



Financial Statements and Report of Independent
Certified Public Accountants

Douglas County Sewer Improvement District #1

June 30, 2015

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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, 2015, 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, 2015, 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

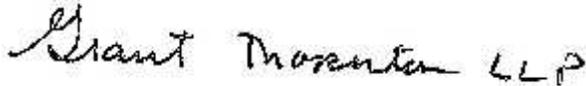
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress, Schedule of District Contributions, and Schedule of the Proportionate Share of Net Pension Liability on pages 5-10 and pages 32-34 be presented 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 36 and 37 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.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 13, 2015, 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, 2015

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2015

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, 2015.

Financial Highlights

During this fiscal year, DCSID's District Manager, a long-time employee, retired. In order to continue its focus on best management practices throughout the organization, the Board of Directors successfully recruited a new Manager with significant public sector and administrative business experience. Additionally, toward the end of the year, DCSID's Mechanical Maintenance Supervisor announced his pending retirement. A replacement was hired, and finished the year in training. The transition to those management positions was smooth, and the District has already benefitted from their new perspectives.

Both retiring and newly recruited management focused throughout the year on keeping expenses in line, and thereby completed the fiscal year with total operating expenses 9.3% under budget. Specifically, the District's operating expenses excluding depreciation decreased by approximately \$88,000 or 2.7% from the prior year's operating expenses, mainly due to decreases in salaries, wages and benefits, utilities and repair costs.

Regarding ongoing capital projects, the past year was primarily spent in organization and planning. In contrast to Fiscal Year 2014, when the District spent more than \$2.7 million on capital projects, this year it spent less than \$800,000.

The Supervisory Control and Data Acquisition (SCADA) program, which electronically measures flows and alerts operators of mechanical failure at off-site pump stations, was expanded with new call-out alarming functions added.

The Main Pump Station Rehabilitation project, which started construction in the 2014 fiscal year, awaited completion as District staff worked with the pump supplier and contractor to resolve performance issues regarding the new pumps and motors. At the current year end, the project was still in progress but solutions to resolve performance issues appear to have been identified.

Two projects began this fiscal year, and are in the design and permitting phases. The first project, an Inter-tie with South Lake Tahoe Public Utility District (STPUD), across the California State line, would enable DCSID to send raw sewage to STPUD in the event of an emergency such as a line break or pump failure. The second project, the Underground Emergency Storage Project would allow sewage to divert into leak-proof underground containers in case of pump failure at DCSID's Main Pump Station. Both of these projects are geared toward protecting the environment and providing District operators with sufficient response time to effectively manage in times of crisis. Construction on the Inter-tie and Underground Emergency Storage Basins is expected to begin in the next fiscal year.

The District has also 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. If allowed to do so, 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. That project has met with opposition from some members of the public, and is being re-designed in response to public comments.

The projects detailed above are all included in the District's ongoing capital development plan. The Board and management continue their efforts to search for and obtain grant funding for these and future projects.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED (Unaudited)

June 30, 2015

Financial Highlights - Continued

As required by the Government Accounting Standards Board (GASB), the District implemented GASB Pronouncement 68 this year. That standard requires that local governments report a proportionate share of the Public Employees Retirement System (PERS) net liability on the local government's financial statements. In September of 2015, 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, 2014. As a result, the District is reporting pension related deferred inflows/outflows of resources and net pension liability on the Statement of Net Position. Net position, as of the beginning of the year, was decreased by approximately \$2.4 million with the restatement.

For 2015, information included in the Management's Discussion and Analysis may not be comparable due to the implementation of GASB 68, *Accounting and Financial Reporting for Pensions*. With the implementation of GASB 68, all information necessary to restate the 2014 financial statements in accordance with U.S. Generally Accepted Accounting Principles was not available. As such, only a single year is presented in the audited financial statements.

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, 2015

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 \$35.3 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.

16.7% 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 \$1,972,690 as of June 30, 2015 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 2015, total revenues increased \$349,974 or 7.8% and total expenses including depreciation decreased by \$75,782 or 1.6%. The total revenue figure was boosted by approximately \$175,000 paid to DCSID for accepting and processing water removed from the ground during a large local construction project.

Sewer user charges increased \$190,944 or 4.4%, while operating expenses excluding depreciation decreased \$88,355 or 2.7%. Nonoperating revenues (expenses) increased by \$9,494 or 4.5% primarily as a result of higher interest rates on the District investments.

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 2015, the District budgeted a decrease in net position of \$544,329 but prior to the adjustment for GASB 68, as noted above, the actual increase in net position was \$129,960.

