



Financial Statements and Report of Independent
Certified Public Accountants

Douglas County Sewer Improvement District #1

June 30, 2017

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Report of Independent Certified Public Accountants

Board of Directors Douglas County Sewer Improvement District #1

Report on the financial statements

We have audited the accompanying financial statements of the Douglas County Sewer Improvement District #1 (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 errors.

Auditor's responsibility

Our responsibility is to express our 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 District'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 District'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 Douglas County Sewer Improvement District #1, as of June 30, 2017, 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 District Contributions, and Schedule of the Proportionate Share of Net Pension Liability on pages 5-11 and pages 33-35 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

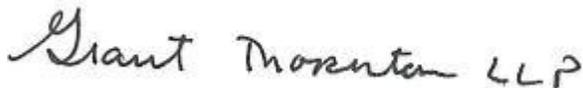
Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The budgetary comparison information on pages 37 and 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information 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 2016 summarized comparative information

We have previously audited the 2016 basic financial statements (not presented herein), and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 14, 2016. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2016, is consistent, in all material respects with the audited financial statements from which it has been derived.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Reno, Nevada
November 13, 2017

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2017

As management of the Douglas County Sewer Improvement District #1 (the "District", "DCSID"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

Financial Highlights

This fiscal year was characterized by change on several fronts. 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. Based on these actions the Douglas County Board of Commissioners considered an ordinance to dissolve the District. The proposal to introduce an ordinance to dissolve the District was not approved by the County Commission and Nevada State Senator James Settelmeyer and Assemblyman James Wheeler also offered to consider a legislative solution to the perceived issues.

In July of 2016, a Douglas County Commissioner suggested a plan for the County to take over all of the area General Improvement Districts (GIDs) and incorporate them into the Douglas County Public Utility District. At that time, DCSID joined with other area GIDs to lobby the legislature to provide alternatives to this plan to take over DCSID and the other GIDs. Over the course of the year, legal fees and consulting fees were incurred. As a result of this process and the efforts of Senator Settelmeyer and Assemblyman Wheeler, in June the Nevada State Legislature passed two bills, SB 471 and SB 462, which changed the form and governance of DCSID and provided protections for the GIDs that meet certain fiscal requirements. SB 471 abolished Nevada Revised Statutes (NRS) Section 309, and the Douglas County Sewer Improvement District which was created in 1953 under NRS 309. The same bill established the Douglas County Lake Tahoe Sewer Authority (DCLTSA or the Authority) replacing DCSID, while assuming all the assets and liabilities of the former District. SB 471 which is to take effect on October 1, 2017, calls for the installation of a new Board of Trustees to govern the Authority, comprised of one elected member of each of the three major participating GID's Boards: Kingsbury GID, Round Hill GID, and Tahoe Douglas District. The Douglas County Commissioners will appoint one of their Board members to represent the County, and that is presumably to be the member who represents the Lake Tahoe area of Douglas County. The fifth Board member, as prescribed by the bill, is to be a representative of the Stateline business community, sometimes referred to as the casino core. This legislative process which began in May of 2016 and continuing to the end of this fiscal year, was contentious and extremely costly to the rate payers of DCSID. Legal expenses in defense of the allegations by Douglas County and as necessitated by the legislation totaled more than \$91,400 in the current fiscal year, with another \$111,000 paid for the two months in the prior fiscal year. Another \$20,000 was paid for the District's portion of the lobbyist working to protect the various local governments. As this fiscal year ends, management and the Board of DCSID look forward to returning full-time focus, regardless of the changed name of the entity or the form, to the efficient and cost-conscious practices that the District has demonstrated in the past.

In the wastewater treatment field, the primary cost drivers are utilities and staffing, so management is working toward reducing the cost of both. Automation programmed into the Supervisory Control and Data Acquisition (SCADA) system in this and past years have once again decreased energy costs. Utility expenses overall decreased by 8.7% this year. Additionally, this year, District management continued to move forward to reduce staffing from 24 hours a day, 7 days per week. DCSID's Treatment Plant, located directly adjacent to an NV Energy power substation, is subjected to frequent hard power spikes and outages. In the past, when power returned, staff would need to manually reset and restart equipment. During this year the reset and restart of many parts of the treatment process have been automated through the SCADA system. Various redundancies have also been put in place for environmental protection. These redundancies include construction of an Underground Emergency Storage Basin at the Main Pump Station, to safely increase the needed response time

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2017

Financial Highlights - Continued

in an emergency from 20 minutes to several hours, and the construction of a sewer intertie which would allow sewage to flow to South Tahoe Public Utility District (STPUD) in South Lake Tahoe, California in the event of a catastrophic line break. Design has also been completed on an Automated Sampling Project, which will be built early in the next fiscal year. When completed, that project will 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 enable reduced staffing, making it unnecessary to replace employees as they reach retirement. Salary and benefit costs will be reduced.

