



Financial Statements and Report of Independent
Certified Public Accountants

Douglas County Sewer Improvement District #1
State of Nevada

June 30, 2014

Contents

| | Page |
|---|------|
| Report of Independent Certified Public Accountants | 3 |
| Management’s Discussion and Analysis | 5 |
| Financial Statements | |
| Statement of Net Position | 12 |
| Statements of Revenues, Expenses and Changes in Net Position | 14 |
| Statements of Cash Flows..... | 15 |
| Notes to Financial Statements | 16 |
| Required Supplemental Information | 25 |
| Schedule of Funding Progress | 26 |
| Supplemental Information | 27 |
| Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual..... | 28 |
| Statement of Cash Flows – Budget and Actual | 29 |
| Compliance Section | 30 |
| Independent Auditors’ Comments Required by Statute | 31 |
| Independent Auditors’ Report on Compliance with Nevada Revised Statutes and Regulations Based on an Audit of Financial Statements..... | 32 |
| Independent Auditors’ Comments on | |
| Status of Prior Year Recommendations | 33 |
| Current Year Recommendations | 33 |
| Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 34 |

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, 2014, 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, 2014, 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 on pages 5 through 10 and page 26 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

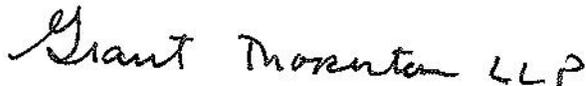
Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The budgetary comparison information on pages 28 and 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information 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 2013 summarized comparative information

We have previously audited the District's 2013 basic financial statements (not presented herein), and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 20, 2013. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2013 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 26, 2014, 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 26, 2014

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014.

Financial Highlights

During this fiscal year, DCSID's Management and Board of Directors continued to focus on utilizing best management practices throughout the organization. That focus enabled the District to better manage expenses, complete the year under budget, and to hold user rates level for another year. Specifically, the District's operating expenses excluding depreciation decreased by approximately \$600,000 or 15.6% from the prior year's operating expenses, mainly due to decreases in salaries, wages and benefits, engineering and consulting fees and repair costs.

The District began implementation of a long-term Supervisory Control and Data Acquisition (SCADA) Master Plan completed in the last fiscal year. The underground fiber connection was installed from the District's Main Pump Station to the treatment plant, and the SCADA servers were upgraded and separated from the administrative servers in a dedicated room which is kept locked. Security cameras were installed at all offsite pump stations and at the treatment plant gate, thus helping to ensure that the facilities and the SCADA system which monitors equipment and processes are protected from unwanted access.

The District's Beach Pump Station was rehabilitated with new motors, variable frequency drives (VFDs) and controllers which sense wet well levels and automatically switch between the two pump stations on that site in case of an emergency. The District was awarded a \$17,000 rebate from NV Energy for this project, as it will have an ongoing positive impact on electrical power usage.

The Main Pump Station Rehabilitation project also began this year, with new VFDs and controllers being installed. The project has not yet been completed, as District staff has continued to work with the supplier and contractor to resolve issues related to the specifications and performance of the new pumps and motors. In the interim, the Board and management deemed it necessary to overhaul the existing pumps which were to be replaced, in order to ensure that they could continue to operate effectively until such time as the project is completed.

A sodium hypochlorite disinfection system was installed this year, to replace the old chlorine gas system, bringing the District's wastewater treatment process up to current safety standards. Additionally, engineering, permitting and design work was begun to install underground emergency storage tanks at the offsite pump stations, to construct an emergency intertie sewer line with the South Lake Tahoe Public Utility District, and to line an effluent storage reservoir in the Carson valley.

The projects detailed above are all included in the District's ongoing capital development plan. Capital costs expended in fiscal year 2014 totaled more than \$2.7 million. For the first time in the past 8 years, the District received no grant funding, however the Board and management have continued their efforts to search for and obtain funding for future projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements 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.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

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, one will need to consider other non-financial factors such as changes in economic conditions, population and industrial/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 final required financial statement is the Statement of Cash Flows. This statement 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 to where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

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 \$37,530,243 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 (74.6%) 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.