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 one of the in-district commercial users was offline for much of 2014, 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 2.3%.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the District's capital assets amounted to \$28,750,426 net of accumulated depreciation and amortization as shown in Table A-3. Because the District added less than \$800,000 to the capital assets in the current fiscal year, and depreciation expense was more than \$1.5 million, the total decrease in the District's capital assets for the current fiscal year was \$936,452 or 3.2%. Additionally, \$1.1 million of assets were abandoned, most of which were associated with the prior plant chlorination process. The

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED (Unaudited)

June 30, 2015

Capital Assets and Debt Administration - Continued

Capital Assets - Continued

abandonment of those assets which were not yet fully depreciated, but were replaced by the sodium hypochlorite equipment at the end of the last fiscal year, resulted in an approximately \$60,000 loss.

During the year, \$767,933 was spent on the District's capital improvement projects. Those projects included upgrades to plant electrical controls, the extensive rebuild of large pumps, the expansion of the SCADA system, and design work for underground emergency storage basins, an intertie with a neighboring utility district, and the excavation and lining of an effluent storage basin.

District capital expenditures are expected to increase in the 2016 fiscal year. It is anticipated that the Main Pump Station Rehabilitation Project will be completed, and construction of the intertie project with South Lake Tahoe Public Utility District and underground emergency storage basins will begin. Cellular and radio communication systems will be set up at four offsite pump stations to enable the automation of equipment controls. A redundant centrifuge and automated sampler will be installed to ensure continuous and efficient treatment processing. Additionally, design and permitting will continue on the effluent reservoir lining project. \$1,512,100 was budgeted for these construction projects during the 2016 fiscal year. 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, normally accounting for almost 92% 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 2014 decreased by more than 10% from the previous year. A substantial portion of the commercial decrease was due to one casino being closed for most of the year. However, factoring that user out, commercial flows were still down more than 4.4%. Overall, flows decreased by 16.2%. This decrease is no longer a sign of a struggling economy, but rather a substantial decrease in tourism made worse by the lack of snow for several years.

The 2016 operating budget reflects operating expenses that total \$5,249,625, an increase of 11.1% over 2015 actual operating expenses, reflecting the necessity of maintaining one extra employee for three months for training purposes, as well as increases in planned maintenance and engineering costs.

To accommodate the decrease in flows and the increase in planned expenses, for the 2016 fiscal year in-district residential rates were increased 8% from \$411 to \$444 per year. Commercial rates were also increased 8.5% from \$8.31 per 1,000 gallons to \$9.02.

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, 2015

Table A-1
Condensed Summary of Statement of Net Position

	2015	2014	Increase/ (Decrease)
Current, restricted and other assets	\$ 10,952,042	\$ 10,109,901	\$ 842,141
Capital assets	28,750,426	29,686,878	(936,452)
Total assets	\$ 39,702,468	\$ 39,796,779	\$ (94,311)
Deferred outflows of resources	323,633	-	323,633
Total liabilities	\$ 4,216,488	\$ 2,266,536	\$ 1,949,952
Deferred inflows of resources	555,918	-	555,918
Net position			
Invested in capital assets	\$ 27,396,955	\$ 28,237,099	\$ (840,144)
Restricted	5,884,050	5,580,294	303,756
Unrestricted	1,972,690	3,712,850	(1,740,160)
Total net position	\$ 35,253,695	\$ 37,530,243	\$ (2,276,548)

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

	2015	2014	Increase/ (Decrease)
Operating revenues			
Sewer user charges	\$ 4,549,717	\$ 4,358,773	\$ 190,944
Other	189,136	14,093	175,043
Nonoperating revenues	218,984	209,490	9,494
Debt service interest	(42,692)	(45,664)	2,972
Bond amortization	-	(32,591)	32,591
Loss on disposal of assets	(61,070)	-	(61,070)
Total revenues	4,854,075	4,504,101	349,974
Operating expenses			
Maintenance and operations	3,172,601	3,260,956	(88,355)
Depreciation and amortization	1,551,514	1,538,941	12,573
Total expenses	4,724,115	4,799,897	(75,782)
CHANGE IN NET POSITION	129,960	(295,796)	425,756
Net position, beginning of year, as previously reported	37,530,243	37,826,039	(295,796)
Change in accounting principle, GASB 68 adjustments	(2,406,508)	-	(2,406,508)
Net position, beginning of year, as restated	35,123,735	37,826,039	(2,572,344)
Net position, end of year	\$ 35,253,695	\$ 37,530,243	\$ (2,276,548)

