

**Financial Statements and Report of Independent  
Certified Public Accountants**

**Douglas County Lake Tahoe Sewer Authority**

**June 30, 2018**

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## Report of Independent Certified Public Accountants

Board of Directors  
Douglas County Lake Tahoe Sewer Authority

### Report on the financial statements

We have audited the accompanying financial statements of Douglas County Lake Tahoe Sewer Authority (the "Authority") as of and for the year ended June 30, 2018, 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 opinions 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 opinions.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Douglas County Lake Tahoe Sewer Authority as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

*Required supplementary information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress, Schedule of Authority Contributions, and Schedule of the Proportionate Share of Net Pension Liability on pages 5 – 11 and pages 35 – 37 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

*Supplementary information*

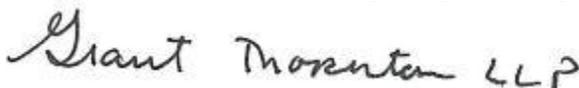
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison information on pages 39 and 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Report on 2017 summarized comparative information*

We have previously audited the Authority's 2017 basic financial statements (not presented herein), and we expressed unmodified audit opinions on the respective financial statements in our report dated November 13, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the restatement related to the adoption of GASB 82 and GASB 75 as discussed in Note A-12.

*Other reporting required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 27, 2018, on our consideration of the 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 considering the Authority's internal control over financial reporting and compliance.



Reno, Nevada  
November 27, 2018

## **Douglas County Lake Tahoe Sewer Authority**

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

**June 30, 2018**

As management of the Douglas County Lake Tahoe Sewer Authority (the "Authority" or "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, 2018.

#### **Financial Highlights**

This fiscal year was characterized by a legislative change in structure of the entity formerly known as Douglas County Sewer Improvement District No. 1 ("DCSID" or "the District"). DCSID had been incorporated under NRS 309 since approximately 1953, and until October 2017 it remained the only entity chartered under that statute. In May of 2016, based on politically motivated unsubstantiated facts, the Douglas County District Attorney prompted proceedings which called into question DCSID's legal structure, Board, management and outside professionals. Subsequently, the Douglas County Board of Commissioners considered an ordinance to dissolve the District. The proposal to introduce an ordinance was denied by the County Commission and Nevada State Senator James Settelmeyer and Assemblyman James Wheeler offered to consider a legislative solution to the perceived issues.

After months of discussions, testimony and legislative hearings, on June 3, 2017, Senate Bill No. 471 (SB 471), Chapter 335 was signed into law repealing NRS 309, abolishing DCSID and setting forth the Douglas County Lake Tahoe Sewer Authority Act, under which DCLTSA was created.

At that time all the assets and liabilities of the former DCSID were assumed by DCLTSA. On October 11, 2017, a new Board of Trustees was installed, comprised of one elected member of each of the three major participating General Improvement District (GID) Boards: Kingsbury GID, Round Hill GID, and Tahoe Douglas District. The Douglas County Commissioners appointed the commissioner who represents the Lake Tahoe area of Douglas County to represent the County. The fifth Board member, as prescribed by SB 471 is a representative of the Stateline business community, sometimes referred to as the casino core.

After expending more than a year and \$240,000 on legal and consulting fees in the process, both management and the new Board of DCLTSA were relieved to return full-time focus, regardless of the changed name of the entity or the form, to the efficient and cost-conscious practices that the District/Authority has demonstrated in the past.

In the wastewater treatment field, the primary cost drivers are utilities and staffing. Following two high snow years, it was necessary to pump down twice the ground water that filled a reservoir that had previously been cleaned and taken out of service. That significantly added to electric costs, resulting in an 18.8% overall increase in utilities. As management worked toward increasing automation programmed into the Supervisory Control and Data Acquisition (SCADA) system, and moving away from 24 hour/7 day a week staffing, as employees retired some positions were not filled, resulting in a 6.7% decrease in overall salaries and benefits.

DCLTSA's Treatment Plant is located directly adjacent to an NV Energy power substation and is subjected to frequent hard power spikes and outages. In the past, when power returned, staff would need to manually reset and restart equipment, so in this fiscal year automated restarts were programmed on many critical pieces of equipment. A sewer intertie was constructed to allow sewage to flow to South Tahoe Public Utility Authority (STPUD) in South Lake Tahoe, California in the event of a catastrophic line break. An Automated Sampler was built to automatically collect a number of flow samples that are required by the Nevada Division of Environmental Protection (NDEP) to be collected every three hours. These efficiency and redundancy projects will protect the environment and enable further reduced staffing, making it unnecessary to replace employees as they reach retirement. Salary and benefit costs will continue to decrease.

## **Douglas County Lake Tahoe Sewer Authority**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)**

**June 30, 2018**

#### **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 \$52,000 was paid toward legal and consulting fees.

The Intertie Project was completed this year with expenditures of \$142,600. The total cost of that project spread over several years was approximately \$1.4 million. The Automated Sampling Project was completed at a cost of \$617,000. \$39,300 was spent on an engineering feasibility study to upgrade the Authority's aeration system. That project which will improve the quality of the effluent and decrease electrical and biosolids hauling costs has been added to the Capital Development Plan for construction in a future year.

