the period ended June 30, 2018.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE H - OTHER POST-EMPLOYMENT BENEFITS

1. Plan Description and Eligibility

Authority Plan. Since September 1, 2008, the Authority has had in place a single-employer post-employment benefits program available to retirees of the Authority (Authority Plan). The Plan provides eligible employees who retire from the Authority the ability to continue their coverage under the health plans offered by the Authority to its active employees, including medical, dental, vision and life insurance coverage. There are no assets accumulated in a trust for this Plan. The Authority administers the Authority Plan.

PEBP. The Authority's employees who retired prior to September 1, 2008 were enrolled in the State of Nevada Public Employees' Benefit Plan (PEBP). Public employees who met the eligibility requirements for retirement had the option upon retirement to continue group insurance including medical, dental, vision, accidental death and dismemberment, travel accident, long-term disability, mental health, substance abuse and life insurance benefits. Nevada Administrative Code 287.530 bestowed this benefit upon the retiree. There are no assets accumulated in a trust for this Plan. The Public Employees' Benefits Program administers these benefits as a multiple employer cost sharing plan. Complete financial statements for the State Retirees' Health and Welfare Benefits Fund can be obtained from the Accounting Department at the Public Employees Benefit Program, 901 South Stewart Street, Carson City, Nevada 89701.

2. Funding Policy

Authority Plan. The Authority has adopted a schedule to determine its contribution to each retiree's OPEB benefits based on the amount of time each retiree has served Nevada government employers. That OPEB schedule will be reviewed on an annual basis, as part of the budgeting process, and may be amended by the Board of Directors. In July 2009, the first actuarial study was done by Bickmore Risk Associates, and funding options were thereafter considered by the Authority's Board. Due to the small size of the Authority and its few employees, it was determined the Pay-As-You-Go method would be adopted.

For fiscal year 2019, the Authority contributed \$44,318 for current premiums. Plan members receiving benefits contributed varying amounts depending on the types and levels of coverage sought, and the number of people under their plans selected, up to a maximum of \$675 per month.

PEBP. Public employers' contributions for each fiscal year, and sometimes fiscal quarters are determined by the Nevada State Department of Administration, Budget Division. For Authority retirees currently on the PEBP benefits plan, the retiree's monthly contributions are deducted from pension checks. The cost varies depending on which health plan the retiree chooses as well as the amount of the subsidy paid by the Authority. The Authority pays its required contribution monthly when PEBP invoices are received.

For fiscal year 2019, the Authority's contributions toward the PEBP plan was \$17,814. These amounts vary by year due to state Department of Administration changes in the subsidy limits.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

3. Employees covered by benefit terms

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Authority Plan

Active employees	12
Retirees and surviving spouses	8
Active plan members	<u>20</u>

PEBP

Inactive employees or beneficiaries currently receiving benefit payments	8
Inactive employees entitled to, but not yet receiving benefit payments	-
Active plan members	<u>8</u>

4. Actuarial Methods and Assumptions

The Authority Plan and the PEBP were each measured as of June 30, 2018.

Actuarial valuations include projections of the sharing of benefit-related costs that are based on labor association agreements and an established pattern of practice. The total OPEB liability in the actuarial valuation for each plan was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified. The actuarial valuation date was June 30, 2017 and allowed roll forward procedures were utilized in accordance with GASB 75 for both plans.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE H - OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

4. Actuarial Methods and Assumptions - Continued

	<u>Authority Plan</u>	<u>PEBP</u>
Valuation date	6/30/2017	6/30/2017
Actuarial cost method	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay
Inflation	2.75% per year	2.75% per year
Healthcare cost trend rates	6.25% in 2019, set down .05% per year to 5.0% by 2024	Before Medicare: 6.5% in 2018 grading to 5.0% by 2023; after Medicare: 4.5% per year
Salary increases	4.00%	Not applicable; retirees only
Discount rate	3.62%	3.62%
Retirement age	45 to 75	Not applicable; retirees only
Mortality	Headcount weighted RP 2014 Healthy Annuity, set forward 1 year; projected with MacLeod Watts Scale 2017	Headcount weighted RP 2014 Healthy Annuity, set forward 1 year; projected with MacLeod Watts Scale 2017

5. Discount Rate

The discount rate is the same for both Plans. The discount rate at the measurement date is 3.62%. Benefit payments are funded on a pay-as-you go basis. The discount rate is based on the Fidelity Municipal Bond AA 20 Year Maturity Yield as of June 30, 2018. The discount rate at the previous measurement date is 3.56% based on the Fidelity Municipal Bond AA 20 Year Maturity Yield as of June 30, 2017.

