

NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at **4:00 p.m.** on **Wednesday, July 29, 2020** in the Chateau, 955 Fairway Boulevard, Incline Village, Nevada.

In compliance with State of Nevada Executive Department, Declaration of Emergency Directive 006, 016, 018, and 021, this meeting is closed to the public and attendance is limited to members of the Board of Trustees and essential staff. 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 2:30 p.m. on Wednesday, July 29, 2020) or via telephone (the telephone number will be posted to our website on the day of the meeting).

- A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

Derreck 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*)
- D. GENERAL BUSINESS ITEM (*for possible action*)
 1. Audit Committee Re-organization (Requesting Trustee: Audit Committee Chairman Matthew Dent)
 - a. Acknowledgement of three (3) Board appointed At-Large Audit Committee Members (*appointment date June 23, 2020*) – **pages 3 - 5**
 - b. Review of Board Policy 15.1.0, Accounting, Auditing, and Financial Reporting, Audit Committee – **pages 6 - 12**
 - c. Review of Audit Committee Member Roles and Responsibilities as outlined in Policy 15.1.0
 - d. Election of an Audit Committee Chair (Policy 15.1.0, Organization) – **pages 13 - 14**
 - e. Review, Discussion and Possible setting of Audit Committee Meeting Schedule(s) and Agenda Items – **pages 15 - 16**
 2. Update on the District's Independent Audit for Fiscal Year 2019/2020
 - a. Review of executed Engagement Letter with Eide Bailly – **pages 17 - 24**
 - b. Review current audit schedule and work plan of Eide Bailly – **pages 25 - 26**
 - c. Review, discuss and possibly select an Audit Committee member to act as a liaison to Eide Bailly

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.

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NOTICE OF MEETING

Agenda for the Audit Committee Meeting of July 29, 2020 - Page 2

- 3. Presentation and Discussion Item Only – IVGID System of Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio – **pages 27 - 74**)
- 4. Audit Committee Referral(s)
 - a. 14 points of errors in the CAFR (from Cliff Dobler and Linda Newman dated April 7, 2020) (Referral made to Staff by the Audit Committee at the May 6, 2020 Audit Committee meeting) – **pages 75 - 146**
- E. APPROVAL OF MEETING MINUTES (for possible action)
 - 1. Audit Committee Meeting Minutes of June 30, 2020 – **pages 147 - 156**
- F. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.
- G. ADJOURNMENT (*for possible action*)

CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Friday, July 24, 2020, 2019 at 9:00 a.m., a copy of this agenda (Audit Committee Session of July 29, 2020) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; mailed to those people who posted at the following six Village/Crystal Bay in

- 1. IVGID Anne
- 2. Incline Village
- 3. Crystal Bay
- 4. Raley's
- 5. Incline Village Branch of Washoe County Library
- 6. IVGID's Recreation Center

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NEVADA EXECUTIVE
DEPARTMENT,
DECLARATION OF
EMERGENCY, DIRECTIVE
006 (SECTION 3) AND 016**

copies were either faxed or e- have requested; and a copy was locations within Incline accordance with NRS 241.020:

Vorderbruggen Building
(Administrative Offices)
Post Office
Post Office
Shopping Center

/s/ Susan A. Herron, CMC

Susan A. Herron, CMC

Clerk to the Board of Trustees (e-mail: sah@ivgid.org/phone # 775-832-1207)

Audit Committee Members: Derreck 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. Copies of the packets containing background information on agenda items are available for public inspection at the Incline Village Library.

IVGID'S agenda packets are now available at IVGID's web site, www.yourtahoeplace.com; go to "Board Meetings and Agendas". A hard copy of the complete agenda packet is also available at IVGID's Administrative Offices located at 893 Southwood Boulevard, Incline Village, Nevada, 89451.

Item D.1.a.

