

NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at [4 p.m.](#) on [June 9, 2021](#) at 893 Southwood Boulevard, Incline Village, Nevada and via Livestream/Zoom.

Public comment is allowed and the public is welcome to make their public comment either via e-mail (please send your comments to info@ivgid.org by 4:00 p.m. on Wednesday, June 9, 2021) or via telephone (the telephone number will be posted to our website on the day of the meeting). The meeting will be available for viewing at <https://livestream.com/accounts/3411104>.

In addition, if a member of the public wishes to hear, observe, participate in and provide public comment at the meeting, using Livestream/Zoom, they may do so by coming to the Boardroom at 893 Southwood Boulevard, Incline Village, Nevada. A notification of this attendance would be greatly appreciated by telephoning the District Clerk at (775) 832-1207 or sending an e-mail to info@ivgid.org. We appreciate your help with this process. (Reference is made to Assembly No. 253)

- A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*
Derrek Aaron (At-Large Member), Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), and Raymond Tulloch (At-Large Member)
- B. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.
- C. APPROVAL OF AGENDA (*for possible action*)

The Audit Committee may make a motion for a flexible agenda which is defined as taking items on the agenda out of order; combining agenda items with other agenda items; removing items from the agenda; moving agenda items to an agenda of another meeting, or voting on items in a block.

-OR-

The Audit Committee may make a motion to accept and follow the agenda as submitted/posted.

- D. REPORT ITEMS (*information for the Audit Committee and public*)
 - 1. Informational Update on Internal Controls Project (Requesting Staff Member: Director of Finance Paul Navazio) – **deferred from April 29, 2021 meeting – pages 4 - 9**
- E. GENERAL BUSINESS ITEMS (*for possible action*)
 - 1. Review, discuss, and possibly approve the District's Fiscal Year 2020/2021 Independent Financial Audit: Schedule/Work Plan (Requesting Staff Member: Director of Finance Paul Navazio) – **pages 10 - 23**
 - 2. Review, discuss, and possibly approve that the Audit Committee make a recommendation to the IVGID Board of Trustees to engage Davis Farr LLC IVGID's external auditors to provide direction on certain outstanding accounting matters which were not addressed in the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2020 **and** Review, discuss and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress (Requesting Audit Committee Member: At-Large Member Cliff Dobler) – **pages 24 - 28**

Incline Village General Improvement District

Incline Village General Improvement District is a fiscally responsible community partner which provides superior utility services and community oriented recreation programs and facilities with passion for the quality of life and our environment while investing in the Tahoe basin.

893 Southwood Boulevard, Incline Village, Nevada 89451 • (775) 832-1100 • FAX (775) 832-1122

www.yourtahoeplace.com

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Agenda for the Audit Committee Meeting of June 9, 2021 - Page 2

3. Review, discuss, and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress (Requesting Audit Committee Member: At-Large Member Cliff Dobler) – **pages 29 - 34**
4. Review, discuss, and possibly take action related to the following communications that have been received and are included: (Requesting Audit Committee Member Audit Committee Chairman Matthew Dent)
 - a. Memorandum from Cliff Dobler to District General Manager, Director of Finance, IVGID Board of Trustees with a copy to the IVGID Audit Committee dated April 8, 2021 – Funding Public Parks through General Fund resources – **deferred from April 29, 2021 meeting– pages 35 - 39**
 - b. Memorandum from Cliff Dobler to District General Manager, Director of Finance, IVGID Board of Trustees with a copy to the IVGID Audit Committee dated May 29, 2021 – Cash Position of Utility Fund 2020 to 2022– **pages 40 - 53**
 - c. Memorandum from Cliff Dobler to District General Manager, Director of Finance, dated May 31, 2021 – Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated January 4, 2021– **pages 54 - 57**
 - d. Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the Board of Trustees, District General Manager and Director of Finance dated May 31, 2021 – Incline Park Facility Renovation, Project#4378LI1801, Final disclosure of the close out of the Memorandum of Understanding (“MOU”) with Incline-Tahoe Foundation regarding construction of the project – Recommendations to the Board of Trustees– **pages 58 - 61**
 - e. Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the District General Manager and Director of Finance dated June 1, 2021 – Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than capital assets– **pages 62 - 63**
 - f. Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the Board of Trustees, District General Manager, and Director of Finance dated June 1, 2021 – Improper reporting and use of Facility Fees– **pages 64 - 67**
 - g. Memorandum from Cliff Dobler to IVGID Audit Committee dated June 1, 2021 - Review, discuss and recommend to the Board of Trustees that the title for each of the 89 parcels of land acquired from Washoe County include the public purpose restriction required by Washoe County and that the nine parcels which were recorded as an asset in the General Fund be transferred to the Community Services Fund– **pages 68 - 77**
- F. LONG RANGE CALENDAR REVIEW (*for possible action*) – **page 78**
- G. APPROVAL OF MEETING MINUTES (*for possible action*)



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1. Audit Committee Meeting Minutes of April 29, 2021 – **pages 79 - 94**
- H. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.
- I. ADJOURNMENT (*for possible action*)

CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Friday, June 4, 2021 at 9:00 a.m., a copy of this agenda (Audit Committee Session of June 9, 2021) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; copies were either faxed or e-mailed to those people who have requested; and a copy was posted at the following six locations within Incline Village/Crystal Bay in accordance with NRS 241.020:

1. IVGID Anne Vorderbruggen Building (893 Southwood Boulevard, Incline Village, Nevada; Administrative Offices)
2. IVGID's website (www.yourtahoeplace.com/Board of Trustees/Meetings and Agendas)
3. State of Nevada public noticing website (<https://notice.nv.gov/>)

/s/ Susan A. Herron, CMC

Susan A. Herron, CMC

District Clerk (e-mail: sah@ivgid.org/phone # 775-832-1207)

Audit Committee Members: *Derrek Aaron (At-Large Member), Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), and Raymond Tulloch (At-Large Member)*

Notes: *Items on the agenda may be taken out of order; combined with other items; removed from the agenda; moved to the agenda of another meeting; moved to or from the Consent Calendar section; or may be voted on in a block. Items with a specific time designation will not be heard prior to the stated time, but may be heard later. Those items followed by an asterisk (*) are items on the agenda upon which the Board of Trustees will take no action. Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to call IVGID at 832-1100 at least 24 hours prior to the meeting. **IVGID'S agenda packets are available at IVGID's website, www.yourtahoeplace.com; go to "Board Meetings and Agendas".***

M E M O R A N D U M

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chair

FROM: Paul Navazio
Director of Finance

Martin Williams
Controller

SUBJECT: Informational Update on Internal Controls Project

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2

DATE: April 29, 2021

I. RECOMMENDATION

Receive an informational update on management's ongoing review and update of District-wide internal controls.

II. BACKGROUND

The Board of Trustees and Audit Committee have identified the need to review and, where appropriate, strengthen internal control policies, procedures and practices consistent with financial management and accountability best practices.

Management has previously presented to the Audit Committee a framework for strengthening the District's system of internal controls, to include a process for review, update, and oversight over applicable policies and procedures. In addition, the District's Independent Auditor identified material weakness in internal controls over financial reporting that contributed to a significant number of adjusting journal entries.

This agenda item has been prepared to provide the Audit Committee with an information update on management's ongoing efforts related to strengthening the District's internal control policies and procedures. Consistent with the discussion at the last Audit Committee meeting, Committee member Aaron has agreed to serve as the liaison and has met with management to review, in more detail, the overall project work plan as well as timelines for completion of specific tasks/deliverables

III. Discussion

Framework of System of Internal Controls

- Attachment 1 provides an overview of the overall system of internal controls to include elements, responsibility and updated timeline(s)

Review of Board Policies and Practices

- Management is currently in the process of updating selected Board Policies and Procedures (see *Board Agenda 4/29/21*)
 - Capitalization
 - Capital Planning, Budgeting and Capital Expenses
 - Fund Balance and Working Capital
 - Central Services Overhead Allocations

Review of Internal Accounting and Financial Procedures

- Attachment 2 provides an update schedule and responsibilities for updating internal accounting and financial procedures
- Priority focus is on Procurement and Accounts Payable procedures (6.3.10), Property and Equipment procedures (6.3.9), Cash Management (6.3.4) and General Ledger and Journal Entries (6.3.3)
- Human Resources and Payroll procedures are currently under review in conjunction with project to transition to Tyler Munis HRMS/Payroll system

Procurement Policy and Related Procedures related to Purchasing and Account Payables

- Earlier this year, the District General Manager updated district-wide delegated spending authority levels for upper management and venue managers.
- Monthly spending limits applicable to the District's procurement card program have also been updated
- Accounting and Financial procedure 6.3.10 (Purchasing and Accounts Payable) has been updated by the Controller and is currently under review by the Director of Finance
- Management is also reviewing the District's Purchasing Policy to ensure consistency with Board Policy 3.1.0.

Independent Auditor's Findings of Material Weaknesses over Financial Reporting

- Adjusting Journal Entries and Adjustments - now that our accounting department is fully staffed, we have assigned reconciliations, and reviews to various staff to ensure any issues are investigated and handled timely. Additionally we reconciling accounts and having them reviewed and approved monthly. Staff is also in the process of adjusting the Central Service Cost Allocation offset to be reported net of the expenses, instead of as a revenue item in the General Fund. This adjustment will be reflected starting with the third quarter budget update.

These internal control improvements, we believe, will prepare IVGID for a more streamlined year-end close and audit.

- Capitalization – staff has reviewed the existing policies and procedures, and is in the process of reviewing with Board prior to formally updating policies. Additionally staff is reviewing options for modifications to chart of accounts for tracking of capital maintenance expenditures to ensure repair and maintenance items that do not meet capital criteria are excluded from capitalization and depreciation of fixed assets.

IV. ATTACHMENTS

- 1) Framework for Internal Controls –Tasks
- 2) Framework for Internal Controls – Implementation Plan

DRAFT - APRIL 2021
FRAMEWORK FOR REVIEW AND IMPLEMENTATION OF INTERNAL CONTROLS

PHASE	TASKS	RESPONSIBILITY					Schedule					
		Board	Audit Committee	Staff	Consultant	External Auditor	Q4 A M J	Q1 J A S	Q2 O N D	Q3 J F M	Q4 A M J	
Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT												
	<input type="checkbox"/> Review all relevant Board Policies and Procedures	Lead	x	X	x	x	Ongoing					
	<input type="checkbox"/> Review all Administrative Policies and Procedures		x	Lead	x	x	Ongoing					
	<input type="checkbox"/> Evaluate "gaps" in internal controls		x	Lead	x	x	Ongoing					
	Absence											
	Oversight/compliance											
	Separation of duties											
	<input type="checkbox"/> Develop formal recommendations for: Updating Internal Controls		x	Lead	x	x	Ongoing					
	Update existing policies			Lead	x	x						
	Establish new policies			x	Lead	x						
	Formalize Accountability			Lead	x							
	Staff Training			Lead	x		Ongoing					
Part 2 - Regular and Continual Review of Internal Controls												
	<input type="checkbox"/> Establish regular "cycle" of review / update / continuous improvements Example: All administrative policies and procedures will be reviewed on a 3-year cycle (1/3 per year).		x	Lead			Annually					
Part 3 - Internal Audit(s)												
a)	<input type="checkbox"/> Concurrent with tasks identified in Part 1, develop comprehensive list of "areas" for internal controls Primary focus on areas with greatest "risk" to District related to liability, fraud, misappropriation of public funds and/or assets			Lead	X							
	<input type="checkbox"/> On an annual basis, TWO (2) areas will be candidates for a formal Internal Audit Assess adequacy of internal controls Evaluate compliance with existing policies Report on "Findings and Recommendations"		x	Lead	x		Report		Annually	Report	Annually	
b)	<input type="checkbox"/> Implement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures Random, unscheduled, unannounced			Lead								Ongoing
Part 4 - External Independent Auditor												
	<input type="checkbox"/> SAS Requirements - Elected Officials and Executive Management Identify areas of concern re risk/liability/fraud	X	X	X		Lead	Annually					
	<input type="checkbox"/> Memorandum of Internal Controls Review of Internal Controls related to Financial Management based on review of policies, procedures and roles Random sampling of transaction records (payroll, accounts payable, revenue, expenditures, fixed assets, debt).	X	X	X		Lead	Annually					

**Update of Accounting and Finance Procedures
April 2021**

Accounting and Financial Procedures			Review					Revisions					Staff Responsibility		
Old Section	New Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin	Compliance
I	6.3.1	Internal Controls													
		Effective Internal Controls	30-Apr		x										
II	6.3.2	Controls in a Computer Environment													
		Application Controls	31-May												
		Program Maintenance	31-May												
		Computer Operations	31-May												
		Security	31-May												
III	6.3.3	General Ledger and Journal Entries													
		Maintaining an Effective Accounting System	30-Apr		x										
		General Ledger Activity	30-Apr		x										
		Adequate General Ledger Maintenance	30-Apr		x										
IV	6.3.4	Cash													
		Cash Management	30-Apr												
		Cash Receipts	30-Apr												
		Disbursements from Bank Accounts	30-Apr												
		Imprest and Similar Funds	30-Apr												
		Bank Reconciliations	30-Apr												
V	6.3.5	Revenue Cycle													
		Revenue Recognition	31-May												
		Accounts Receivable	31-May												
		Customer Returns and Allowances	31-May												
		Other Revenues	31-May												
VI	6.3.6	Production Cycle													
		Sales and Product Forecasts	31-May												
		Cost-Flow Methods	31-May												
		Inventory Control	31-May												
		Periodic Physical Inventory	31-May												
		Inventory Obsolescence	31-May												
VII	6.3.7	Pre-paid Expenses													
		Monitoring and Accounting for Prepaid Expenses	30-Jun		x										
		Controlling Asset Balances	30-Jun												
VIII	6.3.8	Investments													
		Investment of Idle Funds	30-Jun												
		Safeguarding of Investments	30-Jun												
		Return of Investment	30-Jun												
IX	6.3.9	Property and Equipment													
		Additions to Property and Equipment	4-Mar		X			MW	PN						
		Accurate Records of Property and Equipment	4-Mar		X			MW	PN						
		Depreciation of Property and Equipment	4-Mar		X			MW	PN						
		Existence of Capital Assets	4-Mar		X			MW	PN						
		Disposal of Capital Assets	4-Mar		X			MW	PN						

**Update of Accounting and Finance Procedures
April 2021**

Accounting and Financial Procedures			Review				Revisions				Staff Responsibility					
Old Section	New Section		Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin.	Compliance	
X	6.3.10	Purchasing and Accounts Payable														
		Determination of Needs	9-Mar		X				MW	PN						
		Placement of Orders	9-Mar		X				MW	PN						
		Cellular Telephone Use	9-Mar		X				MW	PN						
		Receipt and Acceptance	9-Mar		X				MW	PN						
		Establishment of Accounts Payable	9-Mar		X				MW	PN						
		Return of Goods to Suppliers	9-Mar		X				MW	PN						
		Purchase Cut-Off	9-Mar		X				MW	PN						
		Procurement Card Program	9-Mar		X				MW	PN						
		Advertising	9-Mar		X				MW	PN						
		Tipping	9-Mar		X				MW	PN						
		Bulk Purchases	9-Mar		X				MW	PN						
XI	6.3.11	Notes Payable / Long-Term Debt														
		Financial Resource Requirements	30-Jun													
		Assumption and Authorization of Debt	30-Jun													
		Safekeeping of Debt Agreements	30-Jun													
		Record of Debt	30-Jun													
		Timely Interest Expense Accruals	30-Jun													
		Debt Payments	30-Jun													
		Bond Discounts and Premiums	30-Jun													
		Current and Long-Term Debt Summary	30-Jun													
Debt Covenants	30-Jun															
XII	6.3.12	Accrued Liabilities														
		Monitoring of Accrued Liabilities Reconciliations and Accuracy	31-Jul 31-Jul													
XIII	6.3.13	Human Resources and Payroll														
		Payroll and Personnel/Human Resources	31-Jul													
		Wages and Salaries	31-Jul													
		Timekeeping	31-Jul		x											
		Payment to IVGID Employees	31-Jul													
		Payroll Deductions Quarterly and Year-End Reports	31-Jul 31-Jul			x										
XIV	6.3.14	Budget Cycle	31-Jul													
	6.3.15	Electronic Payment Systems	9-Mar		X			MW	PN							
	6.3.18	Central Services Cost Allocation	31-May		x			PN								
		Procurement Cards Program	31-May		x			MW								

MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chairman

FROM: Paul Navazio
Director of Finance

SUBJECT: District's FY2020/21 Independent Financial Audit: Schedule/Work Plan

DATE: June 9, 2021

I. RECOMMENDATION

That the Audit Committee review, discuss and comment on the Schedule/Work plan provide by DavisFarr, LLP related to the Independent External Audit for the fiscal year ending June 30, 2021.

II. BACKGROUND

The District has engaged DavisFarr, LLP to serve as the Independent External Auditor, starting with the fiscal year ending June 30, 2021. At the Audit Committee meeting of April 29, 2021, the Audit Committee reviewed the Engagement Letter pertaining to the upcoming audit of the District's financial statements and also requested that DavisFarr provide the Audit Committee with a schedule and work plan for the financial statement audit.

Additionally, the audit team was on site the week of May 17, 2021 as part of its interim audit activities. The purpose of the interim audit is to establish testing criteria related to internal controls and integrity of data used to prepare the District's financial statements. A major focus of the interim audit work in the first year of an engagement is for the audit team to gain an understanding of the client's organization, operations and relevant financial management policies and procedures.

The purpose of this agenda item is to provide the Audit Committee with an overview of the schedule and work plan for the audit, as well as inform how the Audit Committee will fulfill its oversight role over the independent financial audit consistent with the intent of Board Policy 15.1.0.

Attachments:
Audit Schedule/Work plan
Engagement Letter (signed)
Policy 15.1.0

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
Audit Work Plan
Fiscal Year Ending June 30, 2021

The following work plan is subject to modification but represents the work plan and milestones for the completion of the annual financial statement audit.

Audit Committee Meeting
IVGID Finance staff
Davis Farr

Target Date	Task Assigned To	Task
April 15, 2021	Davis Farr	Draft audit engagement letter due
April 29, 2021	Audit Committee	Meeting #1 with auditors and staff to discuss scope and timing of audit and upcoming changes in accounting and auditing standards impacting the organization
May 5, 2021	Davis Farr	Provide interim audit request list to Finance staff
May 14, 2021	Finance staff	Upload interim audit request items to FTP site
May 17, 2021	Davis Farr	Begin interim audit procedures on-site
May 28, 2021	Davis Farr	Status meeting with Finance staff
May 28, 2021	Davis Farr	Provide final audit request list and confirmation instructions to Finance staff
June 30, 2021	Finance staff	Due date for returning confirmation requests to Davis Farr
August 15, 2021	Finance staff	Accounts Payable Cut-off
August 30, 2021	Finance staff	Complete capital project closeouts and depreciation entries
Late Aug 2021	Audit Committee	Meeting #2 to discuss progress of year end close, issues identified during interim audit, complex accounting issues, and review final audit timeline
September 24, 2021	Finance staff	Upload trial balance and final audit request items to FTP site
September 27, 2021	Davis Farr	Begin final audit procedures on-site
October 8, 2021	Davis Farr	Status meeting with Finance staff
October 15, 2021	Finance staff	Draft #1 of financial statements due to Davis Farr (Financial Section only)
October 22, 2021	Davis Farr	Status meeting with Finance staff
October 22, 2021	Davis Farr	Review comments on Draft #1 and draft SAS letters due to Finance staff
October 29, 2021	Finance staff	Draft #2 of financial statements due to Davis Farr (inclusive of Introductory Section, MD&A, and Statistical Section)
Early November	Finance staff	Mailout of draft reports to Audit Committee (full Draft annual report)
Mid November	Audit Committee	Meeting #3 to review draft reports and results of audit
End of November	Davis Farr	Finalize audit opinion and reports after Finance staff makes any necessary changes as a result of audit committee meeting
Mid-December	Audit Committee	Meeting #4 to receive and review Final CAFR document
No later than Dec 31, 2021	Davis Farr	Present final reports to Board of Trustees

April 29, 2021

**Incline Village General Improvement District
Attn: Paul Navazio, Director of Finance
893 Southwood Boulevard
Incline Village, NV 89451**

Dear Mr. Navazio:

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide The Incline Village General Improvement District (the "Entity").

ENGAGEMENT OBJECTIVES

We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, which collectively comprise the Entity's basic financial statements, as of June 30, 2021 and for the year then ended, and the related notes to the financial statements.

Accounting Standards generally accepted in the United States of America ("US GAAP") provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to supplement the Entity's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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. As part of our engagement, we will apply certain limited procedures to the Entity's RSI in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). These limited procedures will consist of inquiries of management regarding 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 will 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. The following RSI is required by US GAAP and will be subjected to certain limited procedures but will not be audited.

1. Management's Discussion and Analysis
2. Schedule of Employer Required Contributions to Defined Contribution Multi-Employer Plans
3. Budgetary Comparison Schedules

We have also been engaged to report on supplementary information other than RSI that accompanies the Entity's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion in relation to the financial statements as a whole.

1. Budgetary Comparison Schedules

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which we will not provide an opinion on or any assurance.

1. Introductory Information
2. Statistical Information

OUR RESPONSIBILITIES

The objective of our audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with US GAAP and to report on the fairness of the additional information referred to above when considered in relation to the financial statements taken as a whole.

We will also provide a report, which does not include an opinion on, Internal controls related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will each include a paragraph that states the report is solely to describe the scope and 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 and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and that the report is not suitable for any other purpose.

