

Financial Statements and Report of Independent
Certified Public Accountants

Douglas County Lake Tahoe Sewer Authority

June 30, 2020

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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, 2020, 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 Authority'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 Authority'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, 2020, 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 management's discussion and analysis, and pension and other post-employment benefit information on pages 34 through 38, respectively, 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 management discussion and analysis, budgetary comparison, pension and other post-employment benefit 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 statement of cash flows – budget and actual is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of revenues, expenses and changes in net position – budget and actual, statement of cash flows – budget and actual is 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 statement of revenues, expenses and changes in net position – budget and actual and the 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 24, 2020, 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned to the left of the date and location information.

Reno, Nevada
November 24, 2020

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2020

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, 2020.

Financial Highlights

During the 2019 fiscal year, DCLTSA began the process of obtaining a \$9,000,000 loan from the State Revolving Loan Fund, to pay for rehabilitation of the existing aeration basins which were more than 40 years old. Additionally, upgrades to the headworks and grit removal processes were contemplated. In October 2019, the loan was approved and construction began to recoat the aeration basins and order fine bubble diffusers and turbo blowers to bring the aeration technology at the plant into the 21st century. Design also began on the headworks and grit removal equipment. It is anticipated that these upgrades will remove a significant amount of nitrogen from the effluent byproduct, a desirable outcome according to the Nevada Division of Environmental Protection (NDEP). Ongoing energy costs for the aeration process are also expected to decrease.

These plant treatment upgrade projects had been on the Authority's Capital Improvement Plan for many years and receiving the State Revolving Loan Fund money made them possible. As of June 30, 2020, \$1,102,261 has been drawn down on the loan. During construction of the project, only debt service interest will be charged at the rate of 2.08%. We anticipate that the project in its entirety will take at least two full years. Payment on the loan principal will begin at project completion or three years from the date of the loan whichever comes first.

COVID 19, the global pandemic, impacted DCLTSA's cash flow during the 2020 fiscal year, in that from March 17, 2020 until June 4, 2020 almost all of the businesses in the Stateline and Zephyr Cove, Nevada areas were closed by Governor Sisolak's Emergency Declaration. The Authority's biggest sewer users are the hotels and casinos in the Stateline area. Being closed for almost three months impacted their ability to pay bills, so the Authority's Board of Trustees adopted a Forbearance Agreement that would stop the charge of late fees to those entities and allow them to make payments once the businesses opened back up. While being beneficial to the community overall, the In-Authority portion of the Accounts Receivable figure on the financial statements increased from \$7,504 in the prior year to \$84,313 in 2020, as the direct result of the three-month shutdown.

Management continued to focus this year on expanding the Supervisory Control and Data Acquisition (SCADA) system. SCADA is comprised of electronic monitors and alarming components that allowed the Authority in 2019 to move away from 24/7 round-the-clock staffing. The SCADA system provides real-time information about plant processes remotely. Approximately \$30,500 was spent over the year to increase the capacity of the system.

DCLTSA's operations are 100% green, in that all of the wastewater taken in is processed and recycled. The biosolids are trucked over Kingsbury Grade (State Route 207) to be composted, and the treated effluent is pumped into the Carson Valley as well to be used on non-fodder crops. The export force main effluent line was put in the ground approximately 50 years ago and with that in mind the Authority's Trustees had adopted a plan which would begin replacing it in the 2022-2023 fiscal year. However, near the end of the 2020 fiscal year, through the SCADA alarming functions, Authority operators were warned of three separate effluent line leaks in a two-month period. Having early warning minimized the damage, but it became clear that we couldn't wait to begin replacing that pipeline. The Authority's Board of Trustees authorized emergency replacement of the first portion of the line to begin in October 2020. A pipeline condition assessment is also planned to determine which other portions might need to be replaced in the near future. The cost for emergency repair of the effluent line totaled almost \$65,000. The first phase of line replacement to take place in the 2021 fiscal year is estimated to cost \$1.6 million.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued (Unaudited)

June 30, 2020

Financial Highlights - Continued

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 ground water. 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 \$175,000 was paid for that matter in legal and consulting fees.

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 2020, 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, 2019. Per that report, the Authority's proportionate share of the PERS liability decreased by \$72,387 or 3.1%.

In the 2018 fiscal year, the Authority adopted GASB Pronouncement 75, which replaced GASB 45, related to Other Post-Employment Benefits (OPEB) consisting 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 \$83,485 or 8.7%.

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 and payments, and net changes in cash resulting from operating, investing and financing activities and 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, 2020

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 exceeded liabilities by more than \$35.5 million at the close of the most recent fiscal year. The current fiscal year's net position is \$500,056 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.