The Nevada Department of Transportation (NDOT) required that the Authority relocate a section of its effluent line, located in the Carson Valley, to make way for a bridge replacement. In the 2017 fiscal year, \$96,600 was spent on engineering for that line relocation, and in the current fiscal year, the work was completed. That project cost approximately \$702,000 over two years.

The Authority's capital investment in equipment and construction projects totaled approximately \$1,677,000 this fiscal year. All of the capital projects detailed above are included in the Authority's ongoing Capital Development Plan. The Board and management continue their efforts to search for and obtain grant funding for these and future projects.

In addition to the normal operating expenses, more than \$55,000 in unplanned expenses were incurred during the fiscal year for emergency repairs to an effluent export line break.

DCLTSA's Board, exercising an abundance of caution due to the expenditures for utilities and emergency repairs, augmented the fiscal year budget in June 2018 to add approximately \$120,000 to the operating expenses. At the end of the fiscal year, excluding depreciation and amortization the Authority's operating expenses were almost \$282,000 under the augmented budget.

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 2018, 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, 2017. Per that report, the Authority's proportionate share of the PERS liability decreased by \$346,067 or 12.3%.

## **Douglas County Lake Tahoe Sewer Authority**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)**

**June 30, 2018**

#### **Financial Highlights - Continued**

In the current 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, which resulted in the adoption of an additional \$791,208 liability in the prior fiscal year. This amount was determined by two actuarial studies, one on the Authority's current health plan and one on the State of Nevada Public Employees Benefit Plan which covered retirees prior to 2008.

In the current fiscal year, the Authority also adopted GASB Pronouncement 82, which requires the recognition of half an employer's contributions to PERS as contributions by the employees. This recognition is of a reporting nature only with no fiscal impact.

#### **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 did cash come from, what was cash 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, 2018**

#### **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 approximately \$34.8 million at the close of the most recent fiscal year. The prior year's net position was restated in this year's financial statements by (\$919,575) to reflect the PERS adoption of GASB 82 retroactively and the additional OPEB liability as of July 1, 2017 to reflect the adoption of GASB 75 retroactively. The current fiscal year's net position is therefore (\$50,168) less than the restated prior year.

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.

11.9% or \$4,164,543 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 \$1,986,468 as of June 30, 2018 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 2018, total revenues increased by \$58,173 or 1.2% while total expenses including depreciation and amortization decreased \$53,192 or 1.1%. The increase in revenues is primarily due to the receipt of approximately \$170,000 in dewatering fees.

Sewer user charges decreased \$82,068 or 1.9%, while operating expenses excluding depreciation decreased \$109,947 or 3.3%. Nonoperating revenues decreased by \$17,469 or 6.6% because there were no sewer connection fees received from new commercial construction projects.

#### **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 2017, the Authority initially budgeted a decrease in net position of \$309,556, but, as noted above, before year end the budget was augmented to reflect a decrease of \$429,520. The actual decrease in net position, much better than projected, was \$50,168.

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. While operating expenses were lower than budgeted, the flow percentages attributable to each entity were significantly higher or lower than the amounts estimated, resulting in refunds for two of the three districts and an amount owed for the remaining one. Overall, the rate adjustment for these districts resulted in an approximate 5% decrease.

## **Douglas County Lake Tahoe Sewer Authority**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)**

**June 30, 2018**

#### **Capital Assets and Debt Administration**

##### **Capital Assets**

As of June 30, 2018, the Authority's capital assets amounted to \$29,725,940 net of accumulated depreciation and amortization as shown in Table A-3. The total increase in the Authority's capital assets for the current fiscal year was \$205,694 or less than 1%.

During the year, \$1,677,353 was spent on the Authority's capital improvement projects. Those projects included the installation of a new man-lift at the Main Pump Station, replacement of aging export pump discharge valves, implementation of a new fire alarm system, the purchase of a push camera for sewer line inspection, and the installation of cell modems and pressure transducers to measure and monitor effluent flow into the Carson Valley. As noted above, a number of plant automation and SCADA system upgrades were done, as well as the major capital projects described above.

Authority capital expenditures are expected to decrease significantly in fiscal 2019. The only Capital Development Plan expenses will be for engineering of the Aeration Basin upgrade. Actual construction of that project is planned for the 2020 fiscal year. While the Authority continues to aggressively pursue grant funding, the Aeration Basin project will be funded by a State Revolving Fund loan and capital assessments.

##### **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 2017 increased by 2.7% from the previous year. Overall, flows increased by 20.6%. This increase is likely a result of ground water infiltration into manholes following two wet winters and high groundwater.

