



Financial Statements and Report of Independent  
Certified Public Accountants

**Douglas County Sewer Improvement District #1**

June 30, 2016

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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, 2016, 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, 2016, 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 financials 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*

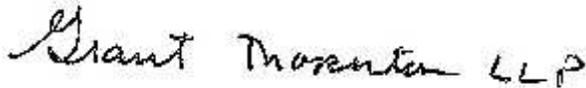
Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The budgetary comparison information a pages 37 and 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information 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 2015 summarized comparative information*

We have previously audited the 2015 basic financial statements (not presented herein), and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 13, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015, 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 14, 2016, 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 14, 2016

## Douglas County Sewer Improvement District #1

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

June 30, 2016

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, 2016.

#### Financial Highlights

This fiscal year brought about a significant amount of both change and progress. DCSID's new District Manager, hired at the end of the last fiscal year, implemented a changed work schedule for operations staff which eliminated a large portion of the overtime and night-time differential pay from expenses. In addition, the District's leave policy was amended to allow the buyout of a portion of each employee's annual leave time. These moves, while immediately reducing operating expenses also set the stage for future changes as the District moves toward no longer being staffed 24 hours a day, 7 days per week.

To help reach the goal of safely reducing staffing hours, the District undertook the task of connecting all its off-site pump stations to the Supervisory Control and Data Acquisition (SCADA) system via cellular signal with telephone line back up. This will eventually enable the pumps and valves offsite to be monitored and, in emergency situations, even controlled via mobile devices until a physical response is possible. Additional automations have been programmed into the SCADA system for energy efficiency. Approximately \$93,000 was spent this fiscal year on improvements to the SCADA system.

At the end of the previous fiscal year, DCSID also hired a new Maintenance Supervisor who, with guidance from the District Manager, undertook an overhaul of the plant's aging operating equipment, with an emphasis on safety and energy efficiency. Equipment was extensively tested, repaired and refurbished or replaced. Under the guidance of the District Manager and Maintenance Supervisor, much of that work was performed by District staff. Maintenance and repair expenses increased over those of the last fiscal year by almost \$33,000 but paid off by decreasing utility expenses by more than \$55,000 or 14%. It is expected that utility expenses will continue to decrease in the near future from this year's efforts.

District staff also undertook the in-house wiring and installation of a redundant centrifuge at a total cost of \$258,000. That project had been estimated using professional labor at \$790,000. Using in-house labor enabled the project to be done sooner, provided additional reliability to the biosolids handling system, and made it possible to remove the larger centrifuge and send it back to the manufacturer for routine but essential maintenance.

In May of 2016, construction was started on an emergency underground storage facility at the District's Main Pump Station. Previously, if a pump failure occurred at this station, the critical response time would have been under 30 minutes to avoid a spill. The pump station is located within 500 yards of Lake Tahoe, and DCSID takes its environmental responsibility very seriously. The new emergency underground storage facility will increase the critical response time to 8 hours or more, allowing staff adequate time to respond to a mechanical incident without incurring emergency response costs. This project is the first of its kind in the Lake Tahoe basin, and is an important step toward protecting the sensitive environment within which the District operates. The total cost for this facility is expected to be \$1.7 million. The project completion date is set for October, 2016.

Regarding ongoing capital projects, this year was somewhat frustrating. The Main Pump Station Rehabilitation project, which started construction in the 2014 fiscal year, is still awaiting completion as District staff works with the pump supplier and contractor to resolve performance issues regarding the new pumps and motors.

## Douglas County Sewer Improvement District #1

### MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED (Unaudited)

June 30, 2016

A sewer inter-tie system with South Lake Tahoe Public Utility District (STPUD), was considered in order to enable DCSID to send raw sewage to STPUD in the event of an emergency such as a line break or pump failure. This project began last year, but was delayed due to an easement issue. The project will be reconsidered in the future as the issues are resolved.

In the prior fiscal year, the District had applied to Douglas County for a special use permit which would enable the excavation and sale of aggregate from DCSID's property in the Carson Valley. Had it been allowed, that endeavor would provide for much needed flood control for residents in the Carson Valley and at the same time effectively pay for the construction of a lined effluent reservoir on the property, which will be needed in the coming years. Even after being re-designed in response to public comments, that project met with so much opposition that it has also been temporarily put on hold.