Regarding the year's capital expenditures, approximately \$850,000 was paid for the Underground Emergency Storage Project this year. Approximately \$1.1 million was paid for the STPUD Inter-tie and that project is expected to be completed early next year at a total cost of approximately \$1.5 million.

During the last fiscal year, the Nevada Department of Transportation (NDOT) notified the District that a section of DCSID's effluent line, located in the Carson Valley, must be relocated to make way for a bridge replacement. To date, \$96,600 has been spent on the engineering and design aspects of the relocation, with an expected final cost of approximately \$700,000.

The District's capital investment in equipment and construction projects totaled approximately 2.3 million this fiscal year. All of the capital projects detailed above are included in the District's ongoing District 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 extraordinary legal expenditures incurred, additional unplanned expenses were incurred in January, 2017 when an effluent export pipe came untethered from a bridge in the Carson Valley, and broke. It is believed this occurred as a result of earthquake activity in the days just prior to the incident. The District's response was swift, but the fix was prolonged due to the time of year it took place. Road closures, and sign rental went on periodically until the weather warmed up and the pavement surrounding the line break could be repaired. This emergency repair extended into the next fiscal year, but in the current year, the unplanned costs were more than \$51,000.

DCSID's Board, exercising an abundance of caution due to the expenditures for legal fees and emergency repairs, augmented the fiscal year budget in June, 2017 to add approximately \$160,000 to the operating expenses, reducing depreciation and amortization by \$137,000, netting an increase to the previous operating budget operating expenses by slightly less than \$29,000. At the end of the fiscal year, excluding depreciation and amortization the District's operating expenses were \$38,615 under the augmented budget.

In the 2015 fiscal year, as required by the Government Accounting Standards Board (GASB), the District 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 2017, 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, 2016. Per that report, the District's proportionate share of the PERS liability increased by \$574,794 or 25.6%.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2017

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District'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 District report information about the District'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 District'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 District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial position of the District. However, to fully understand the District'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 District's operations over the past year and can be used to determine whether the District 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 Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2017

Financial Analysis of the District

Net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by approximately \$35.8 million at the close of the most recent fiscal year.

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

11.1% or \$3,983,737 of the District'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 \$3,448,360 as of June 30, 2017 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 2017, total revenues decreased by \$699,837 or 13.0% and total expenses including depreciation and amortization increased \$170,170 or 3.6%. The decrease in revenues is primarily due to prior year's revenues including approximately \$563,000 in dewatering and sewer connection fee receipts.

Sewer user charges decreased \$222,131 or 4.8%, while operating expenses excluding depreciation increased \$149,464 or 4.7%. Nonoperating revenues decreased by \$122,065 or 31.7% as a result of the sewer connection fees on new commercial construction projects received in the prior fiscal year.

Budgetary Highlights

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

In fiscal year 2017, the District initially budgeted a decrease in net position of \$312,755, but, as noted above, before year end the budget was augmented to reflect a decrease of \$332,193. The actual decrease in net position was \$161,533.

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. This year, because 137 mobile homes were removed to make way for commercial development, the In-District flow percentage decreased by more than 4.8% from estimated, and therefore the flow percentages allocated to the participating districts increased. Increased extraordinary operating expenses combined with the participating districts' increased flow percentages resulted in an average increased assessment of 9.5%.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED (Unaudited)

June 30, 2017

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the District's capital assets amounted to \$29,520,246 net of accumulated depreciation and amortization as shown in Table A-3. The total increase in the District's capital assets for the current fiscal year was \$598,049 or 2.1%.

During the year, \$2,303,539 was spent on the District's capital improvement projects. Those projects included a complete overhaul of the large centrifuge, replacement of carbon media to control odors, installation of brush mechanisms to clean the clarifiers, rehabilitation of pump and valve sets at the Redundant Beach Pump Station, and expansion of the SCADA system, as well as the major capital projects described above.