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

June 30, 2015

Table A-3
Capital Assets

	2015	2014	Increase/ (Decrease)
Land	\$ 1,103,434	\$ 1,103,434	\$ -
Plant and lines	47,525,347	48,570,343	(1,044,996)
Equipment and other assets	2,729,437	2,740,830	(11,393)
Leasehold improvements	798,812	798,812	-
Construction in progress	3,041,019	2,455,441	585,578
	<u>55,198,049</u>	<u>55,668,860</u>	<u>(470,811)</u>
Less: Accumulated depreciation and amortization	<u>(26,447,623)</u>	<u>(25,981,982)</u>	<u>(465,641)</u>
Net property, plant, equipment and leasehold improvements	<u>\$ 28,750,426</u>	<u>\$ 29,686,878</u>	<u>\$ (936,452)</u>

FINANCIAL STATEMENTS

Douglas County Sewer Improvement District #1

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

CURRENT ASSETS

Cash	\$ 753,949
Cash equivalents	1,691,647
Cash in custody of other governments	22,997
Short-term certificate of deposit investments	245,000
Accounts receivable	320,387
Supply inventory	39,523
Prepaid expenses	114,257
Interest receivable	4,740
Total current assets	<u>3,192,500</u>

RESTRICTED ASSETS

Repair and replacement	
Cash	3,637
Cash equivalents	1,168,992
Short-term certificate of deposit investments	1,715,000
Interest receivable	5,813
	<u>2,893,442</u>

Construction	
Cash	294,279
Cash equivalents	1,316,223
Restricted investments	225,853
	<u>1,836,355</u>
Total current restricted assets	<u>4,729,797</u>

LONG-TERM ASSETS

Long-term certificate of deposit investments	<u>1,715,000</u>
Total long-term assets	<u>1,715,000</u>

RESTRICTED LONG-TERM ASSETS

Repair and replacement	
Long-term certificate of deposit investments	980,000
Construction	
Long-term certificate of deposit investments	245,000
Total long-term restricted assets	<u>1,225,000</u>

PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net

28,750,426

OTHER ASSETS

Deposits	89,745
Total other assets	<u>89,745</u>
Total assets	<u>\$ 39,702,468</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension related	<u>\$ 323,633</u>
Total deferred outflows of resources	<u>\$ 323,633</u>

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

June 30, 2015

LIABILITIES

CURRENT LIABILITIES, payable from current assets	
Accounts payable	\$ 134,006
Accrued compensation and other expenses	172,395
Current portion of long-term debt	<u>99,326</u>
Total current liabilities payable from current assets	<u>405,727</u>
CURRENT LIABILITIES, payable from restricted assets	
Construction	
Accounts payable	<u>70,747</u>
Total current liabilities payable from restricted assets	<u>70,747</u>
ACCRUED COMPENSATION - noncurrent	<u>66,809</u>
ACCRUED OPEB LIABILITY - noncurrent	<u>263,363</u>
NET PENSION LIABILITY - noncurrent	<u>2,155,697</u>
LONG-TERM DEBT, less current portion	<u>1,254,145</u>
Total liabilities	<u>4,216,488</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related	<u>555,918</u>
Total deferred inflows of resources	<u>555,918</u>
NET POSITION	
Invested in fixed assets, net of related debt	27,396,955
Restricted for construction	2,010,608
Restricted for repair and replacement	<u>3,873,442</u>
	33,281,005
Unrestricted	<u>1,972,690</u>
Total net position	<u><u>\$ 35,253,695</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer Improvement District #1

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended June 30, 2015

Operating revenues	
Annual assessments	\$ 4,549,717
Other income	189,136
	<u>4,738,853</u>
Operating expenses before depreciation and amortization	
Salaries, wages and benefits	2,003,814
Electrical and other utilities	388,160
Chemicals and supplies	71,301
Legal and accounting	161,172
Engineering and consulting	153,337
Repairs and maintenance	148,633
Insurance	73,361
Fuels and lubricants	13,707
Other operating expenses	159,116
	<u>3,172,601</u>
Operating income before depreciation and amortization	1,566,252
Depreciation and amortization	<u>1,551,514</u>
Operating income	<u>14,738</u>
Nonoperating revenues (expenses)	
Consolidated taxes	137,984
Interest income	44,400
Loss on disposal of assets	(61,070)
Debt service interest	(42,692)
Capacity fees	36,600
	<u>115,222</u>
CHANGE IN NET POSITION	<u>129,960</u>
Net position - beginning of year, as previously reported	37,530,243
Change in accounting principles - GASB 68 adjustments	<u>(2,406,508)</u>
Net position - beginning of year, as restated	<u>35,123,735</u>
Net position - end of year	<u>\$ 35,253,695</u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer Improvement District #1