At the very end of this 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. \$33,000 was spent on the engineering and design aspects of the relocation, with an expected final cost of between \$170,000 and \$500,000 depending on NDOT's final requirements. That project was not planned or budgeted for and the completion of it will supersede other priority projects.

The District's capital investment in equipment and projects totaled \$1,704,469 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.

Miscellaneous income received a significant boost in this fiscal year. A neighboring utility district incurred costs to the District for accepting ground water removed in the construction of a water treatment plant. The income from that one source totaled almost \$381,000. Connection fees of more than \$182,000 were also received, as two large commercial projects both began the construction process.

In May 2016 at a Special Meeting of the Douglas County Board of County Commissioners, the Douglas County District Attorney gave a three-plus hour presentation to "consider the character, alleged misconduct, competence, or physical or mental health" of DCSID's Board, its management and outside professionals. Legal counsel for DCSID and its representatives was allowed just three minutes for rebuttal under the public comment portion of this agenda item. Subsequently, the County Commission considered an ordinance to dissolve the District based upon the District Attorney's allegations of election violations by the District. Following very vocal support for the District from Lake Tahoe residents, the Commission voted to table the dissolution ordinance but did direct its staff to work with DCSID to solicit a formal, written opinion from the Secretary of State as to whether there have been election violations. As a result of the District Attorney's actions, DCSID was compelled to provide the Secretary of State with a detailed explanation, with supporting materials, of DCSID's organization, management and historic procedures pursuant to the terms of NRS Chapter 309. In addition, the District has been required to respond to a very lengthy Open Meeting Law Complaint filed by the District Attorney with the Nevada Attorney General, related to DCSID's meeting practices.

The District's measured but firm response to these entirely unforeseen actions of Douglas County has resulted in the expenditure of \$111,000 for additional legal services alone during the last two months of the fiscal year. With the outcome of these matters still outstanding, it is anticipated that these previously unbudgeted legal expenses will continue for some time.

## **Douglas County Sewer Improvement District #1**

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

**June 30, 2016**

Even with the unexpected legal expenses, the District's operating expenses were 10% under what was budgeted for the fiscal year because of significant savings in other areas.

In the prior 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 2016, 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, 2015. The District's proportionate share of the PERS liability increased by \$90,189, or 4.2%. Since this was the second year of adopting the standard, the District's financials are once again being presented in a comparative manner.

#### **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, 2016

#### 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 \$36.0 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., sewers, 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.

14.5% of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position in the amount of \$3,079,565 as of June 30, 2016 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 2016, total revenues increased \$536,524 or 11.1% and total expenses including depreciation decreased by \$41,990 or .9%. As noted above, the total revenue figure was boosted by approximately \$381,000 paid to DCSID for accepting and processing water removed from the ground during a large local construction project and by connection fees of more than \$182,000.

Sewer user charges increased \$100,999 or 2.2%, while operating expenses excluding depreciation decreased \$23,174 or .7%. Nonoperating revenues increased by \$166,420 or 76% primarily as a result of the connection fees on new commercial construction projects.

#### 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 2016, the District initially budgeted a decrease in net position of \$536,687, but before year end the budget was augmented to reflect a decrease of \$115,806. The actual increase in net position was \$708,474.

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 7% from estimated, and therefore the flow percentages allocated to the participating districts increased. Despite overall decreased operating expenses, the participating districts' increased flow percentage resulted in an average increased assessment adjustment of 7.1%.

## Douglas County Sewer Improvement District #1

### MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED (Unaudited)

June 30, 2016

#### Capital Assets and Debt Administration

##### **Capital Assets**

As of June 30, 2016, the District's capital assets amounted to \$28,922,197 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 \$171,771 or .6%.

During the year, \$1,704,469 was spent on the District's capital improvement projects. Those projects included upgrades to plant electrical controls, the implementation of safety upgrades, including catwalks around centrifuges, gas detector systems, and lighter biosolids bin lids, the expansion of the SCADA system, the construction of an underground emergency storage facility, and permitting attempts for the excavation and lining of an effluent storage basin.