Trustee Schmitz said that she believes you are working full time so how do you feel you can find the time? Ms. Tonking said yes, she is working full time and that she works from home. She works with an amazing group that has ways to make sure she has the appropriate time to fulfill these responsibilities.

Chairman Callicrate asked when did she move back to town? Ms. Tonking said almost three years now.

Trustee Schmitz said that your resume says that you have put in all your credit hours for your CPA and passed it so why haven't you taken it? Ms. Tonking said that she is working on finalizing her hours in the State of Nevada as she has to finish the required hours.

Chairman Callicrate said that this concludes all the interviews and that he thanks everyone for putting in your resumes. The Board will now choose one individual to serve a one-year term and then two individuals to serve two-year terms. Each of us, for the one-year term, will send our candidates to the District Clerk, Interim District General Manager, and District General Counsel and then when that choice is made, it will be read off by the District Clerk on how each of us voted. District General Counsel Nelson said that the Board can do that process and read them out and that those choices are expressions of interest and that there would have to be a formal motion and then a vote to appoint that is consistent with the vote of the Board. Chairman Callicrate said let's do the one-year term individual first and then do the two-year term individuals and then should we do a motion or do them individually. District General Counsel Nelson said you have flexibility. Trustee Morris said it might be best to pick the top three and then the two and the one. Trustee Schmitz said that she is fine with the approach presented by the Chairman. Trustees Wong and Dent said they are fine with the Chairman's process. Trustee Morris said then he is good with it as well. Interim District General Manager Winquest said he would prefer if this was e-mailed to the both himself and the District Clerk.

H.2. Review, discuss and possibly appoint up to three (3) Audit Committee Members At-Large (Requesting Trustee: Chairman Tim Callicrate)

District Clerk Susan Herron read off the following:

For a one-year term appointment as an At-Large Audit Committee member, the Board of Trustees recommended as follows:

Chairman Callicrate: Cliff Dobler
Trustee Dent: Derrek Aaron
Trustee Morris: Derrek Aaron
Trustee Schmitz: Cliff Dobler
Trustee Wong: Derrek Aaron

Trustee Dent made a motion to appoint Derrek Aaron to a one-year term as an At-Large Audit Committee Member. Trustee Morris seconded the motion. Chairman Callicrate called the question and the motion was unanimously passed.

District Clerk Susan Herron read off the following:

For a two-year term appointment as an At-Large Audit Committee member, the Board of Trustees recommended two candidates as follows:

Chairman Callicrate: Cliff Dobler and Ray Tulloch
Trustee Dent: Cliff Dobler and Ray Tulloch
Trustee Morris: Denise Davis and Michaela Tonking
Trustee Schmitz: Cliff Dobler and Ray Tulloch
Trustee Wong: Denise Davis and Michaela Tonking

Trustee Schmitz made a motion to appoint Cliff Dobler and Ray Tulloch to a two-year term as At-Large Audit Committee Members. Trustee Dent seconded the motion. Chairman Callicrate called the question and the motion was passed with Trustees Callicrate, Dent and Schmitz voted in favor and Trustees Morris and Wong voting opposed.

Chairman Callicrate called a break at 5:10 p.m.; the Board reconvened at 5:27 p.m.

E. DISTRICT STAFF UPDATE* (*for discussion only*)

E.1. Interim District General Manager Indra Winquest

**Item D.1.b. and
D.1.c.**



**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



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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.



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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.



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- 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
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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.

Item D.1.d.

M E M O R A N D U M

TO: Audit Committee Members

THROUGH: Indra S. Winquest
District General Manager

FROM: Susan Herron, CMC
District Clerk

SUBJECT: Election of an Audit Committee Chair (Policy 15.1.0,
Organization)

DATE: July 23, 2020

In accordance with IVGID's Policy 15.1.0, Organization, below is an excerpt regarding the Chair:

One voting member of the Committee shall be appointed by the Committee to be the Chair.