6. Changes in OPEB liabilities

	<u>Authority Plan</u>	<u>PEBP</u>	<u>Total</u>
Balance, July 1, 2018	\$ 736,116	\$ 256,061	\$ 992,177
Changes for year			
Service cost	20,692	-	20,692
Interest	26,071	8,538	34,609
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions or other inputs	(4,615)	(1,438)	(6,053)
Benefit payments	<u>(48,965)</u>	<u>(32,468)</u>	<u>(81,433)</u>
Net changes	(6,817)	(25,368)	(32,185)
Balance, June 30, 2019	<u>\$ 729,299</u>	<u>\$ 230,693</u>	<u>\$ 959,992</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE H - OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

7. Sensitivity of the total OPEB liability to changes in the discount rate

	1% Decrease in Discount Rate (2.62%)	Discount Rate (3.62%)	1% Increase in Discount Rate (4.62%)
Authority Plan	\$ 812,674	\$ 729,299	\$ 658,705
PEBP	256,549	230,693	208,611
Total OPEB liability	<u>\$ 1,069,223</u>	<u>\$ 959,992</u>	<u>\$ 867,316</u>

8. Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

	1% Decrease	Health Care Cost Trend	1% Increase
Authority Plan	\$ 687,105	\$ 729,299	\$ 783,354
PEBP	207,448	230,693	257,441
Total OPEB liability	<u>\$ 894,553</u>	<u>\$ 959,992</u>	<u>\$ 1,040,795</u>

9. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$36,803 for the Authority Plan and \$7,100 for PEBP.

For the year ended June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE H - OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

	<u>Authority Plan</u>	<u>PEBP</u>	<u>Total</u>
Deferred outflows of resources			
Changes of assumption	\$ -	\$ -	\$ -
Differences between expected and actual experiences	-	-	-
Net difference between projected and actual earnings on investments	-	-	-
Contributions subsequent to the measurement date	44,318	17,814	62,132
Total	<u>\$ 44,318</u>	<u>\$ 17,814</u>	<u>\$ 62,132</u>
Deferred inflows of resources			
Changes of assumption	\$ 38,346	\$ -	\$ 38,346
Differences between expected and actual experiences	-	-	-
Net difference between projected and actual earnings on investments	-	-	-
Total	<u>\$ 38,346</u>	<u>\$ -</u>	<u>\$ 38,346</u>

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

Reporting period ending June 30,	<u>Authority Plan</u>	<u>PEBP</u>
2020	\$ (9,960)	\$ -
2021	(9,960)	-
2022	(9,960)	-
2023	(7,851)	-
2024	(615)	-
	<u>\$ (38,346)</u>	<u>\$ -</u>

NOTE I - CONTINGENCIES

The Authority is the named Plaintiff in an action involving the failure of an Underground Storage Facility constructed during the 2017 fiscal year. Within months of the time it was put into service, it began leaking groundwater into the tanks. Action was immediately taken to make a claim for remediation against the general contractor and the tank manufacturer. After attempts at a judicial settlement conference and private mediation failed, litigation commenced and a trial date is currently set to begin on November 30, 2020. In the past three fiscal years, more than \$95,000 of legal expenses have been incurred regarding this matter. Additionally, more than 23,000,000 gallons of groundwater have been pumped out of the tanks, at a treatment cost of approximately \$220,000. Consultants have been hired to determine how best to repair or replace the facility. It is anticipated that the repair or replacement will cost more than \$2,000,000. Legal fees will continue to be incurred in the resolution of this matter.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE J – SUBSEQUENT EVENTS

On October 3, 2019 the Authority closed on a State Revolving Fund loan, for a maximum amount of \$9,000,000 to be drawn over a period of three years. The interest rate on the loan is 2.08 % for a period of twenty years. The loan proceeds will be used to update the plant Aeration Basins and update the grit and headworks screening processes. The debt service on the loan will be for interest payments only pending completion of the construction.