15.7% or \$5,566,791 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 \$2,670,633 as of June 30, 2020 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 the Authority financial position, the Statements of Revenues, Expenses, and Changes in Net Position (Table A-2) provides answers as to the nature and source of these changes. As shown in Table A-2, for the fiscal year 2020, total revenues increased by \$449,752 or 9.1% while total expenses including depreciation and amortization increased \$146,378 or 3.1%. The increase in revenues is due to additional capacity fees for commercial connections as well as the rate hike specifically designated for capital development.

Sewer user charges increased by \$265,867 or 5.8%, while operating expenses increased \$73,567 or 2.4%. Nonoperating revenues increased by \$68,728 or 23.1% attributable to higher In-Authority capacity fees.

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 2020, the Authority initially budgeted an operating decrease in net position of \$184,857. When the emergency repair expenses arose, out of an abundance of caution, the budget was augmented with a forecast decrease in operating net position of \$294,611. However, in this fiscal year the Authority's actual operating net position increased by \$267,802.

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 the individual entities were somewhat lower than estimated. That resulted in refunds for each of the three participating districts ranging from a high of 11.5% to a low of .2%. Overall, the rate adjustment for these districts resulted in an average 6.5% decrease.

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued (Unaudited)

June 30, 2020

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the Authority's capital assets amounted to \$29,217,189 net of accumulated depreciation and amortization as shown in Table A-3, an increase of \$718,254, largely attributable to the ongoing Plant Treatment Plant Upgrades project under construction.

During the year, \$2.26 million was spent on the Authority's capital improvement projects. Those projects included the installation of soft-start electronics on the plant's export pumps, the relocation of the plant drain from the centrifuge, SCADA server upgrades and starting a roof replacement on the administration building. A little more than \$1.95 million was spent on the design and construction of the Plant Upgrades Project and \$10,010 for the initial permitting of the emergency Export Line Replacement.

Authority capital expenditures are expected to increase significantly in fiscal 2021. Construction will continue on the Plant Upgrades Project, paid for with State Revolving Loan funds. Work will be completed on the first phase of the Export Line Replacement as well. It is expected that capital expenditures for the 2021 fiscal year will be more than \$3.6 million.

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 2019 decreased by 2.9% from the previous year. Overall, flows decreased by 3.9%. This decrease is likely a result of slightly less ground water infiltration into manholes from drier winter weather.

The fiscal year 2021 operating budget reflects operating expenses that total \$5,163,366 including depreciation and amortization, an increase of 8.9% over fiscal year 2020 actual operating expenses. The increase in estimated operating expenses is attributable to cost of living increases passed on by vendors, as well as higher fuel, chemical and insurance costs. For the 2021 fiscal year in-Authority residential and commercial rates were raised approximately 5.5% overall, as were rates to the participating districts to include a \$250,000 increase in the Capital Assessment, strictly for use on Capital Development Plan projects in the future.

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, 2020

Table A-1
Condensed Summary of Statements of Net Position

	June 30,		Increase/ (Decrease)
	<u>2020</u>	<u>2019</u>	
Current, restricted and other assets	\$ 12,748,162	\$ 11,294,557	\$ 1,453,605
Capital assets	<u>29,217,189</u>	<u>28,498,936</u>	<u>718,253</u>
Total assets	<u>41,965,351</u>	<u>39,793,493</u>	<u>2,171,858</u>
Deferred outflows of resources	<u>449,574</u>	<u>512,803</u>	<u>(63,229)</u>
Total liabilities	<u>6,154,892</u>	<u>4,702,398</u>	<u>1,452,494</u>
Deferred inflows of resources	<u>732,402</u>	<u>576,323</u>	<u>156,079</u>
Net position			
Invested in capital assets	27,290,207	27,561,839	(271,632)
Restricted	5,566,791	5,270,453	296,338
Unrestricted	<u>2,670,633</u>	<u>2,195,283</u>	<u>475,350</u>
Total net position	<u>\$ 35,527,631</u>	<u>\$ 35,027,575</u>	<u>\$ 500,056</u>

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

June 30, 2020

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

	June 30,		Increase/ (Decrease)
	2020	2019	
Operating revenues			
Sewer user charges	\$ 4,827,254	\$ 4,561,387	\$ 265,867
Other income	182,167	67,010	115,157
Nonoperating revenues	366,792	298,064	68,728
Total revenues	<u>5,376,213</u>	<u>4,926,461</u>	<u>449,752</u>
Operating expenses	3,092,653	3,019,086	73,567
Depreciation and amortization	1,648,966	1,657,922	(8,956)
Loss on disposal of assets	-	22,929	(22,929)
Debt service interest	32,629	29,842	2,787
Loan acquisition expense	101,909	-	101,909
Total expenses	<u>4,876,157</u>	<u>4,729,779</u>	<u>146,378</u>
CHANGE IN NET POSITION	500,056	196,682	303,374
Net position, beginning of year	<u>35,027,575</u>	<u>34,830,893</u>	<u>196,682</u>
Net position, end of year	<u>\$ 35,527,631</u>	<u>\$ 35,027,575</u>	<u>\$ 500,056</u>