District capital expenditures are expected to remain fairly level in the 2017 fiscal year. It is anticipated that the Main Pump Station Rehabilitation Project and the Underground Emergency Storage projects will be completed, construction of an Automated Sampling system started and a portion of DCSID's effluent transmission line in the Carson Valley will be relocated. Additionally, expansion of the automation capabilities of the SCADA system will take place. 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 almost 89% 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 2015 decreased by 10% from the previous year. Overall, flows decreased by 8.6%. This decrease could be related to the wide scale installation of low-flow water fixtures and/or a decrease in tourism made worse by the lack of snow for several years.

The fiscal year 2017 operating budget reflects operating expenses that total \$4,908,811, an increase of 4.6% over fiscal year 2016 actual operating expenses, reflecting increased legal expenses and planned maintenance. For the 2017 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 Sewer Improvement District #1, P.O. Box 578, Zephyr Cove, NV 89448.

**Douglas County Sewer Improvement District #1**

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

**June 30, 2016**

Table A-1  
Condensed Summary of Statement of Net Position

	June 30,		Increase/ (Decrease)
	2016	2015	
Current, restricted and other assets	\$ 11,902,071	\$ 10,952,042	\$ 950,029
Capital assets	28,922,197	28,750,426	171,771
Total assets	40,824,268	39,702,468	1,121,800
Deferred outflows of resources	397,185	323,633	73,552
Total liabilities	4,848,232	4,216,488	631,744
Deferred inflows of resources	411,052	555,918	(144,866)
Net position			
Invested in capital assets	27,668,052	27,396,955	271,097
Restricted	5,214,552	5,884,050	(669,498)
Unrestricted	3,079,565	1,972,690	1,106,875
Total net position	<u>\$ 35,962,169</u>	<u>\$ 35,253,695</u>	<u>\$ 708,474</u>

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

	June 30,		Increase/ (Decrease)
	2016	2015	
Operating revenues			
Sewer user charges	\$ 4,650,716	\$ 4,549,717	\$ 100,999
Other	394,106	189,136	204,970
Nonoperating revenues	385,404	218,984	166,420
Debt service interest	(39,627)	(42,692)	3,065
Loss on disposal of assets	-	(61,070)	61,070
Total revenues	5,390,599	4,854,075	536,524
Operating expenses			
Maintenance and operations	3,149,427	3,172,601	(23,174)
Depreciation and amortization	1,532,698	1,551,514	(18,816)
Total expenses	4,682,125	4,724,115	(41,990)
CHANGE IN NET POSITION	708,474	129,960	578,514
Net position, beginning of year, as previously reported	35,253,695	37,530,243	(2,276,548)
Change in accounting principle, GASB 68 adjustments	-	(2,406,508)	2,406,508
Net position, beginning of year, as restated	35,253,695	35,123,735	129,960
Net position, end of year	<u>\$ 35,962,169</u>	<u>\$ 35,253,695</u>	<u>\$ 708,474</u>

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(Unaudited)

June 30, 2016

Table A-3  
Capital Assets

	June 30,		Increase/ (Decrease)
	2016	2015	
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	47,525,347	47,525,347	-
Equipment and other assets	2,866,159	2,729,437	136,722
Leasehold improvements	798,812	798,812	-
Construction in progress	4,608,766	3,041,019	1,567,747
	<u>56,902,518</u>	<u>55,198,049</u>	<u>1,704,469</u>
Less: Accumulated depreciation and amortization	<u>(27,980,321)</u>	<u>(26,447,623)</u>	<u>(1,532,698)</u>
Net property, plant, equipment and leasehold improvements	<u>\$ 28,922,197</u>	<u>\$ 28,750,426</u>	<u>\$ 171,771</u>