14.9% 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 \$3,712,850 as of June 30, 2014 may be used to support operating and maintenance expenses.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

Financial Analysis of the District - Continued

While the Condensed Summary of Statement of Net Position (Table A-1) shows the percentage 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 2014, total revenues decreased \$689,596 or 13.3% and total expenses including depreciation decreased by \$556,178 or 10.4%.

Sewer user charges decreased \$349,963 or 7.4%, while operating expenses excluding depreciation decreased \$600,694 or 15.6%. Nonoperating revenues (expenses), exclusive of capital contributions, increased by \$1,848 or 1.4% primarily as a result of capacity fees for new construction within the District's service boundaries, which was reduced by a write off of debt service fees in the current year. Capital contributions via grant reimbursements decreased by \$343,124

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 2014, the District budgeted a decrease in net position of \$422,536 and the actual decrease for the year was \$295,796.

As a result of the fiscal year's actual operating expenses excluding depreciation being 2.6% less than the amount originally budgeted, the annual assessments for contracted users were adjusted to reflect actual maintenance and operation costs attributed to the contracted users. Those annual assessments decreased from the amount budgeted by an average of 4.9%.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the District's capital assets amounted to \$29,686,878 net of accumulated depreciation and amortization as shown in Table A-3. The total increase in the District's investment in capital assets for the current fiscal year was 4.2%, due to the projects which replaced and upgraded equipment and systems.

During the year, \$2,734,220 was spent on the District's capital improvement projects. Those projects included upgrades to the Beach and Main Pump Stations, installation of a sodium hypochlorite disinfection system, trenching and installation of fiber connections from the Main Pump Station to the treatment plant, upgrades to the SCADA system, and design work for underground emergency storage basins, an intertie with a neighboring utility district, and excavation and lining of an effluent storage basin.

District capital expenditures are expected to decrease in the 2015 fiscal year. It is anticipated that the Main Pump Station Rehabilitation Project will be completed, and the intertie project with South Lake Tahoe Public Utility District will begin. A redundant centrifuge and automated sampler will be installed to ensure continuous and efficient treatment processing. Additionally, design and permitting will continue on the underground emergency storage basins and effluent reservoir lining projects. \$2,127,600 was budgeted for construction projects during the 2015 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.

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

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 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 increased by 3.1% over the previous year.

The 2015 operating budget reflects operating expenses that total \$5,208,440, an increase of 8.5% over 2014 actual operating expenses, reflecting higher depreciation expense, expected incremental increases in service costs and double digit increases in insurance.

For the 2015 fiscal year, In-District residential rates were kept even at \$411 per year. Commercial rates were kept level as well at \$8.30 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

June 30, 2014

Table A-1
Condensed Summary of Statement of Net Position

| | 2014 | 2013 | % |
|--------------------------------------|----------------------|----------------------|---------------|
| | | | Change |
| Current, restricted and other assets | \$ 10,109,901 | \$ 11,650,100 | (13.2%) |
| Capital assets | 29,686,878 | 28,491,599 | 4.2% |
| Total assets | \$ 39,796,779 | \$ 40,141,699 | (0.9%) |
| Total liabilities | \$ 2,266,536 | \$ 2,315,660 | (2.1%) |
| Invested in capital assets | \$ 28,237,099 | \$ 26,948,438 | 4.8% |
| Restricted | 5,580,294 | 7,324,537 | (23.8%) |
| Unrestricted | 3,712,850 | 3,553,064 | 4.5% |
| Total net position | \$ 37,530,243 | \$ 37,826,039 | (0.8%) |