The fiscal year 2019 operating budget reflects operating expenses that total \$5,029,140 including depreciation and amortization, an increase of 4.8% over fiscal year 2018 actual operating expenses. The increase in operating expenses is attributable to cost of living increases on almost all fronts as well as additional planned maintenance and higher utility rates. For the 2019 fiscal year in-Authority residential rates were raised 5.6% to \$468 per year. Commercial rates were raised 5.7% to \$9.45 per 1,000 gallons. All of the rate increases to both in-Authority customers and the participating districts total \$250,000 and are 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, 2018**

Table A-1  
Condensed Summary of Statement of Net Position

	June 30,		Increase/ (Decrease)
	2018	2017 <i>(Restated)</i>	
Current, restricted and other assets	\$ 10,072,321	\$ 11,172,418	\$ (1,100,097)
Capital assets	29,725,940	29,520,246	205,694
<b>Total assets</b>	<b>39,798,261</b>	<b>40,692,664</b>	<b>205,694</b>
Deferred outflows of resources	544,195	666,692	(122,497)
<b>Total liabilities</b>	<b>(4,968,154)</b>	<b>(6,190,651)</b>	<b>1,222,497</b>
Deferred inflows of resources	(543,409)	(287,644)	(255,765)
<b>Net position</b>			
Invested in capital assets	28,679,882	28,368,539	311,343
Restricted	4,164,543	3,983,737	180,806
Unrestricted	1,986,468	2,528,785	(542,317)
<b>Total net position</b>	<b>\$ 34,830,893</b>	<b>\$ 34,881,061</b>	<b>\$ (50,168)</b>

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

	June 30,		Increase/ (Decrease)
	2018	2017 <i>(Restated)</i>	
<b>Operating revenues</b>			
Sewer user charges	\$ 4,346,517	\$ 4,428,585	\$ (82,068)
Other income	189,753	35,304	154,449
<b>Nonoperating revenues</b>	<b>245,870</b>	<b>263,339</b>	<b>(17,469)</b>
Debt service interest	(33,205)	(36,466)	3,261
	4,748,935	4,690,762	58,173
<b>Operating expenses</b>			
Maintenance and operations	3,188,944	3,298,891	(109,947)
Depreciation and amortization	1,610,159	1,553,404	56,755
<b>Total expenses</b>	<b>4,799,103</b>	<b>4,852,295</b>	<b>(53,192)</b>
<b>CHANGE IN NET POSITION</b>	<b>(50,168)</b>	<b>(161,533)</b>	<b>111,365</b>
Net position at beginning of year, as previously reported	35,800,636	35,962,169	(161,533)
Change in accounting principle, GASB 82 and GASB 75 adjustments	(919,575)	(919,575)	-
Net position at beginning of year, as restated	34,881,061	35,042,594	(161,533)
<b>Net position at end of year</b>	<b>\$ 34,830,893</b>	<b>\$ 34,881,061</b>	<b>\$ (50,168)</b>

**Douglas County Lake Tahoe Sewer Authority**

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

**June 30, 2018**

Table A-3  
Capital Assets

	June 30,		Increase/ (Decrease)
	2018	2017	
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	49,029,728	47,525,347	1,504,381
Equipment and other assets	4,647,609	3,819,374	828,235
Leasehold improvements	798,812	798,812	-
Construction in progress	5,277,350	5,794,113	(516,763)
	60,856,933	59,041,080	1,815,853
Less: Accumulated depreciation and amortization	(31,130,993)	(29,520,834)	(1,610,159)
Net property, plant, equipment and leasehold improvements	\$ 29,725,940	\$ 29,520,246	\$ 205,694

## **FINANCIAL STATEMENTS**

**Douglas County Lake Tahoe Sewer Authority**

**STATEMENTS OF NET POSITION**

**June 30,**

**ASSETS**

	<b>2018</b>	<b>2017</b>
		<i>(Restated)</i>
<b>CURRENT ASSETS</b>		
Cash	\$ 409,110	\$ 393,497
Cash equivalents	2,861,463	3,256,188
Cash in custody of other governments	23,108	23,238
Short-term certificate of deposit investments	245,000	980,000
Accounts receivable	137,220	298,806
Supply inventory	27,359	25,136
Prepaid expenses	104,693	91,804
Interest receivable	11,820	10,541
Total current assets	<u>3,819,773</u>	<u>5,079,210</u>
<b>RESTRICTED ASSETS</b>		
Repair and replacement		
Cash	7,183	69,643
Cash equivalents	1,181,460	1,131,248
Short-term certificate of deposit investments	1,715,000	980,000
Interest receivable	9,691	7,518
	<u>2,913,334</u>	<u>2,188,409</u>
Construction		
Cash	83,431	376,413
Cash equivalents	8,620	271,223
Restricted investments	225,853	225,853
	<u>317,904</u>	<u>873,489</u>
Total current restricted assets	<u>3,231,238</u>	<u>3,061,898</u>
<b>LONG-TERM ASSETS</b>		
Long-term certificate of deposit investments	<u>1,960,000</u>	<u>1,225,000</u>
Total long-term assets	<u>1,960,000</u>	<u>1,225,000</u>
<b>RESTRICTED LONG-TERM ASSETS</b>		
Repair and replacement		
Long-term certificate of deposit investments	<u>980,000</u>	<u>1,715,000</u>
Total restricted long-term assets	<u>980,000</u>	<u>1,715,000</u>
<b>PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net</b>		
	<u>29,725,940</u>	<u>29,520,246</u>
<b>OTHER ASSETS</b>		
Deposits	<u>81,310</u>	<u>91,310</u>
Total other assets	<u>81,310</u>	<u>91,310</u>
Total assets	<u>\$ 39,798,261</u>	<u>\$ 40,692,664</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension and OPEB related	<u>\$ 544,195</u>	<u>\$ 666,692</u>
Total deferred outflows of resources	<u>\$ 544,195</u>	<u>\$ 666,692</u>