District Clerk Susan Herron will conduct the election of an Audit Committee Chair and the term of the position will be at a date determined by the Audit Committee through December 31, 2020 unless the Audit Committee is reorganized prior to this date.

District Clerk Herron will open the agenda item by stating that the nominations for Audit Chair is now open. Nomination(s) from the Audit Committee members will be taken and should include an effective date. Once all nomination(s) are made, District Clerk Herron will close the nomination(s) and call for a vote on each nomination(s).

Policy 15.1.0 is attached included in this packet, under items D.1.b. and D.1.c. for reference.

Item D.1.e.

Item D.2.a.



May 29, 2020

To Matthew Dent, Audit Committee Chairman
Incline Village General Improvement District
893 Southwood Boulevard
Incline Village, Nevada 89451

The following represents our understanding of the services we will provide to Incline Village General Improvement District.

Your Board of Trustees has requested that we audit the governmental activities, the business-type activities, and each major fund of the Incline Village General Improvement District (the "District"), as of June 30, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit applicable to those basic financial statements.

Accounting principles generally accepted in the United States of America ("U.S. GAAP"), as promulgated by the Governmental Accounting Standards Board ("GASB") require that certain information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 required supplementary information ("RSI") in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by accounting principles generally accepted in the United States of America. This RSI will be subjected to certain limited procedures but will not be audited:

- 1) Management's Discussion and Analysis
- 2) Schedule of Employer Required Contributions

Supplementary information other than RSI will accompany the District's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

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- 1) Budgetary Comparison Schedules

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

- 1) Introductory Section
- 2) Statistical Section

Auditor Responsibilities

We will conduct our audit in accordance with U.S. GAAS and in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

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 basic financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. As part of our audit process, we will request written representations from the District's attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from management of the District about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards*.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with the District in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Management Responsibilities

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
 - ii. Additional information that we may request from management for the purpose of the audit; and
 - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- d. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the entity's auditor;
- e. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities;
- f. For adjusting the basic financial statements to correct material misstatements and 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 current period under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- g. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.
- h. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- i. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, the District acknowledges and understands its responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to present the supplementary information with the audited

basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

Reporting

We will issue a written report upon completion of our audit of the District's basic financial statements. Our report will be addressed to the governing body of the District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

Other

We understand that District employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

If the District intends to publish or otherwise reproduce the basic financial statements and make reference to our firm, the District agrees to provide us with printers' proofs or masters for our review and approval before printing. The District also agrees to provide us with a copy of the final reproduced material for our approval before it is distributed.

Provisions of Engagement Administration, Timing and Fees

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Tiffany Williamson is the engagement partner for the audit services specified in this letter. Responsibilities include supervising services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report. We expect to begin our audit in June 2020.

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. Invoices are payable upon presentation. We agree that our fee for the audit will not exceed \$58,500. We will notify the District immediately of any circumstances we encounter that could significantly affect this initial fee estimate. Whenever possible, we will attempt to use the District's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with management and the audit committee on financial management and accounting matters of a routine nature.

In addition, we will be compensated for any time and expenses, including time and expenses of legal counsel, we may incur in conducting or responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings as a result of our Firm's performance of these services. The District and its attorney will receive, if lawful, a copy of every subpoena we are asked to respond to on your behalf and will have the ability to control the extent of the discovery process to control the costs you may incur.

Should our relationship terminate before our audit procedures are completed and a report issued, the District will be billed for services to the date of termination. All bills are payable upon receipt. A service charge of 1% per month, which is an annual rate of 12%, will be added to all accounts unpaid 30 days after billing date. If collection action is necessary, expenses and reasonable attorney's fees will be added to the amount due.

During the course of the audit, we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

We may use third party service providers and/or affiliated entities (including Eide Bailly Shared Services Private Limited) (collectively, "service providers") in order to facilitate delivering our services to the District. Our use of service providers may require access to client information by the service provider. We will take reasonable precautions to determine that they have the appropriate procedures in place to prevent the unauthorized release of confidential information to others. We will remain responsible for the confidentiality of client information accessed by such service provider and any work performed by such service provider.