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

| | 2014 | 2013 | % |
|---|----------------------|----------------------|----------------|
| | | | Change |
| Operating revenues | | | |
| Sewer user charges | \$ 4,358,773 | \$ 4,708,736 | (7.4%) |
| Other | 14,093 | 12,450 | 13.2% |
| Nonoperating revenues and capital contributions | 209,490 | 525,735 | (60.2%) |
| Debt service interest | (45,664) | (48,545) | (5.9%) |
| Bond amortization | (32,591) | (4,679) | (596.5%) |
| Total revenues | 4,504,101 | 5,193,697 | (13.3%) |
| Operating expenses | | | |
| Maintenance and operations | 3,260,956 | 3,861,650 | (15.6%) |
| Depreciation and amortization | 1,538,941 | 1,494,425 | 3.0% |
| Total expenses | 4,799,897 | 5,356,075 | (10.4%) |
| CHANGE IN NET POSITION | (295,796) | (162,378) | (82.2%) |
| Beginning net position | 37,826,039 | 37,988,417 | (0.4%) |
| Ending net position | \$ 37,530,243 | \$ 37,826,039 | (0.8%) |

Douglas County Sewer Improvement District #1

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2014

Table A-3
Capital Assets

| | 2014 | 2013 | % Change |
|--|----------------------|----------------------|-------------|
| Land | \$ 1,103,434 | \$ 1,103,434 | - |
| Plant and lines | 48,570,343 | 45,991,901 | 5.6% |
| Equipment and other assets | 2,740,830 | 2,647,837 | 3.5% |
| Leasehold improvements | 798,812 | 798,812 | - |
| Construction in progress | 2,455,441 | 2,399,709 | 2.3% |
| | <u>55,668,860</u> | <u>52,941,693</u> | <u>5.2%</u> |
| Less: Accumulated depreciation and amortization | <u>(25,981,982)</u> | <u>(24,450,094)</u> | <u>6.3%</u> |
| Net property, plant, equipment and leasehold improvements | <u>\$ 29,686,878</u> | <u>\$ 28,491,599</u> | <u>4.2%</u> |

FINANCIAL STATEMENTS

Douglas County Sewer Improvement District #1

STATEMENT OF NET POSITION

June 30,

ASSETS

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash | \$ 262,929 | \$ 369,048 |
| Cash equivalents | 1,677,516 | 1,571,808 |
| Cash in custody of other governments | 24,847 | 27,852 |
| Cash on deposit with others | - | 45,000 |
| Short-term certificate of deposit investments | 1,960,000 | 441,667 |
| Accounts receivable | 170,583 | 239,505 |
| Supply inventory | 42,386 | 34,450 |
| Prepaid expenses | 134,281 | 105,270 |
| Interest receivable | 2,283 | 2,776 |
| Total current assets | <u>4,274,825</u> | <u>2,837,376</u> |
| RESTRICTED ASSETS | | |
| Repair and replacement | | |
| Cash | 48,386 | 48,161 |
| Cash equivalents | 1,343,140 | 1,119,091 |
| Short-term certificate of deposit investments | 735,000 | 2,646,666 |
| Interest receivable | 4,113 | 8,451 |
| | <u>2,130,639</u> | <u>3,822,369</u> |
| Construction | | |
| Cash | 65,128 | 325,963 |
| Cash equivalents | 1,361,222 | 1,424,555 |
| Short-term certificate of deposit investments | 245,000 | 1,666,667 |
| Restricted investments | 225,853 | 225,853 |
| | <u>1,897,203</u> | <u>3,643,038</u> |
| Total current restricted assets | <u>4,027,842</u> | <u>7,465,407</u> |
| LONG-TERM ASSETS | | |
| Long-term certificate of deposit investments | - | 1,225,000 |
| Total long-term assets | <u>-</u> | <u>1,225,000</u> |
| RESTRICTED LONG-TERM ASSETS | | |
| Repair and replacement | | |
| Long-term certificate of deposit investments | 1,715,000 | - |
| | <u>1,715,000</u> | <u>-</u> |
| Total long-term restricted assets | <u>1,715,000</u> | <u>-</u> |
| PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, net | <u>29,686,878</u> | <u>28,491,599</u> |
| OTHER ASSETS | | |
| Debt issue costs | - | 32,591 |
| Deposits | 92,234 | 89,726 |
| Total other assets | <u>92,234</u> | <u>122,317</u> |
| Total assets | <u>\$ 39,796,779</u> | <u>\$ 40,141,699</u> |