**Douglas County Sewer Improvement District #1**  
**STATEMENTS OF NET POSITION - CONTINUED**

**June 30,**

**LIABILITIES**

	<b>2018</b>	<b>2017</b>
		<i>(Restated)</i>
<b>CURRENT LIABILITIES, payable from current assets</b>		
Accounts payable	\$ 228,806	\$ 116,586
Accrued compensation and other expenses	131,738	146,124
Current portion of long-term debt	108,961	105,649
Total current liabilities payable from current assets	469,505	368,359
<b>CURRENT LIABILITIES, payable from restricted assets</b>		
Repair and replacement		
Accounts payable	-	212
Construction		
Accounts payable	46,695	792,949
Total current liabilities payable from restricted assets	46,695	793,161
<b>ACCRUED COMPENSATION - noncurrent</b>	48,067	63,509
<b>ACCRUED OPEB LIABILITY - noncurrent</b>	992,177	1,098,884
<b>PERS proportionate liability - noncurrent</b>	2,474,613	2,820,680
<b>LONG-TERM DEBT, less current portion</b>	937,097	1,046,058
Total liabilities	4,968,154	6,190,651
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension and OPEB related	543,409	287,644
Total deferred inflows of resources	543,409	287,644
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	28,679,882	28,368,539
Restricted for construction	271,209	80,540
Restricted for repair and replacement	3,893,334	3,903,197
	4,164,543	3,983,737
Unrestricted	1,986,468	2,528,785
Total net position	\$ 34,830,893	\$ 34,881,061

The accompanying notes are an integral part of these statements.

**Douglas County Lake Tahoe Sewer Authority**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**

Years ended June 30,

	2018	2017
<b>Operating revenues</b>		
Annual assessments	\$ 4,346,517	\$ 4,428,585
Other income	189,753	35,304
	4,536,270	4,463,889
 <b>Operating expenses before depreciation and amortization</b>		
Salaries, wages and benefits	1,913,391	2,050,027
Electrical and other utilities	361,197	304,063
Chemicals and supplies	83,817	84,063
Legal and accounting	110,487	229,414
Engineering and consulting	188,033	165,183
Repairs and maintenance	306,149	244,595
Insurance	63,523	61,147
Fuels and lubricants	16,082	16,037
Other operating expenses	146,265	144,362
	3,188,944	3,298,891
Operating income before depreciation and amortization	1,347,326	1,164,998
 <b>Depreciation and amortization</b>	1,610,159	1,553,404
Operating loss	(262,833)	(388,406)
 <b>Nonoperating revenues (expenses)</b>		
Consolidated taxes	137,984	137,984
Interest income	111,966	86,555
Debt service interest	(33,205)	(36,466)
Capacity fees	(4,080)	38,800
	212,665	226,873
<b>CHANGE IN NET POSITION</b>	(50,168)	(161,533)
<b>Net position - beginning of year, as previously reported</b>	35,800,636	35,962,169
<b>Change in accounting principle, GASB 82 and GASB 75 adjustments</b>	(919,575)	(919,575)
<b>Net position at beginning of year, as restated</b>	34,881,061	35,042,594
<b>Net position - end of year</b>	\$ 34,830,893	\$ 34,881,061

The accompanying notes are an integral part of these statements.

**Douglas County Lake Tahoe Sewer Authority**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30,**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 4,806,702	\$ 4,364,794
Cash payments to suppliers for goods and services	(1,416,004)	(1,322,187)
Cash payments to employees for services including benefits	(2,017,731)	(2,001,838)
Net cash provided by operating activities	1,372,967	1,040,769
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(2,423,607)	(2,003,419)
Consolidated taxes	137,984	137,984
Cash (used) received for capacity fees	(4,080)	38,800
Debt service interest	(33,205)	(36,466)
Payments on long-term debt	(105,649)	(102,439)
Net cash used in capital and related financing activities	(2,428,557)	(1,965,540)
<b>Cash flows from investing activities:</b>		
Interest income on investments	108,515	83,782
Net cash provided by investing activities	108,515	83,782
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(947,075)	(840,989)
<b>Cash and cash equivalents at beginning of year</b>	5,521,450	6,362,439
<b>Cash and cash equivalents at end of year</b>	\$ 4,574,375	\$ 5,521,450
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating loss	\$ (262,833)	\$ (388,406)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,610,159	1,553,404
Change in assets and liabilities:		
Supply inventory	(2,224)	8,188
Prepaid expenses	(12,889)	(19,093)
Accounts receivable	161,588	(99,094)
Deposits	10,000	1,439
Pension and OPEB related deferred outflows of resources	122,497	(397,874)
Accounts payable and accrued liabilities	(509,096)	505,613
Pension and OPEB related deferred inflows of resources	255,765	(123,408)
Total adjustments	1,635,800	1,429,175
Net cash provided by operating activities	\$ 1,372,967	\$ 1,040,769

The accompanying notes are an integral part of these statements.