The District agrees to inform us of facts that may affect the basic financial statements of which it may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least eight years from the date of our report.

At the conclusion of our audit engagement, we will communicate to management, the Audit Committee and Board of Trustees the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of Eide Bailly LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to a regulator pursuant to authority given to it by law or regulation. If requested, access to such audit documentation will be provided under the supervision of Eide Bailly LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the regulator. The regulator may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

Government Auditing Standards require that we provide, upon request, a copy of our most recent external peer review report and any subsequent review reports to the party contracting for the audit. Accordingly, we will provide a copy of our most recent peer review report at your request.

Eide Bailly LLP is a member of HLB International, a worldwide organization of accounting firms and business advisors, ("HLB"). Each member firm of HLB, including Eide Bailly LLP is a separate and independent legal entity and is not owned or controlled by any other member of HLB. Each member firm of HLB is solely responsible for its own acts and omissions and no other member assumes any liability for such acts or omissions. Neither Eide Bailly LLP, nor any of its affiliates, are responsible or liable for any acts or omission of HLB or any other member firm of HLB and hereby specifically disclaim any and all responsibility, even if Eide Bailly LLP, or any of its affiliates are aware of such acts or omissions of another member of HLB.

DISPUTE RESOLUTION

The following procedures shall be used to resolve any disagreement, controversy or claim that may arise out of any aspect of our services or relationship with you, including this engagement, for any reason ("Dispute"). Specifically, we agree to first mediate.

Mediation

All Disputes between us shall first be submitted to non-binding mediation by written notice ("Mediation Notice") to the other party. In mediation, we will work with the District to resolve any differences voluntarily with the aid of an impartial mediator. The mediator will be selected by mutual agreement, but if we cannot agree on a mediator, one shall be designated by the American Arbitration Association ("AAA").

The mediation will be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with the assistance of the mediator, to reach an amicable resolution of the Dispute. Mediation will be conducted with the parties in person in Reno, Nevada.

Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

Either party may commence suit on a Dispute after the mediator declares an impasse.

INDEMNITY

The District agrees that none of Eide Bailly LLP, its partners, affiliates, officers or employees (collectively "Eide Bailly") shall be responsible for or liable to the District for any misstatements in its financial statements that we may fail to detect as a result of knowing representations made to us, or the concealment or intentional withholding of information from us, by any of your owners, directors, officers or employees, whether or not they acted in doing so in the District's interests or for the District's benefit, and to hold Eide Bailly harmless from any claims, losses, settlements, judgments, awards, damages and attorneys' fees from any such misstatement, provided that the services performed hereunder were performed in accordance with professional standards, in all material respects.

If a claim is brought against the District by a third-party that arises out of or is in any way related to the services provided under this engagement, the District agrees to indemnify Eide Bailly LLP, its partners, affiliates, officers and employees (collectively "Eide Bailly"), against any losses, including settlement payments, judgments, damage awards, punitive or exemplary damages, and the costs of litigation (including attorneys' fees) associated with the services performed hereunder provided that the services were performed in accordance with professional standards, in all material respects.

ASSIGNMENTS PROHIBITED

The District agrees that it will not and may not assign, sell, barter or transfer any legal rights, causes of actions, claims or Disputes you may have against Eide Bailly, its partners, affiliates, officers and employees, to any other person or party, or to any trustee, receiver or other third party.

Please sign and return the attached copy of this letter to indicate the District's acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

We appreciate the opportunity to be your certified public accountants and look forward to working with you and your staff.

Respectfully,




Tiffany Williamson
Partner

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of Incline Village General Improvement District by:

Signature: 
Matthew Dent, IVGID Trustee, Audit Committee Chairman

Date: 6/1/2020

Item D.2.b.