## **FINANCIAL STATEMENTS**

**Douglas County Sewer Improvement District #1**

**STATEMENTS OF NET POSITION**

**June 30,**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 437,624	\$ 753,949
Cash equivalents	3,215,778	1,691,647
Cash in custody of other governments	24,338	22,997
Short-term certificate of deposit investments	735,000	245,000
Accounts receivable	199,712	320,387
Supply inventory	33,324	39,523
Prepaid expenses	72,711	114,257
Interest receivable	6,368	4,740
Total current assets	<u>4,724,855</u>	<u>3,192,500</u>
<b>RESTRICTED ASSETS</b>		
Repair and replacement		
Cash	4,411	3,637
Cash equivalents	1,204,535	1,168,992
Short-term certificate of deposit investments	245,000	1,715,000
Interest receivable	8,915	5,813
	<u>1,462,861</u>	<u>2,893,442</u>
Construction		
Cash	159,534	294,279
Cash equivalents	1,316,219	1,316,223
Short-term certificate of deposit investments	245,000	-
Restricted investments	225,853	225,853
	<u>1,946,606</u>	<u>1,836,355</u>
Total current restricted assets	<u>3,409,467</u>	<u>4,729,797</u>
<b>LONG-TERM ASSETS</b>		
Long-term certificate of deposit investments	<u>1,225,000</u>	<u>1,715,000</u>
Total long-term assets	<u>1,225,000</u>	<u>1,715,000</u>
<b>RESTRICTED LONG-TERM ASSETS</b>		
Repair and replacement		
Long-term certificate of deposit investments	2,450,000	980,000
Construction		
Long-term certificate of deposit investments	-	245,000
Total restricted long-term assets	<u>2,450,000</u>	<u>1,225,000</u>
<b>PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net</b>	<u>28,922,197</u>	<u>28,750,426</u>
<b>OTHER ASSETS</b>		
Deposits	<u>92,749</u>	<u>89,745</u>
Total other assets	<u>92,749</u>	<u>89,745</u>
Total assets	<u>\$ 40,824,268</u>	<u>\$ 39,702,468</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related	<u>\$ 397,185</u>	<u>\$ 323,633</u>
Total deferred outflows of resources	<u>\$ 397,185</u>	<u>\$ 323,633</u>

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

**June 30,**

**LIABILITIES**

	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES, payable from current assets</b>		
Accounts payable	\$ 180,655	\$ 134,006
Accrued compensation and other expenses	169,499	172,395
Current portion of long-term debt	102,439	99,326
Total current liabilities payable from current assets	452,593	405,727
<b>CURRENT LIABILITIES, payable from restricted assets</b>		
Construction		
Accounts payable	644,915	70,747
Total current liabilities payable from restricted assets	644,915	70,747
<b>ACCRUED COMPENSATION - noncurrent</b>	70,485	66,809
<b>ACCRUED OPEB LIABILITY - noncurrent</b>	282,647	263,363
<b>PERS proportionate liability - noncurrent</b>	2,245,886	2,155,697
<b>LONG-TERM DEBT, less current portion</b>	1,151,706	1,254,145
Total liabilities	4,848,232	4,216,488

**DEFERRED INFLOWS OF RESOURCES**

Pension related	411,052	555,918
Total deferred inflows of resources	411,052	555,918

**NET POSITION**

Invested in fixed assets, net of related debt	27,668,052	27,396,955
Restricted for construction	1,301,691	2,010,608
Restricted for repair and replacement	3,912,861	3,873,442
	5,214,552	5,884,050
Unrestricted	3,079,565	1,972,690
Total net position	\$ 35,962,169	\$ 35,253,695

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>2016</u>	<u>2015</u>
<b>Operating revenues</b>		
Annual assessments	\$ 4,650,716	\$ 4,549,717
Other income	394,106	189,136
	<u>5,044,822</u>	<u>4,738,853</u>
 <b>Operating expenses before depreciation and amortization</b>		
Salaries, wages and benefits	1,976,875	2,003,814
Electrical and other utilities	332,856	388,160
Chemicals and supplies	73,583	71,301
Legal and accounting	225,008	161,172
Engineering and consulting	142,221	153,337
Repairs and maintenance	181,274	148,633
Insurance	67,244	73,361
Fuels and lubricants	11,612	13,707
Other operating expenses	138,754	159,116
	<u>3,149,427</u>	<u>3,172,601</u>
 Operating income before depreciation and amortization	1,895,395	1,566,252
 <b>Depreciation and amortization</b>	<u>1,532,698</u>	<u>1,551,514</u>
Operating income	<u>362,697</u>	<u>14,738</u>
 <b>Nonoperating revenues (expenses)</b>		
Consolidated taxes	137,984	137,984
Interest income	65,180	44,400
Loss on disposal of assets	-	(61,070)
Debt service interest	(39,627)	(42,692)
Capacity fees	182,240	36,600
	<u>345,777</u>	<u>115,222</u>
 CHANGE IN NET POSITION	<u>708,474</u>	<u>129,960</u>
 <b>Net position - beginning of year (prior year as previously reported)</b>	35,253,695	37,530,243
 <b>Prior year change in accounting principles - GASB 68</b>	-	(2,406,508)
 <b>Net position prior year as restated</b>	<u>35,253,695</u>	<u>35,123,735</u>
 <b>Net position - end of year</b>	<u>\$ 35,962,169</u>	<u>\$ 35,253,695</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,