# Douglas County Lake Tahoe Sewer Authority

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### 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, 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 and all liabilities (whether current or non-current) associated with their activity are included on the 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.

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.

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

- Continued

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, 2018 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. 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 2018.

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

<u>Assets</u>	<u>Years</u>
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, 2018**

**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, 2018 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 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 related deferred outflows of resources are discussed in depth in Note G.

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 related deferred inflows of resources are discussed in depth in Note G.

**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."

## Douglas County Lake Tahoe Sewer Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 10. Fair Value - Continued

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.

##### 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 net pension liability. Actual results could differ from those estimates.

##### 12. New Accounting Pronouncements

In March 2016 the GASB issued Statement No 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. It is the intent of the Statement to improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. GASB 82 requires that pension contributions made by an employer on behalf of an employee be reported in financial statements as half pension expense and half employees' salaries or fringe benefits. The Authority adopted this statement in the current fiscal year, resulting in an adjustment to beginning net position of the Statement of Revenues, Expenses, and Changes in Net Position of (\$218,648), to record PERS adoption of the statement retroactively to June 30, 2016.

In June 2015 the GASB issued Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. GASB 75 improves accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improved information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Authority adopted this guidance for the current fiscal year, which resulted in an adjustment to beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position of (\$700,927) to record the impact of the prior year OPEB related elements of net position. This amount was determined by actuarial studies of the Authority's current health insurance plan and the State of Nevada Public Employee Benefit Plan (PEBP) which covers employees who retired prior to 2008.

## Douglas County Lake Tahoe Sewer Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

#### 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, 2018, the Authority has cash deposits in the amount of \$499,523 and the amount is carried at cost. The bank's balance of \$553,979 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, 2018.

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, 2018, cash equivalents of \$2,018,435 are on deposit with LGIP and \$2,033,108 are on deposit in interest bearing checking and money market accounts. In addition, cash in custody of other governments is considered a cash equivalent.

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.

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE D - INVESTMENTS**

The Authority's investment holdings as of June 30, 2018 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.

**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 eight (8) certificates of deposit of \$245,000 each will mature before June 30, 2019. These policies minimize the Authority's interest rate risk.

**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>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>2018</u>
Wastewater reclamation plant and lines	\$ 36,235,337	\$ 1,504,381	\$ -	\$ 37,739,718
Collection lines	1,196,828	-	-	1,196,828
Equipment and other assets	3,819,374	828,235	-	4,647,609
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>52,143,533</u>	<u>2,332,616</u>	<u>-</u>	<u>54,476,149</u>
Accumulated depreciation and amortization	(29,520,834)	(1,610,159)	-	(31,130,993)
	<u>22,622,699</u>	<u>722,457</u>	<u>-</u>	<u>23,345,156</u>
Land	1,103,434	-	-	1,103,434
Construction in progress	5,794,113	1,547,236	(2,063,999)	5,277,350
	<u>\$ 29,520,246</u>	<u>\$ 2,269,693</u>	<u>\$ (2,063,999)</u>	<u>\$ 29,725,940</u>

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**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 1<sup>st</sup> and July 1<sup>st</sup>, 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 2018 fiscal year, \$68,545 of the loan principal was repaid, leaving the Authority with a balance of \$635,343 at June 30, 2018. 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 1<sup>st</sup> and July 1<sup>st</sup>, 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 2018 year, \$37,104 of the loan principal was repaid, leaving the Authority with a balance of \$410,715 at June 30, 2018.

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

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 108,961	\$ 31,536	\$ 140,497
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
2024-2028	466,008	30,055	496,063
	<u>\$ 1,046,058</u>	<u>\$ 152,490</u>	<u>\$ 1,198,548</u>

## Douglas County Lake Tahoe Sewer Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

#### 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 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 has 205 participating employers. There are no non-employer contributing entities identified in the 2017 GASB 68 Report or the 2017 CAFR issued by the System. 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](http://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.

Monthly benefit allowances for members are computed as 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on and after July 1, 2001, this multiplier is 2.67% of average compensation. For members entering the System on or after January 1, 2010 there is a 2.5% multiplier. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept 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 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 ten years of service, or any age with thirty 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.

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE G - PENSION PLAN - Continued

1. **Plan Description** - Continued

*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 actually 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, 2018 and 2017 the Statutory Employer-Pay contribution rate for Regular Members was 28%. With the adoption of GASB 82, in the current year, one-half of the contribution is now 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, 2018, the Authority reported a liability of \$2,474,613 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017. At June 30, 2017, the Authority's portion was .01861 percent of the total.