District capital expenditures are expected to remain fairly level in fiscal 2018. It is anticipated that the Underground Emergency Storage Tank, STPUD Inter-tie, and Automated Sampling projects will be completed, and a portion of DCSID's effluent transmission line in the Carson Valley will be relocated. Additionally, the expansion of the SCADA system will continue and improvements to the treatment plant's aeration system will begin. While the District continues to aggressively pursue grant funding, the projects beginning construction next year will be paid for by capital assessments already in place and reserve funds built up over the years.

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 90.2% of all commercial flows within the District. The balance of revenue from in-district 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 2016 decreased by 0.8% from the previous year. Overall, flows increased by 1.6%. This increase could be a sign that the recent trend of decline in the South Shore Lake Tahoe tourist industry is leveling off or even reversing.

The fiscal year 2018 operating budget reflects operating expenses that total \$4,947,551 including depreciation and amortization, an increase of 1.9% over fiscal year 2017 actual operating expenses. The increase in operating expenses is attributable to increased planned maintenance and legal expenses necessary for the transition from DCSID to DCLTSA. For the 2018 fiscal year in-district residential rates were kept level at \$444 per year. Commercial rates were also kept level at \$9.02 per 1,000 gallons.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District'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 Sewer Improvement District #1

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

June 30, 2017

Table A-1
Condensed Summary of Statement of Net Position

	June 30,		Increase/ (Decrease)
	2017	2016	
Current, restricted and other assets	\$ 11,172,418	\$ 11,902,071	\$ (729,653)
Capital assets	29,520,246	28,922,197	598,049
Total assets	40,692,664	40,824,268	(131,604)
Deferred outflows of resources	795,059	397,185	397,874
Total liabilities	(5,399,443)	(4,848,232)	551,211
Deferred inflows of resources	(287,644)	(411,052)	(123,408)
Net position			
Invested in capital assets	28,368,539	27,668,052	700,487
Restricted	3,983,737	5,214,552	(1,230,815)
Unrestricted	3,448,360	3,079,565	368,795
Total net position	\$ 35,800,636	\$ 35,962,169	\$ (161,533)

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

	June 30,		Increase/ (Decrease)
	2017	2016	
Operating revenues			
Sewer user charges	\$ 4,428,585	\$ 4,650,716	\$ (222,131)
Other income	35,304	394,106	(358,802)
Nonoperating revenues	263,339	385,404	(122,065)
Debt service interest	(36,466)	(39,627)	3,161
	4,690,762	5,390,599	(699,837)
Operating expenses			
Maintenance and operations	3,298,891	3,149,427	149,464
Depreciation and amortization	1,553,404	1,532,698	20,706
Total expenses	4,852,295	4,682,125	170,170
CHANGE IN NET POSITION	(161,533)	708,474	(870,007)
Net position, beginning of year, as previously reported	35,962,169	35,253,695	708,474
Net position, end of year	\$ 35,800,636	\$ 35,962,169	\$ (161,533)

Douglas County Sewer Improvement District #1

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

June 30, 2017

Table A-3
Capital Assets

	June 30,		Increase/ (Decrease)
	2017	2016	
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	47,525,347	47,525,347	-
Equipment and other assets	3,819,374	2,866,159	953,215
Leasehold improvements	798,812	798,812	-
Construction in progress	5,794,113	4,608,766	1,185,347
	<u>59,041,080</u>	<u>56,902,518</u>	<u>2,138,562</u>
Less: Accumulated depreciation and amortization	<u>(29,520,834)</u>	<u>(27,980,321)</u>	<u>(1,540,513)</u>
Net property, plant, equipment and leasehold improvements	<u>\$ 29,520,246</u>	<u>\$ 28,922,197</u>	<u>\$ 598,049</u>