	2016	2015
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 5,165,497	\$ 4,589,049
Cash payments to suppliers for goods and services	(1,081,162)	(1,132,502)
Cash payments to employees for services including benefits	(2,085,039)	(2,050,885)
Net cash provided by operating activities	1,999,296	1,405,662
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(1,130,301)	(767,933)
Consolidated taxes	137,984	137,984
Cash received for capacity fees	182,240	36,600
Debt service interest	(39,627)	(42,692)
Payments on long-term debt	(99,326)	(96,308)
Net cash used in capital and related financing activities	(949,030)	(732,349)
<b>Cash flows from investing activities:</b>		
Redemption (purchase) of investments, net	-	(245,000)
Interest on investments	60,449	40,243
Net cash provided by (used in) investing activities	60,449	(204,757)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,110,715	468,556
<b>Cash and cash equivalents at beginning of year</b>	5,251,724	4,783,168
<b>Cash and cash equivalents at end of year</b>	\$ 6,362,439	\$ 5,251,724
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 362,697	\$ 14,738
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,532,698	1,551,514
Change in assets and liabilities:		
Supply inventory	6,200	2,863
Prepaid expenses	41,546	20,024
Accounts receivable	120,675	(149,804)
Deposits	(3,004)	2,489
Pension related deferred outflows of resources	(73,552)	(323,633)
Accounts payable and accrued liabilities	156,902	(268,447)
Pension related deferred inflows of resources	(144,866)	555,918
Total adjustments	1,636,599	1,390,924
Net cash provided by operating activities	\$ 1,999,296	\$ 1,405,662

The accompanying notes are an integral part of these statements.

# Douglas County Sewer Improvement District #1

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

### 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, 2016

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, 2016 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 2016.

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

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

## Douglas County Sewer Improvement District #1

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### 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 2016, 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, 2016 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.

##### **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."

## Douglas County Sewer Improvement District #1

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### 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 District include the accrued OPEB and net pension liability. Actual results could differ from those estimates.

##### 12. New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72), which addressed accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes in addition to providing guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for fiscal years beginning after June 15, 2015. The District has implemented this pronouncement, which impacted the investment disclosures for fiscal year 2016.

##### 13. Reclassifications

Certain reclassifications have been made to the June 30, 2015 financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net position and change in net position.

## Douglas County Sewer Improvement District #1

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### 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, 2016, the District has cash deposits in the amount of \$601,569 and the amount is carried at cost. The bank's balance of \$630,863 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, 2016.

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, 2016, cash equivalents of \$1,977,083 are on deposit with LGIP and \$3,759,449 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, 2016**

**NOTE D - INVESTMENTS**

The District's investment holdings as of June 30, 2016 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 five certificates of deposit of \$245,000 each will mature before June 30, 2017. 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:

	2015	Additions	Deletions	2016
Wastewater reclamation plant and lines	\$ 36,235,337	\$ -	\$ -	\$ 36,235,337
Collection lines	1,196,828	-	-	1,196,828
Equipment and other assets	2,729,437	136,722	-	2,866,159
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>51,053,596</u>	<u>136,722</u>	<u>-</u>	<u>51,190,318</u>
Accumulated depreciation and amortization	(26,447,623)	(1,532,698)	-	(27,980,321)
	<u>24,605,973</u>	<u>(1,395,976)</u>	<u>-</u>	<u>23,209,997</u>
Land	1,103,434	-	-	1,103,434
Construction in progress	3,041,019	1,587,418	(19,671)	4,608,766
	<u>\$ 28,750,426</u>	<u>\$ 191,442</u>	<u>\$ (19,671)</u>	<u>\$ 28,922,197</u>

**Douglas County Sewer Improvement District #1**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2016**

**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 1<sup>st</sup> and July 1<sup>st</sup>, 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 2016 year, \$64,281 of the loan principal was repaid, leaving the District with a balance of \$770,267 at June 30, 2016. In connection with this loan, \$141,761 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 1<sup>st</sup> and July 1<sup>st</sup>, 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 2016 year, \$35,045 of the loan principal was repaid, leaving the District with a balance of \$483,878 at June 30, 2016.