Audit

Our audit will be conducted in accordance with US GAAS, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion and render the required reports. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If, for any reason, we are unable to complete the audit, or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts (e.g., tests of the physical existence of inventories, direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions, etc.). We may also request written representations from the Entity's attorneys as part of the engagement, and they may bill the Entity for responding to this inquiry.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Entity or to acts by management or

employees acting on behalf of the Entity.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal controls, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with US GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. We will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and any material abuse that comes to our attention. Our responsibility, as auditors, is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Entity's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

The services described above do not relieve management or those charged with governance of their responsibilities.

THOSE CHARGED WITH GOVERNANCE

The preparation and presentation of the financial statements of the Entity are the responsibility of management with oversight from those charged with governance. Those charged with governance are also responsible for overseeing the strategic direction of the Entity and any obligations related to its accountability, resolving disagreements between management and us regarding financial reporting, appointing us to perform the services described above, and informing us about all known or suspected fraud involving the Entity. In turn, we will provide those charged with governance with any communications required by

the professional standards described above.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for all management decisions and performing all management functions, and for designating an individual, preferably from senior management, with suitable skill, knowledge, or experience to oversee these services, any bookkeeping services, tax services, or other services we provide. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (a) access to all information they are aware of that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of this engagement, and (c) unrestricted access to persons within the Entity from whom we determine it necessary to obtain information.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities, for the selection and application of accounting principles, for the safeguarding of assets, and for the preparation and fair presentation of the financial statements in conformity with US GAAP even though we may assist management with their preparation. Accordingly, management may be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that management has reviewed and approved the financial statements and related notes prior to their issuance and has accepted responsibility for them.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Entity involving (a) management, (b) employees who have significant roles in internal controls, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of any known allegations of fraud or suspected fraud affecting the Entity received in communications from employees, former employees, regulators, or others. In addition, management is also responsible for identifying and ensuring that the Entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

During the course of our engagement, we will request information and explanations from management regarding the Entity. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. In view of the foregoing, the Entity agrees to release our firm, its shareholders, and other personnel from any liability and costs relating to our services under this letter resulting from false or misleading representations made to us by any member of the Entity's management.

Management is responsible for establishing and maintaining a process for tracking the status

of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other related studies. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. Management is responsible for providing its views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

ENGAGEMENT FEES

Our fixed fees for the services previously outlined will be \$44,000 and travel costs not to exceed \$5,000.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity's records and, where applicable, upon the Entity's personnel providing the level of assistance identified in the "prepared by client" request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate as soon as reasonably practicable.

OTHER ENGAGEMENT MATTERS

This letter set forth the rights and responsibilities of the parties with respect to the services to be provided. This engagement is being undertaken solely for the benefit of the parties to this agreement and no other person shall be entitled to enforce the terms of this agreement.

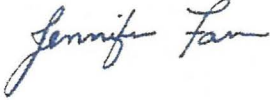
As required by *Government Auditing Standards*, we provided you with a copy of the report on the most recent peer review of our firm with our proposal.

The workpapers for this engagement will be retained in accordance with our firm policy, or for any additional period requested by a cognizant agency, oversight agency for audit, or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

The undersigned is the engagement partner responsible for supervising the engagement and signing the report.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement. Please sign the enclosed copy of this letter and return it to us.

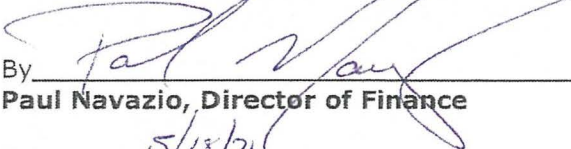
Very truly yours,



Jennifer Farr, CPA
Davis Farr LLP

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

Incline Village General Improvement District

By  _____

Paul Navazio, Director of Finance

Date 5/18/21 _____

By  _____

Chair of Audit Committee

Date 5/18/2021 _____



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results.

The Government Finance Officers Association encourages the effective use of an audit committee in the public sector and considers this committee an integral element of public accountability and governance. The Audit Committee plays a key role with respect to the integrity of the District's financial information by ensuring those responsible for financial management (management, auditors, and the Board of Trustees) meets their respective responsibilities for internal controls compliance and financial reporting.

To be effective, an audit committee should be formally established by the Board of Trustees, be adequately funded, and properly documented.

POLICY: The Audit Committee ("Committee") is to assist the Board of Trustees fulfill its responsibilities in accordance with Nevada Revised Statutes, District Policies, Practices, Ordinances, and Resolutions by providing oversight over the District's financial reports, the systems of internal controls including the internal audit plans and reports, and the independent external auditor's assessment of financial statements.

The Committee will ensure open communication and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and internal/external auditors.

The Audit Committee Charter shall be reviewed periodically with recommended changes submitted to the Board of Trustees for approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board appointed Trustees and three Board appointed qualified At-Large Members. The Committee can be expanded to an odd number. Recommendations for expanding the number of voting members will be approved by the Committee and submitted to the Board of Trustees for approval. The Committee is to retain a financial advisor, potentially a resource from the external audit firm, to attend meetings, provide guidance and training, as needed.

Members of the Audit Committee should obtain an understanding of accounting, auditing, financial reporting, and internal control to be able, with the assistance of



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

a financial advisor, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for an outside financial advisor to assist the Committee with the independent conduct of its work. The financial advisor will be responsible for ensuring the Committee members receive training relative to internal controls, understanding of financial reports, internal audit processes, governmental regulations, and other pertinent information. The advisor should possess the following qualifications:

- A thorough understanding and experience with Generally Accepted Accounting Principles (GAAP), Government Accounting Standard Board (GASB), and financial reporting for the public sector
- Experience either preparing or auditing financial statements for similar entities
- Experience with accounting estimates and accruals
- Experience with financial internal controls
- An understanding of the function of an audit committee

Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District. All members shall not be an affiliated person with the District.

- Annually, the Board of Trustees will appoint two Trustees to be voting members. Appointing Trustees to serve successive years increases the consistency and allows for knowledge retention. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the committee.
- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate expertise with staggering two-year terms.
 - For the first appointment, one member will serve a one-year term and the other two will serve a two-year term.
 - Each subsequent appointment will serve two-year terms.

One voting member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee members with a written agenda for each meeting. Committee Members may request agenda items for the Chair's consideration and approval.

The voting Committee members are limited to two 2-year terms which may be extended in the event there are no interested and qualified applicants.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor is to bring to the attention of the Committee any additional work required, beyond the scope of work contained in the engagement agreement, to fulfill their responsibilities.

2.0 Scope of Audit Committee's Authority and Responsibilities

It is the responsibility of the Committee to provide independent review and oversight of:

1. Financial reporting
2. Internal controls
3. The independent audit of financial statements

To fulfill these responsibilities, the Committee must:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
 - 2.2.1 Ascertain that the Request For Proposal (RFP) for a firm to be retained by the District for the annual financial audit is no more than five fiscal years with those directly supervising audit staff rotating at least every two years and audit engagement partners rotating at least every three years.
 - 2.2.2 Select the independent external auditor.
- 2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an external auditor for the District's Comprehensive Annual Financial Report (CAFR)
 - 2.3.1 Make recommendations on the scope of work including the identification of funds to be audited.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.3.2 If deemed necessary, identify and recommend additional services to be performed.
- 2.3.3 By March 31st of each year, the Board of Trustees is to formally designate an external audit firm and inform the Nevada Department of Taxation.
- 2.3.4 When appropriate replace the independent external auditors or auditing firms doing work for the District and initiate the procurement process (2.2).
- 2.3.5 Approve the scope of work and audit plans by June of each year.
- 2.4 Facilitate the external audit process.
 - 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
 - 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
 - 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
 - 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
 - 2.4.5 Follow -up on any corrective action identified.
 - 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
 - 2.4.7 Assess the performance of the independent auditors.
- 2.5 Review the financial statements; quarterly and annually for fair and accurate reporting.
 - 2.5.1 Review any changes in accounting policy.
 - 2.5.2 Ensure accounting policies are followed.
 - 2.5.3 Review any off-balance sheet financings.
- 2.6 Review the framework of internal controls; ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.6.1 Review the annual internal control audit plan(s).
- 2.6.2 Review management's annual assessment of their internal controls for prior year's audit plan.
- 2.6.3 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form.
- 2.6.4 The Committee may identify a need to engage an external Internal Auditor to address a specific area of concern.
 - 2.6.4.1 The Committee will review and approve or modify Management's proposal for the scope of work and selection of the resource.
 - 2.6.4.2 Management is responsible for engaging the resource to perform the scope of work and overseeing contract deliverables.
 - 2.6.4.3 Management will have the responsibility for implementation of identified internal control changes or enhancements.
 - 2.6.4.4 Management will report the findings and resolutions to the Committee.
- 2.7 Periodically review the District's code of conduct that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in periodic reports; and compliance with applicable policies to ensure it is adequate and up-to-date.
- 2.8 To review and refine as necessary the procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud.
 - 2.8.1 Review and refine as needed the procedures for educating employees on their individual role in ensuring the District's financial integrity.
 - 2.8.2 Ensure employees of the District have an anonymous method for concerns to be submitted.
 - 2.8.3 Publicize the means for the public and employees to submit concerns to the Audit Committee.



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

2.8.4 Review any submissions received, monitor the status of all submissions, ensure their timely resolution, and the document handling or disposition.

2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.

3.0 Meetings

3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241. The Board of Trustees will be emailed a copy of the meeting minutes. Meeting minutes will be posted on the District website.

3.2 The committee will hold meetings at a minimum of once per quarter. All members are expected to attend on a regular basis.

3.3 Review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader. Communicate with the submitter, if known, regarding their submitted concern.

3.4 Review all past correspondence with action outstanding. Ensure responses and/or corrective action is taken in a timely manner.

3.5 The committee may ask members of management or others to attend meetings and provide pertinent information as necessary.

3.6 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.

3.7 An annual meeting is to be held with the independent external auditors, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's letter of findings.

MEMORANDUM

TO: Audit Committee

THROUGH: Matt Dent

FROM: Clifford F. Dabbler

SUBJECT: Additional engagements of Davis Farr LLC

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 5-31-2021

I. RECOMMENDATION

That the Audit Committee make a recommendation to the IVGID Board of Trustees to engage Davis Farr LLC IVGID's external auditors to provide direction on certain outstanding accounting matters which were not addressed in the CAFR for the fiscal year ending June 30, 2020

II. BACKGROUND

Over several years, two residents of Incline Village had provided memorandums regarding the accounting and reporting treatment of certain financial transactions of IVGID.

The Audit Committee engaged Moss Adams LLC to provide recommendations on four items of accounting and reporting and produced a final report on 1/14/2021. Within the report, other accounting and reporting treatments were not in compliance with GAAP or GASB.

Because of the report was received just prior to IVGID's deadline for filing the Comprehensive Annual Financial Report as of June 30, 2020, certain items were not reflected in the CAFR.

At the Audit Committee in January 2021, IVGID management did not agree with the findings of Moss Adams regarding non compliance with GAAP and CASB

and issued a representation letter to Edie Baillie that the CAFR financial statements for 2020 were in compliance with GAAP.

On February 10, 2021, the Audit Committee submitted to the Board of Trustees its "Report to the District's Board of Trustees" as required by Board Policy 15.1.(2.4.6) listing two major concerns regarding non compliance with GAAP and 6 other concerns.

At the 2-10-2020 Board of Trustee meeting, the Trustees unanimously approved the Audit Committee report.

The audit committee report only addressed two major accounting and reporting concerns with other items expressed in expressed by citizens left open. for the new external auditor to review and make recommendations.

III. OUTSTANDING ISSUES

Below is a list of outstanding issues which require clarification prior to the preparation and delivery of the Comprehensive Annual Financial Report for the year end June 30, 2021 by IVGID management to the IVGID Audit Committee and the independent outside auditor, DavisFarr .

- The Community Service Special Revenue Fund does not have adequate Facility Fee revenues to qualify as a special revenue fund - Moss Adams report. Based on the fiscal 2021 budget the Facility Fees designated for operations are only 9.4% of total budgeted revenues.
- Reporting all Facility Fee revenues as general revenues in the Statement of Activities is improper and not in compliance with GAAP. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR
- Reporting Facility Fee revenues, designated by resolution specifically for Capital Projects and Debt Service, as Revenues in the Special Revenue Funds is improper and not in compliance with GASB #54 definition of a special revenue fund. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR.
- Facility Fee revenues reported in the Community Service and Beach funds should not be reported as operating revenues but should be reported as other financing sources in the Statements of Revenues, Expenses and

Changes in Fund Balance. The imposed nature of the Facility Fees which are effectively secured by real property within the IVGID boundaries creates the necessity of other than revenues. Moss Adams e mail. IVGID management has not provided any input.

- Utility Fund Revenues of \$2,000,000 per year, which has been and currently is being collected from users of sewer services and specifically designated to replace the Effluent Pipeline Phase II (6 miles), should not be reported as operating revenues but should be reported as non operating revenues. These collections are a financing transaction for a specific FUTURE infrastructure and no services are being delivered in exchange for the collections. According to the CAFR's, the average annual operating income from fiscal years 2016 to 2020 has been \$1.777 million. If the \$2 million collected annually to finance the future pipeline was not included in operating revenues, the average annual loss would have been \$223,000. As a result, the unrestricted net position of the Utility Fund (adjusted for the pipeline set aside) has steadily declined over the past several years and is expected to be negative by \$2.7 million at June 30, 2022.
- The accounting for items within Construction in Progress - Note 5 of the 2020 CAFR is considered misleading and recommended by Moss Adams to cease. IVGID management reports ALL purchases and construction of a capital nature to be charged first to Construction in Progress accounts which in turned is transferred to other capital accounts when the purchases or construction is placed into service. This accounting treatment is misleading as a substantial portion of charges are annual purchases of equipment, rolling stock, uniforms, ski rental equipment, golf carts etc which are NOT construction in progress. Purchases should be charged directly to the capital accounts and not be ran through construction in process. Moss Adams verbal recommendation at Board meeting.
- In fiscal year 2019, \$4.2 million of costs charged to the Effluent Pipeline Phase II construction in progress account was transferred and capitalized as a fixed asset. Based on the Moss Adams report and extensive analysis of members of the Audit Committee, approximately \$3.2 million of the costs

should have been expensed as the costs were for various activities which fall within the guidelines of expense transactions. IVGID management refutes this expensing probably based on a lack of knowledge of the historical events which occurred over the past 6 years.

- The Notes to the Basic Financial Statements should be reviewed and revised as needed primarily regarding Significant Accounting Policies. The Notes are poorly written, out of place and in some cases factually incorrect. A lack of consistency exists in the use of words describing a particular items. After the review and revisions are completed, a report on suggested changes should be presented to the Audit Committee for review.
- Should a judiciary or agency fund be established for the activities of the Tahoe Water Suppliers Association which is currently being reported as a department of the Utility Fund?

IVI. BID RESULTS

Not required

V. FINANCIAL IMPACT AND BUDGET

Unknown

VI. ALTERNATIVES

VI. COMMENTS

VII. STRATEGIC PLAN REFERENCE(S)

None

SUBJECT

-5-

DATE

VIII. BUSINESS IMPACT

None.

or

MEMORANDUM

TO: Audit Committee

THROUGH: Matt Dent

FROM: Clifford F. Dabbler

SUBJECT: Review, discuss and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress

STRATEGIC

PLAN REFERENCE(S): None

DATE: 5-31-2021

I. RECOMMENDATION

That the Audit Committee make a recommendation to the IVGID Board of Trustees to charge off as expenses certain costs which had been accounted for as construction in progress as outlined in the 5-31-2021 memorandum from Clifford F. Dobler (Exhibit A). The Audit Committee makes a recommendation that separate accounts be established for the three stages of a newly planned improvement project.

II. BACKGROUND

Historically, IVGID had been accounting for all costs incurred on a rehabilitation or new construction replacing an existing asset as a capital asset and subsequently began depreciating the costs when the asset was placed into service. Over several years, citizens raised issues regarding whether certain costs, primarily incurred on the Effluent Pipeline Phase II Project, had any future value or whether such costs should be expensed rather than being capitalized.

In the spring of 2020, the Audit Committee engaged Moss Adams LLP to review the IVGID capitalization policies and practices and make recommendations to ensure best practices are being followed. On January 14, 2020 Moss Adams LLP provided guidance on the proper accounting of costs which would be incurred on large construction projects. As stated in the report:

Accepted practice includes recognition of the different stages of a project including preliminary, construction and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.

The Board of Trustees accepted the Moss Adams LLC recommendations on February 10, 2021.

SUBJECT

-2-

DATE

Over the past five years, through considerable research, public records requests and familiarity with projects initiated by IVGID a list of projects and related costs that should be expensed in order to comply with Moss Adams recommendations have been assembled and is outlined in Exhibit A.

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Unless these charge off of costs are considered Prior Years adjustments, then the budget may require amendment.

V. ALTERNATIVES

Do nothing

VI. COMMENTS

None

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

None.

or

EXHIBIT A - 4 pages

May 31, 2021

To: Audit Committee for meeting on June 9, 2021

CC: Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated 1/14/2021.

Background

In 2020, Moss Adams was engaged by the Audit Committee to review the capitalization policies and provide best practice accounting guidance. As outlined in the final report: "***Accepted practice includes recognition of the different stages of a project including preliminary, construction and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.***"

Over several years, IVGID staff did not distinguish or establish separate accounts for the three phases of a project and only one project account was established. As such, ALL costs of a project were considered a future capital assets and were accounted initially in Construction in Progress and once the project was placed into service, ALL of the costs were transferred to a capital asset account and depreciated.

In the 2020 CAFR, IVGID management only expensed two projects which had preliminary stage activities. The expense was treated as a prior year adjustment (Note 22 of 2020 CAFR). The two projects were \$212,044 related to the development of a Parks Master Plan (Plan was actually called the Community Services Master Plan) and \$77,216 related to preliminary designs for the High School Ball Fields but stated in Note 22 of the 2020 CAFR as the Incline Village Ball field. It should be understood what the reason was for preliminary design of the High School Ball Fields.

IVGID management either overlooked or did not address expensing other preliminary stage activities on several projects and the costs remain in the Construction in Progress account as of June 30, 2020. A short description of the projects and estimated costs to be expensed are listed below:

Burnt Cedar Pool

In 2019, IVGID incurred **\$119,498** to repair waterlines at the Burnt Cedar Pool. Since a new pool has been started, these repairs have no future value, have been abandoned and must be expensed. See my memo to Audit Committee dated August 24, 2020.

In 2020 two contracts were awarded to TSK architects for conceptual design (**\$32,200**) and for schematic design (**\$68,104**) to develop a new swimming pool at Burnt Cedar Beach and the amounts should be expensed. In addition, all IVGID staff charges and third party cost estimates should also be expensed. A final design contract and a CMAR contract were approved by the Board of Trustees on December 9, 2020.

Utilities - WRRF Aeration System

In March 2018, a contract was issued to CH2M- Hill for conceptual design (\$40,000) for improvements to the WRRF Aeration System which should be expensed together with all related IVGID staff charges from March to December, 2018 when the final design for the project was authorized.

Utilities - Waterline Leak Study

In March 2019, a contract was issued to Pure Technologies for \$52,500 to provide a conditions assessment of a 4,200 foot long alternate water transmission line from Water Pump Station #2 to a water reservoir located on Lariat Circle. The line was taken offline in 2001 because of recurring leaks. The total costs of the assessment as of June 30, 2020 was \$78,506 which may have included IVGID staff time and other costs. These costs should be expensed.

Utilities - Effluent Pipeline Phase II

This project involves several items. In violation Board requirements to keep individual projects separate, the General Manager decided in 2018 that any costs associated on or for the effluent pipeline from the Wastewater Treatment Plant to the wetlands in the Carson city area would be reported within this project.

On January 29, 2020, IVGID Staff provided a presentation to the Board of Trustees which indicated the accumulated costs were \$5,146,100 through June 30, 2019, however the CIP report for the same date indicated only \$4,864,275 had been accumulated on the project. It is unknown what is the difference between the two reports. The requested reconciliation of the air pressure relief valves reported as \$643,400 but public records documented only \$567,409 and the difference has not been explained by Staff. A reconciliation of the meters and valves installed in three different areas and reported as \$86,500 in costs. However, public records documented only \$77,687 in costs and the difference has not been explained.

On 2/10/2021, the Audit Committee by a unanimous vote approved the Audit Committee Report to the Board of Trustees which included the recommendation to expense \$3,179,600 which was capitalized in fiscal year 2019 as "**Placed in Service**". Exhibit C of the Audit Committee report describes the items which should be expensed. According to minutes of the Board of Trustee meeting held on February 10, 2021, the Board of Trustees approved the Audit Committee recommendation.

It is recommended that all charges made to the Effluent Pipeline Phase II project be reviewed and separated into the various subprojects to provide an accurate accounting for capitalization and expenses. In the past, the Board of Trustees has recommended that individual projects be reported rather than "lumped" into one project.

Mountain Golf Course

In 2012/2014 contracts were issued to Global Golf Advisors and BRG Architecture for a facility assessment and future needs recommendations and to develop conceptual designs on 5 options for a new clubhouse. Costs incurred as of June 30, 2020 were \$132,203. These costs should be expensed as no recommendations were enacted.