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

June 30,

LIABILITIES AND NET POSITION

| | 2014 | 2013 |
|--|---------------|---------------|
| CURRENT LIABILITIES, payable from current assets | | |
| Accounts payable | \$ 123,097 | \$ 178,502 |
| Accrued compensation and other expenses | 226,731 | 185,867 |
| Current portion of long-term debt | 96,308 | 93,382 |
| Total current liabilities payable from current assets | 446,136 | 457,751 |
| CURRENT LIABILITIES, payable from restricted assets | | |
| Construction | | |
| Accounts payable | 162,548 | 140,870 |
| Total current liabilities payable from restricted assets | 162,548 | 140,870 |
| ACCRUED COMPENSATION - noncurrent | 63,659 | 52,414 |
| ACCRUED OPEB LIABILITY - noncurrent | 240,722 | 214,846 |
| LONG-TERM DEBT, less current portion | 1,353,471 | 1,449,779 |
| Total liabilities | 2,266,536 | 2,315,660 |
| NET POSITION | | |
| Invested in fixed assets, net of related debt | 28,237,099 | 26,948,438 |
| Restricted for construction | 1,734,655 | 3,502,168 |
| Restricted for repair and replacement | 3,845,639 | 3,822,369 |
| | 5,580,294 | 7,324,537 |
| Unrestricted | 3,712,850 | 3,553,064 |
| Total net position | 37,530,243 | 37,826,039 |
| Total liabilities and net position | \$ 39,796,779 | \$ 40,141,699 |

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>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Operating revenues | | |
| Annual assessments | \$ 4,358,773 | \$ 4,708,736 |
| Other income | 14,093 | 12,450 |
| | <u>4,372,866</u> | <u>4,721,186</u> |
| | | |
| Operating expenses before depreciation and amortization | | |
| Salaries, wages and benefits | 2,061,010 | 2,342,172 |
| Electrical and other utilities | 405,480 | 424,112 |
| Chemicals and supplies | 61,259 | 69,095 |
| Legal and accounting | 152,671 | 152,090 |
| Engineering and consulting | 167,160 | 267,694 |
| Repairs and maintenance | 173,201 | 353,631 |
| Insurance | 76,697 | 69,468 |
| Fuels and lubricants | 18,410 | 16,139 |
| Other operating expenses | 145,068 | 167,249 |
| | <u>3,260,956</u> | <u>3,861,650</u> |
| Operating income before depreciation and amortization | 1,111,910 | 859,536 |
| | | |
| Depreciation and amortization | <u>1,538,941</u> | <u>1,494,425</u> |
| Operating loss | <u>(427,031)</u> | <u>(634,889)</u> |
| | | |
| Nonoperating revenues (expenses) | | |
| Consolidated taxes | 137,984 | 137,984 |
| Interest income | 36,826 | 40,427 |
| Gain on disposal of assets | - | 4,200 |
| Amortization of bond costs | (32,591) | (4,679) |
| Debt service interest | (45,664) | (48,545) |
| Capacity fees | 34,680 | - |
| | <u>131,235</u> | <u>129,387</u> |
| Loss before capital contributions | (295,796) | (505,502) |
| | | |
| Capital contributions | | |
| Capital grants | - | 343,124 |
| | | |
| CHANGE IN NET POSITION | (295,796) | (162,378) |
| | | |
| Net position - beginning of year | <u>37,826,039</u> | <u>37,988,417</u> |
| | | |
| Net position - end of year | <u>\$ 37,530,243</u> | <u>\$ 37,826,039</u> |

The accompanying notes are an integral part of these statements.