FINANCIAL STATEMENTS

Douglas County Sewer Improvement District #1

STATEMENTS OF NET POSITION

June 30,

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 393,497	\$ 437,624
Cash equivalents	3,256,188	3,215,778
Cash in custody of other governments	23,238	24,338
Short-term certificate of deposit investments	980,000	735,000
Accounts receivable	298,806	199,712
Supply inventory	25,136	33,324
Prepaid expenses	91,804	72,711
Interest receivable	10,541	6,368
Total current assets	<u>5,079,210</u>	<u>4,724,855</u>
RESTRICTED ASSETS		
Repair and replacement		
Cash	69,643	4,411
Cash equivalents	1,131,248	1,204,535
Short-term certificate of deposit investments	980,000	245,000
Interest receivable	7,518	8,915
	<u>2,188,409</u>	<u>1,462,861</u>
Construction		
Cash	376,413	159,534
Cash equivalents	271,223	1,316,219
Short-term certificate of deposit investments	-	245,000
Restricted investments	225,853	225,853
	<u>873,489</u>	<u>1,946,606</u>
Total current restricted assets	<u>3,061,898</u>	<u>3,409,467</u>
LONG-TERM ASSETS		
Long-term certificate of deposit investments	<u>1,225,000</u>	<u>1,225,000</u>
Total long-term assets	<u>1,225,000</u>	<u>1,225,000</u>
RESTRICTED LONG-TERM ASSETS		
Repair and replacement		
Long-term certificate of deposit investments	<u>1,715,000</u>	<u>2,450,000</u>
Total restricted long-term assets	<u>1,715,000</u>	<u>2,450,000</u>
PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net	<u>29,520,246</u>	<u>28,922,197</u>
OTHER ASSETS		
Deposits	<u>91,310</u>	<u>92,749</u>
Total other assets	<u>91,310</u>	<u>92,749</u>
Total assets	<u>\$ 40,692,664</u>	<u>\$ 40,824,268</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	<u>\$ 795,059</u>	<u>\$ 397,185</u>
Total deferred outflows of resources	<u>\$ 795,059</u>	<u>\$ 397,185</u>

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

June 30,

LIABILITIES

	2017	2016
CURRENT LIABILITIES, payable from current assets		
Accounts payable	\$ 116,586	\$ 180,655
Accrued compensation and other expenses	146,124	169,499
Current portion of long-term debt	105,649	102,439
Total current liabilities payable from current assets	368,359	452,593
CURRENT LIABILITIES, payable from restricted assets		
Repair and replacement		
Accounts payable	212	-
Construction		
Accounts payable	792,949	644,915
Total current liabilities payable from restricted assets	793,161	644,915
ACCRUED COMPENSATION - noncurrent	63,509	70,485
ACCRUED OPEB LIABILITY - noncurrent	307,676	282,647
PERS proportionate liability - noncurrent	2,820,680	2,245,886
LONG-TERM DEBT, less current portion	1,046,058	1,151,706
Total liabilities	5,399,443	4,848,232
DEFERRED INFLOWS OF RESOURCES		
Pension related	287,644	411,052
Total deferred inflows of resources	287,644	411,052
NET POSITION		
Invested in capital assets, net of related debt	28,368,539	27,668,052
Restricted for construction	80,540	1,301,691
Restricted for repair and replacement	3,903,197	3,912,861
	3,983,737	5,214,552
Unrestricted	3,448,360	3,079,565
Total net position	\$ 35,800,636	\$ 35,962,169

The accompanying notes are an integral part of these statements.

Douglas County Sewer Improvement District #1

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

Years ended June 30,

	<u>2017</u>	<u>2015</u>
Operating revenues		
Annual assessments	\$ 4,428,585	\$ 4,650,716
Other income	35,304	394,106
	<u>4,463,889</u>	<u>5,044,822</u>
Operating expenses before depreciation and amortization		
Salaries, wages and benefits	2,050,027	1,976,875
Electrical and other utilities	304,063	332,856
Chemicals and supplies	84,063	73,583
Legal and accounting	229,414	225,008
Engineering and consulting	165,183	142,221
Repairs and maintenance	244,595	181,274
Insurance	61,147	67,244
Fuels and lubricants	16,037	11,612
Other operating expenses	144,362	138,754
	<u>3,298,891</u>	<u>3,149,427</u>
Operating income before depreciation and amortization	1,164,998	1,895,395
Depreciation and amortization	<u>1,553,404</u>	<u>1,532,698</u>
Operating income (loss)	<u>(388,406)</u>	<u>362,697</u>
Nonoperating revenues (expenses)		
Consolidated taxes	137,984	137,984
Interest income	86,555	65,180
Debt service interest	(36,466)	(39,627)
Capacity fees	38,800	182,240
	<u>226,873</u>	<u>345,777</u>
CHANGE IN NET POSITION	(161,533)	708,474
Net position - beginning of year	<u>35,962,169</u>	<u>35,253,695</u>
Net position - end of year	<u>\$ 35,800,636</u>	<u>\$ 35,962,169</u>

The accompanying notes are an integral part of these statements.