<u>Reconciliation of net pension liability</u>	
Beginning net pension liability, July 1, 2017	\$ 2,820,680
Pension expense	142,346
Employer contributions	(160,670)
New net deferred inflows/outflows	(327,743)
	<hr/>
Ending net pension liability, June 30, 2018	\$ 2,474,613

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE G - PENSION PLAN - Continued**

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

For the year ended June 30, 2018 the Authority recognized pension expense of \$142,346. At June 30, 2018, 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	\$ -	\$ 162,385
Changes of assumptions	164,167	-
Net difference between projected and actual earnings on investments	16,067	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	121,858	337,333
Contributions subsequent to the measurement date	160,670	-

The \$160,670 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 2019. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2019	\$ (44,387)
2020	57,459
2021	14,839
2022	(40,459)
2023	20,920
2024	9,481
	\$ 17,853

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE G - PENSION PLAN - Continued**

**3. Actuarial Assumptions**

The total pension liability in the June 30, 2017 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, 2017 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, 2017:

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, 2017, PERS' long-term inflation assumption was 2.75%*

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**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, 2017. 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, 2017 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, 2017.

*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	\$ 3,741,662	\$ 2,474,613	\$ 1,423,203

The System's net pension liability was measured as of June 30, 2017, 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, 2017.

## Douglas County Lake Tahoe Sewer Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

#### NOTE H - OTHER POST-EMPLOYMENT BENEFITS

##### 1. Plan Description

*Authority.* 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.

##### 2. Funding Policy

*Authority.* 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 2018, the Authority contributed \$47,134 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 \$684 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 2018, the Authority's contributions toward the PEBP plan was \$32,468. 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 - CONTINUED**

**June 30, 2018**

**NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**3. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

As noted above, the Authority adopted GASB 75 in the current fiscal year. Two actuarial studies were performed by MacLeod Watts (formerly Bickmore Risk Associates) on the Authority Plan and the PEPP Plan, and presented the results as of June 30, 2017. This required a restatement of beginning net position due to the determination of an additional \$700,927 OPEB liability not previously recognized in the financials. As of June 30, 2018 the Authority's OPEB liability was \$992,177. This amount is comprised of liabilities from both the Authority's plan and the PEPP plan, calculated as follows:

**DCLTSA Plan**

For Reporting at Fiscal Year End Measurement Date	June 30, 2017 June 30, 2016	June 30, 2018 June 30, 2017	Change During Period
Total OPEB liability	\$ 796,874	\$ 736,116	\$ (60,758)
Fiduciary net position	-	-	-
Net OPEB liability (asset)	<u>796,874</u>	<u>736,116</u>	<u>(60,758)</u>
<u>Deferred resource (outflows) inflows due to</u>			
Assumption changes	-	43,691	43,691
Contributions made subsequent to the measurement date	<u>(53,303)</u>	<u>(48,965)</u>	<u>4,338</u>
Net deferred (outflows) inflows	<u>(53,303)</u>	<u>(5,274)</u>	<u>48,029</u>
Impact on statement of net position	<u>\$ 743,571</u>	<u>\$ 730,842</u>	<u>\$ (12,729)</u>
<u>Change in net position during the fiscal year</u>			
Impact on statement of net position, FYE 2017		\$ 743,571	
OPEB expense (income)		36,236	
Employer contributions during fiscal year		<u>(48,965)</u>	
Impact on statement of net position, FYE 2018		<u>\$ 730,842</u>	
<u>OPEB expense</u>			
Employer contributions during fiscal year		\$ 48,965	
Deterioration (improvement) in net position		<u>(12,729)</u>	
OPEB expense (income), FYE 2018		<u>\$ 36,236</u>	

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**3. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Continued**

**PEBP**

<u>For Reporting at Fiscal Year End Measurement Date</u>	<u>June 30, 2017 June 30, 2016</u>	<u>June 30, 2018 June 30, 2017</u>	<u>Change During Period</u>
Total OPEB liability	\$ 302,010	\$ 256,061	\$ (45,949)
Fiduciary net position	-	-	-
Net OPEB liability (asset)	<u>302,010</u>	<u>256,061</u>	<u>(45,949)</u>
<u>Deferred resource (outflows) inflows due to</u>			
Contributions made subsequent to the measurement date	(36,978)	(32,468)	4,510
Net deferred (outflows) inflows	<u>(36,978)</u>	<u>(32,468)</u>	<u>4,510</u>
Impact on statement of net position	<u>\$ 265,032</u>	<u>\$ 223,593</u>	<u>\$ (41,439)</u>
<u>Change in net position during the fiscal year</u>			
Impact on statement of net position, FYE 2017		\$ 265,032	
OPEB expense (income)		(8,971)	
Employer contributions during fiscal year		<u>(32,468)</u>	
Impact on statement of net position, FYE 2018		<u>\$ 223,593</u>	
<u>OPEB expense</u>			
Employer contributions during fiscal year		\$ 32,468	
Deterioration (improvement) in net position		<u>(41,439)</u>	
OPEB expense (income), FYE 2018		<u>\$ (8,971)</u>	

Douglas County Lake Tahoe Sewer Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

**3. OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Continued**

For the year ending June 30, 2018, the Authority recognized total OPEB expense of \$81,433. After recognition of the \$1,831 implicit subsidy (a premium paid on all plan members for coverage of retirees) and \$54,168 in prior year contributions, the net OPEB expense was \$27,265. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2019	\$ (9,160)
2020	(9,160)
2021	(9,160)
2022	(9,160)
2023	(7,051)
	<hr/>
	\$ (43,691)

Actuarial valuations will be done every two years, as dictated by GASB 75, with the 2017 study updated for June 30, 2019.