Douglas County Sewer Improvement District #1

STATEMENTS OF CASH FLOWS

Years ended June 30,

| | <u>2014</u> | <u>2013</u> |
|---|----------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 4,441,787 | \$ 4,466,889 |
| Cash payments to suppliers for goods and services | (1,249,809) | (1,623,383) |
| Cash payments to employees for services including benefits | (1,983,024) | (2,321,935) |
| Net cash provided by operating activities | <u>1,208,954</u> | <u>521,571</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (2,712,541) | (2,070,176) |
| Cash received from sale of assets | - | 4,200 |
| Consolidated taxes | 137,984 | 137,984 |
| Cash received from federal grant | - | 408,798 |
| Cash received for capacity fees | 34,680 | - |
| Debt service interest | (45,664) | (48,545) |
| Payments on long-term debt | (93,382) | (90,545) |
| Net cash used in capital and related financing activities | <u>(2,678,923)</u> | <u>(1,658,284)</u> |
| Cash flows from investing activities: | | |
| Redemption (purchase) of investments, net | 1,325,000 | (980,000) |
| Interest on investments | 41,659 | 38,739 |
| Net cash provided by (used in) investing activities | <u>1,366,659</u> | <u>(941,261)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (103,310) | (2,077,974) |
| Cash and cash equivalents at beginning of year | <u>4,886,478</u> | <u>6,964,452</u> |
| Cash and cash equivalents at end of year | <u>\$ 4,783,168</u> | <u>\$ 4,886,478</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (427,031) | \$ (634,889) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,538,941 | 1,494,425 |
| Change in assets and liabilities: | | |
| Supply inventory | (7,938) | (13) |
| Prepaid expenses | (29,012) | (46,756) |
| Accounts receivable | 68,922 | (188,052) |
| Deposits | 42,491 | (41,521) |
| Accounts payable and accrued liabilities | 22,581 | 4,622 |
| Due to other governments | - | (66,245) |
| Total adjustments | <u>1,635,985</u> | <u>1,156,460</u> |
| Net cash provided by operating activities | <u>\$ 1,208,954</u> | <u>\$ 521,571</u> |

The accompanying notes are an integral part of these statements.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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 owed to it by the County or State.

4. **Accounts Receivable**

The District considers receivables at June 30, 2014 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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 2014.

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, 2014

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, 2014 rate of pay.

8. 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 liability. Actual results could differ from those estimates.

9. New Accounting Pronouncement

In March 2012, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to accounting and financial reporting for items that were previously reported as assets and liabilities. This Statement, GASB 65, *Items previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Items to be reclassified include debt issuance costs and loan origination costs and fees. The District adopted this guidance for the period ended June 30, 2014, and it did not have a material impact on reported results.

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.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C - CASH

As of June 30, 2014, the District has cash deposits in the amount of \$376,443 and the amount is carried at cost. The bank's balance of \$530,001 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, 2014.

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, 2014, cash equivalents of \$474,169 are on deposit with LGIP and \$3,907,709 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.

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 twelve certificates of deposit of \$245,000 each will mature before June 30, 2015. \$3,883,004 is invested in an interest-bearing checking account that is entirely liquid. These policies minimize the District's interest rate risk.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE D - CASH EQUIVALENTS - Continued

3. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The 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:

| | 2013 | Additions | Deletions | 2014 |
|---|----------------------|---------------------|-----------------------|----------------------|
| Wastewater reclamation plant and lines | \$ 34,701,891 | \$ 2,578,442 | \$ - | \$ 37,280,333 |
| Collection lines | 1,196,828 | - | - | 1,196,828 |
| Equipment and other assets | 2,647,837 | 100,046 | (7,053) | 2,740,830 |
| Leasehold improvements | 798,812 | - | - | 798,812 |
| Effluent disposal facility | 10,093,182 | - | - | 10,093,182 |
| | 49,438,550 | 2,678,488 | (7,053) | 52,109,985 |
| Accumulated depreciation and amortization | (24,450,094) | (1,538,941) | 7,053 | (25,981,982) |
| | 24,988,456 | 1,139,547 | - | 26,128,003 |
| Land | 1,103,434 | - | - | 1,103,434 |
| Construction in progress | 2,399,709 | 2,665,029 | (2,609,297) | 2,455,441 |
| | <u>\$ 28,491,599</u> | <u>\$ 3,804,576</u> | <u>\$ (2,609,297)</u> | <u>\$ 29,686,878</u> |

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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 2014 year, \$60,282 of the loan principal was repaid, leaving the District with a balance of \$896,798 at June 30, 2014. 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 2014 year, \$33,100 of the loan principal was repaid, leaving the District with a balance of \$552,981 at June 30, 2014.