Douglas County Sewer Improvement District #1

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,364,794	\$ 5,165,497
Cash payments to suppliers for goods and services	(1,322,187)	(1,081,162)
Cash payments to employees for services including benefits	<u>(2,001,838)</u>	<u>(2,085,039)</u>
Net cash provided by operating activities	<u>1,040,769</u>	<u>1,999,296</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,003,419)	(1,130,301)
Consolidated taxes	137,984	137,984
Cash received for capacity fees	38,800	182,240
Debt service interest	(36,466)	(39,627)
Payments on long-term debt	<u>(102,439)</u>	<u>(99,326)</u>
Net cash used in capital and related financing activities	<u>(1,965,540)</u>	<u>(949,030)</u>
Cash flows from investing activities:		
Interest income on investments	<u>83,782</u>	<u>60,449</u>
Net cash provided by investing activities	<u>83,782</u>	<u>60,449</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(840,989)	1,110,715
Cash and cash equivalents at beginning of year	<u>6,362,439</u>	<u>5,251,724</u>
Cash and cash equivalents at end of year	<u>\$ 5,521,450</u>	<u>\$ 6,362,439</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (388,406)</u>	<u>\$ 362,697</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,553,404	1,532,698
Change in assets and liabilities:		
Supply inventory	8,188	6,200
Prepaid expenses	(19,093)	41,546
Accounts receivable	(99,094)	120,675
Deposits	1,439	(3,004)
Pension related deferred outflows of resources	(397,874)	(73,552)
Accounts payable and accrued liabilities	505,613	156,902
Pension related deferred inflows of resources	<u>(123,408)</u>	<u>(144,866)</u>
Total adjustments	<u>1,429,175</u>	<u>1,636,599</u>
Net cash provided by operating activities	<u>\$ 1,040,769</u>	<u>\$ 1,999,296</u>

The accompanying notes are an integral part of these statements.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the District'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.

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 District 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 District is located in Douglas County, Nevada; however, it is not included in the financial statements of Douglas County.

The District'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 District are restricted for 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.

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 District 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.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

- Continued

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

3. Cash and Cash Equivalents

The District 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 District considers receivables at June 30, 2017 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 District 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 2017.

Property, plant, equipment and leasehold improvements of the District 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 Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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. During fiscal year 2017, DCSID's employee policies were amended to 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, 2017 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 District has pension 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 District has pension related amounts that qualify for reporting in this category. Pension related deferred inflows of resources are discussed in depth in Note G.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Fair Value

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

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

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

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

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

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

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 District include the accrued other post-employment benefits (OPEB) and net pension liability. Actual results could differ from those estimates.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE B - RESTRICTED ASSETS

1. Repair and Replacement

As provided under the District ordinance dated April 18, 2003, annexation and out-of-district capacity fees charged for connection to the District'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 District's sewage system.

2. Construction

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

NOTE C - CASH AND CASH EQUIVALENTS

As of June 30, 2017, the District has cash deposits in the amount of \$839,553 and the amount is carried at cost. The bank's balance of \$870,353 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 District's deposits may not be returned to it. The District'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 District's deposits were fully insured and collateralized, and as such, were not exposed to any custodial credit risk at June 30, 2017.

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, 2017, cash equivalents of \$1,991,576 are on deposit with LGIP and \$2,667,083 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 District 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 District's investments meet those criteria.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE D - INVESTMENTS

The District's investment holdings as of June 30, 2017 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 District'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 certificates of deposit of \$245,000 each will mature before June 30, 2018. These policies minimize the District'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 District 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:

	2016	Additions	Deletions	2017
Wastewater reclamation plant and lines	\$ 36,235,337	\$ -	\$ -	\$ 36,235,337
Collection lines	1,196,828	-	-	1,196,828
Equipment and other assets	2,866,159	974,872	(21,657)	3,819,374
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>51,190,318</u>	<u>974,872</u>	<u>(21,657)</u>	<u>52,143,533</u>
Accumulated depreciation and amortization	(27,980,321)	(1,553,404)	12,891	(29,520,834)
	<u>23,209,997</u>	<u>(578,532)</u>	<u>(8,766)</u>	<u>22,622,699</u>
Land	1,103,434	-	-	1,103,434
Construction in progress	4,608,766	2,089,294	(903,947)	5,794,113
	<u>\$ 28,922,197</u>	<u>\$ 1,510,762</u>	<u>\$ (912,713)</u>	<u>\$ 29,520,246</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE F - LONG-TERM DEBT

On May 25, 2006, the District entered into a loan contract with the State of Nevada in order to complete Phases II and III of the Reservoir Lining Project. The maximum amount available on that contract from the "Clean Water State Revolving Fund" was \$2,000,000. Interest on loan funds disbursed under that contract shall accrue interest at the rate of 3.2375%, payable semiannually on January 1st and July 1st, of each year. In connection with that loan, the District 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 2017 year, \$66,379 of the loan principal was repaid, leaving the District with a balance of \$703,888 at June 30, 2017. In connection with this loan, \$225,853 of the District's funds are held by the Local Government Investment Pool as collateral and are restricted for use by the District.

On August 28, 2007, the District 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 District's account at the Local Government Investment Pool as collateral and is also restricted for use by the District. Interest on loan funds disbursed under that contract shall accrue interest at the rate of 2.875%, payable semiannually on January 1st and July 1st, of each year. In connection with that loan, the District 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 2017 year, \$36,059 of the loan principal was repaid, leaving the District with a balance of \$447,819 at June 30, 2017.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30,			
2018	\$ 105,649	\$ 34,848	\$ 140,497
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
2023-2027	564,784	46,918	611,702
2028-2032	24,505	352	24,857
	<u>\$ 1,151,707</u>	<u>\$ 187,337</u>	<u>\$ 1,339,044</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE G - PENSION PLAN

1. **Plan Description**

The District 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. DCSID's employees are considered Regular members. The System was established by the Nevada Legislature in 1947, and the provisions are set forth in Nevada Revised Statutes Chapter 286. PERS issues a Comprehensive Annual Financial Report, which may be obtained by writing to the Public Employees Retirement System of Nevada, 693 West Nye Lane, Carson City, Nevada 89703 or by visiting the website at www.nvpers.org.

A. Benefits Provided

Benefits, as required by the Nevada Revised Statutes (NRS or statute), are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months with special provisions for members entering the System on or after January 1, 2010.

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 10 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 Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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. DCSID is an Employer-Paid agency which means that employees take a reduced salary and the contributions are paid by the District.

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, 2017 and 2016 the Statutory Employer-Pay contribution rate for Regular Members was 28.0%.

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

At June 30, 2017, the District reported a liability of \$2,820,680 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's allocation percentage of the net pension liability was based on the total contributions due on wages paid during the measurement period. The District's proportion of the net pension liability is based on their combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2016. At June 30, 2016, the District's portion was 0.02096 percent of the total.

Reconciliation of net pension liability

Beginning net pension liability, July 1, 2016	\$ 2,245,886
Pension expense	387,822
Employer contributions	(334,310)
New net deferred inflows/outflows	521,282
	<hr/>
Ending net pension liability, June 30, 2017	<u>\$ 2,820,680</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

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, 2017 the District recognized pension expense of \$387,822. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$188,880
Changes of assumptions	\$0	\$0
Net difference between projected and actual earnings on investments	\$262,217	\$0
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$198,532	\$98,764
Contributions subsequent to the measurement date	\$334,310	\$0

The \$334,310 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 2018. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2018	\$ (51,307)
2019	(51,307)
2020	219,450
2021	106,144
2022	(40,866)
2023	(9,009)
	<hr/>
	\$ 173,105
	<hr/>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Payroll Growth	5.00%, including inflation
Productivity pay increases	0.75%
Projected salary increases	4.60% - 9.75%, depending on service and including inflation and productivity increases
Investment rate of return	8.00%
Consumer Price Index	3.50%
Post-Retirement Benefit increases	3.50%, 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, 2016 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, 2016:

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, 2016, PERS' long-term inflation assumption was 3.5%*

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions - Continued

Discount rate The discount rate used to measure the total pension liability was 8.00% as of June 30, 2016. 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, 2016 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, 2016.