Douglas County Lake Tahoe Sewer Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued
(Unaudited)

June 30, 2020

Table A-3
Capital Assets

	June 30,		Increase/ (Decrease)
	<u>2020</u>	<u>2019</u>	
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	51,680,527	49,656,450	2,024,077
Equipment and other assets	4,592,367	4,511,890	80,477
Leasehold improvements	798,812	798,812	-
Construction in progress	4,685,917	4,715,701	(29,784)
	<u>62,861,057</u>	<u>60,786,287</u>	<u>2,074,770</u>
Less: Accumulated depreciation and amortization	<u>(33,643,868)</u>	<u>(32,287,351)</u>	<u>(1,356,517)</u>
Net property, plant, equipment and leasehold improvements	<u>\$ 29,217,189</u>	<u>\$ 28,498,936</u>	<u>\$ 718,253</u>

FINANCIAL STATEMENTS

Douglas County Lake Tahoe Sewer Authority

STATEMENTS OF NET POSITION

June 30, 2020

ASSETS		
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash	\$ 586,267	\$ 454,336
Cash equivalents	4,274,521	2,818,828
Cash in custody of other governments	22,997	22,997
Short-term certificate of deposit investments	1,225,000	1,225,000
Accounts receivable	214,029	129,716
Supply inventory	31,495	29,600
Prepaid expenses	112,034	108,654
Interest receivable	8,715	17,015
Total current assets	<u>6,475,058</u>	<u>4,806,146</u>
RESTRICTED ASSETS		
Repair and replacement		
Cash	413,655	12,410
Cash equivalents	1,632,253	1,124,710
Short-term certificate of deposit investments	1,225,000	980,000
Interest receivable	8,394	12,454
	<u>3,279,302</u>	<u>2,129,574</u>
Construction		
Cash	1,015,740	403,054
Cash equivalents	825,093	708,620
Interest receivable	243	-
Restricted investments	336,416	225,853
	<u>2,177,492</u>	<u>1,337,527</u>
Total current restricted assets	<u>5,456,794</u>	<u>3,467,101</u>
LONG-TERM ASSETS		
Long-term certificate of deposit investments	-	1,114,215
Total long-term assets	<u>-</u>	<u>1,114,215</u>
RESTRICTED LONG-TERM ASSETS		
Repair and replacement		
Long-term certificate of deposit investments	735,000	1,825,785
Total restricted long-term assets	<u>735,000</u>	<u>1,825,785</u>
CAPITAL ASSETS		
Capital assets not being depreciated	5,789,351	5,819,135
Capital assets being depreciated, net	23,427,838	22,679,801
	<u>29,217,189</u>	<u>28,498,936</u>
OTHER ASSETS		
Deposits	81,310	81,310
Total other assets	<u>81,310</u>	<u>81,310</u>
Total assets	<u>\$ 41,965,351</u>	<u>\$ 39,793,493</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension requirement	\$ 399,827	\$ 450,671
Postemployment retirement obligation	49,747	62,132
Total deferred outflows of resources	<u>\$ 449,574</u>	<u>\$ 512,803</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENTS OF NET POSITION - Continued