In the summer of 2018, a fire occurred in the Clubhouse kitchen area. In November 2018, Smith Design was issued a design contract for the rehabilitation of the Clubhouse which included a large expansion of the deck area. The intent was to fast track the rehabilitation for completion prior to the opening of the golf course in May 2019. Subsequently it was determined that the

rehabilitation could not occur in time for the season and would be postponed until the season ended. In order to provide services, fire damage repairs were completed for temporary use during the 2019 season. The costs incurred was \$150,751 (may include the design fees of Smith which should not be expensed). An unknown portion of the temporary repairs were abandoned when the extensive rehabilitation started at the end of the 2019 season. Certain of the temporary repair costs should be expensed.

In 2020 a contract was issued to Lumos and Associates for schematic design (\$27,500) of the Mountain Golf Course cart path replacements which should be expensed together with all IVGID staff charges of \$18,500 from July, 2020 to February 2021 when final design was approved by the Board of Trustees.

Tennis Center

In 2015 and 2016, a contract and change order was issued to LLOYD Design for \$42,120 to evaluate the Tennis Center. This assessment should be expensed together with IVGID staff charges.

In 2018 a contract was issued to BJK Architecture and Engineering to develop conceptual design (\$26,501) for the rehabilitation of the Tennis Center. These costs should be expensed together with all IVGID staff charges from 2018 to the Board approval of the final design on 6/19/2019.

Incline Park - Ball fields

In July, 2017, a contract was issued to LPA Inc. for \$41,000 to develop conceptual design for improvements to the three ball fields at Incline Park. In December, 2017 a contract was issued to Lloyd Consulting Group, LLC for \$58,500 to provide engineering design services including a survey, site planning, schematic design, construction documents and permitting. In November, 2018 an additional contract for \$15,430 was issued to LLOYD to modify the design to lower the estimated costs. A project called Incline Park Improvements (#4378BD1801) was set up but a budget was never established. The total costs as of June 30, 2020 was \$120,268 which includes other unknown costs beyond the three contracts. Another project called Incline Park Facility Renovation (#4378LI1803) was established for construction of improvements to only one ball field. A review of both project accounts should be conducted as the total costs as of March 31, 2021 for the Park Facility Renovation is \$1,550,570 which is in excess of the Incline-Tahoe Foundation grant made to IVGID of \$1,328,001. The two Lloyd contracts mentioned above were for final design and subsequent modification. The actual payments made were \$75,458 (\$59,563 & \$15,430) and should be transferred from the Incline Park Improvements project to the Incline Park Facility Renovation project.

Incline Beach Building

In May 2016, a contract for design of the Incline Beach Building was issued to Bull, Stockwell and Allen for \$221,891. The contract consisted of two main phases 1) community outreach, program concepts, and schematic design for \$81,745 and 2) final design and construction documents. A large portion of the work was authorized based on the Beach Recreation Enhancement Opportunity Plan approved by the Board of Trustees in February 2016. After phase 1 of the contract was substantially completed, two cost estimates were conducted resulting in estimates between \$3.9 million and \$5.2 million which included site improvements never addressed in the design contract. More importantly the design was a replica of the building at Sand Harbor which is six times larger than the existing building at Incline Beach. Sand Harbor has between 800,000 to 1,000,000 visitors while Incline Beach has annual visits of about 130,000.

The total costs in the construction in progress account is \$216,131 which includes IVGID staff time, estimates and unknown other costs. The entire amount should be expensed as expenditures were for only the first phase of the contract.

Diamond Peak

In 2014, IVGID Board decided to develop a master plan for summer activities and expansion of the winter activities by issuing an assessment contract on 9/12/2014 (\$152,000) to the SE Group which was approved by the Board of Trustees in 2015. Accumulated costs through 6/30/2020 is \$156,030. This work was concept only, community steering and financial models which should all be expensed.

In October, 2015, the Board of Trustees approved expenditures to submit a plan for Phase 1a of the approved master plan to TRPA, USFS and Washoe county for environmental clearances. Contracts were issued in 2015 to SE Group for \$29,000 for permit submittals and in 2019 to Hauge Brueck Associates for \$32,800 to perform biological resources surveys of rare plants, California Spotted Owl and the Northern Goshawk required in advanced of environmental documentation. The submittals, if made, by the SE Group are almost six years old and are probably would need to be re submitted. Currently the Board of Trustees have removed Phase 1a and 1b of the master plan from the 5 year capital plan. With the Forest Service special use permit on 361 acres expiring on December 31, 2023 and the lack of interest in continuing the Phase 1a summer activities, these costs are conceptual submittals and should be expensed.

Conclusions and Recommendations

IVGID management has historically assigned only one project number for a future construction project. In order to avoid the consolidating costs, components two separates accounts should be established for each project. First an expense account which will include all concepts, community outreach, schematics designs, assessments, and financing options. After the Board of Trustees accept the inputs and accepts other conditions and decides to move forward with final plans then a CIP account should be established for the final design, construction and in house staff time to complete the project.

The Audit Committee recommends that IVGID Staff establishes separate accounts as prescribed in the Moss Adams report for the three main phases of a project. This should eliminate recording of expenses in the CIP accounts.

Memorandum

April 8, 2021

To: Indra Winquest, Paul Navazio and IVGID Board of Trustees

cc: IVGID Audit Committee

From: Clifford F. Dobler

cc: IVGID Board of Trustees

Re: Funding Public Parks through General Fund resources

Over the past year, Trustee Schmitz has discussed the possibility that operations of IVGID's Public Parks should be funded by resources of the General Fund. This proposal would be impossible to implement based on the historical operating expenses and capital costs of the Parks through the Community Service Funds and the lack of available revenues in the General Fund. The parks include Village Green, Preston Field, and the baseball fields adjacent to the Middle School.

The following is information required to make a worthy analysis

Annual Average Costs to operate and maintain the Park system (Exhibit A)

For the 5 year period from July 1, 2016 and June 30, 2020 the average annual costs of operating the Parks was \$802,786 with offsetting revenues averaging only \$46,469 producing an average annual net losses of \$756,317.

Park Capital Project costs for the five year period were \$3,686,458. After removing the rehab of a baseball field and a new bridge over Incline Creek, which were funded by grants, \$2,000,000 had been spent on other capital items or \$400,000 per year. The five year capital plan for 2021 to 2025 has \$1,586,640 for new purchases and projects or an average of \$317,200 per year. Based on these factors, capital costs should be considered to average around \$350,000 annually.

Combining the annual estimated costs for operations of \$750,000 and capital costs of \$350,000 the parks require about \$1,100,000 per year in subsidies.

General Fund Revenue and Expenses 5 years 2016 to 2020 (Exhibit B)

For the past five years from July 1, 2016 to June 30, 2020, tax revenues less operating expenses, capital outlays and reimbursements for "Central Service Costs" produced an average of only \$540,000 annually far short of the requirements to fund the parks systems. While tax revenues may increase over time because of increasing home values, IVGID's thirst to spend money will cause expenditures to increase in tandem with revenue increases. The approved fiscal 2021 budget (Exhibit B) indicated large increases in operating expenses (31% over previous 5 year average) and the excess revenues over expenditures dwindled to a minimal amount.

Other General Fund Items

- An extraordinary amount of investment earnings occurred in 2019 and 2020 producing annual cash yields over 9% per annum based on the average fund balances existing. These cash returns could not have occurred unless the earnings included gains from the liquidation of certain cash investments. This should be explained by management. In the long term, investment earnings should not be relied upon to fund Park ongoing operations. Assuming proper management of fund balances, the current amount of fund balance should be reduced substantially over the next few years.
- During the past five years only two transfers of \$650,000 were made to other funds. Also a series of transfers were received and disbursed to unwind a NRS violation and to properly redistribute the remaining cash from the self funded

Workman's compensation Fund which was part of Internal Services. The General Fund retained a net amount of \$145,000 from the closeout of the Workman's compensation fund.

- Deletion of a new Administration Building scheduled in 2024 - According to the five year capital plan (2021 to 2024), a new administration building was planned to be constructed in 2024 with a budget of \$3,350,000. An estimate conducted by Precision Budgets Inc. on 6/20/2017 based on conceptual drawings dated 9/20/2012 estimated the costs of a new building to be \$5,642,047 or \$501.52 per square foot. **This has been removed from the 5 year capital plan at the BofT meeting on 3/24/2021.**
- The proposed 5 year (2022 to 2026) Capital Projects plan (EXCLUDING THE ADMINISTRATION BUILDING) indicates spending an average of \$392,000 per year. which is substantially higher than historical expenditures.

Current General Fund excessive Fund Balance

At June 30, 2020, the General Fund had a fund balance of \$4,630,149 far in excess of the appropriate level of fund balance required by Board Policy 7.1. which states 5% of operating expenses or approximately \$135,000. (operating expenses are net of the Central Service Cost reimbursements).

After considering outstanding commitments of \$1,300,000 for the mandated tax payments to Washoe County and an undetermined capital portion of the \$891,438 planned for the Tyler software installation (apparently there will be some offsets by cancelling other contracts), the fund balance continues to be far in excess of Board Policy.

After adjusting for these two commitments, fund balance would remain at approximately \$2,500,000 or 1,900% higher than the appropriate level of fund balance.

Immediate attention should be given by this Board to establish a proper use of the Fund Balance.

- reduced the Ad valorem tax rate to lower revenues
- Transfer funds to the Community Service Funds and/or the Utility Fund (transfers cannot be done to Beaches because not all property owners who are assessed taxes have use of the Beaches)
- Annual transfers are limited to 10% of General Fund expenditures, (NRS ~~343.117~~ ^{354.6117}) resulting in limitations on transfers for, at least, the next 9 years.
- Begin funding Community Programming (Recreational Programming) currently accomplished in the Community Services Funds from resources in General Fund. There is no provision in NRS 318 to fund community programming, however, under NRS 377A, taxes can be used for miscellaneous special purposes which include "Recreational programs".

Public Parks are allowed under NRS 318 - General Improvement Districts

The Nevada Revised Statute 318.116 provides a basic power to the Board of a General Improvement District to furnish recreational facilities described in NRS 318.143 which includes public parks. Park improvements and operations can and are currently being funded by the Facilities Fees (standby services charges) which are allowed and currently being assessed upon property owners under NRS 318.197 which allows flexibility in amounts which can be assessed.

Alternative Use of General Fund annual revenue surpluses and excess fund balances.

Under NRS 318, IVGID does not have the power to use of the Facility Fees assessed under NRS 318.197 for Community Programming. Resources for Recreational Programming, which includes Community Programming is specifically identified in NRS Title 32 Chapter 377A through the use of TAXES. Since IVGID may have inadvertently funded such programs through Facility Fees which violates Dillon's rule, an immediate change should be made to fund the Community programs from tax resources in the General Fund.

Conclusion

Operations and Capital Costs for Parks should remain in the Community Services Fund as authorized by NRS 318.116. Based on the projections for the General Fund there would not be an identifiable source of revenues which could support the current and planned expenditures for the parks.

Exhibit A - Historical Revenues, Expenses and Capital Costs for Parks

Exhibit B - Historical Revenues, Expenses and other Financing Sources of the General Fund.

Incline Village General Improvement District
Community Services Venues

EXHIBIT A

Operating Revenues and Expenses 2016 to 2020

Operations only

	Championship Golf Course	Mountain Golf Course	Facilities	Diamond Peak	Rec Center Community Programming	Parks	Tennis	Recreation Administration	Other Revenues	Total
2016										
Revenues (NO Rec Fee)	3,488,229	645,128	275,156	10,202,972	1,264,177	59,521	166,533	(521,179)	601,927	16,182,464
Expenses	(3,526,103)	(937,694)	(432,187)	(6,441,024)	(2,228,737)	(715,538)	(256,359)	(315,943)		(14,853,585)
Capital Projects	(37,874)	(292,566)	(157,031)	3,761,948	(964,560)	(656,017)	(89,826)	(837,122)	601,927	1,328,879
2017										
Revenues (NO Rec Fee)	3,542,663	627,986	387,701	11,326,968	1,274,149	45,430	166,577	(573,542)	336,636	17,134,568
Expenses	(3,944,772)	(1,002,359)	(498,577)	(6,810,598)	(2,225,893)	(821,034)	(262,369)	(354,367)		(15,919,969)
Capital Projects	(402,109)	(374,373)	(110,876)	4,516,370	(951,744)	(775,604)	(95,792)	(927,909)	336,636	1,214,599
2018										
Revenues (NO Rec Fee)	3,765,419	630,214	355,696	9,155,646	1,289,953	48,910	145,197	(758,481)	375,561	15,008,115
Expenses	(4,055,702)	(972,171)	(448,797)	(7,024,327)	(2,232,105)	(818,298)	(228,530)	(357,498)		(16,137,428)
Capital Projects	(290,283)	(341,957)	(93,101)	2,131,319	(942,152)	(769,388)	(83,333)	(1,115,979)	375,561	(1,129,313)
2019										
Revenues (NO Rec Fee)	3,902,689	740,968	392,246	11,778,871	1,364,044	46,580	153,435	(730,819)	429,729	18,077,743
Expenses	(4,285,423)	(960,442)	(482,527)	(7,830,948)	(2,296,972)	(815,439)	(253,544)	(363,285)		(17,288,580)
Capital Projects	(382,734)	(219,474)	(90,281)	3,947,923	(932,928)	(768,859)	(100,109)	(1,094,104)	429,729	789,163
2020										
Revenues (NO Rec Fee)	4,070,762	690,798	361,890	9,781,499	1,004,900	32,505	133,786	(590,712)	370,987	15,856,415
Expenses	(4,255,618)	(960,547)	(469,752)	(7,011,524)	(2,189,572)	(843,619)	(242,873)	(572,599)		(16,546,104)
Capital Projects	(184,856)	(269,749)	(107,862)	2,769,975	(1,184,672)	(811,114)	(109,087)	(1,163,311)	370,987	(689,689)
Total										
Revenues	18,769,762	3,335,094	1,772,689	52,245,956	6,197,223	232,946	765,528	(3,174,733)	2,114,840	82,259,305
Expenses	(20,067,618)	(4,833,213)	(2,331,840)	(35,118,421)	(11,173,279)	(4,013,928)	(1,243,675)	(1,963,692)	-	(80,745,666)
Capital Projects	(1,297,856)	(1,498,119)	(559,151)	17,127,535	(4,976,056)	(3,780,982)	(478,147)	(5,138,425)	2,114,840	1,513,639

Average Per year
Operating Costs recovered -93.53% -69.00% -76.02% -148.77% -55.46% -5.80% -61.55% 161.67%

Recreation fee - Board Approved for operations only - Never required.

About \$2.5 million of negative revenues in Recreation Administration were transfers to the Beaches

	Operating Portion	Total Facility Fee
2016	2,181,200	5,984,146
2017	2,050,000	5,999,152
2018	1,763,000	5,769,982
2019	1,763,000	5,784,000
2020	2,050,750	5,774,067
Total	9,807,950	29,311,347

Capital Projects Costs

								Total	Funded by Grants	Net by IVGID	
2015/2016 CAFR	415,867	235,010	138,071	707,467	101,437	685,776	46,482	14,089	2,344,199	586,361	1,757,838
2016/2017 CAFR	928,012	120,868	161,162	1,375,029	574,838	312,527	49,022	111,792	3,633,250	113,615	3,519,635
2017/2018 CAFR	664,121	402,955	198,604	1,814,021	71,100	601,303	5,000	148,812	3,905,916	156,775	3,749,141
2018/2019 CAFR	497,377	338,149	21,406	4,539,027	259,918	142,040	104,180	141,403	6,043,500	31,958	6,011,542
2019/2020 CAFR	439,872	1,592,962	71,584	792,711	244,815	1,944,817	233,778	(261,503)	5,059,031	1,637,399	3,421,632
Subtotal	2,945,249	2,689,944	590,827	9,228,255	1,252,108	3,686,458	438,462	154,593	20,985,896	2,526,108	18,459,788

Total operations & capital

(4,243,105)	(4,188,063)	(1,149,978)	7,899,280	(6,228,164)	(7,467,440)	(916,609)	(5,293,018)
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Avg LOSS per year

(848,621)	(837,613)	(229,996)	1,579,856	(1,245,633)	(1,493,488)	(183,322)	(1,058,604)
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Incline Village General Improvement District
 General Fund - Summary of General Revenues and expenditures
 Fiscal years ending June 30, 2016 to 2020 Actual
 Fiscal year 2020/2021 Budget

EXHIBIT B

	5 year period 2016-2020					Total	Average	2021 Budget	
	2016	2017	2018	2019	2020				
Revenues									
Ad valorem taxes	\$ 1,497,006	1,462,280	1,524,623	1,615,540	1,706,170	\$ 7,805,619		1,782,000	
Other Taxes	1,487,986	1,498,567	1,649,921	1,708,093	1,736,657	8,081,224		1,656,000	
Miscellaneous	50,292	4,638	2,033	2,002	952	59,917		2,400	
	<u>3,035,284</u>	<u>2,965,485</u>	<u>3,176,577</u>	<u>3,325,635</u>	<u>3,443,779</u>	<u>15,946,760</u>	<u>3,189,352</u>	<u>3,440,400</u>	
Expenditures									
All Operating Expenses	3,510,247	3,603,667	3,586,203	3,933,149	3,799,835	18,433,101	3,686,620	4,520,099	23% over average
Capital Projects	79,331	148,435	113,813	121,257	279,424	742,260	148,452	650,150	430% over average
Less Central Service Costs charged out	<u>(1,123,000)</u>	<u>(1,177,200)</u>	<u>(1,094,000)</u>	<u>(1,169,400)</u>	<u>(1,367,400)</u>	<u>(5,931,000)</u>	<u>(1,186,200)</u>	<u>(1,741,440)</u>	47% over average
	<u>2,466,578</u>	<u>2,574,902</u>	<u>2,606,016</u>	<u>2,885,006</u>	<u>2,711,859</u>	<u>13,244,361</u>	<u>2,648,872</u>	<u>3,428,809</u>	32% increase over average
Net Operations	568,706	390,583	570,561	440,629	731,920	2,702,399	\$ 540,480	11,591	
Other Financing Sources (Uses)									
Investment Earnings		51,680	89,960	327,815	432,643	902,098		131,400	
Sale of Capital Assets			16			16			
Workman's Comp Close Out									
Transfers in from Internal Services			800,000	474,356		1,274,356			
Transfers out to other Funds				(800,000)	(300,000)	(1,100,000)			
Other Transfers - No reason provided	<u>(250,000)</u>	<u>(400,000)</u>				<u>(650,000)</u>			
	<u>(250,000)</u>	<u>(348,320)</u>	<u>889,976</u>	<u>2,171</u>	<u>132,643</u>	<u>426,470</u>		<u>131,400</u>	
Increase in Fund Balance	318,706	42,263	1,460,537	442,800	864,563	3,128,869		142,991	
Beginning Fund Balance	<u>1,501,280</u>	<u>1,819,986</u>	<u>1,862,249</u>	<u>3,322,786</u>	<u>3,765,586</u>	<u>1,501,280</u>		<u>4,630,149</u>	
Ending Fund Balance	<u>\$ 1,819,986</u>	<u>1,862,249</u>	<u>3,322,786</u>	<u>3,765,586</u>	<u>4,630,149</u>	<u>\$ 4,630,149</u>		<u>\$ 4,773,140</u>	
Investment Earnings on average fund balance				9.20%	10.30%			2.84%	
Appropriate Level of Fund Balance - Board Policy 7.1 - 4% of Expenditures					\$ 108,474			\$ 137,152	
Over appropriate level of fund Balance								3480.2%	
Property Tax Settlement with Property Owners					?				
Reserves for Tyler					?				

May 29, 2021

To: Board of Trustees, Indra Winquest, Paul Navazio

cc: Audit Committee - Proper Disclosure Requirements - Note 15 of 2020 CAFR (information only)

From: Clifford F. Dobler

Re: Cash Position of Utility Fund 2020 to 2022

Over several Board of Trustee meetings, nowhere in the array of budget documents was any analysis provided of what is and what will be the AVAILABLE cash position after the Board of Trustee mandated restriction/reserve of cash for the Effluent Pipeline project and the cash held on behalf of the Tahoe Water Suppliers Association which has been set aside from all of the cash accounts (cash and cash equivalents, short term investments and investments - long term).

Attached is a Computation of Available Cash Positions as of 2020, the estimated amount for fiscal year 2020/2021 and the budgeted amount for fiscal year 2021/2022.

June 30, 2020

As stated in the June 30, 2020 CAFR, the cash held in the utility fund was \$14.724 million.

After setting aside cash of and for:

- \$11.570 million for the Effluent Pipeline Project unanimously approved by the Board of Trustees in March and August of 2020
- \$772,000 for the interest earned from investing the Effluent Pipeline money, which under Board Policy is required to be set aside. Nothing was ever done after the IVGID Audit Committee recommended the set aside and the Board of Trustees agreed with the recommendation. No agenda items has been brought to the Board of Trustees to restrict, "reserve" or "designate" these funds for the Effluent Pipeline project.
- \$157,000 for cash held on behalf of the Tahoe Water Suppliers Association

Then.

The remaining cash available after these removals was only \$2.225 million slightly above the appropriate levels described in Board Policy/Practice 7.1.0 and 7.2.0

June 30, 2021 estimate

As stated in the State Budget form 4404LGF, IVGID staff has estimated that the cash used for expenditures will exceed cash flow from operating activities by \$2.458 million for the fiscal year ending June 30, 2021.