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

| | Principal | Interest | Total |
|-----------------------|--------------|------------|--------------|
| Years ending June 30, | | | |
| 2015 | \$ 96,308 | \$ 44,189 | \$ 140,497 |
| 2016 | 99,326 | 41,171 | 140,497 |
| 2017 | 102,438 | 38,059 | 140,497 |
| 2018 | 105,649 | 34,848 | 140,497 |
| 2019 | 108,960 | 31,536 | 140,496 |
| 2020-2024 | 598,238 | 104,249 | 702,487 |
| 2025-2029 | 338,860 | 16,705 | 355,565 |
| | \$ 1,449,779 | \$ 310,757 | \$ 1,760,536 |

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE G - PENSION PLAN

1. Plan Description

The District contributes to the Public Employees Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Nevada. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The State of Nevada issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of Nevada, 693 West Nye Lane, Carson City, Nevada 89703 or by calling (775) 687-4200.

2. Funding Policy

Plan members are not required to contribute any portion of their annual covered salary. Beginning in July 2013, the PERS rate was 25.75% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Nevada State Legislature. The District's contribution to PERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$313,615, \$443,306, and \$303,981, respectively, which equaled 25.75%, 23.75% and 23.75% of the covered payroll.

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.

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

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 2014, the District contributed \$34,740 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 \$733 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 2014, the District’s contribution toward the PEBP plan was \$34,679. In fiscal year 2013, the District’s contribution was \$35,720. These amounts varied due to state Department of Administration changes in the subsidy limits.

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, 2014:

| | District | PEBP | Total |
|--|------------|-----------|------------|
| Annual required contribution | \$ 60,905 | \$ 34,390 | \$ 95,295 |
| Contributions made | (34,740) | (34,679) | (69,419) |
| Increase (decrease) in net OPEB obligation | 26,165 | (289) | 25,876 |
| Net OPEB obligation – beginning of year | 210,866 | 3,980 | 214,846 |
| Net OPEB obligation –end of year | \$ 237,031 | \$ 3,691 | \$ 240,722 |

Douglas County Sewer Improvement District #1

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE H - OTHER POST-EMPLOYMENT BENEFITS - Continued

3. Annual OPEB Cost and Net OPEB Obligation - Continued

The annual OPEB cost for fiscal year 2014 was \$95,295, the percentage of annual OPEB cost contributed to the plan was 72.85%, and the net OPEB obligation as of June 30, 2014 was \$240,722.

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

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%.

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 8.5% for fiscal year 2014, reduced by decrements to an ultimate rate of 5% after seven 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, 2014

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (c) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a]/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| <u>District Plan</u> | | | | | | |
| 7/1/2012 | \$ - | \$ 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 |

SUPPLEMENTAL INFORMATION

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

Year ended June 30, 2014

| | Final Budget | Actual | Variance - Favorable (Unfavorable) |
|--------------------------------------|-------------------------|---------------------|---|
| Operating revenues | | | |
| Annual assessments | \$ 2,368,427 | \$ 2,368,016 | \$ (411) |
| Contracts with other districts | 2,078,277 | 1,990,757 | (87,520) |
| Other fees, revenue | 11,000 | 14,093 | 3,093 |
| Total operating revenues | 4,457,704 | 4,372,866 | (84,838) |
| Operating expenses | | | |
| Salaries, wages and benefits | 2,067,755 | 2,061,010 | 6,745 |
| Electrical and other utilities | 438,325 | 405,480 | 32,845 |
| Chemicals and supplies | 57,075 | 61,259 | (4,184) |
| Legal and accounting | 162,000 | 152,671 | 9,329 |
| Engineering and consulting | 181,000 | 167,160 | 13,840 |
| Repairs and maintenance | 176,825 | 173,201 | 3,624 |
| Insurance, other | 241,225 | 221,765 | 19,460 |
| Fuels and lubricants | 22,500 | 18,410 | 4,090 |
| Depreciation and amortization | 1,650,000 | 1,538,941 | 111,059 |
| Total operating expenses | 4,996,705 | 4,799,897 | 196,808 |
| Operating loss | (539,001) | (427,031) | 111,970 |
| Nonoperating revenues | | | |
| Consolidated taxes | 137,984 | 137,984 | - |
| Interest income | 30,000 | 36,826 | 6,826 |
| Capacity fees | - | 34,680 | 34,680 |
| Total nonoperating revenues | 167,984 | 209,490 | 41,506 |
| Nonoperating expenditures | | | |
| Amortization of bond costs | 4,404 | 32,591 | (28,187) |
| Debt service interest | 47,115 | 45,664 | 1,451 |
| Total nonoperating expenditures | 51,519 | 78,255 | (26,736) |
| DECREASE IN NET POSITION | \$ (422,536) | \$ (295,796) | \$ 126,740 |