June 30, 2020

LIABILITIES

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES, payable from current assets		
Accounts payable	\$ 217,952	\$ 234,911
Security deposits returnable	15,758	-
Accrued compensation and other expenses	156,849	146,665
Current portion of long-term debt	<u>115,899</u>	<u>112,376</u>
Total current liabilities payable from current assets	<u>506,458</u>	<u>493,952</u>
CURRENT LIABILITIES, payable from restricted assets		
Construction		
Accounts payable	<u>541,901</u>	<u>22,433</u>
Repair and replacement		
Accounts payable	<u>83,102</u>	<u>-</u>
Total current liabilities payable from restricted assets	<u>625,003</u>	<u>22,433</u>
NONCURRENT LIABILITIES		
Accrued compensation	55,647	48,719
OPEB liability	876,507	959,992
PERS proportionate liability	2,280,194	2,352,581
Long-term debt, less current portion	<u>1,811,083</u>	<u>824,721</u>
Total liabilities	<u>6,154,892</u>	<u>4,702,398</u>
DEFERRED INFLOWS OF RESOURCES		
Pension requirement	556,442	537,977
Postemployment retirement obligation	<u>175,960</u>	<u>38,346</u>
Total deferred inflows of resources	<u>732,402</u>	<u>576,323</u>
NET POSITION		
Net investment in capital assets	27,290,207	27,561,839
Restricted for construction	1,635,591	1,315,094
Restricted for repair and replacement	<u>3,931,200</u>	<u>3,955,359</u>
	<u>5,566,791</u>	<u>5,270,453</u>
Unrestricted	<u>2,670,633</u>	<u>2,195,283</u>
Total net position	<u>\$ 35,527,631</u>	<u>\$ 35,027,575</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>
Operating revenues		
Charges for services and assessments	\$ 4,827,254	\$ 4,561,387
Other income	182,167	67,010
	<u>5,009,421</u>	<u>4,628,397</u>
Operating expenses		
Salaries, wages and benefits	1,928,057	1,865,367
Electrical and other utilities	326,478	349,634
Chemicals and supplies	62,397	87,078
Legal and accounting	84,423	91,500
Engineering and consulting	125,836	138,868
Repairs and maintenance	307,777	234,224
Insurance	77,479	71,192
Fuels and lubricants	14,368	22,416
Other operating expenses	165,838	158,807
Depreciation and amortization	1,648,966	1,657,922
	<u>4,741,619</u>	<u>4,677,008</u>
Operating gain (loss)	<u>267,802</u>	<u>(48,611)</u>
Nonoperating revenues (expenses)		
Consolidated taxes	137,984	137,984
Interest income	171,488	158,800
Debt service interest	(32,629)	(29,842)
Gain (loss) on disposal of assets	720	(22,929)
Loan acquisition expense	(101,909)	-
Capacity fees	56,600	1,280
	<u>232,254</u>	<u>245,293</u>
CHANGE IN NET POSITION	500,056	196,682
Net position - beginning of year	<u>35,027,575</u>	<u>34,830,893</u>
Net position - end of year	<u>\$ 35,527,631</u>	<u>\$ 35,027,575</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,922,601	\$ 4,663,207
Cash payments to suppliers for goods and services	(1,101,221)	(1,181,121)
Cash payments to employees for services including benefits	(1,847,510)	(1,939,700)
Deposits refundable	15,758	-
Net cash provided by operating activities	<u>1,989,628</u>	<u>1,542,386</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,849,030)	(478,109)
Consolidated taxes	137,984	137,984
Cash from sale of assets	2,000	-
Cash received for capacity fees	56,600	1,280
State revolving fund loan proceeds	1,102,261	-
Debt issuance costs	(101,909)	-
Debt service interest	(32,629)	(29,841)
Payments on long-term debt	<u>(112,376)</u>	<u>(108,961)</u>
Net cash used in capital and related financing activities	<u>(797,099)</u>	<u>(477,647)</u>
Cash flows from investing activities:		
Redemption of investments	3,430,000	1,960,000
Purchase of investments	(1,470,000)	(2,205,000)
Restricted investments	(110,563)	-
Interest income on investments	183,605	150,841
Net cash provided by (used in) investing activities	<u>2,033,042</u>	<u>(94,159)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,225,571	970,580
Cash and cash equivalents at beginning of year	<u>5,544,955</u>	<u>4,574,375</u>
Cash and cash equivalents at end of year	<u>\$ 8,770,526</u>	<u>\$ 5,544,955</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating gain (loss)	<u>\$ 267,802</u>	<u>\$ (48,611)</u>
Adjustments to reconcile operating gain (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,648,966	1,657,922
Net pension expense	(3,079)	(33,940)
Net other post employment benefits expense	66,515	(55,971)
Change in assets and liabilities:		
Supply inventory	(1,895)	(2,241)
Prepaid expenses	(3,380)	(3,961)
Accounts receivable	(84,313)	7,504
Deposits refundable	15,758	-
Accounts payable and accrued liabilities	83,254	21,684
Total adjustments	<u>1,721,826</u>	<u>1,590,997</u>
Net cash provided by operating activities	<u>\$ 1,989,628</u>	<u>\$ 1,542,386</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 Authority was originally formed as Douglas County Sewer Improvement District ("District") 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 transferred to an 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 or part of 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 and all liabilities (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 fixed 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 - Continued

June 30, 2020

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 State.

4. Accounts Receivable

The Authority considers receivables at June 30, 2020 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 estimated fair market 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.

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

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

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2020 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statements 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 Other Post-Employment Benefit (OPEB) related amounts that qualify for reporting in this category. Pension related deferred outflows of resources are discussed in depth in Note G and Note H, respectively.

In addition to liabilities, the Statements 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 related deferred inflows 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, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. 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 for an asset or liability in which there is little or no market data. 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.

11. 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.