As a result, **there will be NO remaining cash available after the restricted set asides and association** funds are separated and according to the Staff estimate, \$233,000 will be required to be drawn from the Effluent Pipeline project restricted/reserved set aside cash. While this misappropriate of funds may not be a direct violation of NRS 354.626, the intent of the Board and Staff is to spend some of the Pipeline set aside. One could be confused by the \$3.033 million indicated as "capital contributions" which would seem money came from some other outside source. These funds are nothing more than transferring cash from the short and long term investments which existed at June 30, 2020. In other words, taking money

from one pocket and putting the same money into another pocket. No new money. Calling these transfers as a "Capital Contribution" is a stretch to anyone's imagination.

June 30, 2022 budget

As stated in the State Budget form 4404LGF for fiscal year ending June 30, 2022 which the Board of Trustees approved on May 26, 2021, expenditures will exceed cash flow from operating activities by \$2.515 million. As there is NO other known resources indicated other than from hope, the Board **approved and intends to use** \$2.515 million of the Pipeline set aside restricted money to spend on other capital projects. To authorize spending money which the Utility Fund does not have is very unorthodox and defies logic. The budget is to appropriate money to spend. The budget alone is an intent to spend. How could this Board approve spending money which is NOT AVAILABLE.

This abuse of using funds set aside for a specific project without any disclosure is a direct violation of any standards required by any Fiduciary holding restricted funds for the public and other entities.

While the budget expenditures for fiscal 2021/2022 have not yet been spent but are intended to be spent thus requiring the use of RESTRICTED FUNDS for other purposes, a violation of NRS may exist. This is for legal counsel to determine and twist. Not kosher to me.

Based on the budget, NRS 354.626 will be violated once the expenditures are made unless immediate action is taken to provide funds for the budgeted expenditures.

Conclusion

It is time to end the parade of misunderstanding, the hocus pocus, the changing of words, the deception, lack of disclosure and irresponsibility. Bring forth an agenda item at a future Board meeting which will clearly state the Board of Trustees decision to release \$2.780 million of the restricted/reserved funds for the Effluent Pipeline which has been authorized to spend on other acquisitions of capital assets.

This Board of Trustees simply, in good conscience, should not approve a budget without having proper resources to fund expenditures.

Intending to obtain unknown future resources is not an acceptable answer to stray from reality.

Make things right and be a fiduciary .

There should be a special meeting of the Board of Trustees as soon as possible

Postscript

Be aware that after removing all cash accounts from working capital on June 30, 2020 , there was **negative** working capital of \$123,015 which is unheard of in the annals of what would be considered prudent management.

Also be aware that the \$2.184 million of "reserves", required by Board policy 7.1.0 does **not exist** and IVGID management has not provided any plan of replenishment .

Attachments

Computation of Cash Positions

- Exhibit A - fiscal year 2020 CAFR
- Exhibit B - State Budget Form - Statement of Cash Flows
- Exhibit C - Investment earnings set aside for Phase II of Effluent Pipeline 2013 to 2020
- Exhibit D - Note 15 of 2020 CAFR - Designated Funds
- Exhibit D-1 - Excerpt of Minutes of March 11, 2020 IVGID Board of Trustee meeting - 3 pages
- Exhibit D-2 - Excerpt of Minutes of August 12, 2020 IVGID Board of Trustee meeting - 3 pages

ATTACHMENT Computation of Cash Positions

Incline Village General Improvement District Utility Fund - Cash Positions 2020 to 2022 in thousands

Fiscal 2020 - CAFR - EXHIBIT A

Cash	\$ 9,415	
Short Term Investments	3,772	
Long Term Investments	1,537	
	<u>14,724</u>	
Set Asides Note 15	14,724	
Effluent Pipeline (See note 1 below)	(9,657)	Board restricted on 3-11-2020
Effluent Pipeline (See note 1 below)	(1,913)	Board reserved on 8-12-2020
Other required reductions		
Interest on Pipeline Set Aside	(772)	Board Policy - 13.2.Exhibit C
Tahoe Water Suppliers Association	(157)	Fudiciary Funds
	<u>(2,491)</u>	
Cash Position - End of Fiscal year 2020	\$ 2,225	

Fiscal 2021 - form 4404LGF EXHIBIT B

Operations	5,196	
Acquisition Capital Assets - Note 2 below	(7,140)	includes \$2m for pipeline
Sale of Assets	6	
Payments on Debt	(538)	
Interest on Debt	(97)	
Interest Earned	115	
	<u>(2,458)</u>	
NEGATIVE - Cash Position End of Fiscal year 2021	\$ (233)	

Fiscal 2022 - form 4404LGF EXHIBIT B

Operations	3,271	
Acquisition Capital Assets	(5,217)	includes \$2m for pipeline
Sale of Assets	-	
Payments on debt	(554)	
Interest on Debt	(89)	
Interest Earned	74	
	<u>(2,515)</u>	
NEGATIVE CASH POSITION - End of fiscal year 2022	\$ (2,748)	

Note 1 - Note 15 of the 2020 CAFR states these funds are designated funds which is incorrect, Board unamously apporved restricted and reserved funds.

Note 2 - This does not agree with the report on page 130 of Board packet of May 26,2021 which states \$6,975,454 Difference is only \$165,000

EXHIBIT A

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2020

	Business - type Activities Enterprise Utility Fund	Governmental Activities Internal Services Fund
ASSETS		
Current assets:		
Current Assets other than cash \$1,436,889	Cash and cash equivalents Short term investments	\$ 125,554
	1,268,002	-
	17,560	-
	12,881	-
	151,327	69,919
Total current assets	14,656,639	195,473
Noncurrent assets:		
	1,537,061	-
	100	-
	229,223	-
	93,572	-
	1,859,956	-
Capital Assets		
	6,715,544	-
	1,607,772	-
	15,596,832	-
	114,599,557	-
	3,882,231	253,869
Total capital assets	142,401,936	253,869
Less: accumulated depreciation	(75,114,633)	(189,522)
Total capital assets (net)	67,287,303	64,347
Total noncurrent assets	69,147,259	64,347
Total assets	83,803,898	259,820
LIABILITIES		
Current liabilities:		
	355,031	24,581
	444,160	72,353
	54,080	-
	167,926	-
	538,707	-
Total current liabilities	1,559,904	96,934
Non-current liabilities:		
Non-current long term debt	3,546,231	-
Total liabilities	5,106,135	96,934
NET POSITION		
Net investment in capital assets	63,202,365	64,347
Restricted	322,895	-
Unrestricted	15,172,503	98,539
Total net position	\$ 78,697,763	\$ 162,886

The notes to the financial statements are an integral part of this statement.

EXHIBIT B

PROPRIETARY FUND	(1)	(2)	(3) BUDGET YEAR ENDING 06/30/22	
	ACTUAL PRIOR YEAR ENDING 6/30/2020	ESTIMATED CURRENT YEAR ENDING 6/30/2021	TENTATIVE APPROVED	FINAL APPROVED
A. CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	12,352,585	12,492,674	12,783,176	12,796,676
Receipts from interfund services	167,499	144,759	241,400	241,400
Receipts from operating grants	-	31,000	31,000	31,000
Payments to and for employees	(4,051,848)	(4,154,486)	(4,669,314)	(4,723,960)
Payments to vendors	(4,055,051)	(2,825,219)	(3,922,603)	(4,526,170)
Payments for interfund services	-	(492,709)	(536,613)	(547,540)
a. Net cash provided by (or used for) operating activities	4,413,185	5,196,019	3,927,046	3,271,406
B. CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfer from General Fund	45,000	-	-	-
b. Net cash provided by (or used for) noncapital financing activities	45,000	-	-	-
C. CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(1,529,939)	(7,140,286)	(4,279,000)	(5,216,500)
Proceeds from sale of assets	11,227	6,070	-	-
Payments of capital related debt	(523,988)	(538,707)	(553,841)	(553,838)
Capital contributions	-	3,032,786	-	-
Payment of interest	(119,145)	(96,914)	(89,293)	(89,291)
c. Net cash provided by (or used for) capital and related financing activities	(2,161,845)	(4,737,051)	(4,922,134)	(5,859,629)
D. CASH FLOWS FROM INVESTING ACTIVITIES:				
Restricted investment released (increased)	(6,284)			
Investments purchased	(1,302,993)			
Investments sold or matured	3,749,128			
Investment interest received	312,774	114,540	74,000	74,000
d. Net cash provided by (or used in) investing activities	2,752,625	114,540	74,000	74,000
NET INCREASE (DECREASE) in cash and cash equivalents (a+b+c+d)	5,048,965	573,508	(921,088)	(2,514,223)
CASH AND CASH EQUIVALENTS AT JULY 1, 20xx	4,366,202	9,415,167	9,988,675	9,988,675
CASH AND CASH EQUIVALENTS AT JUNE 30, 20xx	9,415,167	9,988,675	9,067,587	7,474,452

Incline Village General Improvement District
(Local Government)

SCHEDULE F-2 STATEMENT OF CASH FLOWS

Utility Fund

CIP Budget \$4,279,000
 Carryover Pond 1,550,000
 Expenses Items (612,500)
 Total \$5,216,500

Page: _____
Schedule F-2

To my knowledge, there was never an approval to budget \$1,550,000 for the

Exhibit C

**Incline Village General Improvement District
Utility Fund
Investment Earnings set aside for Phase II of Effluent Pipeline
Compliance with Board Policy and Practice 13.2.0 2.3**

Fiscal Year	Expressed in Thousands - From CAFR				Pipeline Portion	% Pipeline	CAFR Investment Earnings	Pipeline Portion
	Cash	Short Term Investments	Long Term Investments	Total				
2013	\$ 418	2,300	5,115	7,833	2,683	34.25%	56	\$ 19
2014	427	950	7,065	8,442	5,251	62.20%	61	38
2015	340	1,000	9,075	10,415	6,506	62.47%	82	51
2016	79	7,826	3,624	11,529	7,900	68.52%	154	106
2017	1,796	6,797	3,985	12,578	9,405	74.77%	60	45
2018	6,764	1,190	3,453	11,407	8,662	75.94%	71	54
2019	4,366	2,248	5,527	12,141	9,657	79.54%	283	225
2020	9,415	3,792	1,537	14,744	11,570	78.47%	298	234
Should be transferred to reserved funds								<u><u>\$ 772</u></u>

Exhibit D

15. DESIGNATED FUNDS

At its meeting of March 3, 2020 the Board of Trustees took action to ¹¹ designate \$9,656,890 for the purpose of earmarking the funds for the Effluent Pipeline Project. On August 12, 2020 the Board designated an additional \$1,912,767 the Effluent Pipeline Project from unexpended appropriations provided for in the FY2019/20 budget. These two Board actions result in a total of \$11,569,657 for this project. The funds designated for the Effluent Pipeline Project represent a portion of funds received by the District from utility rate revenues established and collected specifically for Utility capital improvement projects.

Notwithstanding the Board's action to ^{restricted and reserved} designate funding for the Effluent Pipeline Project, this funding remains in the unrestricted net position of the District's business-type activities on the government-wide Statement of Net Position. This is due to the determination that the Board's designation does not rise to the level of meeting the criteria set forth in GASB Statement No. 54 for "restricted" net position within proprietary funds.

Who determined that

16. LEASE OBLIGATIONS

Revenue:

Miscellaneous revenue includes rent received for cell towers on District property. Under an agreement with American Tower, \$20,685 was paid for a tower at the Mountain Golf Course. The current five-year term is from April 2017 and ends in 2022, with the option for extensions every five years through 2037, cancelable by either party. Rent increases 3% per year. Under an agreement with AT&T \$19,572 was paid for a tower at the Mountain Golf Course. The current five-year term is from October 2015 and ends in 2020, with automatic extensions every five years, through 2035, cancelable by the tenant. Rent increases 3% per year. Under an agreement with AT&T \$64,155 was paid for a tower at Diamond Peak Ski Resort. The current five-year term is from July 2018 ends in 2023, with extensions every five years, cancelable by the tenant, through 2038. Rent increases 3.5% per year. Revenue in the amount of \$11,197 was also received from T-Mobile (assigned to Crown Castle) for a cell tower lease at Diamond Peak Ski Resort. Its term is June 2017 to 2022 with 1 option to renew for 5 years.

	American Tower Lease	AT&T	AT&T	T-Mobile	Parasol Foundation	Reno-Sparks Convention and
FY 2021	\$ 21,305	\$ 20,159	\$ 66,400	\$ 11,197	\$ 1	\$ 1
FY 2022	21,945	20,764	68,724	11,384	1	1
FY 2023		21,386	71,130		1	1
FY 2024		22,028			1	1
FY 2025		22,689			1	1
FY 2026					1	1
FY 2027					1	1
FY 2028					1	1

District leases 1.5 acres of property adjacent to the Incline Village Middle School to the Parasol Foundation for \$1.00 per year.

District leases property located at 969 Tahoe Boulevard to the Reno-Sparks Convention and Visitor Authority for \$1.00 per year.

Expenses:

Golf Cart Lease – In fiscal year 2019/20 the District entered into an Installment Purchase Agreement with PNC Equipment Finance, LLC for a fleet of replacement golf carts for the Mountain Golf Course. The District's total obligation under this agreement total \$121,605 paid in 48 equal monthly installments. The lease started in July 2020, with the first payment against this obligation made in June 2020 in the amount of \$2,533.

The District holds a Use Permit for Diamond Peak operations and activities on property owned by the U.S. Forest Service adjacent to District-owned property. The District pays an annual permit fee based on revenues generated by selected Ski operations. The fee amount for the fiscal year ending June 30, 2020 was calculated at \$52,000.

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Meeting of March 11, 2020
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2020/2021 season passes including an Early Bird (Tier 1) through April 30, 2020, a Preseason (Tier 2) May 1 – October 31, 2020, and a Regular Season (Tier 3) rate, beginning November 1, 2020 through the end of the ski season in 2021. Trustee Morris seconded the motion. Chairman Callicrate called the question and the motion carried unanimously.

Trustee Wong moved to approve a Non Resident ski season pass rate increase of twenty dollars (\$20.00) to all pass products included in the Early Bird (Tier 1), Preseason (Tier 2), and Regular Season (Tier 3) categories excluding the 6 & Under and the 80+ products from the increase within all three tiers. Trustee Morris seconded the motion. Chairman Callicrate called the question and the motion carried unanimously.

Trustee Wong moved to approve a zero dollar increase to Resident ski season pass products included in the Early Bird (Tier 1), Preseason (Tier 2), Regular Season (Tier 3) categories as well a zero dollar increase to all Resident daily lift ticket products. Trustee Morris second the motion. Chairman Callicrate called the question and the motion carried unanimously.

F.3. Review, discuss and possibly restrict \$9,656,890 to the Effluent Pipeline Project, Project #2524SS1010 from the Unrestricted Net Position in the Utility Fund effective March 12, 2020 (Requesting Staff Member: Interim District General Manager Indra Winquest)

Interim District General Manager Winquest introduced the item and said there has been a lot of discussion after the workshop. He wanted to make sure we had this discussion in order to restrict funds at this point. He said we didn't include pond-lining project and that there was formal direction on how much to set aside for pond lining.

Chairman Callicrate said the Board had a lengthy discussion regarding restricting funds for the effluent pipeline and that as of today, we can only restrict \$9.6 million dollars. Interim District General Manager Winquest said we will bring this back to restrict the funds for the project.

Trustee Dent asked about including future funds to this motion. District General Counsel Velto said he would be hesitant. Chairman Callicrate said both the Interim District General Manager and the Director of Public Works

understands we can bring it back. He said let's take action on specifically what we want to do today and bring back on a future agenda item for future funding. Interim District General Manager Winquest said he wanted to get this on the agenda because there are members of the public who feel these funds are being spent down and we want to restrict them to this project.

Trustee Schmitz asked if we can back out the \$70,000 charged to that project. She said \$70,000 has been used and doesn't know how or when that was approved. The community has been under the impression the two million dollars was for the effluent pipeline. In this particular Fiscal Year, we got another \$70,000. Interim District General Manager Winquest said we can discuss this with Staff and bring it back.

Chairman Callicrate said that \$70,000 of the two million dollars has been spent and that we can rectify that and modify what we have listed so there is no confusion.

Trustee Wong said if \$70,000 was spent on pipeline, it's reasonable that it would be charged against the two million and move forward with \$1.9 million.

Chairman Callicrate said he wants to be more clear.

Hearing no further Board comments, Chairman Callicrate opened the matter to public comments.

Margaret Martini said she strongly supports restricting \$9.6 million to be used solely for the effluent pipeline of the six miles of failing pipeline. She said two million dollars was collected for more than seven years which was supposed to fund this project. It's unfortunate the District repurposed those funds to fund other projects. She said restrict two million dollars for 2020 and subsequent years.

Alexandra Profant agreed with Margaret Martini.

Aaron Katz read and provided a prepared statement.

Mark Alexander said please consider your and their words closely. They were talking about replacement. He spoke about slip lining instead of digging a ditch and dropping in new pipe. He said consider the type of work. He spoke about consequences. He said without consequences, there won't be changed behavior.

Hearing no further public comments, Chairman Callicrate closed public comments and brought the matter back to the Board.

Trustee Morris said he wanted clarification on restriction to a phase or the entire project. Chairman Callicrate said it is restricted for the effluent pipeline project in its entirety from overflow to the wetlands. We are making a commitment of \$9.6 million for the pipeline project. We have additional things we will have to address. He said it's not a bait and switch. If we restricted it to one specific point on the pipeline, and have a break somewhere else, that won't be helpful.

Trustee Schmitz said there were concerns in the community. Funds have been spent from this project for emergency repairs. She said this is for replacement and mitigation and not repairs. Trustee Schmitz spoke about the project summary as replace, upgrade, and remediate in project description. Interim District General Manager Winquest said he can bring this back with updated wording.

Trustee Dent said the capital improvement budget is on the March 25 agenda with project summaries and budget summaries.

Chairman Callicrate said the restriction of funds is on this agenda item.

Trustee Morris made a motion that the Board of Trustees restricts \$9,656,890 to the Effluent Pipeline Project, Project #2524SS1010 from the Unrestricted Net Position in the Utility Fund effective March 12, 2020. Trustee Dent seconded the motion. Chairman Callicrate asked if there were any additional Board comments.

Trustee Wong said that Staff has provided a history of the pipeline and gave a full accounting of what was spent on pipeline.

Chairman Callicrate, hearing no further comments, called the question – the motion was carried unanimously.

Chairman Callicrate called for a brief recess.

F.4. Review, discuss, and possibly authorize the Audit Committee Chair to engage an independent expert for a sum not to exceed \$35,000 to give an opinion and/or guidance on the issues raised

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Meeting of August 12, 2020
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Cedar and reference the project number and focus on the option and then Staff can bring back and clarify the funding and accounting. District General Counsel Nelson said that he agrees as the Board is not obligating any funds which is important to get clarification on which alternative. Chairman Callicrate asked if the Board needed a motion amendment or can we move forward? District General Counsel Nelson said it is a reference to a fund and not an obligation and that can be dealt with when this is brought back to obligate funds. Trustee Morris said that he would like to have the record include the project number rather than the other descriptor. District General Counsel Nelson said that doesn't change the motion.

Hearing no further comments, Chairman Callicrate called the question and the motion was passed unanimously.

Chairman Callicrate thanked everyone for their efforts and input. Engineering Manager Chorey asked for clarity on the CMAR process and should Staff continue or abandon. Chairman Callicrate said that there is an opportunity offline to discuss that question as he doesn't want to cloud the issue so let's touch base on this in the next day or so. District General Manager Winquest agreed to take it offline.

At 10:25 p.m., Chairman Callicrate called for a 5-minute break; the Board reconvened at 10:30 p.m.

H.3. Review, discuss and possibly take all or part of the following six (6) actions related to the District's Fund Balances. (Requesting Staff Member: Director of Finance Paul Navazio)

- a. **Acknowledge receipt of an update on Unaudited Fund Balances as of June 30, 2020.**
- b. **Authorize additional reservation of \$1,912,767 in unexpended utility rate revenue collected during Fiscal Year 2019/2020 in support of the District's Effluent Export Pipeline Project.**
- c. **Authorize commitment of \$1,360,000 in available fund balance in the General Fund for anticipated settlement of the property tax dispute filed against Washoe County et al, Nevada State Board of Equalization and the Department of Taxation by the Village League to Save Incline Assets, Inc. (Case No. CV03-06922)**

- d. **Authorize the District's General Manager to direct the District's Director of Finance to reflect allocation of estimated FY2019-20 year-end Community Services Special Revenue Fund fund balances as follows:**
 - i. **Reflect commitment of \$5,594,546 in support current year FY2020-21 Capital Improvement Projects, and**
 - ii. **Affect transfer of additional \$1,100,000 in Community Services Special Revenue fund balance to the Community Services Capital Fund(s) in support of future priority capital improvement projects.**
- e. **Outline and possibly set future agenda items in order to designate additional available fund balances in support of specific future Capital Improvement Projects in conjunction with the Board's ongoing refinement of the District's Capital Improvement Plan priorities for Fiscal Year 2020/2021 through 2024/2025.**

Director of Finance Navazio gave an overview of the submitted materials. Trustee Morris said that he feels comfortable with all of this as we have talked about this and understand the nomenclature and trying to keep us all on board. He understands the valid comment on getting our terminology consistent moving forward and that he would like to put off item e as Staff can bring back that item. Chairman Callicrate said he agrees. Director of Finance Navazio said that the only purpose is that a. through d. is not the end all and be all.