FY2019-20 Audit

Timeline

6/8/20 - 7/8/20 IVGID Physical Inventory (monitored by Independent Auditor)

6/16/20 Kick-off Meeting FY2019/20 Audit

6/16-19/20 Preliminary audit work and planning

8/17/20 IVGID to provide preliminary Trial Balances

9/1-11/20 Field Work (3-4 auditors on site)

October TBD Draft CAFR

10/30/20 Final CAFR*

*As required by Nevada Revised Statute 354.624, an annual audit will be concluded and the audit report submitted not later than five months. We estimate that the report will be received by October 30, 2020. The Audit Committee will monitor progress including scheduling acceptance on a date to be determined to meet the State's guidance for Board acceptance following the close of the fiscal year and adopted no later than thirty days from that submission. We expect to meet those guidelines and not request an extension from the Department of Taxation.

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

SUBJECT: Presentation and Discussion Item Only – IVGID System of Internal Controls

DATE: July 22, 2020

I. RECOMMENDATION

Receive a presentation on IVGID's System of Internal Controls Framework.

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. Further, the Board of Trustees recently authorized the Audit Committee to engage outside contract services to assist in the review of internal controls and, separately, the Board, through its Audit Committee, is working to update Policy 15.1.0 that establishes the role and responsibility of the Audit Committee to support its broad oversight charge, including in the area of internal controls.

The Audit Committee received a report from the Director of Finance at their meeting of May 6, 2020 outlining the elements of a comprehensive framework for developing and implementing a systems of internal controls. The purpose of that report and framework presentation was to highlight for the Board of Trustees, staff and the public how the various components of a system of internal controls work together and, taken collectively, achieve the goal of robust and sound internal controls in support of the Board's role as fiduciary of public funds and assets.

This agenda item is a follow-up to the May 6, 2020 report and provides an overview of the existing policies, practices and procedures that serve as a foundation for the District's system of internal controls.

This report is intended to inform "next step" in the District's assessment of its existing internal controls and highlights selected areas where polices, practices and procedures warrant updating to current best practices as well as identify areas where there may be gaps in policy or procedures that represent weaknesses in the District's overall system of internal controls.

Specifically, the presentation will review the current scope and relationship of the following internal control documents:

- a. District Ordinances
- b. Board Resolutions
- c. Board Policies
- d. Board Practices
- e. Financial and Accounting Policies and Procedures
- f. Purchasing Policy
- g. Personnel Policies

IV. STRATEGIC PLAN REFERENCE(S)

Long Range Principle #2

The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.

VI. ATTACHMENTS

- 1) Framework of System of Internal Controls (from Audit Committee packet of May 6, 2020).
- 2) Matrix of District's Existing System of Internal Controls
- 3) Review/Update of Finance and Accounting Procedures
- 4) Documents:
 - a. Summary of Board Ordinances
<https://www.yourtahoeplace.com/ivgid/resources/ivgid-ordinances>
 - b. Summary of Board Policies / Practices
<https://www.yourtahoeplace.com/ivgid/resources/board-policies-practices>
 - c. Summary of selected Board Resolutions
https://www.yourtahoeplace.com/uploads/pdf-ivgid/IVGID_Policy_and_Procedure_Resolutions.pdf
 - d. Finance and Accounting Procedures – Table of Contents
 - e. Purchasing Policy – Table of Contents
 - f. Personnel Policy – Table of Contents

Attachment 1

MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chair

FROM: Paul Navazio
Director of Finance

SUBJECT: Review, discuss and provide feedback on Draft Framework for Implementing System of Internal Controls

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2

DATE: April 26, 2020

I. RECOMMENDATION

Review, discuss and provide feedback on a Draft Framework for Implementing System of 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. Further, the Board of Trustees recently authorized the Audit Committee to engage outside contract services to assist in the review of internal controls and, separately, the Board, through its Audit Committee, is working to update Policy 15.1.0 that establishes the role and responsibility of the Audit Committee to support its broad oversight charge, including in the area of internal controls.