12. New Accounting Pronouncements

As of July 1, 2019, the Authority adopted GASB Statement No. 89, Accounting for Interest Cost incurred Before the End of a Construction Period. The implementation of this Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Analysis of various provisions of this standard resulted in no change in the District's previously issued audited financial statements.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

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.

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, 2020, the Authority has cash deposits in the amount of \$2,015,662 and the amount is carried at cost. The bank's balance of \$2,101,084 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, 2020.

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, 2020, cash equivalents of \$4,856,885 are on deposit with LGIP and \$1,874,982 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 - Continued

June 30, 2020

NOTE C - CASH AND CASH EQUIVALENTS - Continued

Cash and cash equivalents totaled the following at June 30:

	2020	2019
Operating		
Cash	\$ 586,267	\$ 454,336
Cash equivalents	4,274,521	2,818,828
Cash in custody of other governments	22,997	22,997
Repair and replacement		
Cash	413,655	12,410
Cash equivalents	1,632,253	1,124,710
Construction		
Cash	1,015,740	403,054
Cash equivalents	825,093	708,620
	\$ 8,770,526	\$ 5,544,955

NOTE D - INVESTMENTS

The Authority’s investment holdings as of June 30, 2020 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 ten (10) certificates of deposit of \$245,000 each will mature before June 30, 2021. These policies minimize the Authority’s interest rate risk.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

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, 2020:

	<u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>2020</u>
Capital assets being depreciated				
Wastewater reclamation plant and lines	\$ 37,673,709	\$ 2,224,816	\$ (192,959)	\$ 39,705,566
Collection lines	1,889,559	-	(7,780)	1,881,779
Equipment and other assets	4,511,890	173,467	(92,990)	4,592,367
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>54,967,152</u>	<u>2,398,283</u>	<u>(293,729)</u>	<u>57,071,706</u>
Less accumulated depreciation and amortization				
Wastewater reclamation plant and lines	(23,225,505)	(1,002,530)	192,959	(24,035,076)
Collection lines	(948,815)	(63,235)	7,780	(1,004,270)
Equipment and other assets	(2,076,853)	(378,234)	91,710	(2,363,377)
Leasehold improvements	(798,798)	(13)	-	(798,811)
Effluent disposal facility	(5,237,380)	(204,954)	-	(5,442,334)
	<u>(32,287,351)</u>	<u>(1,648,966)</u>	<u>292,449</u>	<u>(33,643,868)</u>
Net capital assets being depreciated	22,679,801	749,317	(1,280)	23,427,838
Capital assets not being depreciated				
Land	1,103,434	-	-	1,103,434
Construction in progress	4,715,701	2,259,873	(2,289,657)	4,685,917
Net capital assets not being depreciated	<u>5,819,135</u>	<u>2,259,873</u>	<u>(2,289,657)</u>	<u>5,789,351</u>
	<u>\$ 28,498,936</u>	<u>\$ 3,009,190</u>	<u>\$ (2,290,937)</u>	<u>\$ 29,217,189</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE F - LONG-TERM DEBT

Note 1: 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 accrues 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 2020 year, \$73,093 of the loan principal was repaid, leaving the Authority with a balance of \$491,468 at June 30, 2020. 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.

Note 2: 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. Those loan funds 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 2020 year, \$39,284 of the loan principal was repaid, leaving the Authority with a balance of \$333,253 at June 30, 2020.

Note 3: On October 3, 2019, the Authority entered into a third loan contract with the State of Nevada to complete the rehabilitation of its aerations basins and install other treatment plant upgrades. The maximum amount available on the contract from the "Clean Water State Revolving Fund" is \$9,000,000. In connection with this loan, at the time of each draw, ten percent (10%) of the draw amount is transferred to the Authority's bond reserve account at the Local Government Investment Pool as collateral and is restricted for use by the Authority. Interest on loan funds disbursed under the most recent contract accrues interest at the rate of 2.08%, payable semiannually on January 1st and July 1st, of each year. In connection with that loan, the Authority delivered a \$9.0 million bond to the State Treasurer as collateral. During the 2020 fiscal year, five (5) draws were made on the loan in the total amount of \$1,102,261. During the pendency of construction, only interest payments are due twice a year and the amount is calculated on the amount drawn to the date of the interest payment. Following the completion of construction or three years after the loan contract was signed, payments will come due twice a year on principal and interest both. During the 2020 year, \$779 was paid as interest on the third loan and the loan balance stood at \$1,102,261.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE F - LONG-TERM DEBT - Continued

Following is a summary of the activity in the notes payable account regarding the above-three loans for the year ended June 30, 2020:

	Principal Outstanding July 1, 2019	Additions/ Issued	Payments	Principal Outstanding June 30, 2020	Current Portion June 30, 2021
Note 1	\$ 564,561	\$ -	\$ 73,093	\$ 491,468	\$ 75,478
Note 2	372,536	-	39,283	333,253	40,421
	937,097	-	112,376	824,721	115,899
Construction loan					
Note 3	-	1,102,261	-	1,102,261	-
	<u>\$ 937,097</u>	<u>\$ 1,102,261</u>	<u>\$ 112,376</u>	<u>\$ 1,926,982</u>	<u>\$ 115,899</u>

The annual requirements to amortize the existing principal drawn on the 2006 and 2007 loans are as follows:

Years ending June 30,	Principal	Interest	Total
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	131,135	9,362	140,497
2026-2028	207,726	7,343	215,068
	<u>\$ 824,721</u>	<u>\$ 92,833</u>	<u>\$ 917,553</u>

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 215 participating employers. There are no non-employer contributing entities identified in the 2019 GASB 68 Report or the 2019 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.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE G - PENSION PLAN - Continued

1. **Plan Description** - Continued

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.

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.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE G - PENSION PLAN - Continued

1. **Plan Description** - Continued

C. *Contributions - Continued*

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 year ended June 30, 2019 the Statutory Employer-Pay contribution rate for Regular Members was 28%. For the fiscal year ended June 30, 2020 the Statutory Employer-Pay contribution rate for Regular Members was 29.25%. With the adoption of GASB 82, in the 2018 fiscal year, one-half of the contribution is considered employees' salaries, and their portion of the contribution.

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

At June 30, 2020, the Authority reported a liability of \$2,280,194 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2019. At June 30, 2019, the Authority's portion was .01672 percent of the total, which was a decrease of .00053% from its proportion measured at June 30, 2018.

<u>Reconciliation of net pension liability</u>	
Beginning net pension liability, July 1, 2019	\$ 2,352,581
Pension expense	153,621
New net deferred inflows/outflows	(226,008)
Ending net pension liability, June 30, 2020	<u>\$ 2,280,194</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE G - PENSION PLAN - Continued

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

For the year ended June 30, 2020, the Authority recognized pension expense of \$153,621. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,505	\$ 65,769
Changes of assumptions	92,794	-
Net difference between projected and actual earnings on investments	-	113,432
Changes in proportion and differences between actual contributions and proportionate share of contributions	67,456	377,241
Contributions subsequent to the measurement date	154,072	-
	<u>\$ 399,827</u>	<u>\$ 556,442</u>

The \$154,072 reported as deferred outflows of resources resulting from Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in fiscal year 2021. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2021	(70,221)
2022	(126,050)
2023	(62,918)
2024	(40,997)
2025	(9,383)
2026	(1,118)
	<u>\$ (310,687)</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions

The total pension liability in the June 30, 2019 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	7.50%
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 reflects 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, 2019 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.

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

Asset Class	Target Allocation	Long-Term Geometric Expected Real Rate of Return*
Domestic equity	42%	5.50%
International equity	18%	5.50%
Domestic fixed income	28%	0.75%
Private markets	12%	6.65%

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

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions - Continued

Discount rate. The discount rate used to measure the total pension liability was 7.50% as of June 30, 2019. 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, 2019 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, 2019.

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 (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
The Authority’s proportional share of the net pension liability	\$ 3,530,200	\$ 2,280,194	\$ 1,240,644

The System’s net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2019.

NOTE H - OTHER POST-EMPLOYMENT BENEFITS

1. Plan Description

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. 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.

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. 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.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

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 2020, the Authority contributed \$31,569 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 \$453 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 2020, the Authority’s contributions toward the PEBP plan was \$18,178. These amounts vary by year due to state Department of Administration changes in the subsidy limits.

3. Employees covered by benefit terms

At the measurement date of June 30, 2019, the following employees were covered by the benefit terms:

Authority Plan

Active employees	11
Retirees and surviving spouses	8
Active plan members	<u>19</u>

PEBP

Inactive employees or beneficiaries currently receiving benefit payments	6
Inactive employees entitled to, but not yet receiving benefit payments	-
Active plan members	<u>6</u>

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

4. Actuarial Methods and Assumptions

The Authority Plan and the PEBP were each measured as of June 30, 2019.

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.