REQUIRED SUPPLEMENTAL INFORMATION

Douglas County Lake Tahoe Sewer Authority

SCHEDULE OF AUTHORITY CONTRIBUTIONS
Public Employees' Retirement System of Nevada

Last ten fiscal years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 161,415	\$ 160,670	\$ 167,155	\$ 181,723	\$ 152,122	(Historical information prior to the implementation of GASB 67/68 is not required)				
Contributions in relation to the contractually required contribution	<u>(161,415)</u>	<u>(160,670)</u>	<u>(167,155)</u>	<u>(181,723)</u>	<u>(152,122)</u>					
Contribution deficiency (excess)	<u>\$ -</u>									
Authority's covered payroll	<u>\$ 1,246,144</u>	<u>\$ 1,245,377</u>	<u>\$ 1,264,884</u>	<u>\$ 1,307,235</u>	<u>\$ 1,324,729</u>					
Contributions as a percentage of covered payroll	<u>12.95%</u>	<u>12.90%</u>	<u>13.22%</u>	<u>13.90%</u>	<u>11.48%</u>					
Contribution rate set by statute	<u>28.00%</u>	<u>28.00%</u>	<u>28.00%</u>	<u>28.00%</u>	<u>25.75%</u>					

Douglas County Lake Tahoe Sewer Authority

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

Last ten fiscal years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Authority's proportion of the net pension liability	<u>1.72500%</u>	<u>0.01861%</u>	<u>0.02096%</u>	<u>0.01960%</u>	<u>0.02070%</u>	(Historical information prior to the implementation of GASB 67/68 is not required)				
Authority's proportionate share of the net pension liability	<u>\$ 2,352,581</u>	<u>\$ 2,474,613</u>	<u>\$ 2,820,680</u>	<u>\$ 2,245,886</u>	<u>\$ 2,155,697</u>					
Authority's covered payroll	<u>\$ 1,246,144</u>	<u>\$ 1,245,377</u>	<u>\$ 1,264,884</u>	<u>\$ 1,307,235</u>	<u>\$ 1,324,729</u>					
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	<u>189%</u>	<u>199%</u>	<u>223%</u>	<u>172%</u>	<u>163%</u>					
PERS fiduciary net position as a percentage of the total pension liability	<u>75.20%</u>	<u>74.40%</u>	<u>72.20%</u>	<u>75.13%</u>	<u>76.31%</u>					

Douglas County Lake Tahoe Sewer Authority

SCHEDULE OF CHANGES IN THE AUTHORITY'S
TOTAL OPEB LIABILITY AND RELATED RATIOS

June 30, 2019

Authority Plan

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Service cost	\$ 20,692	\$ 22,256	(Historical information prior to the implementation of GASB 75 is not required)							
Interest	26,071	23,140								
Change of benefit terms	-	-								
Differences between expected and actual experience	-	-								
Changes in assumptions or other inputs	(4,615)	(52,851)								
Benefit payments	<u>(48,965)</u>	<u>(53,303)</u>								
Net change in total OPEB liability	(6,817)	(60,758)								
Total OPEB liability - beginning of year	<u>736,116</u>	<u>796,874</u>								
Total OPEB liability - ending of year	<u>\$ 729,299</u>	<u>\$ 736,116</u>								

PEPB

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Service cost	\$ -	\$ -	(Historical information prior to the implementation of GASB 75 is not required)							
Interest	8,538	8,279								
Change of benefit terms	-	-								
Differences between expected and actual experience	-	-								
Changes in assumptions or other inputs	(1,438)	(17,250)								
Benefit payments	<u>(32,468)</u>	<u>(36,978)</u>								
Net change in total OPEB liability	(25,368)	(45,949)								
Total OPEB liability - beginning of year	<u>256,061</u>	<u>302,010</u>								
Total OPEB liability - ending of year	<u>\$ 230,693</u>	<u>\$ 256,061</u>								

* No assets are held in trust for either Plan.