**4. Funded Status and Funding Progress**

*Authority.* As of June 30, 2018, the total OPEB liability relative to the Authority's plan was \$736,116, and actuarial value of assets was zero, resulting in a net liability of \$736,116. The funded ratio (actuarial value of assets as a percentage of the total OPEB liability) is zero percent.

*PEBP.* As of June 30, 2018, the total OPEB liability relative to the PEBP plan was \$256,061, and actuarial value of assets was zero, resulting in a net liability of \$256,061. The funded ratio (actuarial value of assets as a percentage of the total OPEB liability) is zero percent.

*Total.* As of June 30, 2018, the net OPEB liability relative to the plans was \$992,177, and covered-employee payroll was \$1,109,730. The net OPEB liability was 66.33% of covered employee payroll. Because the PEBP plan only covers employees who retired prior to 2008, no amount of covered-employee payroll was determined or applicable.

**5. Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as the actual results are compared with past expectations and new estimates are made about the future.

**Douglas County Lake Tahoe Sewer Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2018**

**NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued**

**5. Actuarial Methods and Assumptions - Continued**

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective.

In the June 30, 2017 actuarial valuation, the funding method used was the entry age normal cost method. The amortization method is level percentage of projected payroll, at 3.0% per year with a closed period. The asset valuation method determined that the market value of assets at the valuation date was zero as the plan has not been funded. The actuarial assumptions included a discount rate of 3.56%, an annual healthcare cost trend rate of 6.25% for fiscal year 2019, reduced by decrements to an ultimate rate of 5% after five years, and projected salary increases of 4% per year.

The following represents the Authority's net OPEB liability calculated using the discount rate of 3.56% and healthcare cost trend rate, as well as what the Authority's net OPEB liability would be if it were calculated using rates that are 1 percentage point lower or 1 percentage point higher than the current rates:

<u>Change in Discount Rate</u>	<u>Current - 1%</u> <u>2.56%</u>	<u>Current</u> <u>3.56%</u>	<u>Current +1%</u> <u>4.56%</u>
Total OPEB Liability	<u>\$ 1,105,254</u>	<u>\$ 992,177</u>	<u>\$ 896,625</u>
<u>Change in Healthcare Cost Trend Rate</u>	<u>Current - 1%</u>	<u>Current Trend</u>	<u>Current +1%</u>
Total OPEB Liability	<u>\$ 930,510</u>	<u>\$ 992,177</u>	<u>\$ 1,068,064</u>

Mortality rates in the June 30, 2017 actuarial valuation were based on the MacLeod Watts Scale 2017. The bond index used was the Fidelity Municipal Bond AA 20-year Maturity Yield.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Douglas County Lake Tahoe Sewer Authority**

**SCHEDULE OF FUNDING PROGRESS**

**For the year ended June 30, 2018**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (c)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
<u>District Plan</u>						
6/30/2017	\$ -	\$ 736,116	\$ 736,116	0.00%	\$1,109,730	66%
7/1/2015	\$ -	\$ 912,191	\$ 912,191	0.00%	\$1,121,469	81%
7/1/2012	\$ -	\$ 570,807	\$ 570,807	0.00%	\$1,183,842	48%
7/1/2009	\$ -	\$ 712,891	\$ 712,891	0.00%	\$1,140,579	63%
<u>PEBP</u>						
6/30/2017	\$ -	\$ 256,061	\$ 256,061	0.00%	N/A	N/A
7/1/2015	\$ -	\$ 360,649	\$ 360,649	0.00%	N/A	N/A
7/1/2012	\$ -	\$ 564,382	\$ 564,382	0.00%	N/A	N/A
7/1/2009	\$ -	\$1,171,374	\$1,171,374	0.00%	N/A	N/A

**Douglas County Lake Tahoe Sewer Authority**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**Public Employees' Retirement System of Nevada**

**Last ten fiscal years\***

	<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>	<u>2009</u>
Contractually required contribution	\$ 321,339	\$ 334,310	\$ 363,446	\$ 304,244	(Historical information prior to the implementation of GASB 67/68 is not required)					
Contributions in relation to the contractually required contribution	<u>321,339</u>	<u>(334,310)</u>	<u>(363,446)</u>	<u>(304,244)</u>						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
Authority's covered-employee payroll	<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-employee payroll	<u>25.80%</u>	<u>26.43%</u>	<u>27.80%</u>	<u>22.97%</u>						
Contribution rate set by statute	<u>28.00%</u>	<u>28.00%</u>	<u>28.00%</u>	<u>25.75%</u>						

\*The amounts reported for each fiscal year were determined as of June 30 of the prior fiscal year.