Trustee Morris made a motion as follows:

- a. Acknowledge receipt of an update on Unaudited Fund Balances as of June 30, 2020.
- b. Authorize additional reservation of \$1,912,767 in unexpended utility rate revenue collected during Fiscal Year 2019/2020 in support of the District's Effluent Export Pipeline Project.
- c. Authorize commitment of \$1,360,000 in available fund balance in the General Fund for anticipated settlement of the property tax dispute filed against Washoe County et al, Nevada State Board of Equalization and the Department of Taxation by the Village League to Save Incline Assets, Inc. (Case No. CV03-06922)

- d. Authorize the District's General Manager to direct the District's Director of Finance to reflect allocation of estimated FY2019-20 year-end Community Services Special Revenue Fund fund balances as follows:
 - i. Reflect commitment of \$5,594,546 in support current year FY2020-21 Capital Improvement Projects, and
 - ii. Affect transfer of additional \$1,100,000 in Community Services Special Revenue fund balance to the Community Services Capital Fund(s) in support of future priority capital improvement projects and that there may be additional actions in the future.

Trustee Wong seconded the motion. Chairman Callicrate asked for any further comments, hearing none, he called the question and **the motion was unanimously passed.**

J. APPROVAL OF MINUTES (for possible action)

J.1. Meeting Minutes of July 22, 2020

Chairman Callicrate asked for any changes, hearing none, the minutes were approved as submitted.

K. BOARD OF TRUSTEES UPDATE (NO DISCUSSION OR ACTION) ON ANY MATTER REGARDING THE DISTRICT AND/OR COMMUNITIES OF CRYSTAL BAY AND INCLINE VILLAGE, NEVADA*

Trustee Morris said that this coming Friday he shall be attending the Washoe County Debt Commission meeting.

L. PUBLIC COMMENTS* - Limited to a maximum of three (3) minutes in duration.

Margaret Martini passed on her opportunity to speak.

Yolanda Knaak said you did a great job and one thing on the refund, do it through Washoe County and have it come across on our tax bill as a credit.

May 31, 2021

To: Audit Committee for meeting on June 9, 2021

CC: Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated 1/14/2021.

Background

In 2020, Moss Adams was engaged by the Audit Committee to review the capitalization policies and provide best practice accounting guidance. As outlined in the final report: "***Accepted practice includes recognition of the different stages of a project including preliminary, construction and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.***

Over several years, IVGID staff did not distinguish or establish separate accounts for the three phases of a project and only one project account was established. As such, ALL costs of a project were considered a future capital assets and were accounted initially in Construction in Progress and once the project was placed into service, ALL of the costs were transferred to a capital asset account and depreciated.

In the 2020 CAFR, IVGID management only expensed two projects which had preliminary stage activities. The expense was treated as a prior year adjustment (Note 22 of 2020 CAFR). The two projects were \$212,044 related to the development of a Parks Master Plan (Plan was actually called the Community Services Master Plan) and \$77,216 related to preliminary designs for the High School Ball Fields but stated in Note 22 of the 2020 CAFR as the Incline Village Ball field. It should be understood what the reason was for preliminary design of the High School Ball Fields.

IVGID management either overlooked or did not address expensing other preliminary stage activities on several projects and the costs remain in the Construction in Progress account as of June 30, 2020. A short description of the projects and estimated costs to be expensed are listed below:

Burnt Cedar Pool

In 2019, IVGID incurred **\$119,498** to repair waterlines at the Burnt Cedar Pool. Since a new pool has been started, these repairs have no future value, have been abandoned and must be expensed. See my memo to Audit Committee dated August 24, 2020.

In 2020 two contracts were awarded to TSK architects for conceptual design (**\$32,200**) and for schematic design (**\$68,104**) to develop a new swimming pool at Burnt Cedar Beach and the amounts should be expensed. In addition, all IVGID staff charges and third party cost estimates should also be expensed. A final design contract and a CMAR contract were approved by the Board of Trustees on December 9, 2020.

Utilities - WRRF Aeration System

In March 2018, a contract was issued to CH2M- Hill for conceptual design (\$40,000) for improvements to the WRRF Aeration System which should be expensed together with all related IVGID staff charges from March to December, 2018 when the final design for the project was authorized.

Utilities - Waterline Leak Study

In March 2019, a contract was issued to Pure Technologies for \$52,500 to provide a conditions assessment of a 4,200 foot long alternate water transmission line from Water Pump Station #2 to a water reservoir located on Lariat Circle. The line was taken offline in 2001 because of recurring leaks. The total costs of the assessment as of June 30, 2020 was \$78,506 which may have included IVGID staff time and other costs. These costs should be expensed.

Utilities - Effluent Pipeline Phase II

This project involves several items. In violation Board requirements to keep individual projects separate, the General Manager decided in 2018 that any costs associated on or for the effluent pipeline from the Wastewater Treatment Plant to the wetlands in the Carson city area would be reported within this project.

On January 29, 2020, IVGID Staff provided a presentation to the Board of Trustees which indicated the accumulated costs were \$5,146,100 through June 30, 2019, however the CIP report for the same date indicated only \$4,864,275 had been accumulated on the project. It is unknown what is the difference between the two reports. The requested reconciliation of the air pressure relief valves reported as \$643,400 but public records documented only \$567,409 and the difference has not been explained by Staff. A reconciliation of the meters and valves installed in three different areas and reported as \$86,500 in costs. However, public records documented only \$77,687 in costs and the difference has not been explained.

On 2/10/2021, the Audit Committee by a unanimous vote approved the Audit Committee Report to the Board of Trustees which included the recommendation to expense \$3,179,600 which was capitalized in fiscal year 2019 as "**Placed in Service**". Exhibit C of the Audit Committee report describes the items which should be expensed. According to minutes of the Board of Trustee meeting held on February 10, 2021, the Board of Trustees approved the Audit Committee recommendation.

It is recommended that all charges made to the Effluent Pipeline Phase II project be reviewed and separated into the various subprojects to provide an accurate accounting for capitalization and expenses. In the past, the Board of Trustees has recommended that individual projects be reported rather than "lumped" into one project.

Mountain Golf Course

In 2012/2014 contracts were issued to Global Golf Advisors and BRG Architecture for a facility assessment and future needs recommendations and to develop conceptual designs on 5 options for a new clubhouse. Costs incurred as of June 30, 2020 were \$132,203. These costs should be expensed as no recommendations were enacted.

In the summer of 2018, a fire occurred in the Clubhouse kitchen area. In November 2018, Smith Design was issued a design contract for the rehabilitation of the Clubhouse which included a large expansion of the deck area. The intent was to fast track the rehabilitation for completion prior to the opening of the golf course in May 2019. Subsequently it was determined that the

rehabilitation could not occur in time for the season and would be postponed until the season ended. In order to provide services, fire damage repairs were completed for temporary use during the 2019 season. The costs incurred was \$150,751 (may include the design fees of Smith which should not be expensed). An unknown portion of the temporary repairs were abandoned when the extensive rehabilitation started at the end of the 2019 season. Certain of the temporary repair costs should be expensed.

In 2020 a contract was issued to Lumos and Associates for schematic design (\$27,500) of the Mountain Golf Course cart path replacements which should be expensed together with all IVGID staff charges of \$18,500 from July, 2020 to February 2021 when final design was approved by the Board of Trustees.

Tennis Center

In 2015 and 2016, a contract and change order was issued to LLOYD Design for \$42,120 to evaluate the Tennis Center. This assessment should be expensed together with IVGID staff charges.

In 2018 a contract was issued to BJK Architecture and Engineering to develop conceptual design (\$26,501) for the rehabilitation of the Tennis Center. These costs should be expensed together with all IVGID staff charges from 2018 to the Board approval of the final design on 6/19/2019.

Incline Park - Ball fields

In July, 2017, a contract was issued to LPA Inc. for \$41,000 to develop conceptual design for improvements to the three ball fields at Incline Park. In December, 2017 a contract was issued to Lloyd Consulting Group, LLC for \$58,500 to provide engineering design services including a survey, site planning, schematic design, construction documents and permitting. In November, 2018 an additional contract for \$15,430 was issued to LLOYD to modify the design to lower the estimated costs. A project called Incline Park Improvements (#4378BD1801) was set up but a budget was never established. The total costs as of June 30, 2020 was \$120,268 which includes other unknown costs beyond the three contracts. Another project called Incline Park Facility Renovation (#4378LI1803) was established for construction of improvements to only one ball field. A review of both project accounts should be conducted as the total costs as of March 31, 2021 for the Park Facility Renovation is \$1,550,570 which is in excess of the Incline-Tahoe Foundation grant made to IVGID of \$1,328,001. The two Lloyd contracts mentioned above were for final design and subsequent modification. The actual payments made were \$75,458 (\$59,563 & \$15,430) and should be transferred from the Incline Park Improvements project to the Incline Park Facility Renovation project.

Incline Beach Building

In May 2016, a contract for design of the Incline Beach Building was issued to Bull, Stockwell and Allen for \$221,891. The contract consisted of two main phases 1) community outreach, program concepts, and schematic design for \$81,745 and 2) final design and construction documents. A large portion of the work was authorized based on the Beach Recreation Enhancement Opportunity Plan approved by the Board of Trustees in February 2016. After phase 1 of the contract was substantially completed, two cost estimates were conducted resulting in estimates between \$3.9 million and \$5.2 million which included site improvements never addressed in the design contract. More importantly the design was a replica of the building at Sand Harbor which is six times larger than the existing building at Incline Beach. Sand Harbor has between 800,000 to 1,000,000 visitors while Incline Beach has annual visits of about 130,000.

The total costs in the construction in progress account is \$216,131 which includes IVGID staff time, estimates and unknown other costs. The entire amount should be expensed as expenditures were for only the first phase of the contract.

Diamond Peak

In 2014, IVGID Board decided to develop a master plan for summer activities and expansion of the winter activities by issuing an assessment contract on 9/12/2014 (\$152,000) to the SE Group which was approved by the Board of Trustees in 2015. Accumulated costs through 6/30/2020 is \$156,030. This work was concept only, community steering and financial models which should all be expensed.

In October, 2015, the Board of Trustees approved expenditures to submit a plan for Phase 1a of the approved master plan to TRPA, USFS and Washoe county for environmental clearances. Contracts were issued in 2015 to SE Group for \$29,000 for permit submittals and in 2019 to Hauge Brueck Associates for \$32,800 to perform biological resources surveys of rare plants, California Spotted Owl and the Northern Goshawk required in advanced of environmental documentation. The submittals, if made, by the SE Group are almost six years old and are probably would need to be re submitted. Currently the Board of Trustees have removed Phase 1a and 1b of the master plan from the 5 year capital plan. With the Forest Service special use permit on 361 acres expiring on December 31, 2023 and the lack of interest in continuing the Phase 1a summer activities, these costs are conceptual submittals and should be expensed.

Conclusions and Recommendations

IVGID management has historically assigned only one project number for a future construction project. In order to avoid the consolidating costs, components two separates accounts should be established for each project. First an expense account which will include all concepts, community outreach, schematics designs, assessments, and financing options. After the Board of Trustees accept the inputs and accepts other conditions and decides to move forward with final plans then a CIP account should be established for the final design, construction and in house staff time to complete the project.

The Audit Committee recommends that IVGID Staff establishes separate accounts as prescribed in the Moss Adams report for the three main phases of a project. This should eliminate recording of expenses in the CIP accounts.

Date: May 31, 2021

To: Audit Committee

CC: Board of Trustees, Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Incline Park Facility Renovation # 4378LI1801 - Final disclosure of the close out of the Memorandum of Understanding with Incline-Tahoe Foundation ("MOU") regarding construction of the project - Recommendations to Board of Trustees.

Background of MOU and budget

Incline Tahoe Foundation ("ITF") provided two specific grants for the improvements to the Ball Fields at Incline Park. Funds for the grants were provided to IFT from a private donor. The first grant was for \$58,400 to design upgrades to three ball fields. A contract was awarded on December 18, 2017 to LLOYD Engineering. A second grant for \$1,350,801 only for improvements to Ball Field #3 was made on March 18, 2019 after several amendments were made to reduce the scope of work to offset the high price of the sole bid from a contractor for construction. From the second grant ITF was to receive \$22,800 for administration and IVGID was to receive \$1,386,401. In addition, \$135,080 of contingency fees could be provided for additional improvements if the donor, which provided the fund to ITF, approved the additional improvements.

The CIP budget for this project was established in fiscal year 2019 for \$1,208,071 and was never increased.

Costs and reimbursements from IFT under Grant

As of March 31, 2021, the total costs of the project is \$1,550,570, however, does not include the design fees from Lloyd Consulting Group under two contracts for \$58,500 and \$15,430 (Costs \$75,458), plan check fees (\$6,123), and TRPA Soils application (\$601) all of which were charged to another project called Incline Park Improvements (#4378BD1801) which was unbudgeted and which a project summary was never completed. The total costs are \$82,182 and should properly be accounted for as costs for the IFT grant funded project. If properly transferred the total costs for the grant funded project would be \$1,632,752 exceeding the CIP budget by \$424,681. Nothing was ever brought to the Board of Trustees to approve the budget overruns. Certain Board members suggest that because the costs were being funded by a grant, increasing the budget was not necessary. Untrue. All expenditures must have a budget. The funds from a grant is a revenue item and do not reduce the expenditures. I suggest that the words "net of grant" be removed from the project description in the CIP "popular report" as of March 31, 2021 since it is an inaccurate statement.

The costs also exceed the two IFT grant amounts of \$1,444,801 (\$58,500 and \$1,386,401) by **\$187,951**. Assuming the \$135,080 contingency fees available in the second grant was authorized to reimburse IVGID for the increased costs, there would remain \$52,871 which would not be recovered (see below for the unreimbursed costs).

In 2019, IVGID requested three reimbursements from ITF for only \$1,355,400, with the last request done on December 19, 2019 almost 17 months ago, leaving a considerable amount of IVGID's out of pocket costs unreimbursed. According to the reimbursement statements, two change orders from RaPID Construction (#2 and #8) were excluded from the reimbursements. Change order #2 (\$51,150) was for increased costs to change the drainage plan, which according to Indra Winquest, was considered, presumably by staff, an infrastructure project and not part of the Grant. According to the revised drainage plan, the improvements in the original plan were eliminated and the change order should have reflected a credit for

the eliminated items. That was not done. Change order #4 (\$8,778) was for light pole repairs which may be a proper exclusion but should have been expensed and not left in the CIP.

Assuming the two change orders issued to RaPID Construction are not reimbursed, then the total IVGID costs subject to reimbursement would be \$1,572,824 (\$1,632,752 less \$51,150 and \$8,778). Since IVGID has only billed \$1,355,400, then \$237,424 is required to be billed and funded by ITF. According to a recent e mail from Susan Herron, a billing is in process. According to the MOU the District responsibilities are under section 3.4 "Invoicing shall be on a reimbursement basis and shall be submitted no more frequently than monthly". Not 17 months.

A major condition of the MOU, was that ITF would be responsible for all costs of the project. Excluding the change order for the increased cost of drainage improvements from reimbursement should have been a Board decision, not management and could have been discussed at the time the RaPID requested the change order for \$51,150 which required Board approval.

It is unknown if all reimbursement requests made by IVGID have been paid by ITF.

History of Grant Agreements:

- 1) A letter agreement regarding the first grant of \$58,500 for design of the 3 ball fields at Incline Park
- 2) On December 14, 2017 a "Grant Agreement" for \$760,000 was executed
- 3) In April , 2018 an increase to the Grant Agreement to \$1,208,071 was approved by the Board of Trustees, however, an amendment to the 2017 Grant Agreement was never prepared but the increase was understood by correspondence.
- 4) On 3-19-2019, a new Memorandum of Understanding(MOU) , replacing the two previous agreements was approved by the Board which increased the IVGID portion of the grant to \$1,386,301.

RaPID Construction Contract - Circumventing Board approval of Change orders

In December 20, 2018, RaPID Construction was the only bid received from the invitation to bid advertisement dated 11-16-2018 for the IVGID Ball field Improvement Project. The bid was \$1,456,654 with an additional \$357,764 in alternatives.

In early 2019, IVGID Staff negotiated with RaPID to reduce the scope of work by eliminating improvements to Fields #1 and #2 and eliminating all alternatives. The negotiated price was established at \$1,298,241 and a contract was executed on 3-19-2019.

However for some unknown reason, on March 18, 2019, (one day before the contract date) IVGID issued Change Order #1 reducing the contract by \$158,413 based on the **BID amount not the CONTRACT amount**. This change order should never have been issued.

As a result of this improper change order, seven additional changes orders of \$116,663 were issued without Board approval, under the assumption that until cumulative change orders exceeded \$50,000 no approvals were required. Under Board Practice 13.2.0 - 3.8.7.2, it states: ***General Manager Responsibility - Duties: Approve change orders cumulatively not exceeding 10% of construction contract or \$50,000.***

By creating a phony \$158,413 negative change order, the seven additional change orders were issued for \$116,663 which on a CUMULATIVE basis when combined with the phony change order #1 did not meet the required Board approval for cumulative change orders over \$50,000. Thus all change orders were never brought to the Board for approval and Staff intentionally or unintentionally violated Board Practice 13.2.0.

Change order #2 was for \$51,150 issued on July 24, 2019 for a reconfiguration of the drainage system. During negotiations to establish a lower contract price modifications to the infield drainage system was a major item. Apparently on May 5, 2019, the drainage plan was changed again with county comments delivered in May and July, 2019. Had the phony Change order #1 not been created, this change order would have require Board approval.

Purchase order #19-0216 was dated May 1, 2020 almost 14 months after the contract was issued and only included change orders 2 through 6.

Another major concern is the MOU with Incline Tahoe Foundation (ITF) only provided for \$1,298,241(the original contract amount). It is unclear if the additional \$116,663 in change orders were approved by ITF.

Conclusion

The administration of this contract and the related MOU was quite weak. Request by certain Board members and the Audit Committee to hire a contract administrator has not yet been fulfilled but should be acted upon as soon as possible.

Based on the irregularities in this contract, the PICA contract, the Terracon contract and the Moss Adams report which reviewed only a few contracts, an investigation into the proper handling of other large contracts should be considered

Recommendation

Since a major amount of time has elapsed since completion of the project in 2020, a report to the Board of Trustees should be completed which establishes:

- Classification of costs into proper project accounts
- The final amount which will be reimbursed to IVGID by ITF
- The final amount of IVGID's costs which will not be reimbursed
- Status of any disputes which may exist with ITF
- A memorandum from IVGID and ITF that MOU conditions for the project construction have been satisfied.
- A close out memorandum between RaPID and IVGID
- That all as built drawing are completed (especially the drainage plan)
- Explanation if any IVGID engineering costs were billed to the project

Exhibits are extensive and will be delivered upon request.

June 1, 2021

To: IVGID Audit Committee

cc: Indra Winquest and Paul Navazio

From: Clifford F. Dobler

Re: Golf Courses Irrigation, Greens, Tees and Bunkers ect. Expenses rather than capital assets

IVGID management has established ongoing capital projects for various costs to maintain or improve the irrigation system and other costs for Greens, Tees and Bunkers at the Championship and Mountain Golf Courses. Over the past six years, an average of \$103,366 per year has been spent and accounted for as capital assets as opposed to operating expenses. EXHIBIT A provides a summary for each course and type of cost.

According to the 1/14/2021 report by Moss Adams LLP regarding best practices for capitalization, a key criteria to consider: "do the costs increase the service capacity".

While it is unknown exactly what has been accomplished, I am aware of the following items at the Championship Golf Course.

- Irrigation - Replacement of the irrigation apparatuses are always being repaired or replaced with new and better products, but do these replacements actually increase capacity?
- Greens - I am unaware of any major changes to the Greens.
- Tees - An additional set of tees on most holes were installed to provide shorter lengths and it is possible that service capacity could have been increased by more beginners playing golf. Expansion of the tee boxes on Hole #7 (upper level) and #17 have been completed. The costs to expand hole #17 was \$25,531. Service capacity would not be increased but the expansion was probably done to provide a larger area as the many divots made the original tee boxes somewhat unattractive.
- Bunkers- There are two parts. First part - Several bunkers were removed or made smaller to make the course easier to play. Second part - Some years past, sand was purchased from an Idaho supplier and installed in each bunker, however, the sand had pebbles. After several complaints by seasoned golfers, the sand was removed, sifted through grates and then reinstalled. The unanticipated result was the sand became a "hard pan" and not acceptable for proper bunker play. Over the past 3 to 4 years, and still ongoing, a higher grade of sand has been and continues to be installed. Prior to the installation, existing sand had to be removed and new drainage lines inside the bunkers were installed. The service capacity was not increased and the costs, if capitalized, were to correct a mishap in purchasing. Sand will always need to be installed as bunker play normally scatters sand outside the bunkers which is meshed into the fairways.
- Last year, a small one foot high split log fence was installed around certain tees and greens. These costs may have been capitalized, but did not increase service capacity and the objective may have been an effort for beautification.

Conclusion and Recommendation - These costs should be considered ongoing maintenance expenses similar to maintaining cart paths and parking lots. Beautification costs should be expensed as the results are similar to a marketing expense.

Recommendation would be to expense these historical costs in fiscal year 2021, consistent with the look back time period determined for the "Prior Year Adjustments" of \$514,254 made in fiscal year ending June 30, 2021 for previously capitalized costs for paving repairs and painting at the District various venues.