Douglas County Sewer Improvement District #1
STATEMENT OF CASH FLOWS - BUDGET AND ACTUAL
Year ended June 30, 2014

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance - Favorable (Unfavorable)</u> |
|--|----------------------------|----------------------------|---|
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 4,457,704 | \$ 4,441,787 | \$ (15,917) |
| Cash payments to suppliers for goods and services | (1,348,950) | (1,249,809) | 99,141 |
| Cash payments to employees for services including benefits | (1,997,755) | (1,983,024) | 14,731 |
| Net cash provided by operating activities | <u>1,110,999</u> | <u>1,208,954</u> | <u>97,955</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | (2,050,000) | (2,712,541) | (662,541) |
| Consolidated taxes | 137,984 | 137,984 | - |
| Cash received for capacity fees | - | 34,680 | 34,680 |
| Debt service interest | (47,115) | (45,664) | 1,451 |
| Payments on long-term debt | (93,382) | (93,382) | - |
| Net cash used in capital and related financing activities | <u>(2,052,513)</u> | <u>(2,678,923)</u> | <u>(626,410)</u> |
| Cash flows from investing activities: | | | |
| Redemption of investments | - | 1,325,000 | 1,325,000 |
| Interest on investments | 30,000 | 41,659 | 11,659 |
| Net cash provided by investing activities | <u>30,000</u> | <u>1,366,659</u> | <u>1,336,659</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (911,514) | (103,310) | 808,204 |
| Cash and cash equivalents at beginning of year | <u>5,243,083</u> | <u>4,886,478</u> | <u>(356,605)</u> |
| Cash and cash equivalents at end of year | <u>\$ 4,331,569</u> | <u>\$ 4,783,168</u> | <u>\$ 451,599</u> |

COMPLIANCE SECTION



Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

Independent Auditors' Comments Required by Statute

Board of Directors
Douglas County Sewer Improvement District #1

As required under NRS 354.624, our comments on compliance with provisions of Nevada Revised Statutes and regulations are contained on pages 32 and 33, and we have no other comments or recommendations.

Grant Thornton LLP

Reno, Nevada
November 26, 2014



Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

Independent Auditors' Report on Compliance with Nevada Revised Statutes and Regulations Based on an Audit of Financial Statements

Board of Directors
Douglas County Sewer Improvement District #1

We have audited the basic financial statements of Douglas County Sewer Improvement District #1, State of Nevada, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 26, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance with Nevada Revised Statutes (NRS) and regulations applicable to Douglas County Sewer Improvement District #1, State of Nevada, is the responsibility of management.

In connection with our audit, nothing came to our attention that caused us to believe that the District had not complied in all material respects with NRS 354, including:

Use of funds established
Use of generally accepted accounting procedures
Limitations of reserve amounts
Recording sources of revenue and transfers available
Ending fund balances and retained earnings amounts
and other Nevada Revised Statutes and regulations, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors, management, and the State of Nevada Department of Taxation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Reno, Nevada
November 26, 2014

**Independent Auditors' Comments on
Status of Prior Year Recommendations**

The internal control matters referred to in the audited financial statements dated November 20, 2013 have been corrected to our satisfaction.

Current Year Recommendations

None

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, 2014, 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 26, 2014.

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.

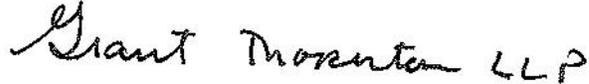
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 26, 2014