Douglas County Lake Tahoe Sewer Authority

**SCHEDULE OF CHANGES IN THE AUTHORITY'S
TOTAL OPEB LIABILITY AND RELATED RATIOS**

June 30, 2019

Note A – Other Post-Employment Benefit

Changes of benefit terms. In the June 30, 2018 actuarial valuation, there were no changes in benefit terms.

Changes of assumptions. In the June 30, 2018 actuarial valuation, the discount rate changed from 3.56% to 3.62%.

SUPPLEMENTAL INFORMATION

Douglas County Lake Tahoe Sewer Authority

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL**

Year ended June 30, 2019

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Operating revenues			
Charges for services and assessments	\$ 4,695,615	\$ 4,561,387	\$ (134,228)
Other fees, revenue	<u>13,000</u>	<u>67,010</u>	<u>54,010</u>
Total operating revenues	<u>4,708,615</u>	<u>4,628,397</u>	<u>(80,218)</u>
Operating expenses			
Salaries, wages and benefits	2,035,875	1,865,367	170,508
Electrical and other utilities	389,160	349,634	39,526
Chemicals and supplies	75,000	87,078	(12,078)
Legal and accounting	115,960	91,500	24,460
Engineering and consulting	149,000	138,868	10,132
Repairs and maintenance	272,710	234,224	38,486
Insurance and other operating expenses	281,910	229,999	51,911
Fuels and lubricants	26,000	22,416	3,584
Depreciation and amortization	<u>1,683,525</u>	<u>1,657,922</u>	<u>25,603</u>
Total operating expenses	<u>5,029,140</u>	<u>4,677,008</u>	<u>352,132</u>
Operating loss	<u>(320,525)</u>	<u>(48,611)</u>	<u>271,914</u>
Nonoperating revenues			
Consolidated taxes	137,984	137,984	-
Interest income	60,000	158,800	98,800
Capacity fees	<u>-</u>	<u>1,280</u>	<u>1,280</u>
Total nonoperating revenues	<u>197,984</u>	<u>298,064</u>	<u>100,080</u>
Nonoperating expenditures			
Loss on disposal of assets	-	22,929	22,929
Debt service interest	<u>31,537</u>	<u>29,842</u>	<u>1,695</u>
Total nonoperating expenditures	<u>31,537</u>	<u>52,771</u>	<u>1,695</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (154,078)</u>	<u>\$ 196,682</u>	<u>\$ 373,689</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF CASH FLOWS – BUDGET AND ACTUAL

Year ended June 30, 2019

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Cash flows from operating activities:			
Cash received from customers	\$ 4,708,616	\$ 4,663,207	\$ (45,409)
Cash payments to suppliers for goods and services	(1,309,741)	(1,181,121)	128,620
Cash payments to employees for services including benefits	(2,035,875)	(1,939,700)	96,175
Net cash provided by operating activities	1,363,000	1,542,386	179,386
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(100,000)	(478,109)	(378,109)
Consolidated taxes	137,984	137,984	-
Cash received for capacity fees	-	1,280	1,280
Debt service interest	(31,537)	(298,421)	(266,884)
Payments on long-term debt	(108,961)	(108,961)	-
Net cash used in capital and related financing activities	(102,514)	(746,227)	(643,713)
Cash flows from investing activities:			
Redemption (Purchase) of investments	-	(245,000)	(245,000)
Interest income on investments	60,000	150,841	90,841
Net cash provided by investing activities	60,000	(94,159)	(154,159)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
	1,320,486	702,000	(618,486)
Cash and cash equivalents at beginning of year	4,980,967	4,574,375	(406,592)
Cash and cash equivalents at end of year	\$ 6,301,453	\$ 5,276,375	\$ (1,025,078)

COMPLIANCE SECTION



**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 Trustees
Douglas County Lake Tahoe Sewer Authority
Zephyr Cove, Nevada

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 the business-type activities of Douglas County Lake Tahoe Sewer Authority (the “Authority”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’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 the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Reno, Nevada
November 26, 2019