	Authority Plan	PEBP
Valuation date	6/30/19	6/30/19
Actuarial cost method	Entry Age Normal Level % of Pay	Entry Age Normal Level % of Pay
Inflation	2.5% per year	2.5% per year
Healthcare cost trend rates	5.3% in 2021, fluctuates to ultimate rate of 4% in 2075	5.3% in 2021, fluctuates to ultimate rate of 4% in 2075
Salary increases	4%	Not applicable; retirees only
Discount rate	3.13%	3.13%
Retirement age	45 to 75	Not applicable; retirees only
Mortality	Headcount weighted RP 2014 Healthy Annuitant (includes MP 2014 proj to 2014) MW Scale 2018 proj from 2018	Headcount weighted RP 2014 Healthy Annuitant (includes MP 2014 proj to 2014) MW Scale 2018 proj from 2018
Mortality Improvement	forward	forward

5. Discount Rate

The discount rate is the same for both Plans. The discount rate at the measurement date was 3.13%. 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, 2019. The discount rate at the previous measurement date was 3.62% based on the Fidelity Municipal Bond AA 20 Year Maturity Yield as of June 30, 2018.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

6. Changes in OPEB liabilities

	Authority Plan	PEBP	Total
Balance, July 1, 2019	\$ 729,299	\$ 230,693	\$ 959,992
Changes for year			
Service cost	21,297	-	21,297
Interest	26,369	8,029	34,398
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions or other inputs	(180,296)	103,248	(77,048)
Benefit payments	(44,318)	(17,814)	(62,132)
Net changes	(176,948)	93,463	(83,485)
Balance, June 30, 2020	\$ 552,351	\$ 324,156	\$ 876,507

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

	1% Decrease in Discount Rate -2.13%	Discount Rate -3.13%	1% Increase in Discount Rate -4.13%
Authority Plan	\$ 618,117	\$ 552,351	\$ 497,456
PEBP	362,508	324,156	291,858
Total OPEB liability	\$ 980,625	\$ 876,507	\$ 789,314

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	\$ 552,351	\$ 552,351	\$ 552,351
PEBP	293,400	324,156	359,800
Total OPEB liability	\$ 845,751	\$ 876,507	\$ 912,151

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

For the year ended June 30, 2020, the Authority recognized OPEB expense of \$4,984 for the Authority Plan and \$111,277 for the PEBP.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - Continued

June 30, 2020

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

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

For the year ended June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows related to OPEB for the 2020 year as follows:

	Authority Plan	PEBP	Total
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	31,569	18,178	49,747
Total	<u>\$ 31,569</u>	<u>\$ 18,178</u>	<u>\$ 49,747</u>
Deferred inflows of resources			
Changes of assumption	\$ 71,630	\$ -	\$ 71,630
Differences between expected and actual experiences	104,330	-	104,330
Net difference between projected and actual earnings on investments	-	-	-
Total	<u>\$ 175,960</u>	<u>\$ -</u>	<u>\$ 175,960</u>

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

Reporting period ending June 30,	Authority Plan	PEBP
2021	\$ (42,682)	\$ -
2022	(42,682)	-
2023	(40,573)	-
2024	(33,337)	-
2025	(16,686)	-
	<u>\$ (175,960)</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 set for June of 2021. In the past four fiscal years, more than \$209,000 of legal and consulting expenses have been incurred regarding this matter. It is anticipated that the replacement of the facilities will cost more than \$2,000,000. Legal fees will continue to be incurred in the resolution of this matter.

REQUIRED SUPPLEMENTAL INFORMATION

Douglas County Lake Tahoe Sewer Authority

SCHEDULE OF AUTHORITY CONTRIBUTIONS
Public Employees' Retirement System of Nevada

Last Ten Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 157,579	\$ 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 statutorily required contribution	<u>(157,579)</u>	<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>\$ 1,124,090</u>	<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>14.02%</u>	<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>29.25%</u>	<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>2020</u>	<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>
Authority's proportion of the net pension liability	<u>0.01672%</u>	<u>0.01725%</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>\$ 2,280,194</u>	<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>\$ 1,124,090</u>	<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>203%</u>	<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>76.46%</u>	<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

Last Ten Fiscal Years*

Authority Plan

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Service cost	\$ 21,297	\$ 20,692	\$ 22,256							
Interest	26,369	26,071	23,140							
Change of benefit terms	-	-	-							
Differences between expected and actual experience	-	-	-							
Changes in assumptions or other inputs	(180,296)	(4,615)	(52,851)							
Benefit payments	<u>(44,318)</u>	<u>(48,965)</u>	<u>(53,303)</u>							
Net change in total OPEB liability	(176,948)	(6,817)	(60,758)							
Total OPEB liability - beginning of year	<u>729,299</u>	<u>736,116</u>	<u>796,874</u>							
Total OPEB liability - ending of year	<u>\$ 552,351</u>	<u>\$ 729,299</u>	<u>\$ 736,116</u>							

(Historical information prior to the implementation of GASB 75 is not required)

PEBP

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Service cost	\$ -	\$ -	\$ -							
Interest	8,029	8,538	8,279							
Change of benefit terms	-	-	-							
Differences between expected and actual experience	-	-	-							
Changes in assumptions or other inputs	103,248	(1,438)	(17,250)							
Benefit payments	<u>(17,814)</u>	<u>(32,468)</u>	<u>(36,978)</u>							
Net change in total OPEB liability	93,463	(25,368)	(45,949)							
Total OPEB liability - beginning of year	<u>230,693</u>	<u>256,061</u>	<u>302,010</u>							
Total OPEB liability - ending of year	<u>\$ 324,156</u>	<u>\$ 230,693</u>	<u>\$ 256,061</u>							

(Historical information prior to the implementation of GASB 75 is not required)

*No assets are held in trust for either Plan.