Pension liability discount rate sensitivity. The following represents the District's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
The District's proportional share of the net pension liability	\$ 4,134,471	\$ 2,820,680	\$ 1,727,503

The System's net pension liability was measured as of June 30, 2016, 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 combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2016.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE H - OTHER POST-EMPLOYMENT BENEFITS

1. Plan Description

District. Since September 1, 2008, the District has had in place a single-employer post-employment benefits program available to retirees of the District. The Plan provides eligible employees who retire from the District the ability to continue their coverage under the health plans offered by the District to its active employees, including medical, dental, vision and life coverage.

PEBP. The District'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

District. The District 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 District's Board. Due to the small size of the District and its few employees, it was determined the Pay-As-You-Go method would be adopted, with the annual liability amount deposited into a set-aside account with the Local Government Investment Pool. While this method offsets each year's annual required contribution liability with a set-aside asset, the District understands that this method is not considered "Pre-funding."

For fiscal year 2017, the District contributed \$34,503 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 \$615 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 District 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 District. The District pays its required contribution monthly when PEBP invoices are received.

For fiscal year 2017, the District's contributions toward the PEBP plan was \$36,978. These amounts vary by year due to state Department of Administration changes in the subsidy limits.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

3. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net obligation as of June 30, 2017:

	District	PEBP	Total
Annual required contribution	\$ 92,145	\$ 23,164	\$ 115,309
Contributions made	(53,302)	(36,978)	(90,280)
Increase (decrease) in net OPEB obligation	38,843	(13,814)	25,029
Net OPEB obligation - beginning of year	292,362	(9,715)	282,647
Net OPEB obligation - end of year	\$ 331,205	\$ (23,529)	\$ 307,676

The annual OPEB cost for fiscal year 2017 was \$115,309, the percentage of annual OPEB cost contributed to the plan was 78.3%, and the net OPEB obligation as of June 30, 2017 was \$307,676.

Actuarial valuations will be done every three years, as dictated for employers with less than 200 employees. The most recent actuarial valuation was completed by the District as of July 1, 2015, covering fiscal years 2016, 2017 and 2018.

4. Funded Status and Funding Progress

District. As of July 1, 2015, the actuarial accrued liability for benefits was \$912,191, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$912,191. The funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) is zero percent.

PEBP. As of July 1, 2015, the actuarial accrued liability for benefits was \$360,649, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$360,649. The funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) is zero percent.

Total. As of July 1, 2015, the total UAAL equaled \$1,272,840. Annual covered payroll totals \$1,121,469 and the ratio of the unfunded actuarial liability to annual covered payroll is 113.5%.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

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.

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 July 1, 2015 actuarial valuation, the funding method used was the entry age normal cost method. The amortization method is level percentage of projected payroll, at 3% 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 4%, an annual healthcare cost trend rate of 7.0% for fiscal year 2017, reduced by decrements to an ultimate rate of 5% after four years, and projected salary increases of 4% per year.

NOTE I - SUBSEQUENT EVENT

Pursuant to Senate Bill (SB) 471, signed into law on June 3, 2017, effective October 1, 2017 the Nevada Revised Statutes (NRS) Chapter 309, the Nevada Improvement District Act, was repealed. Douglas County Sewer Improvement District No. 1 was the only local improvement district organized under that statute. With the repeal of that statute, DCSID as an entity was abolished and replaced with the Douglas County Lake Tahoe Sewer Authority (DCLTSA), as defined by SB 471. The former three-member Board of Directors was replaced with a five-member Board of Trustees and the new entity DCLTSA assumed all of the debts, liabilities, obligations and assets of the former District at previously recorded book values.

REQUIRED SUPPLEMENTAL INFORMATION

Douglas County Sewer Improvement District #1

SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>District Plan</u>						
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>						
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 Sewer Improvement District #1
SCHEDULE OF DISTRICT CONTRIBUTIONS
Public Employees' Retirement System of Nevada

Last ten fiscal years*

	<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>	<u>2008</u>
Contractually required contribution	\$ 334,310	\$ 363,446	\$ 304,244							
Contributions in relation to the contractually required contribution	<u>(334,310)</u>	<u>(363,446)</u>	<u>(304,244)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
District's covered-employee payroll	<u>\$ 1,264,884</u>	<u>\$ 1,307,235</u>	<u>\$ 1,324,729</u>							
Contributions as a percentage of covered-employee payroll	<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>25.75%</u>							