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

	Principal	Interest	Total
Years ending June 30,			
2017	\$ 102,439	\$ 38,058	\$ 140,497
2018	105,648	34,849	140,497
2019	108,961	31,536	140,497
2020	112,376	28,121	140,497
2021	115,899	24,598	140,497
2022-2026	636,345	66,141	702,486
2027-2031	72,477	2,094	74,571
	\$ 1,254,145	\$ 225,397	\$ 1,479,542

## Douglas County Sewer Improvement District #1

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### NOTE G - PENSION PLAN

##### 1. Plan Description

The District contributes to the Public Employees Retirement System (PERS or the System), a cost-sharing, 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](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 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, 2016

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, 2016 and 2015 the Statutory Employer-Pay contribution rate for Regular Members was 28.0% and 25.75% respectively.

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

At June 30, 2015, the District reported a liability of \$2,245,886 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015. At June 30, 2015, the District's portion was 0.0196 percent of the total.

Reconciliation of net pension liability

Beginning net position, July 1, 2015	\$ 2,155,697
Pension expense	235,217
Employer contributions	(363,446)
New net deferred inflows/outflows	218,418
	<hr/>
Ending net pension liability, June 30, 2016	<u>\$ 2,245,886</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

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, 2016 the District recognized pension expense of \$235,217. At June 30, 2016, 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	\$168,930
Changes of assumptions	\$0	\$0
Net difference between projected and actual earnings on investments	\$0	\$121,652
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$33,739	\$120,470
Contributions subsequent to the measurement date	\$363,446	\$0

The \$363,446 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 2017. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2017	\$ (117,241)
2018	(117,241)
2019	(117,241)
2020	22,028
2021	(36,253)
Thereafter	<u>(11,365)</u>
	<u>\$ (377,313)</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions

The total pension liability in the June 30, 2015 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, 2015 valuation were based on the results of an actuarial experience review completed in 2013. 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, 2015:

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, 2015, PERS' long-term inflation assumption was 3.5%*

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

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, 2015. 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, 2015 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, 2015.

*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	<u>\$ 3,422,530</u>	<u>\$ 2,245,886</u>	<u>\$ 1,267,724</u>

The System's net pension liability was measured as of June 30, 2015, 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, 2015.

## Douglas County Sewer Improvement District #1

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2016

#### 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 2016, the District contributed \$39,945 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 \$261 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 2016, the District's contributions toward the PEBP plan was \$36,039. 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, 2016**

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

**3. Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 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, 2016:

	District	PEBP	Total
Annual required contribution	\$ 87,082	\$ 23,654	\$ 110,736
Contributions made	(55,413)	(36,039)	(91,452)
Increase (decrease) in net OPEB obligation	31,669	(12,385)	19,284
Net OPEB obligation - beginning of year	260,693	2,670	263,363
Net OPEB obligation - end of year	\$ 292,362	\$ (9,715)	\$ 282,647

The annual OPEB cost for fiscal year 2016 was \$110,736, the percentage of annual OPEB cost contributed to the plan was 82.61%, and the net OPEB obligation as of June 30, 2016 was \$282,647.