**Douglas County Lake Tahoe Sewer Authority**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**Public Employees' Retirement System of Nevada**

**Last ten fiscal years\***

	<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>	<u>2009</u>
Authority's proportion of the net pension liability	<u>0.01861%</u>	<u>0.02096%</u>	<u>0.0196%</u>	<u>0.0207%</u>	(Historical information prior to the implementation of GASB 67/68 is not required)					
Authority's proportionate share of the net pension liability	<u>\$ 2,474,613</u>	<u>\$ 2,820,680</u>	<u>\$ 2,245,886</u>	<u>\$ 2,155,697</u>						
Authority's covered-employee payroll	<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-employee payroll	<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>74.40%</u>	<u>72.20%</u>	<u>75.13%</u>	<u>76.31%</u>						

\*The amounts reported for each fiscal year were determined as of June 30 of the prior fiscal year.

**SUPPLEMENTAL INFORMATION**

**Douglas County Lake Tahoe Sewer Authority**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET POSITION - BUDGET AND ACTUAL**

**Year ended June 30, 2018**

	<u>Final Augmented Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>Operating revenues</b>			
Annual assessments	\$ 2,155,104	\$ 2,132,489	\$ (22,615)
Contracts with other districts	2,350,481	2,214,028	(136,453)
Other fees, revenue	17,000	189,753	172,753
Total operating revenues	<u>4,522,585</u>	<u>4,536,270</u>	<u>13,685</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	2,098,445	1,913,391	185,054
Electrical and other utilities	375,000	361,197	13,803
Chemicals and supplies	64,250	83,817	(19,567)
Legal and accounting	117,700	110,487	7,213
Engineering and consulting	230,000	188,033	41,967
Repairs and maintenance	314,100	306,149	7,951
Insurance and other operating expenses	251,375	209,788	41,587
Fuels and lubricants	20,000	16,082	3,918
Depreciation and amortization	1,596,645	1,610,159	(13,514)
Total operating expenses	<u>5,067,515</u>	<u>4,799,103</u>	<u>268,412</u>
Operating loss	<u>(544,930)</u>	<u>(262,833)</u>	<u>282,097</u>
<b>Nonoperating revenues</b>			
Consolidated taxes	137,984	137,984	-
Interest income	66,950	111,966	45,016
Capacity fees	-	(4,080)	(4,080)
Total nonoperating revenues	<u>204,934</u>	<u>245,870</u>	<u>40,936</u>
<b>Nonoperating expenditures</b>			
Debt service interest	34,848	33,205	1,643
Total nonoperating expenditures	<u>34,848</u>	<u>33,205</u>	<u>1,643</u>
<b>DECREASE IN NET POSITION</b>	<u>\$ (374,844)</u>	<u>\$ (50,168)</u>	<u>\$ 324,676</u>

**Douglas County Lake Tahoe Sewer Authority**  
**STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL**  
**Year ended June 30, 2018**

	<b>Final Augmented Budget</b>	<b>Actual</b>	<b>Variance - Favorable (Unfavorable)</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 4,467,909	\$ 4,806,702	\$ 338,793
Cash payments to suppliers for goods and services	(1,372,425)	(1,416,004)	(43,579)
Cash payments to employees for services including benefits	(2,098,445)	(2,017,731)	80,714
Net cash provided by operating activities	<u>997,039</u>	<u>1,372,967</u>	<u>375,928</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(2,225,000)	(2,423,607)	(198,607)
Consolidated taxes	137,984	137,984	-
Cash used for capacity fees	-	(4,080)	(4,080)
Debt service interest	(34,848)	(33,205)	1,643
Payments on long-term debt	(105,649)	(105,649)	-
Net cash used in capital and related financing activities	<u>(2,227,513)</u>	<u>(2,428,557)</u>	<u>(201,044)</u>
<b>Cash flows from investing activities:</b>			
Interest income on investments	66,950	108,515	41,565
Net cash provided by investing activities	<u>66,950</u>	<u>108,515</u>	<u>41,565</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,163,524)	(947,075)	216,449
<b>Cash and cash equivalents at beginning of year (restated)</b>	<u>5,521,450</u>	<u>5,521,450</u>	-
<b>Cash and cash equivalents at end of year</b>	<u>\$ 4,357,926</u>	<u>\$ 4,574,375</u>	<u>\$ 216,449</u>

## **COMPLIANCE SECTION**

**Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

Board of Directors  
Douglas County Lake Tahoe Sewer Authority

We have audited, 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, the financial statements of Douglas County Lake Tahoe Sewer Authority (the "Authority"), which comprise the statement of financial position as of June 30, 2018, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2018.

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 design 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 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 Authority'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.

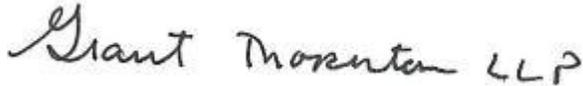
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Authority's 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*.

#### Intended purpose

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 report is not suitable for any other purpose.



Reno, Nevada  
November 27, 2018