(Historical information prior to the implementation of GASB 67/68 is not required)

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

Douglas County Sewer Improvement District #1
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Public Employees' Retirement System of Nevada

Last ten fiscal years*

	<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>	<u>2008</u>
District's proportion of the net pension liability	<u>0.02096%</u>	<u>0.0196%</u>	<u>0.0207%</u>							
	(Historial information prior to the implementation of GASB 67/68 is not required)									
District's proportionate share of the net pension liability	<u>\$ 2,820,680</u>	<u>\$ 2,245,886</u>	<u>\$ 2,155,697</u>							
District's covered-employee payroll	<u>\$ 1,264,884</u>	<u>\$ 1,307,235</u>	<u>\$ 1,324,729</u>							
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>223%</u>	<u>172%</u>	<u>16.3%</u>							
PERS fiduciary net position as a percentage of the total pension liability	<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 Sewer Improvement District #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL

Year ended June 30, 2017

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Operating revenues			
Annual assessments	\$ 2,145,000	\$ 2,150,476	\$ 5,476
Contracts with other districts	2,226,138	2,278,109	51,971
Other fees, revenue	13,200	35,304	22,104
Total operating revenues	<u>4,384,338</u>	<u>4,463,889</u>	<u>79,551</u>
Operating expenses			
Salaries, wages and benefits	2,033,081	2,050,027	(16,946)
Electrical and other utilities	323,075	304,063	19,012
Chemicals and supplies	64,250	84,063	(19,813)
Legal and accounting	247,700	229,414	18,286
Engineering and consulting	156,700	165,183	(8,483)
Repairs and maintenance	260,650	244,595	16,055
Insurance and other operating expenses	234,050	205,509	28,541
Fuels and lubricants	18,000	16,037	1,963
Depreciation and amortization	1,600,000	1,553,404	46,596
Total operating expenses	<u>4,937,506</u>	<u>4,852,295</u>	<u>85,211</u>
Operating loss	<u>(553,168)</u>	<u>(388,406)</u>	<u>164,762</u>
Nonoperating revenues			
Consolidated taxes	137,984	137,984	-
Interest income	82,250	86,555	4,305
Capacity fees	38,800	38,800	-
Total nonoperating revenues	<u>259,034</u>	<u>263,339</u>	<u>4,305</u>
Nonoperating expenditures			
Debt service interest	38,059	36,466	1,593
Total nonoperating expenditures	<u>38,059</u>	<u>36,466</u>	<u>1,593</u>
DECREASE IN NET POSITION	<u>\$ (332,193)</u>	<u>\$ (161,533)</u>	<u>\$ 170,660</u>

Douglas County Sewer Improvement District #1
STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL
Year ended June 30, 2017

	Final Augmented Budget	Actual	Variance - Favorable (Unfavorable)
Cash flows from operating activities:			
Cash received from customers	\$ 4,384,338	\$ 4,364,794	\$ (19,544)
Cash payments to suppliers for goods and services	(1,304,425)	(1,322,187)	(17,762)
Cash payments to employees for services including benefits	(2,033,081)	(2,001,838)	31,243
Net cash provided by operating activities	<u>1,046,832</u>	<u>1,040,769</u>	<u>(6,063)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,622,365)	(2,003,419)	618,946
Consolidated taxes	137,984	137,984	-
Cash received for capacity fees	38,800	38,800	-
Debt service interest	(38,059)	(36,466)	1,593
Payments on long-term debt	(102,439)	(102,439)	-
Net cash used in capital and related financing activities	<u>(2,586,079)</u>	<u>(1,965,540)</u>	<u>620,539</u>
Cash flows from investing activities:			
Interest income on investments	82,250	83,782	1,532
Net cash provided by investing activities	<u>82,250</u>	<u>83,782</u>	<u>1,532</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,456,997)	(840,989)	616,008
Cash and cash equivalents at beginning of year	5,503,479	6,362,439	858,960
Cash and cash equivalents at end of year	<u>\$ 4,046,482</u>	<u>\$ 5,521,450</u>	<u>\$ 1,474,968</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 Sewer Improvement District #1

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 the Douglas County Sewer Improvement District #1 (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("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 District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 District'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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 District'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 District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Reno, Nevada
November 13, 2017