EXHIBIT A - Summary of Costs capitalized for Irrigation, Greens Tees and Bunkers - Golf Courses

EXHIBIT A

Incline Village General Improvement District

Capitalized Maintenance Costs which should have been expensed
Golf Courses

Fiscal years - 2015 to 2020

Six year time period

<u>Type of Maintenance</u>	<u>Championship</u>		<u>Mountain</u>		<u>Total Annual Avg</u>
	<u>Total Costs</u>	<u>Annual Average</u>	<u>Total Costs</u>	<u>Annual Average</u>	
Irrigation	160,023	26,671	48,953	8,159	34,829
Greens, Tees and Bunkers	212,352	35,392	151,874	25,312	60,704
Hole 17 rebuild	25,531	4,255			4,255
Drainage enhancements	7,982	1,330		-	1,330
Cart Path Retaining Walls			13,481	2,247	2,247
Total	<u>\$ 405,888</u>	<u>67,648</u>	<u>214,308</u>	<u>35,718</u>	<u>\$ 103,366</u>

June 1, 2021

To: IVGID Audit Committee

cc: Board of Trustees, Indra Winqest, Paul Navazio

From: Cliff Dobler

Re: Improper reporting and use of Facility Fees

Beginning on July 1, 2015, the District management determined that the Facility Fee was a special revenue and as such, the reporting and accounting of the Community Service venues and the Beaches would be done using separate governmental funds on a modified accrual basis. The funds established were a special revenue fund, a capital projects fund and a debt service fund. The intent as described in the 2015 CAFR Notes #19 - Subsequent Event was: "***The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide resources for capital expenditures and debt service cannot be displayed in a readily understandable fashion for its constituents.***" (Exhibit A)

The annual facility fees, thereafter, were assessed by the Board of Trustees as one amount but clearly indicated how much would be specified for operations, capital projects and debt service. Operating revenues and expenses would be accounted for in a Special Revenue fund, capital projects expenditures in a capital project fund and debt services in a debt service fund.

Qualifying for Special Revenue Accounting -

GASB stated conditions to form a Special Revenue fund requires two elements:

- The special revenue, determined to be the operating portion of the Facility Fee, must represent a "substantial portion" of all revenues which has been established as a benchmark at "around 20%" concluded by the Governmental Finance Officers Association.
- Facility Fees committed to be used for capital projects and debt service CANNOT be included as revenues in a Special revenue fund nor could the Facility Fees specified for operations be used for capital projects or debt service (GASB #54).

Both of these conditions were never satisfied in reporting the operations of the Community Service venues in a Special Revenue Fund since the Special Revenue, Capital Projects and Debt Service were established.

The Facility Fee committed for operations of the Beaches did represent a substantial portion of all revenues and did qualify as a special revenue fund as calculated in Exhibit C.

Improper accounting to meet conditions to qualify as a Special Revenue Fund for the Community Services

In order to circumvent both conditions, IVGID management would include as revenues in the Special Revenue Fund the Facility Fees specified for capital projects and debt service and in turn transfer out the amounts to the capital projects and debt service funds. The Moss Adams report dated 1-21-2021 (Exhibit B) clearly stated that such accounting and reporting was not in compliance with GAAP.

The probable intent of this improper accounting was to satisfy the condition that the facility fees (which included the capital project and debt service portions) would reach 20% of revenues in order to have a substantial portion. Had the portion of the facility fees specified for capital projects and debt service been properly recorded as revenues in the respective funds, the portion of the facility fees for operations was never adequate to never reached the suggested threshold of 20%. As calculated

on Exhibit B the past five year average of facility fees used for operations as a percent of total revenues was only 10.67%. (Exhibit C)

Current IVGID staff believes that the last page of resolution 1838 which established the new governmental funds which provided an inappropriate accounting treatment, somehow overshadowed GASB statements, NRS definitions and common sense and as such, the past accounting and reporting was correct. GASB is the generally accepted accounting principles not a concoction contrived by management.

Material overstatement of Revenues and the excess of revenues over expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services Special Revenue Fund for the five year period 2016 to 2020

By improperly recording Facility Fees specified for capital projects and debt service in the Community Service Special Revenue fund, material misstatements in the 2016 to 2020 Comprehensive Annual Financial Reports have occurred. By violating requirements of GASB and NRS the revenues were overstated by an average of 17.5% over the five year period. More important the Excess of Revenues over Expenditures were overstated by a massive 63.4% (Exhibit D). Any reader of the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services venues would be led to believe that operations were more profitable than actually was the case.

Misappropriation of Funds - Community Services Special Revenue Fund

During the past five years from July 1, 2016 to June 30, 2020, Revenues (other than the Facility Fee) for all recreational venues and related administration exceeded expenses by \$1,513,639 (Exhibit D). As a result the annual Facility Fee committed for operations, was **NEVER NEEDED**. Since the Facility Fee is considered a "standby service charge" and was not needed then all amounts are "standing by" to be used for operating activities. The total amount collected from property owners over the five year period was \$9,807,950 (Exhibit D). Since the portion of the facility fees for operations could NOT be used for capital projects or debt service as required by GASB and NRS, the \$9,807,950 could either be returned to the owners whose properties were assessed or would have to be used ONLY for operations expenses which exceeded revenues in the future.

Again, IVGID management, ignoring the purpose and intent of separate and specified funds, chose to TRANSFER every year, a portion of the facility fee committed ONLY for operations to the capital project fund. For the five year period \$3.3 million was improperly transferred and utilized for capital projects violating the specific intent of the Board of Trustees and GASB requirements. At the end of June 30, 2020 about \$6.5 million of unspent facility fees committed for operations remained in the special revenue fund (Exhibit F).

The budget for fiscal year 2020/2021 properly accounted for and reported the specific portions of the Facility Fees committed for operations, capital projects and debt service in the respective funds. However, \$5,594,546 of the \$6.5 million prior years unused Facility Fee committed for operations and "standing by" was transferred out of the Special Revenue Fund to the capital project fund. Unfortunately this transfer was not in compliance with GASB #54 or the intent of the Board of Trustees when adopting the annual resolutions assessing the Facility Fees for specific purposes.

This improper use of funds is similar to the funds raised for the Effluent Pipeline Phase II project which was to be set aside to replace only 6 miles of the Effluent Pipeline but instead a portion was used for other projects. In order to circumvent this misuse of fund, in 2018. the District management renamed the project the "Effluent Pipeline Project" and considered any costs associated with the ENTIRE 21 mile pipeline from the Treatment Plant to Wetlands could be funded from the set aside money for only the 6 mile project. This change was not the intent or commitment provided to the customers using the sewer facilities when the money was collected annually.

It was quite apparent that in the fiscal year 2019/2020 budget, Mr. Gerald Eyck, former Director of Finance, realized that GASB and NRS were being violated by using Facility Fees for capital projects committed for operations. In a last ditch effort to circumvent the situation, he stated in his May 23, 2019 message within 2019/2020 State Budget, that the Capital Projects and Debt Service funds would become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project. Apparently he assumed that when the budget was approved, his message became the new accounting for capital projects. Thereafter any capital project or purchase which was not funded by borrowing money would be an operating cost and accounted for in the Special Revenue Fund. This was quite odd, because at the same time, the Board of Trustees had approved the Facility Fee and committed specific amounts to operations, capital projects and debt service. This was pure folly, as the action was a blatant attempt to continue misappropriating funds specified for one purpose to another purpose (Exhibit G). In 2020, that accounting folly was overturned.

Why does all this matter now?.

- 1) Financial Statement are to be presented in accordance with GAAP and other accepted guidance.
- 2) One of the very top principles of accounting and reporting is Consistency which has not been the case for several years.
- 3) Since the Facility Fees specified for Community Services operations never reached the substantial portion threshold of 20% of all revenues, then accounting for the operations in a Special Revenue was inherently wrong.
- 4) Reporting ALL of the facility fees as revenues in the special revenue fund did not comply with GASB and provided an inaccurate representation that the operations of the Community Services venues were extremely profitable.

Conclusion

Over the past five years, the extent of the material misrepresentations regarding the improper use of a Special Revenue fund, the material weakness in capitalization of costs which should have been expensed, the material weakness in internal controls over financial reporting and missing disclosure in the financial statement notes which were prevalent in the 2019 CAFR would lead many professionals to consider a restatement of the past five years of IVGID's financial statements. The accounting and reporting of the Facility Fees in the 2019 CAFR which was not in compliance with GAAP, was "passed on" by the external auditors based on a representation letter from senior management that all accounting and reporting was in accordance with Generally Accepted Accounting Principles.

It is important to review all of the accounting issues with the past CAFR's and engage Davis Farr, the new auditors, to review the extend of materially and whether the previous financial statements should be restated or disclosures should be made in the 2021 CAFR.

EXHIBITS (continues on next page)

- A - Note 19 - Subsequent Events - CAFR for the year ending June 30, 2015
- B - Excerpt of the 1-21-2021 Moss Adams report regarding Special Revenue Fund reporting
- C - Facility Fees - Calculations of "substantial Portion" for the Community Services and Beaches Special Revenue Funds
- D - Analysis of improper reporting Facility Fees specified for Capital Projects and Debt Service in Special Revenue Funds
- E - Community Services - Special Revenue Fund by Venue - Operating Revenues and Expenditures 2016-2020 exclusive of Facility Fees

F - Summary of Facility Fees transferred to the Capital Projects and Debt Service Funds which were in excess of Facility Fees improperly recorded in Special Revenues Funds - Fiscal years 2016-2020

G - Excerpt from Budget Message - May 23, 2019 by Gerald Eyck - Budget for fiscal year ending June 30, 2020 regarding ending the use of Capital Projects and Debt Service Funds

MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent

FROM: Clifford F. Dobler

SUBJECT: Review, discuss and recommend to the Board of Trustees that the title for each of the 89 parcels of land acquired from Washoe County include the public purpose restriction required by Washoe County and that the nine parcels which were recorded as an asset in the General Fund be transferred to the Community Services Fund.

**STRATEGIC
PLAN REFERENCE(S):**

DATE: June 1, 2021

I. RECOMMENDATION

That the Audit Committee request the Board of Trustees to direct outside legal counsel to review the legal title of the 89 land parcels which were acquired from Washoe County in 2013 and 2014 to insure that an exception to the title for each parcel has been or will be recorded in the County real estate records which clearly states that the parcels are for public purpose as defined in NRS 361.603.

II. BACKGROUND

In 2013, 2014 and 2015 IVGID acquired 92 parcels of land from Washoe County which had acquired the parcels through a tax forfeiture. The IVGID board and management made a determination that the parcels would be held for a public purpose allowing Washoe County to transfer the parcels to IVGID and waive all delinquent taxes which had accumulated. In addition, IVGID had considerable delinquent and unpaid Facility Fees which could not be collected and had to be removed from the Washoe County records.

Note 4 of the fiscal 2013 CAFR states: ***"The parcels were acquired at no cost, for public purposes and were zoned as unbuildable. The General Fund holds 9 parcels which may be able to be restored to a form that makes them buildable at some point in the future. The remaining 78 parcels are held by the Community Services Fund. They could be sold at some future point because they carry the ability to have recreational privileges while remaining unbuildable"***.

Unfortunately, in 2014 and 2015, the IVGID Director of Finance, without Board of Trustee approval, sold three of the parcels to third parties which violated the terms of the purchase agreement with Washoe County. After public outrage addressing the inappropriate sales, Washoe County acknowledged IVGID's failure to honor the purchase agreement required IVGID to pay the accumulated delinquent taxes on the three parcels which were sold.

Since the parcels were sold, the legal title for each property probably did not have a title exception which delineated the Washoe County requirement to keep the parcels for a public purpose. It can be assumed that the other 89 parcels which were acquired from the County do not have the proper title exception.

No other parcels have been sold.

In order to avoid future IVGID employees from inadvertently suggesting to sell the parcels, an exception to the title on each property would prevent any sale from occurring as the exception would effectively notify a potential buyer that the parcel cannot be purchased.

Attached are excerpts of the 2013 to 2020 CAFR notes to financial statements regarding the parcels.

Two issues should be reviewed and corrected

- 1) Have Legal Counsel record in the County property records the exception to title for public purpose on each of the parcels held by IVGID
- 2) Record in the IVGID property records that the 9 parcels which were transferred to the General Fund be transferred back to the Community Services Fund. The general fund had no viable interest in the 9 parcels. The transfer to the General Fund was done apparently with the intent of selling the parcels wherein the proceeds would be deposited into the General Fund.

III. BID RESULTS

SUBJECT

-3-

DATE

None

IV. FINANCIAL IMPACT AND BUDGET

None

V. ALTERNATIVES

None

VI. COMMENTS

None

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

None

or

Depreciation expenses for the year ended June 30, 2013 were charged to functions as follows:

Governmental Activities:	
General Government	<u>\$ 78,239</u>
Business-Type Activities:	
Utility Fund Water and Sewer	\$ 2,613,840
Community Services	2,246,216
Beach	<u>117,317</u>
Subtotal – Enterprise Funds	4,977,373
Fleet, Engineering and Buildings	<u>7,926</u>
Total	<u>\$4,985,299</u>

* In April 2013, the District acquired 87 parcels from Washoe County, which they held in trust following acquisition at a tax forfeiture sale. All parcels are located within the boundaries of the District. The parcels were acquired at no cost, for public purposes and were zoned as unbuildable. The General Fund holds 9 parcels which may be able to be restored to a form that makes them buildable at some point in the future. The remaining 78 parcels are held by the Community Services Fund. They could be sold at some future point because they carry the ability to have recreation privileges while remaining unbuildable.

5. ACCRUED PERSONNEL COSTS

The General Fund processes and pays all payroll and most related personnel and benefit costs for all funds of the District. At the time the expenses are incurred, each fund records its appropriate costs. As payments are made the individual funds record a due to the General Fund. Generally no payroll or personnel accruals are recorded on the individual funds. Accruals for Sick Leave Retirement, Workers Compensation and Vacation can appear in individual funds, because they are recognized well in advance of the payment process. The General Fund also maintains any bank accounts specific for payment of benefits except for those accumulated for Workers Compensation, which has a separate Internal Service Fund.

As a regular course of operations the payroll from June 30 was paid July 12th. The employee benefits earned through June 30 are also funded in the following month. At any given point the District has an obligation to its employees for the value of vacation time earned and not taken. The obligation is measured by the value due as if the employee terminated. The District allows retiring employees with in excess of 20 years of service, and that have accrued sick leave, to have it converted to Medical Retiree Benefit for reimbursing post employment health related costs. The District has no post employment benefit obligations for health insurance.

The District offers health reimbursement accounts (HRA) in exchange for the insured accepting a higher deductible or co-insurance. The Plan is administered by the health insurance carrier. The District also has a third party administered flexible spending account (FSA). The District maintains bank accounts exclusively for reimbursements for HRA and FSA transactions.

The District's Workers Compensation claims are processed by a Third Party Administrator. Claims are paid through a District zero balance account. Checks issued are payables until presented to the bank for payment.

As of June 30, 2013 the Accrued Personnel Costs were comprised of:

	Governmental	Business-type	Total
Current Payroll Liabilities:			
Accrued Payroll	\$427,383	\$ 2,591	\$ 429,974
Taxes Withheld	149,017	-	149,017
Accrued Benefits	31,298	3,779	35,077
Deferred Comp	3,315	-	3,315
Pension	19,857	-	19,857
Work Comp Claims	-	69	69
Ongoing Benefit Liabilities:			
Health Reimbursement Accounts	101,337	-	101,337
Sick Leave Retirement Benefit	12,000	160,423	172,423
Workers Comp unpaid losses and expenses	-	323,000	323,000
Accrued Vacation	<u>107,658</u>	<u>302,708</u>	<u>410,366</u>
Total Government-wide	<u>\$851,865</u>	<u>\$792,570</u>	<u>\$1,644,435</u>

Depreciation expenses for the year ended June 30, 2014 were charged to functions as follows:

Governmental Activities:	
General Government	<u>\$ 78,078</u>
Business-Type Activities:	
Utility Fund Water and Sewer	\$ 2,771,756
Community Services	2,293,786
Beach	<u>137,493</u>
Subtotal – Enterprise Funds	5,203,035
Fleet, Engineering and Buildings	<u>9,950</u>
Total	<u>\$5,212,985</u>



In April 2014, the District acquired 4 parcels from Washoe County, which they held in trust following acquisition at a tax forfeiture sale. All parcels are located within the boundaries of the District. The parcels were acquired at no cost, for public purposes and were zoned as unbuildable. These 4 parcels are held by the Community Services Fund. They could be sold at some future point because they carry the ability to have recreation privileges while remaining unbuildable.

5. ACCRUED PERSONNEL COSTS

The General Fund processes and pays all payroll and most related personnel and benefit costs for all funds of the District. At the time the expenses are incurred, each fund records its appropriate costs. As payments are made the individual funds record a due to the General Fund. This process provides the General Fund with the necessary available financial resources to meet these obligations. Generally no payroll or personnel accruals are recorded to the individual funds. Accruals for HRA, Sick Leave Retirement, Workers Compensation and Vacation can appear in individual funds, because they are recognized well in advance of the payment process. The General Fund also maintains any banks accounts specific for payment of benefits except for those accumulated for Workers Compensation, which has a separate Internal Service Fund.

As a regular course of operations the payroll from June 30 was paid July 12th. The employee benefits earned through June 30 are also funded in the following month. At any given point the District has an obligation to its employees for the value of vacation time earned and not taken. The obligation is measured by the value due as if the employee terminated. The District allows retiring employees with in excess of 20 years of service, and that have accrued sick leave, to have it converted to Medical Retiree Benefit for reimbursing post employment health related costs. The District has no post employment benefit obligations for health insurance or retirement benefits.

The District offers health reimbursement accounts (HRA) in exchange for the insured accepting a higher deductible or co-insurance. The Plan is administered by the health insurance carrier. The District also has a third party administered flexible spending account (FSA). The District maintains bank accounts exclusively for reimbursements for HRA and FSA transactions.

The District's Workers Compensation claims are processed by a Third Party Administrator. Claims are paid through a District zero balance account. Checks issued are payables until presented to the bank for payment.

As of June 30, 2014 the Accrued Personnel Costs were comprised of:

	Governmental	Business-type	Total
Current Payroll Liabilities:			
Accrued Payroll	\$288,018	\$ -	\$ 288,018
Taxes Withheld	23,917	-	23,917
Accrued Benefits	27,630	941	28,571
Deferred Comp	4,192	-	4,192
Pension	22,441	-	22,441
Ongoing Benefit Liabilities:			
Health Reimbursement Accounts	32,742	73,489	106,231
Sick Leave Retirement Benefit	12,642	202,154	214,796
Workers Comp unpaid losses and expenses	-	255,656	255,656
Accrued Vacation	<u>89,542</u>	<u>335,141</u>	<u>424,683</u>
Total Government-wide	<u>\$501,124</u>	<u>\$ 867,381</u>	<u>\$1,368,505</u>

The District has a number of Construction in Progress projects open as of June 30, 2015. The General Fund includes an Information Technology Network for \$585,466 that was placed into service July 1, 2015. The Utility Fund includes \$358,762 that is for a water main project that will be completed later in 2015, and \$1,267,970 for the design phase of the Effluent Export Line that will be ongoing through at least 2017. Community Services Fund includes \$235,649 for creek restoration that is grant funded and likely to be completed by mid-2016. The District's primary building season is limited to May to October because of regulations from the Tahoe Regional Planning Agency. Most equipment purchases follow the budget and fiscal year cycle.

Depreciation expenses for the year ended June 30, 2015 were charged to functions as follows:

Governmental Activities:	
General Government	<u>\$ 81,005</u>
Business-Type Activities:	
Utility Fund Water and Sewer	\$ 2,865,958
Community Services	2,342,332
Beach	<u>149,427</u>
Subtotal – Enterprise Funds	5,357,717
Fleet, Engineering and Buildings	<u>10,638</u>
Total	<u>\$5,368,355</u>

* In April 2015, the District acquired one parcel from Washoe County, which they held in trust following acquisition at a tax forfeiture sale. The parcel is located within the boundaries of the District. The parcel was acquired at no cost, for public purposes. The parcel already has a District utility easement recorded on it. The parcel is held by the Utility Fund.

5. ACCRUED PERSONNEL COSTS

The General Fund processes and pays all payroll and most related personnel and benefit costs for all funds of the District. At the time the expenses are incurred, each fund records its appropriate costs. As payments are made the individual funds record a due to the General Fund. This process provides the General Fund with the necessary available financial resources to meet these obligations. Generally no payroll or personnel accruals are recorded to the individual funds. Accruals for HRA, Sick Leave Retirement, Workers Compensation and Vacation can appear in individual funds, because they are recognized well in advance of the payment process. The General Fund also maintains any bank accounts specific for payment of benefits except for those accumulated for Workers Compensation, which has a separate Internal Service Fund.

As a regular course of operations the payroll from June 30 was paid July 3rd. The employee benefits earned through June 30 are also funded in the following month. At any given point the District has an obligation to its employees for the value of vacation time earned and not taken. The obligation is measured by the value due as if the employee terminated. The District allows retiring employees with in excess of 20 years of service, and that have accrued sick leave, to have it converted to Medical Retiree Benefit for reimbursing post employment health related costs. The District has no post employment benefit obligations for health insurance or retirement benefits.

The District offers health reimbursement accounts (HRA) in exchange for the insured accepting a higher deductible or co-insurance. The Plan is administered by the health insurance carrier. The District also has a third party administered flexible spending account (FSA). The District maintains bank accounts exclusively for reimbursements for HRA and FSA transactions.

The District's Workers Compensation claims are processed by a Third Party Administrator. Claims are paid through a District zero balance account. Checks issued are payables until presented to the bank for payment.

The District has a number of Construction in Progress projects open as of June 30, 2016. Community Services includes \$156,030 for the Diamond Peak Master Plan, and \$168,572 for the Incline Creek Culvert Rehabilitation. Beach includes \$107,790 for the Incline Beach Facility Study. The Utility Fund includes \$238,657 for the Equipment Storage Building, and \$1,868,073 for the design phase of the Effluent Export Line that will be ongoing through at least 2018. The District's primary building season is limited to May to October because of regulations from the Tahoe Regional Planning Agency. Most equipment purchases follow the budget and fiscal year cycle.