STATEMENT OF CASH FLOWS

Year ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 4,589,049
Cash payments to suppliers for goods and services	(1,132,502)
Cash payments to employees for services including benefits	(2,050,885)
Net cash provided by operating activities	<u>1,405,662</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(767,933)
Consolidated taxes	137,984
Cash received for capacity fees	36,600
Debt service interest	(42,692)
Payments on long-term debt	(96,308)
Net cash used in capital and related financing activities	<u>(732,349)</u>
Cash flows from investing activities:	
Purchase of investments, net	(245,000)
Interest on investments	40,243
Net cash used in investing activities	<u>(204,757)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	468,556
Cash and cash equivalents at beginning of year	<u>4,783,168</u>
Cash and cash equivalents at end of year	<u>\$ 5,251,724</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 14,738</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,551,514
Change in assets and liabilities:	
Supply inventory	2,863
Prepaid expenses	20,024
Accounts receivable	(149,804)
Deposits	2,489
Accounts payable and accrued liabilities	(36,162)
Total adjustments	<u>1,390,924</u>
Net cash provided by operating activities	<u>\$ 1,405,662</u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 balance sheet. 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, 2015

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, 2015 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 2015.

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, 2015

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. Vacation may be accumulated by employees up to 240 hours and compensatory time may be accrued up to 96 hours. Unused vacation and compensatory hours 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, 2015 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. 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.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. New Accounting Pronouncement

In June 2012, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to accounting and financial reporting for pensions. This Statement, GASB 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The Statement further established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenditures. Deferred inflows of resources are determined by PERS and, from year to year, could include:

- the difference between what benefits were expected to be paid and what the actual experience was;
- differences brought about by changes in actuarial assumptions ;
- the net difference between projected and actual earnings on the pension plan investments; and
- changes in the District's proportion and differences between DCSID's contributions and its proportionate share of contributions.

Deferred outflows of resources could include the differences noted in deferred inflows and will always include contributions made by the District to PERS subsequent to the measurement date in their report. The PERS calculations for the current year were for the fiscal year ended June 30, 2014, so in effect the current year contributions will not decrease DCSID's net pension liability until next year. The effect is deferred and will be reported by PERS when the next report is issued in 2016.

The District complied with GASB 68 for the period ended June 30, 2015, resulting in the accrual of an unfunded pension liability in the amount of \$2,155,697. This liability amount was determined by the Nevada Public Employees Retirement System (PERS) as DCSID's proportionate share of PERS' net liability as detailed in its report entitled Schedule of Employer Allocations, Schedule of Pension Amounts by Employer, and Related Notes.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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

As of June 30, 2015, the District has cash deposits in the amount of \$1,051,865 and the amount is carried at cost. The bank's balance of \$1,135,060 is FDIC insured up to \$250,000, and fully collateralized with the Nevada State Collateral Pool, as described below.

1. Custodial Credit Risk - Deposits

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, 2015.

NOTE D - CASH EQUIVALENTS

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, 2015, cash equivalents of \$474,696 are on deposit with LGIP and \$3,702,166 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, 2015

NOTE D - CASH EQUIVALENTS - Continued

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, 2016. \$3,644,603 is invested in an interest-bearing checking account that is entirely liquid. 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:

	2014	Additions	Deletions	2015
Wastewater reclamation plant and lines	\$ 37,280,333	\$ 19,104	(\$ 1,064,100)	\$ 36,235,337
Collection lines	1,196,828	-	-	1,196,828
Equipment and other assets	2,740,830	71,450	(82,843)	2,729,437
Leasehold improvements	798,812	-	-	798,812
Effluent disposal facility	10,093,182	-	-	10,093,182
	<u>52,109,985</u>	<u>90,554</u>	<u>(1,146,943)</u>	<u>51,053,596</u>
Accumulated depreciation and amortization	(25,981,982)	(1,551,514)	1,085,873	(26,447,623)
	<u>26,128,003</u>	<u>(1,460,960)</u>	<u>(61,070)</u>	<u>24,605,973</u>
Land	1,103,434	-	-	1,103,434
Construction in progress	2,455,441	604,682	(19,104)	3,041,019
	<u>\$ 29,686,878</u>	<u>\$ (856,278)</u>	<u>\$ (80,174)</u>	<u>\$ 28,750,426</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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 2015 year, \$62,249 of the loan principal was repaid, leaving the District with a balance of \$834,548 at June 30, 2015. 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 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 2015 year, \$34,059 of the loan principal was repaid, leaving the District with a balance of \$518,923 at June 30, 2015.