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, 2016**

**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 7.5% for fiscal year 2016, reduced by decrements to an ultimate rate of 5% after six years, and projected salary increases of 4% per year.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Douglas County Sewer Improvement District #1**

**SCHEDULE OF FUNDING PROGRESS**

**For the year ended June 30, 2016**

<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>
<b><u>District Plan</u></b>						
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%
<b><u>PEBP</u></b>						
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**

	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 363,446	\$ 304,244
Contributions in relation to the contractually required contribution	(363,446)	(304,244)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 1,307,235	\$ 1,324,729
Contributions as a percentage of covered-employee payroll	27.80%	22.97%
Contribution rate set by statute	28.00%	25.75%

**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**

	<b>2016</b>	<b>2015</b>
District's proportion of the net pension liability	<b>0.0196%</b>	<b>0.0207%</b>
District's proportionate share of the net pension liability	<b>\$ 2,245,886</b>	<b>\$ 2,155,697</b>
District's covered-employee payroll	<b>\$ 1,307,235</b>	<b>\$ 1,324,729</b>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<b>172%</b>	<b>163%</b>
PERS fiduciary net position as a percentage of the total pension liability	<b>75.13%</b>	<b>76.31%</b>

**SUPPLEMENTAL INFORMATION**

**Douglas County Sewer Improvement District #1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET POSITION - BUDGET AND ACTUAL**

**Year ended June 30, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance - Favorable (Unfavorable)</b>
<b>Operating revenues</b>			
Annual assessments	\$ 2,416,817	\$ 2,416,817	\$ -
Contracts with other districts	2,157,808	2,233,899	76,091
Other fees, revenue	392,381	394,106	1,725
Total operating revenues	<u>4,967,006</u>	<u>5,044,822</u>	<u>77,816</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	2,130,000	1,976,875	153,125
Electrical and other utilities	391,575	332,856	58,719
Chemicals and supplies	76,050	73,583	2,467
Legal and accounting	295,000	225,008	69,992
Engineering and consulting	210,000	142,221	67,779
Repairs and maintenance	249,000	181,274	67,726
Insurance and other operating expenses	230,000	205,998	24,002
Fuels and lubricants	18,000	11,612	6,388
Depreciation and amortization	1,650,000	1,532,698	117,302
Total operating expenses	<u>5,249,625</u>	<u>4,682,125</u>	<u>567,500</u>
Operating income ( loss)	<u>(282,619)</u>	<u>362,697</u>	<u>645,316</u>
<b>Nonoperating revenues</b>			
Consolidated taxes	137,984	137,984	-
Interest income	48,000	65,180	17,180
Gain on disposal of assets	22,000	-	(22,000)
Capacity fees	-	182,240	182,240
Total nonoperating revenues	<u>207,984</u>	<u>385,404</u>	<u>177,420</u>
<b>Nonoperating expenditures</b>			
Debt service interest	41,171	39,627	1,544
Total nonoperating expenditures	<u>41,171</u>	<u>39,627</u>	<u>1,544</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$ (115,806)</u>	<u>\$ 708,474</u>	<u>\$ 824,280</u>

**Douglas County Sewer Improvement District #1**  
**STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL**  
**Year ended June 30, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance - Favorable (Unfavorable)</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 4,967,006	\$ 5,165,497	\$ 198,491
Cash payments to suppliers for goods and services	(1,469,625)	(1,081,162)	388,463
Cash payments to employees for services including benefits	(2,130,000)	(2,085,039)	44,961
Net cash provided by operating activities	<u>1,367,381</u>	<u>1,999,296</u>	<u>631,915</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(1,414,463)	(1,130,301)	284,162
Consolidated taxes	137,984	137,984	-
Cash received for capacity fees	22,000	182,240	160,240
Debt service interest	(41,171)	(39,627)	1,544
Payments on long-term debt	(99,326)	(99,326)	-
Net cash used in capital and related financing activities	<u>(1,394,976)</u>	<u>(949,030)</u>	<u>445,946</u>
<b>Cash flows from investing activities:</b>			
Interest income on investments	48,000	60,449	12,449
Net cash provided by investing activities	<u>48,000</u>	<u>60,449</u>	<u>12,449</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>20,405</b>	<b>1,110,715</b>	<b>1,090,310</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5,034,740</b>	<b>5,251,724</b>	<b>216,984</b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 5,055,145</u></b>	<b><u>\$ 6,362,439</u></b>	<b><u>\$ 1,307,294</u></b>

**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, 2016, 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 14, 2016.

**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.

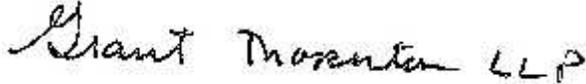
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 14, 2016