Douglas County Lake Tahoe Sewer Authority

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2020

NOTE A - OTHER POST-EMPLOYMENT BENEFIT

Changes of benefit terms: In the June 30, 2019 actuarial valuation, there were no changes in benefit terms.

Changes of assumptions: In the June 30, 2019 actuarial valuation, the discount rate changed from 3.62% to 3.13%.

SUPPLEMENTAL INFORMATION

Douglas County Lake Tahoe Sewer Authority

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

June 30, 2020

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Operating revenues			
Charges for services and assessments	\$ 4,944,122	\$ 4,827,254	\$ (116,868)
Other fees, revenue	13,000	182,167	169,167
Total operating revenues	<u>4,957,122</u>	<u>5,009,421</u>	<u>52,299</u>
Operating expenses			
Salaries, wages and benefits	2,027,076	1,928,057	99,019
Electrical and other utilities	378,960	326,478	52,482
Chemicals and supplies	79,250	62,397	16,853
Legal and accounting	100,850	84,423	16,427
Engineering and consulting	157,000	125,836	31,164
Repairs and maintenance	397,710	307,777	89,933
Insurance and other operating expenses	293,170	243,317	49,853
Fuels and lubricants	19,860	14,368	5,492
Depreciation and amortization	1,797,858	1,648,966	148,892
Total operating expenses	<u>5,251,734</u>	<u>4,741,619</u>	<u>510,115</u>
Operating gain (loss)	<u>(294,612)</u>	<u>267,802</u>	<u>562,414</u>
Nonoperating revenues			
Consolidated taxes	137,984	137,984	-
Interest income	98,000	171,488	73,488
Gain on disposal of assets	-	720	720
Capacity fees	-	56,600	56,600
Total nonoperating revenues	<u>235,984</u>	<u>366,792</u>	<u>130,808</u>
Nonoperating expenditures			
Loan acquisition expense	-	101,909	(101,909)
Debt service interest	30,964	32,629	(1,665)
Total nonoperating expenditures	<u>30,964</u>	<u>134,538</u>	<u>(103,574)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (89,592)</u>	<u>\$ 500,056</u>	<u>\$ 589,648</u>

Douglas County Lake Tahoe Sewer Authority

STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL

Year Ended June 30, 2020

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Cash flows from operating activities:			
Cash received from customers	\$ 4,957,122	\$ 4,922,601	\$ (34,521)
Deposits refundable	-	15,758	15,758
Cash payments to suppliers for goods and services	(1,426,800)	(1,101,221)	325,579
Cash payments to employees for services including benefits	(2,027,075)	(1,847,510)	179,565
Net cash provided by operating activities	<u>1,503,247</u>	<u>1,989,628</u>	<u>486,381</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(3,600,000)	(1,849,030)	1,750,970
State revolving fund loan proceeds	3,000,000	1,102,261	(1,897,739)
Cash from sale of assets	-	2,000	2,000
Consolidated taxes	137,984	137,984	-
Cash received for capacity fees	-	56,600	56,600
Debt service interest	(30,964)	(32,629)	(1,665)
Debt issuance costs	-	(101,909)	(101,909)
Payments on long-term debt	(112,376)	(112,376)	-
Net cash used in capital and related financing activities	<u>(605,356)</u>	<u>(797,099)</u>	<u>(191,743)</u>
Cash flows from investing activities:			
Redemption of investments	-	3,430,000	3,430,000
Purchase of investments	-	(1,470,000)	(1,470,000)
Restricted investments	-	(110,563)	(110,563)
Interest income on investments	98,000	183,605	85,605
Net cash provided by investing activities	<u>98,000</u>	<u>2,033,042</u>	<u>1,935,042</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	995,891	3,225,571	2,229,680
Cash and cash equivalents at beginning of year	<u>5,725,143</u>	<u>5,544,955</u>	<u>(180,188)</u>
Cash and cash equivalents at end of year	<u>\$ 6,721,034</u>	<u>\$ 8,770,526</u>	<u>\$ 2,049,492</u>

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, 2020, 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 24, 2020.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned in the lower-left area of the page.

Reno, Nevada
November 24, 2020