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

	Principal	Interest	Total
Years ending June 30,			
2016	\$ 99,326	\$ 41,171	\$ 140,497
2017	102,438	38,059	140,497
2018	105,649	34,848	140,497
2019	108,961	31,536	140,497
2020	112,376	28,121	140,497
2021-2025	616,996	85,490	702,486
2026-2030	207,725	7,343	215,068
	\$ 1,353,471	\$ 266,568	\$ 1,620,039

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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 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, 2015

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, 2014 and June 30, 2015 the Statutory Employer-Pay contribution rate was 25.75% for Regular members.

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

At June 30, 2014, the District reported a liability of \$2,155,697 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2014. At June 30, 2014, the District's portion was 0.02068 percent of the total.

<u>Reconciliation of net pension liability</u>	
Beginning net position, July 1, 2014	\$ 2,406,508
Pension expense	285,715
Employer contributions	(304,244)
New net deferred inflows/outflows	<u>(232,282)</u>
Ending net pension liability, June 30, 2015	<u>\$ 2,155,697</u>

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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, 2015 the District recognized pension expense of \$285,715. At June 30, 2015, 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	\$103,157
Changes of assumptions	\$0	\$0
Net difference between projected and actual earnings on investments	\$0	\$452,761
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$19,389	\$0
Contributions subsequent to the measurement date	\$304,244	\$0

The \$304,244 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 the year ended June 30, 2016. The amount reported as deferred outflows/(inflows) of resources will be recognized in pension expense as follows:

Reporting period ending June 30,	
2016	\$ (126,709)
2017	(126,709)
2018	(126,709)
2019	(126,709)
2020	(17,466)
Thereafter	(12,227)
	<hr/>
	\$ (536,529)

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE G - PENSION PLAN - Continued

3. Actuarial Assumptions

The total pension liability in the June 30, 2014 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 project of 13 years is a provision made for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2014. There were no changes in actuarial assumptions since the preceding valuation. The valuation reflects updated option factors that went into effect July 1, 2014. The actuarially determined contributions rates increased by 0.02% for Regular members to reflect this update.

The following was the PERS' Board adopted policy target asset allocation as of June 30, 2014:

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, 2014, PERS' long-term inflation assumption was 3.5%*

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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, 2014. 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, 2014 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, 2014.

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>\$ 3,352,344</u>	<u>\$ 2,155,697</u>	<u>\$ 1,160,978</u>

The System's net pension liability was measured as of June 30, 2014, 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, 2014.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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 2015, the District contributed \$36,533 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 \$458 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 2015, the District's contributions toward the PEBP plan was \$35,030. 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, 2015

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, 2015:

	District	PEBP	Total
Annual required contribution	\$ 64,938	\$ 34,009	\$ 98,947
Contributions made	(41,276)	(35,030)	(76,306)
Increase (decrease) in net OPEB obligation	23,662	(1,021)	22,641
Net OPEB obligation - beginning of year	237,031	3,691	240,722
Net OPEB obligation - end of year	\$ 260,693	\$ 2,670	\$ 263,363

The annual OPEB cost for fiscal year 2015 was \$98,947, the percentage of annual OPEB cost contributed to the plan was 77.1%, and the net OPEB obligation as of June 30, 2015 was \$263,363.

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, 2012, covering fiscal years 2013, 2014 and 2015. The District has contracted with Bickmore Risk Services to perform an actuarial analysis, and determine the annual required contributions for fiscal years 2016, 2017 and 2018.

4. Funded Status and Funding Progress

District. As of July 1, 2012, the actuarial accrued liability for benefits was \$570,807, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$570,807. The funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) is zero percent.

PEBP. As of July 1, 2012, the actuarial accrued liability for benefits was \$564,382, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$564,382. The funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) is zero percent.