Depreciation expenses for the year ended June 30, 2016 were charged to functions as follows:

Governmental Activities:	
General Government	\$ 162,414
Recreation	2,424,322
Beach	195,930
Internal Services	<u>11,888</u>
Total Depreciation Expense	<u>\$ 2,794,554</u>
Business-Type Activities:	
Utility Fund Water and Sewer	<u>\$ 2,929,425</u>



The District holds a substantial number of land parcels for recreation and public purposes. Approximately 80 parcels were acquired at no cost through a Washoe County tax forfeiture transfer. These lands are not held for the purpose of income or profit, and therefore are not considered an investment.

5. ACCRUED PERSONNEL COSTS

The General Fund processes and issues payments for all payroll and most related personnel and benefit costs for all funds of the District. At the time the expenses are incurred, each fund records its appropriate costs. As payments are made, the individual funds provide their share through the pooled cash. This process provides the General Fund with the necessary available financial resources to meet the District wide obligations. Generally, no regular payroll or personnel accruals are recorded to the individual funds. Accruals for special payments, Health Reimbursement Accounts, Sick Leave at Retirement, Workers Compensation and Vacation can appear in individual funds, because they are recognized well in advance of the payment process. The General Fund also maintains any banks accounts specific for payment of benefits except for those accumulated for Workers Compensation claims under the Internal Service Fund.

As a regular course of operations the payroll from June 30 was paid July 8th. The employee benefits earned through June 30 are also funded in the following month. At any given point the District has an obligation to its employees for the value of vacation time earned and not taken. The obligation is measured by the value due as if the employee terminated. The District allows retiring employees with in excess of 20 years of service, and that have accrued sick leave, to have it converted to Medical Retiree Benefit for reimbursing post employment health related costs. The District has no other post-employment benefit obligations for health insurance or retirement benefits.

The District offers health reimbursement accounts (HRA) in exchange for the insured accepting a higher deductible or co-insurance. The Plan is administered by the health insurance carrier. The District also has a third party administered flexible spending account (FSA). The District maintains bank accounts exclusively for reimbursements for HRA and FSA transactions.

The District's Workers Compensation claims are processed by a Third Party Administrator. Claims are paid through a District zero balance account. Checks issued are payables until presented to the bank for payment.

The District has a number of Construction in Progress projects open as of June 30, 2017. Community Services includes \$215,911 for the Diamond Peak Master Plan, and \$373,971 for the Incline Creek Culvert Rehabilitation. Beach includes \$180,574 for the Incline Beach Facility Study. The Utility Fund includes \$474,228 for the Equipment Storage Building, \$2,122,682 for the design phase of the Effluent Export Line that will be ongoing through at least 2018, and \$839,532 for the 2017 Watermain Replacement that opened early. The District's primary building season is limited to May to October because of regulations from the Tahoe Regional Planning Agency. Most equipment purchases follow the budget and fiscal year cycle.

Depreciation expenses for the year ended June 30, 2017 were charged to functions as follows:

Governmental Activities:	
General Government	\$ 210,791
Recreation	2,547,499
Beach	214,003
Internal Services	<u>11,888</u>
Total Depreciation Expense	<u>\$ 2,984,181</u>
Business-Type Activities:	
Utility Fund Water and Sewer	<u>\$ 2,945,922</u>



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5. ACCRUED PERSONNEL COSTS

The General Fund processes and issues payments for all payroll and most related personnel and benefit costs for all funds of the District. At the time the expenses are incurred, each fund records its appropriate costs. As payments are made, the individual funds provide their share through the pooled cash. This process provides the General Fund with the necessary available financial resources to meet the District wide obligations. Generally, no regular payroll or personnel accruals are recorded to the individual funds. Accruals for special payments, Health Reimbursement Accounts, Sick Leave at Retirement, Workers Compensation and Vacation can appear in individual funds, because they are recognized well in advance of the payment process. The General Fund also maintains any banks accounts specific for payment of benefits except for those accumulated for Workers Compensation claims under the Internal Service Fund.

As a regular course of operations, the payroll including June 30 was paid July 7. The employee benefits earned through June 30 are also funded in the following month. At any given point the District has an obligation to its employees for the value of vacation time earned and not taken. The obligation is measured by the value due as if the employee terminated. The District allows retiring employees with in excess of 20 years of service, and that have accrued sick leave, to have it converted to Medical Retiree Benefit for reimbursing post employment health related costs. There are 17 eligible employees covered. The District has no other post-employment benefit obligations for health insurance or retirement benefits.

The District offers health reimbursement accounts (HRA) in exchange for the insured accepting a higher deductible or co-insurance. The Plan is administered by the health insurance carrier. The District also has a third party administered flexible spending account (FSA). The District maintains bank accounts exclusively for reimbursements for HRA and FSA transactions.

The District's Workers Compensation claims are processed by a Third Party Administrator. Claims are paid through a District zero balance account. Checks issued are payables until presented to the bank for payment.

Continued

Business-Type Activities

Utility Capital assets not being depreciated				
Land	\$ 6,715,544	\$ -	\$ -	\$ 6,715,544
Construction in Progress	4,519,884	7,037,423	(7,406,266)	4,151,041
Total utility capital assets, not being depreciated	11,235,428	7,037,423	(7,406,266)	10,866,585
Utility Capital assets, being depreciated				
Buildings and structures	11,900,859	3,272,789	(7,638)	15,166,010
Service infrastructure	105,000,108	3,633,611	(7,638)	108,626,081
Equipment and vehicles	3,483,938	499,866	(261,820)	3,721,984
Total utility capital assets at historical cost	120,384,905	7,406,266	(277,096)	127,514,075
Less accumulated depreciation for:				
Buildings and structures	(7,033,426)	(285,276)	7,638	(7,311,064)
Service infrastructure	(56,580,752)	(2,496,893)	7,638	(59,070,007)
Equipment and vehicles	(2,573,945)	(191,463)	261,820	(2,503,588)
Total accumulated depreciation	(66,188,123)	(2,973,632)	277,096	(68,884,659)
Total utility capital assets being depreciated, net	54,196,782	4,432,634	-	58,629,416
Business-Type Activities Capital Assets, net	\$ 65,432,210	\$ 11,470,057	\$ (7,406,266)	\$ 69,496,001

The District has a number of Construction in Progress projects open as of June 30, 2018. Community Services includes \$223,333 for the Diamond Peak Master Plan, and \$1,320,561 for the Incline Creek Culvert Rehabilitation. Beach includes \$210,032 for the Incline Beach Facility Study. The Utility Fund includes \$3,831,490 for the design phase of the Effluent Export Line that project will be ongoing through at least 2021. The District's primary building season is limited to May to October because of regulations from the Tahoe Regional Planning Agency. Most equipment purchases follow the budget and fiscal year cycle.

Depreciation expenses for the year ended June 30, 2018 was charged to functions as follows:

Governmental Activities:	
General Government	\$ 242,714
Recreation	2,823,174
Beach	229,196
Internal Services	10,319
Total Depreciation Expense	<u>\$ 3,305,403</u>
Business-Type Activities:	
Utility Fund Water and Sewer	<u>\$ 2,973,632</u>

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Continued Capital Asset activity for the year ended June 30, 2019:	Balance			Balance
	July 1, 2018	Increases	Decreases	June 30, 2019
Business-Type Activities				
Utility Capital assets not being depreciated				
Land	\$ 6,715,544	\$ -	\$ -	\$ 6,715,544
Construction in Progress	4,151,041	2,816,092	(5,549,081)	1,418,052
Total utility capital assets, not being depreciated	10,866,585	2,816,092	(5,549,081)	8,133,596
Utility Capital assets, being depreciated				
Buildings and structures	15,166,010	337,853	-	15,503,863
Service infrastructure	108,626,081	5,181,776	-	113,807,857
Equipment and vehicles	3,721,984	29,452	(55,223)	3,696,213
Total utility capital assets at historical cost	127,514,075	5,549,081	(55,223)	133,007,933
Less accumulated depreciation for:				
Buildings and structures	(7,311,064)	(377,074)	-	(7,688,138)
Service infrastructure	(59,070,007)	(2,567,148)	-	(61,637,155)
Equipment and vehicles	(2,503,588)	(209,587)	55,223	(2,657,952)
Total accumulated depreciation	(68,884,659)	(3,153,809)	55,223	(71,983,245)
Total utility capital assets being depreciated, net	58,629,416	2,395,272	-	61,024,688
Business-Type Activities Capital Assets, net	\$ 69,496,001	\$ 5,211,364	\$ (5,549,081)	\$ 69,158,284

The District has a number of Construction in Progress projects open as of June 30, 2019. Community Services includes \$223,333 for the Diamond Peak Master Plan and \$261,502 for the Community Services Master Plan. Beach includes \$210,632 for the Incline Beach Facility Study. The Utility Fund includes \$662,507 for the design phase of the Effluent Export Line that project will be ongoing through at least 2023. The District's primary building season is limited to May to October because of regulations from the Tahoe Regional Planning Agency. Most equipment purchases follow the budget and fiscal year cycle.

Depreciation expenses for the year ended June 30, 2019 was charged to functions as follows:

Governmental Activities:	
General Government	\$ 261,088
Recreation	3,020,525
Beach	235,152
Internal Services	<u>12,561</u>
Total Depreciation Expense	<u>\$ 3,529,326</u>
Business-Type Activities:	
Utility Fund Water and Sewer	<u>\$ 3,153,809</u>

The District holds a substantial number of land parcels for recreation and public purposes. Approximately 80 parcels were acquired at no cost through a Washoe County tax forfeiture transfer. These lands are not held for the purpose of income or profit, and therefore are not considered an investment.

DATE	DAY OF THE WEEK	TIME	LOCATION	TYPE OF MEETING - 2021	COMPLETED MEMORANDUMS WITH ALL BACK UP MATERIALS FOR AGENDA ITEMS FROM BOARD MEMBERS/STAFF DUE DATES	ITEMS SLATED FOR CONSIDERATION
07/13	Tuesday	6 p.m.		Regular Board Meeting	07/06/2021 8 a.m.	Public Records Update (in GM report) Raftelis Report Presentation Washpad project (award on June 23, 2020) Effluent Pipeline – HDR Contract Amendment Effluent Pipeline – Granite Contract Amendment Rec Center Locker Room – Design option presentation Project #3462HE1702 – Lakeview Ski Lift Maintenance and Improvements (budget is \$75K) Project #3463HE1728 – Replacement of 2011 Grooming Vehicle #645 (budget is \$400K) Project #3463SI1002 – Replacement of Snowmaking Infrastructure (budget is \$160K) Project #3467LE1703 – Replacement of Child Ski Center Surface Lift (budget is \$75K)
TBD	TBD	TBD		Special Board Meeting		GM's Ordinance 7 Committee recommendations
08/10	Tuesday	6 p.m.		Regular Board Meeting	08/02/2021 8 a.m.	4th Quarter Financial Report (tentative) Award construction contract for Phase 1 of the cart paths at Mountain Golf Course Incline Beach House – revisit where we have been, revisit financing options and how does the Board want to move forward (tentative) Public Records Update (in GM report)
08/25	Wednesday	6 p.m.		Regular Board Meeting	08/17/2021 8 a.m.	General Manager Performance Review and Review of Goals for FY 2020/2021 Award Contract to conduct a Utility Rate Study
09/09	Thursday	6 p.m.		Regular Board Meeting	08/30/2021 8 a.m.	Public Records Update (in GM report)
09/30	Thursday	6 p.m.		Regular Board Meeting	09/21/2021 8 a.m.	Next step on Diamond Peak parking lot/Ski Way
10/13	Wednesday	6 p.m.		Regular Board Meeting	10/04/2021 8 a.m.	Public Records Update (in GM report)
10/28	Thursday	6 p.m.		Regular Board Meeting	10/19/2021 8 a.m.	
11/10	Wednesday	6 p.m.		Regular Board Meeting	11/01/2021 8 a.m.	Public Records Update (in GM report)
12/08	Wednesday	6 p.m.		Regular Board Meeting	11/29/2021 8 a.m.	Public Records Update (in GM report)
				2022		
01/12	Wednesday					
01/26	Wednesday					
02/09	Wednesday					
02/23	Wednesday					
03/09	Wednesday					
03/30	Wednesday					
04/13	Wednesday					
04/27	Wednesday					
05/11	Wednesday					
05/25	Wednesday					
06/08	Wednesday					
06/29	Wednesday					
07/13	Wednesday					
07/27	Wednesday					

<i>Items sitting in the parking lot (to be discussed but (a) not yet scheduled for a specific Regular Board Meeting) or (b) a future Board not on this calendar</i>
RFID Picture Passes – Item for next Strategic Plan or three years from now
Revisions to/Split Ordinance 7 (allow 45 days ahead of action)
Report on audit of recreation and beach fees (request made at 12/9/2020 meeting)
Tyler Technologies project status report (request made at 01/13/2021 meeting) will be in the General Manager's report
Possible discussion on IVGID needs as it relates to potential land use agreement with DPSEF (Request by Trustee Schmitz – 01/18/2021)
Develop a policy and criteria for Professional Services (see Moss Adams 1 Report) (Request by Trustee Schmitz – 03/10/2021; asked again on 4/29/2021)
Framework for pricing across the District (Request by Trustee Schmitz – 03/10/2021)
Tax implications for benefits for employees (Request by Trustee Schmitz – 03/10/2021 – District General Counsel Nelson is working on an opinion)
Review of service levels – Golf will be coming first – date to be determined
Discussion, by the Board of Trustees, what they want to see in the Staff submitted memorandums (Request by Trustee Schmitz – 04/29/2021)

*Budget approval is required after the third Monday however whatever date is selected, a 10-day notice must be given. Must accomplished no later than June 1, 2022.

MINUTES

AUDIT COMMITTEE MEETING OF APRIL 29, 2021 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Audit Committee Chairman Dent on Thursday, April 29, 2021 at 4:00 p.m. at the Boardroom located at 893 Southwood Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member), Derrek Aaron (At-Large Member) absent.

Also present was Staff member Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016, 018, 021, 026, and 029).

B. PUBLIC COMMENTS*

Frank Wright said he has some issues with bathrooms at the Recreation Center and the issue goes to oversight and how we get to the point where we are going to replace two bathrooms that are in pretty good shape and wondering who is overseeing this project when there are so many other projects that need to be done. Good sign that the pool project may be way over budget and the amount of money spent on these bathrooms is way out of line, as an Audit Committee you ought to take a look at the people who are doing these projects because they don't seem to care and something that the Audit Committee should have as its oversight as to how, when, where, and spending of the money. This is one issue that is going to blow up and it is on the agenda for tonight. He finds it just outrageous and just go back and look at the pool, the unnecessary expenditures, and the waste of money.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent asked for any changes; Audit Committee At-Large Member Dobler said, regarding item D.2., since Audit Committee At-Large Member Aaron is our liaison and is not here, it would seem to him, that it is not an appropriate time to talk about this as he would like to hear from him because he is in the driver's seat, as our liaison, so he would like this removed from the agenda. Audit Committee Chairman Dent said that Audit Committee At-Large Member

Aaron is our liaison and we have it as a placeholder. He thinks it will be very brief, on point, and then we can get an update at the next meeting. Audit Committee At-Large Member Tulloch said he wanted to move this item to the end of the meeting. Audit Committee Chairman Dent said Audit Committee At-Large Member Aaron is on the Audit Committee and that when we changed the Audit Committee meeting date, for consistency, he notified him that he couldn't attend so are we good with keeping this agenda item? Trustee Schmitz said she understands that is informational, she would like to hear it, and we will have the opportunity to request additional information so she would like to leave it. Audit Committee Chairman Dent said it is nothing more than a placeholder and a regular agenda item; agree that we should have our liaison here. Audit Committee At-Large Member Dobler said why don't we postpone it to the end of the agenda since it is a placeholder so we aren't removing it rather just reshuffling? Audit Committee Chairman Dent said that we are moving Report Item D.2. to after General Business Item E.4. as a report item; the balance of agenda is approved as submitted.

D. REPORT ITEMS *(information for the Audit Committee and public)*

D.1. Discuss and receive report regarding the advertising and interviews for appointment to Audit Committee (At-Large Member with one-year term). Appointment must be no later than July 1, 2021 (Requesting Audit Committee Member Sara Schmitz)

Trustee Schmitz gave an overview of the submitted materials. Audit Committee At-Large Member Tulloch asked, for clarification, if this was a one-year position? Trustee Schmitz said yes, it is for the one-year position; she will review the language to ensure it is clear – term begins July 1 through June 30, 2022. Audit Committee At-Large Member Tulloch said that he thought it was a two-year position? Trustee Schmitz said that is correct and that she will make that change. Audit Committee At-Large Member Dobler said so we are advertising for a two-year term; Audit Committee Chairman Dent said yes, that is correct.

D.2. Informational Update on Internal Controls Project (Requesting Staff Member: Director of Finance Paul Navazio)

Moved to after General Business Item E.4.

E. GENERAL BUSINESS ITEMS *(for possible action)*

E.1. Review and discuss the Engagement Letter with Davis Farr, LLP, to be signed by Audit Committee Chairman Matthew Dent, for the Independent Audit of the District's FY2020/21 Financial Statements (Requesting Staff Member: Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted material. Jennifer Farr of Davis Farr LLC gave a PowerPoint presentation that is incorporated herewith by reference. Audit Committee At-Large Member Tulloch asked if the 1% of funds applies to sub-funds as well? Ms. Farr responded that it is the funds as presented in the annual report so if you have sub-funds that are combined into one column in the annual report then it is a combined threshold. Audit Committee At-Large Member Tulloch asked if that was acceptable; Ms. Farr said it depends on the thresholds and that those are not defined by her firm rather it is about the standards on how to access materiality. Audit Committee At-Large Member Tulloch said he is happy about putting something behind their materiality threshold. Audit Committee At-Large Member Dobler asked about going back to the slide about 1% materiality and asked if it was all funds or just the major funds? Ms. Farr said it is major funds that are presented before the footnotes and then there is an aggregate of all the funds and those are basically all that are in the supplemental information that roll up into one column and they are called other governmental funds. It is the cumulative for non-major funds and individual for major funds. Ms. Farr continued her presentation. Audit Committee At-Large Member Tulloch said regarding capitalization, he has expressed serious concerns about some of the policies and as an example we have operating expenses that are being capitalized. He is assuming that their firm will be looking at this? Ms. Farr said yes on the larger projects and that they will drill into what is being capitalized. Audit Committee At-Large Member Tulloch said so you are not looking at individual expense reports? Sometimes, when those are ignored, and you should be looking for trends, then those become material. Ms. Farr said we start with a standard approach. Every year, we will do an unpredictable audit, and we will solicit your input on that topic. Trustee Schmitz said the engagement letter doesn't include things that are in tonight's Board packet such as review of capitalization policies, refining and updating central services cost allocations, so should these things be in the engagement letter or should they be a separate scope of work? Ms. Farr said the main goal is to let you know what we are expressing an opinion on and what we are not. This is something that we are not expressing an opinion on but we will look at the capitalization policy but not saying good or not but seeing whether they are

followed or not. We rely on the Board to make the policy and it is our job is make sure it is allowable and that Staff is following it. Trustee Schmitz said she is assuming that you have received the document of 24 points from Mr. Dobler and Ms. Newman and the Moss Adams reports and that changes will be made in the future annual report and that she is assuming you have it and that it will be included in your review? Ms. Farr said we do have it and that we did use it to determine risk areas and one of the biggest issues is how, on a go forward basis, is the issue about enterprise funds. She believes that it has been decided that there are no changes for June 2021 financials, but that it will impact Fiscal Year ending June 2022 and that she is comfortable with that decision. They do have clients with golf courses in both funds, so there are equal arguments both ways, and her firm is good with either. Trustee Schmitz said so it is management's responsibility to do these refinements? Ms. Farr said yes, that is a correct statement. Ours is in accordance with accounting standards and it is up to management to determine what changes to make. Trustee Schmitz said one of the issues we had was a need to do further review – some items were expensed with last year's annual report so will you be reviewing the capital in this fiscal year and those in the past? Ms. Farr said she has thought about that and our audit responsibility is for Fiscal Year 2021. Your previous auditors concluded it was not substantial. We can review their papers and we can make sure those are good. We will work with prior auditors, we are allowed to rely on the opinion they gave you, we will have questions and we will get an error amount. Trustee Schmitz said so the review will be part of your work plan; Ms. Farr said yes. Trustee Schmitz said that one item that wasn't highlighted clearly in the Moss Adams 1 report was that they did identify areas where we paid for services that weren't actually delivered. It was not just an overpayment or exceeding contract amount as there were also issues related to the tasks that were not delivered and a change order wasn't written to reduce the contract value for those items that weren't delivered so that is something that is a bit of a nuance and it was identified in the Moss Adam 1 report so she wanted to identify that as well. Last year, management's representation letter wasn't written nor delivered until after the audit was done so this committee couldn't review it or provide any comments. She doesn't know whether you are expecting a management representation letter at the beginning of the audit, but how she reads the engagement letter is that you are expecting management to write this at the beginning and that you are not writing it, for management, at the end so she wanted to get clarification. Ms. Farr said that the management representation letter, in the broad sense of the document, really tells the auditor that everything management told us during the audit is true and nothing was withheld from