Total. As of July 1, 2012, the total UAAL equaled \$1,135,189. Annual covered payroll totals \$1,183,842, and the ratio of the unfunded actuarial liability to annual covered payroll is 95.9%.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

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, 2012 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 8.0% for fiscal year 2015, 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, 2015

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
<u>District Plan</u>						
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>						
7/1/2012	-	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>2015</u>
Contractually required contribution	\$ 304,244
Contributions in relation to the contractually required contribution	<u>(304,244)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered-employee payroll	<u>\$ 1,324,729</u>
Contributions as a percentage of covered-employee payroll	<u>22.97%</u>
Contribution rate set by statute	<u>25.75%</u>

2014 - 2006 historical information prior to the implementation of GASB 67/68 is not required.

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>2015</u>
District's proportion of the net pension liability	<u>0.0207%</u>
District's proportionate share of the net pension liability	<u>\$ 2,155,697</u>
District's covered-employee payroll	<u>\$ 1,324,729</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>163%</u>
PERS fiduciary net position as a percentage of the total pension liability	<u>76.3%</u>

2014 - 2006 historical information prior to the implementation of GASB 67/68 is not required.

SUPPLEMENTAL INFORMATION

Douglas County Sewer Improvement District #1

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

Year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Operating revenues			
Annual assessments	\$ 2,430,113	\$ 2,434,064	\$ 3,951
Contracts with other districts	2,103,328	2,115,653	12,325
Other fees, revenue	<u>11,000</u>	<u>189,136</u>	<u>178,136</u>
Total operating revenues	<u>4,544,441</u>	<u>4,738,853</u>	<u>194,412</u>
Operating expenses			
Salaries, wages and benefits	2,100,875	2,003,814	97,061
Electrical and other utilities	414,475	388,160	26,315
Chemicals and supplies	76,350	71,301	5,049
Legal and accounting	164,100	161,172	2,928
Engineering and consulting	195,000	153,337	41,663
Repairs and maintenance	185,225	148,633	36,592
Insurance, other	277,415	232,477	44,938
Fuels and lubricants	20,000	13,707	6,293
Depreciation and amortization	<u>1,775,000</u>	<u>1,551,514</u>	<u>223,486</u>
Total operating expenses	<u>5,208,440</u>	<u>4,724,115</u>	<u>484,325</u>
Operating income (loss)	<u>(663,999)</u>	<u>14,738</u>	<u>678,737</u>
Nonoperating revenues			
Consolidated taxes	137,984	137,984	-
Interest income	30,000	44,400	14,400
Capacity fees	<u>-</u>	<u>36,600</u>	<u>36,600</u>
Total nonoperating revenues	<u>167,984</u>	<u>218,984</u>	<u>51,000</u>
Nonoperating expenditures			
Amortization of bond costs	4,125	-	4,125
Loss on disposal of assets	-	61,070	(61,070)
Debt service interest	<u>44,189</u>	<u>42,692</u>	<u>1,497</u>
Total nonoperating expenditures	<u>48,314</u>	<u>103,762</u>	<u>(55,448)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (544,329)</u>	<u>\$ 129,960</u>	<u>\$ 674,289</u>

Douglas County Sewer Improvement District #1

STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL

Year ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Cash flows from operating activities:			
Cash received from customers	\$ 4,544,441	\$ 4,589,049	\$ 44,608
Cash payments to suppliers for goods and services	(1,332,565)	(1,132,502)	200,063
Cash payments to employees for services including benefits	(2,100,875)	(2,050,885)	49,990
Net cash provided by operating activities	<u>1,111,001</u>	<u>1,405,662</u>	<u>294,661</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,127,600)	(767,933)	1,359,667
Consolidated taxes	137,984	137,984	-
Cash received for capacity fees	-	36,600	36,600
Debt service interest	(44,189)	(42,692)	1,497
Payments on long-term debt	(96,308)	(96,308)	-
Net cash used in capital and related financing activities	<u>(2,130,113)</u>	<u>(732,349)</u>	<u>1,397,764</u>
Cash flows from investing activities:			
Purchase of investments	-	(245,000)	(245,000)
Interest on investments	30,000	40,243	10,243
Net cash provided by (used in) investing activities	<u>30,000</u>	<u>(204,757)</u>	<u>(234,757)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(989,112)	468,556	1,457,668
Cash and cash equivalents at beginning of year	<u>2,946,143</u>	<u>4,783,168</u>	<u>1,837,025</u>
Cash and cash equivalents at end of year	<u>\$ 1,957,031</u>	<u>\$ 5,251,724</u>	<u>\$ 3,294,693</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, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report dated November 13, 2015.

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.

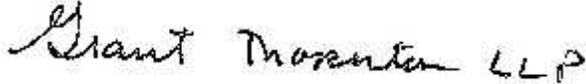
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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, 2015