the auditor and that is the big picture of the what the letter says. It is provided at the end, it is standard language with minor modifications, it is not a document that typically the Audit Committee gets involved in, it is generally signed by the General Manager and the Director of Finance, it just says we believe this information is true, and it protects the auditor in the event of litigation happens down the road. Generally, it is only something that management deals with however it can be shared with the Audit Committee. Trustee Schmitz said in Policy 15.1.0, paragraph 2.3.5, it says that the Audit Committee reviews the work plan by June 30. Is that something that is manageable and workable? And is it realistic from both a timing and operational perspective? Ms. Farr said we do want to seek some clarification on a what you mean by a work plan and that the presentation just given meets that requirement with scope and timing, etc. so she might need some clarification on what your policy requires. Trustee Schmitz said so you don't make an opinion on internal controls. In light of the fact that last year we had an issue with internal controls, she thinks this Audit Committee would want you to review those internal controls and make an opinion and if that is the case, is that an additional scope of work? Ms. Farr said she is not sure of another governmental agency that has had an internal control opinion and that it would be like a socks audit that a public traded company does. The cost of an internal control audit is roughly the same as the financial statement audit. It is not something that her firm has ever done, our firm wouldn't feel comfortable doing it, you should probably have a firm that audits publicly traded companies, and she doesn't feel they have the experience to produce an opinion on internal controls however they will follow up on prior years' material weaknesses and sufficient deficiencies as we do want to ensure that those issues have been resolved. Director of Finance Navazio said, to clarify the auditing on internal controls, they are looking for conformity with generally accepted accounting principles (GAAP) and Board policies. If we are not following those then those become internal control findings and they will be reviewed in the context of their audit in order to render their opinion. Director of Finance Navazio went over documents that have and haven't been transmitted. Ms. Farr said she has any reports that were public documents or on the website. Audit Committee At-Large Member Dobler said that the problem that he has, and if he heard correctly, we engaged Moss Adams because we felt there were some accounting treatments that were improper and that this was basically by himself and Ms. Newman. The Audit Committee and the Board engaged Moss Adams and they came back with three items that weren't in compliance with GAAP so the financial statements that were produced in 2020 weren't in compliance with GAAP however management made a representation to the auditors that

said we are in compliance with GAAP so they do not agree with Moss Adams. The report here says they are not in compliance, management is making representations that they are in compliance with GAAP and we are in the middle, knowing quite well and being able to read statutes and GASB that they are not in compliance GAAP. You are relying on management and previous auditors so therefore we are not going to look back to do it correctly this time and he is a little troubled by that because he would prefer that you rely on Moss Adams rather than rely on management who are people that is not a Certified Public Accountant and a District General Manager who doesn't have the qualifications either. We are really in a spot so he would ask how would you address that item? And he will give you one example is the capitalization for the pipeline, which is between 3 and 4 million dollars, which was a failed project and done to last 10 years and it didn't last 1 year. So, in his opinion, there is an impairment of an asset and that is going to affect us to make a decision about charging it off, even though it was capitalized in 2019, because it is an impairment and he has ample evidence to suggest/document that so how do we handle that and do you have any thoughts on that? Ms. Farr said that it is the prior auditors and Moss Adams who have a disagreement, not management, and that it is the prior auditors understanding of GAAP; she has seen it both ways. Capitalization is a bigger issue however as the Audit Committee, if you feel strongly about the presentation issue, you need to get it changed as we are comfortable with it both ways. Audit Committee At-Large Member Dobler said he is not discussing that as he understands that, he is talking about classification of facility fees as special revenue funds that they said were general funds and then also classifying facility fees that were specifically designated for capital projects and debt service and not allowed by GAAP that were recorded as revenues and in a special revenue fund that is not allowed and they would not correct that. So there was no basis for not correcting it, none. More importantly, is this capitalization of 3 to 4 million dollars on a failed plan and it is going to have a very large impact on the Utility Fund and it was a failed plan so therefore we need help on that as we need to convince someone it is a material mistake as this is a failed plan. That is why they had to do another assessment to understand why we didn't get the 10 years out of it and that what was intended, didn't work. He has seen impairment charges from companies for the last 30 years and that is that where you have made a mistake, charge them off because you didn't create the value. He is bothered by the fact that you are saying what the previous auditors determined, you are not going to touch, he doesn't know about that and that is one thing that he will just leave it there. It seems to him, and you may not want to change your engagement letter, but what you produce is a

comprehensive annual financial report and within that we have certain segments that are audited and reviewed and opinions expressed on some and opinions not expressed on some. So as you go through this we talk about financial statements and what he would like to have it say is the comprehensive annual report and that you are going to give an opinion on the basic financial statements that are part of the report but that you aren't going to give it on statistical information which is part of report so the idea is that we will know what you are talking about because the way you read this you wouldn't know that the financial statements that you are really referring to is this comprehensive annual financial report so he would like to see that cleaned up because then we know what we are talking about. We wouldn't know that the budgetary comparison schedule is called something else in the annual report so to him, we know what we are producing so why not do your engagement letter in the same content so we understand it better and that is the second thing. The third thing that he would recommend is remember during the Request for Proposal (RFP) that in it we had a schedule and we had a list of deliverables which were about 8 or 10 and Washoe County said you are going to deliver this on this date, this date, this date and this date and in this engagement letter, you answered the RFP and he thinks we should have a deliverable schedule in the engagement so you are in compliance with the RFP. He thinks what happens, and Staff correct him if he is wrong, that we decided not to put any dates in there but we were going to put some dates in it so it seems to him that if you answered the RFP to have a schedule of deliverables that we should probably do that in the engagement letter. Ms. Farr said that the engagement letter is created by the American Institute of CPA's and every year a new document comes out that tells the auditors this is what you have to use and that this is the language you have to use in your engagement letter so they are subject to peer review, and if a peer reviewer comes in and looks at our engagement letter, and doesn't find it in compliance, we could have a peer review finding for diverting from what the standards are. What she can do is to look at the standards and see where we have some flexibility as we may have some but would want to look at the standards as she doesn't want to put her firm at risk. Audit Committee At-Large Member Dobler said if you can't do within the engagement letter, that is fine but last year we were getting dribs and drabs and it always came down to the eleventh hour and that is why we specifically put in our RFP all of the items that needed to be delivered at certain dates so maybe we do it as a separate agreement so we, as an Audit Committee, know that the deliverables are being made and we are going to be pushed up against the wall. He thinks it would be good for management as well as it would be good for you. And to him, that's the plan, that's the

plan and he would like to see that you, in the engagement letter, that you are going to submit a plan to be in accordance with our policies but the plan to him would be here we are going to get these deliverables on this date and then we can monitor it and also you can monitor it so we aren't getting stuck and that is the way that he thinks would be good. The last thing he has is that he is a little troubled and it is on page 21, third paragraph. He was an auditor a long time ago and he thought he was actually pretty good at it but what he is worried about is that you make the statement that "...the management is responsible for establishing and maintaining internal controls [okay, he is fine with that] including monitoring ongoing activities for the selection and application of accounting principles for the safeguarding of assets and for the preparation of and fair presentation of financial statements to conform with GAAP even though we may assist management with their statements in conformance with US GAAP." Now the problem with that is if you are actually going in and helping them in preparing the financial statements then we, as the Audit Committee, have no way of monitoring the quality of our management if they are able to produce the financial statements properly to deliver to the Auditor. If you have your hands in the pie there, helping them out along the way, we would not do that because we always wanted to know what the quality of the management was so we wanted completed financial statements. Now, maybe things have changed, but at that time, that was the way it was done. He doesn't know about this assistance because so who is actually preparing the financial statements, that's his point. Ms. Farr said she likes the idea of timeline, deliverables and milestones as it helps us all parties stay accountable so she will put that together and send it over. Regarding the preparation of financial statements, we get all of the information from the accounting system, then it goes into their system and we link it and so in reality what we are doing is word processing the information, making adjustments along the way, those would be reported to you, so you would be aware along the way. See it is more as help with word processing but really it is District Staff. Audit Committee At-Large Member Dobler says it doesn't say that in the engagement as it says you are helping prepare so he sees that as a difference. We need to get clarification on accounting matters and he sent a list to the Chairman today and that he is hearing that the management policies are theirs and we aren't touching them – is that correct more or less? Ms. Farr said she wouldn't go that far and if there are any policies that violate GAAP, we would point that out to you and noted that there is a lot of subjectivity so we will point it out, for example, if a threshold is too high or too low. Audit Committee At-Large Member Dobler said that when you prepare a representation that people truly understand what is going on. The Moss Adams representative believes

truly that this facility fee in the Community Services and Beaches is not an operating revenue and he thinks it is another financing resource, and, to him, if you had it below the line, that could truly show what we need to depend on from an imposed transaction and he thinks that Moss Adams is 100% right on that so he thinks these accounting treatments really need to be explored. Audit Committee At-Large Member Tulloch said Audit Committee At-Large Member Dobler referred to a capitalization discussion we had previously and that the auditor previously had a much more fluid definition of materiality than yours and that the items on the pipeline far exceed the 1% materiality threshold so this committee didn't accept their or management's interpretation and we were still opposed that things were not changed and that this is still very much an outstanding issue and that as a member of the Audit Committee he would certainly be bringing that up to look for a revision to that and so he just wants to provide fair warning of that and if the incorrect capitalization of assets within the Utility Fund has not been looked at as well as other areas that this will be brought up and that we can have a separate discussion about that if you wish.

He is more familiar with corporate world audits where things are done properly unless one is Enron where the auditors were in cahoots with management but normally a corporate audit is looking to make sure things are being done properly and that what was surprising to him, in reading through the engagement letter, was the complete lack of any representations and warranties, no real come back on that, so he has concerns as he would hate to see us get into a City of Bell type of situation where things are being audited in accordance with government accounting but that nobody is noticing what is actually happening. Is this a case where we should be extending the scope of the audit to get more assurance that things are correct or is this just normal in government accounting? Ms. Farr said she does think that there is a huge misunderstanding of what a financial statement is and that when people hear the words audit, it gives them false assurance in some ways so if you have concerns about things that are not covered in the definition of determining whether the financial statements are materially misstated then you should certainly come up with an agreed upon procedure or other procedures that should be performed outside the audit to give you that comfort that you are looking for. Audit Committee At-Large Member Tulloch said he is slightly surprised by that since a recently departed member of the Board made the public statement that is on the records that our accounting and financial practices must be perfect because we were given a clean bill of health by our auditors so you would say that is actually an incorrect statement? Ms. Farr said she doesn't know the facts

but that is placing a lot of reliance on a financial statement audit opinion, yes. Audit Committee Chairman Dent said thank you and looks forward to getting a schedule of milestones.

E.2. Review and discuss Nevada Revised Statutes and Board Policy as it relates to the annual audit (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)

Audit Committee Chairman Dent gave an overview of the submitted materials. Trustee Schmitz said when you highlight these items, were they a concern or an issue as she is not quite sure why certain sections were called out but that she reviewed our meeting minutes and on page 29, which is 2.8 and when we get into the whistleblower policy, the very last statement, where it says "...any submissions..." and it is specific to "... internal controls, accounting matters, and suspected fraud" and when we discussed the whistleblower policy at our last meeting, we talked about how the Audit Committee would be the repository and things would go out from there so this was something that in our meeting minutes that identified was something that we needed to take a look at. So the other items, she doesn't know quite why they are being called out unless someone thought that they should be changed so she is looking for clarification there. Audit Committee Chairman Dent said you were correct about areas that were to be changed and that this is building upon two meetings back and then on areas that we should focus on as regards to our work plan. These were the suggestions that Audit Committee At-Large Member Aaron had for milestones. Audit Committee At-Large Member Dobler said paragraph 2.4.7 in Policy 15.1.0, says "...assess the performance of the independent auditor.."; we never really did that and what do you mean by "performance" as we were left in the dark, and that other than not being informed, he doesn't know how to assess their performance. Audit Committee Chairman Dent said we can develop that and that last year was training so we are moving forward to a new section. Some of these things are vague and do you want to focus on the few items in the NRS? Audit Committee At-Large Member Dobler said his intent is just produce all of the NRS statutes that are related to the audit. He thinks there were 4 or 5 statements and that the Audit Committee Chairman put in bold some things that he found to be pretty interesting. Audit Committee At-Large Member Dobler then verbally went over the material and summarized that the whole point of this item was to determine if the District was in compliance however that it required more study before making that determination. Audit Committee Chairman Dent said yes, he did go through and bold them, agenda packet page 31, that is his fault. We can

all study this and then determine how detailed we want this to be. Trustee Schmitz asked if there was some place we can have this on the website as it is really good information and we should continue to review this on a periodic basis? Audit Committee Chairman Dent said we can have a little section on the webpage called "So You Want to be a Trustee" and that he feels like this information can be reviewed on June 9. Trustee Schmitz said on agenda packet page 31, paragraph 4., it says evaluate internal controls and they don't evaluate them but they do review them to ensure the District is compliance. Audit Committee Chairman Dent said we can review that.

E.3. Review, discuss, and possibly approve Whistleblower Procedure under Board Policy 15.1.2.8 (Requesting Audit Committee Member Sara Schmitz; Requesting Staff Member District General Counsel Josh Nelson)

District General Counsel Josh Nelson gave an overview of the submitted material. Trustee Schmitz gave an additional review of the submitted materials and went over specific items. Audit Committee At-Large Member Tulloch said he has a few concerns – on page 40, item C., there is nothing in the procedure that identifies the action of the Chair of Board yet we detail what the Audit Committee Chair does. No offense to District General Counsel, we talk about legal counsel and general counsel, both terms are used. The Audit Committee can assume there is confidentiality there and no attorney/client privilege, agenda packet page 43, bottom, there is a gap and disconnect with the Board Chairman. Trustee Schmitz asked for more specifics. Audit Committee At-Large Member Tulloch said it is at the bottom of agenda packet page 41 and referred to the statistics. Trustee Schmitz said it is all the Audit Committee. Audit Committee At-Large Member Tulloch said further up, it is the Board Chairman. Trustee Schmitz said it is about options for the employees. Audit Committee At-Large Member Tulloch said understood and asked how is the Chair of the Audit Committee going to track it? District General Counsel Nelson said they are not tracking everything and that it can be tweaked. Audit Committee At-Large Member Tulloch said if we are setting out procedures, we need to be consistent and not leave them open. District General Counsel Nelson said the policy language is important to have detailed out, that this is fostering the speak up culture, and making sure there are different ways to report it. We can clarify Board of Trustees Chair versus Audit Committee Chairman. Audit Committee At-Large Member Tulloch said we are leaving it wide open for the Chair of the Board which is inconsistent. Trustee Schmitz said we presently have nothing, so let's implement something, and we can update it. If we can't get the point to

having something, we have nothing. Audit Committee At-Large Member Tulloch said the general outlook is correct and that the devil is in the detail. Things will fall through the cracks and it is spelled out for one party and not the other so it is inconsistent. Trustee Schmitz said one of the things we can do is to update the Trustees handbook by outlining the roles and have something in it about the Chair so maybe that is something else that should be evaluated. District General Counsel Nelson said it is important to draw distinction between contracts and policies, detailed on contract but clear enough for non-lawyers and laypeople to read it, so you have to balance the tension. He would defer to the Audit Committee on what you want to do and if you are concerned about that one issue being unclear, we can add one sentence that says "Chair of the Board of Trustees shall provide a copy to General Counsel and take action". Audit Committee At-Large Member Tulloch said we agree to differ and that he has every right to make a point. The best practice is to use third parties; do you have concerns with that? No offense to anyone but he still has concerns especially with the community size. Those are his points, these are good efforts, and we are getting much closer but it still needs clean up. Audit Committee At-Large Member Dobler said he has never been involved in one of these, he is a financial guy and can read statutes better than anyone, so he would like to abstain from this and he doesn't see himself voting on anything or being involved in any way. Trustee Schmitz said, on bottom of agenda packet page 41, "... engage an outside resource..." have that in there if we need it to be an external resource. Audit Committee At-Large Member Tulloch said he sees that and that he would strike paragraph 2 there. Trustee Schmitz said these are options because it may be appropriate to go to the General Manager, as an option, the General Manager would be the appropriate but it is the decision of the Audit Committee Chair. Audit Committee At-Large Member Tulloch said as is also the decision point to whistleblower. No offense to anyone as he is trying to make it worthwhile. Trustee Schmitz said she is trying to make it realistic. District General Manager Winquest said we do have a current program, we can improve on the one we have, met with District General Counsel and Trustee Schmitz and he is comfortable with the compromise. He understands where At-Large Member Tulloch is coming from and the lack of trust but do understand that if there is an issue with his Staff, there needs to be a clear path and that it is not fair to say that the District General Manager should be left out completely as that is saying that there is no trust that the District General Manager is going to handle the situation appropriately. District General Manager Winquest closed by stating that he is comfortable with the present draft and that Staff would like to get this

approved and then make adjustments as this has been a can that has been kicked down the road for a long time.

Audit Committee At-Large Member Dobler said Trustee Schmitz said there is no whistleblower program presently and the General Manager says there is a whistleblower program – which is it? District General Manager Winquest said we do have an existing process implemented by the prior Audit Committee. Our prior Director of Human Resources was working on it with Trustee Schmitz. We do have a process that our employees are aware of and Staff is fine with making it more robust so it meets all practices. Trustee Schmitz said the General Manager is correct and her recollection is that the prior Audit Committee process was to send an e-mail to the District Clerk – is that correct? District General Manager Winquest said no, we changed that to the Audit Committee Chair. Trustee Schmitz said she can get the present process for At-Large Member Dobler. Audit Committee At-Large Member Tulloch said he is a trust but verify person and that he has experience with several whistleblower programs and that he has experience has been that when things go through Human Resources and management, they are suppressed.

Trustee Schmitz made a motion to adopt the whistleblower policy with the changes to clarify and make consistent instead of legal counsel should be general counsel and clarify when chair is used, clarify whether it is Board of Trustees or Audit Committee. Audit Committee Chairman Dent seconded the motion.

Audit Committee At-Large Member Tulloch said we can't make a motion with changes like that. District General Counsel Nelson said there is sufficient specificity in the motion to proceed. Audit Committee At-Large Member Dobler said the previous statement is withdrawn; his vote will be no.

Audit Committee Chairman Dent called the question, Trustee Schmitz and Audit Committee Dent voted in favor of the motion and Audit Committee At-Large Members Tulloch and Dobler voted opposed. The motion failed.

District General Counsel Nelson said one of the challenges is getting some direction on this. Audit Committee At-Large Member Tulloch said we bring this back urgently with a special meeting with the modifications and adding more specificity around the Chair of the Board and tying that back in. Trustee

Schmitz said if we have to provide specificity on Board Chairman, are we going to be asked to write specific things, because there are five different ways to bring things forward so why not have the same requirements for the others – she is confused. Audit Committee At-Large Member Tulloch said he agrees with that confusion. Trustee Schmitz said how specific and detailed does a policy have to be? She doesn't know what we have to do other than allow them to speak up and that she is concerned about the path we are going down here. Audit Committee At-Large Member Tulloch said he too is concerned. If a whistleblower wants to come forward and discuss something, he should have an idea of what is going to happen. He assumed there are processes in place to deal with that, if we missed that, perhaps the General Manager can respond. District General Manager Winqest said the way we train our Staff is to go to their direct supervisors and if not the supervisor, then they can go above them. In the event they need to go straight to the District General Manager, they have the ability to do that. Things do sometimes come to supervisor, handled, sometimes get our Human Resources involved and legal counsel involved. That is our process that we have right now and there hasn't been an email to come to the District Clerk or Chairman Dent, so we are currently handling it. Audit Committee Chairman Dent said Audit Committee At-Large Member Tulloch can work with legal counsel to get the language in there. Audit Committee Chairman Dent said we will revisit it at our next meeting.

E.4. Review, discuss, and possibly take action related to the following communications that have been received and are included: (Requesting Audit Committee Member Audit Committee Chairman Matthew Dent)

E.4.a. Memorandum from Cliff Dobler to District General Manager, Director of Finance, IVGID Board of Trustees with a copy to the IVGID Audit Committee dated April 8, 2021 – Funding Public Parks through General Fund resources

Audit Committee Chairman Dent deferred this item to the next Audit Committee Meeting.

D. REPORT ITEMS (information for the Audit Committee and public)

D.2. Informational Update on Internal Controls Project (Requesting Staff Member: Director of Finance Paul Navazio)

Audit Committee Chairman Dent deferred this item to the next Audit Committee Meeting.

F. LONG RANGE CALENDAR REVIEW

Audit Committee Chairman Dent scheduled the next Audit Committee meeting for Wednesday, June 9 at 4:00 p.m. and noted that the work plan from auditors will be on the agenda.

G. APPROVAL OF MEETING MINUTES (for possible action)

G.1. Audit Committee Meeting Minutes of March 11, 2021

Audit Committee Chairman Dent asked for changes, none were submitted, so the meeting minutes were approved as submitted.

H. PUBLIC COMMENTS*

Frank Wright said as far as the whistleblower policy goes it is horrible, everything you are doing is horrible. He is a whistleblower and he would rather not be identified but there is nowhere to go. As to it is being dealt with, it is not because no one ever did anything about Eric Severance. Don't understand the whistleblower program and people will block this policy. We need to have an independent third party as there are more people in this community who have a whole ton of stuff and that he is wondering if this committee is dumping this or not. He can't go to anybody because he becomes the naysayer and there is no policy here. Trustee Schmitz' efforts are horrible. Make it an independent place and oversight on all these people who want to shove it under the table. Glad we didn't vote on it as he hopes that you can find an independent place to go that is outside the District.

I. ADJOURNMENT (for possible action)

The meeting was adjourned at 5:56 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.