By considering a comprehensive framework for developing and implementing a systems of internal controls, the Board, Staff and the public will be better informed as to how the various components of a system of internal controls work together and, taken collectively, achieve the goal of robust and sound internal controls in support of the Board's role as fiduciary of public funds and assets.

III. ALTERNATIVES

As deemed appropriate during discuss of this topic.

IV. STRATEGIC PLAN REFERENCE(S)

Long Range Principle #2

The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.

V. BUSINESS IMPACT

The Audit Committee, Board, and District leaders are enabling all of Staff to become actively engaged with the oversight of the District's finances.

VI. ATTACHMENTS

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

DRAFT

FRAMEWORK FOR REVIEW AND IMPLEMENTATION OF INTERNAL CONTROLS

PHASE TASKS

Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT

- Review all relevant Board Policies and Procedures
 - Review all Administrative Policies and Procedures
 - Evaluate "gaps" in internal controls
 - Absence
 - Oversight/compliance
 - Separation of duties
 - Develop formal recommendations for Updating Internal Controls
 - Update existing policies
 - Establish new policies
 - Formalize Accountability
 - Staff Training
-

Part 2 - Regular and Continual Review of Internal Controls

- 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).
-

Part 3 - Internal Audit(s)

- a) 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, missappropriation of public funds and/or assets
 - On an annual basis, TWO (?) areas will be candidates for a formal Internal Audit
 - Assess adequacy of internal controls
 - Evaluate compliance with existing policies
 - Report on "Findings and Recommendations"
 - b) Implement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures
 - Random, unscheduled, unannounced
-

Part 4 - External Independent Auditor

- SAS Requirements - Elected Officials and Executive Management
 - Identify areas of concern re risk/liability/fraud
 - 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).
-

FRAMEWORK FOR REVIEW AND IMPLEMENTATION OF INTERNAL CONTROLS

PHASE	TASKS	RESPONSIBILITY					Schedule				
		Board	Audit Committee	Staff	Consultant	External Auditor	Q4 AMJ	Q1 JAS	Q2 OND	Q3 JFM	Q4 AMJ
Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT											
	<input type="checkbox"/> Review all relevant Board Policies and Procedures <input type="checkbox"/> Review all Administrative Policies and Procedures <input type="checkbox"/> Evaluate "gaps" in internal controls Absence Oversight/compliance Separation of duties <input type="checkbox"/> Develop formal recommendations for Updating Internal Controls Update existing policies Establish new policies Formalize Accountability Staff Training	Lead	X X	X Lead X	X Lead						
			X	X	Lead						
										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, missappropriation of public funds and/or assets <input type="checkbox"/> On an annual basis, TWO (?) areas will be candidates for a formal Internal Audit Assess adequacy of internal controls Evaluate compliance with existing policies Report on "Findings and Recommendations"			Lead	X						
			X	X	Lead		Annually	Rpt	Annually	Rpt	
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 <input type="checkbox"/> Memorandum of Internal Controls Review of Internal Controls related to Financial Management based on review of policies, procedurs and roles Random sampling of transaction records (payroll, accounts payable, revenue, exponditures, fixed assets, debt).	X	X	X		Lead		Annually			
		X	X	X		Lead		Annually			

Attachment 2

Y MATRIX
Policies / Practices / Policy Resolutions

Board Policies		Accounting and Financial Procedures		Personnel Policies		Board Policy Resolutions			
		Old Section	New Section	Section		Number	Resolution Description		
1.1.0	Strategic Planning	I	6.3.1	Internal Controls	1	General Provisions	098	495	Indemnifying Trustees and Officers of the District
2.1.0	Financial Standards	II	6.3.2	Controls in a Computer Environment	2	Employee Relations	103	1475	Granting of Easements Across District Property
3.1.0	Conduct of Meetings of the Board of Trustees	III	6.3.3	General Ledger and Journal Entries	3	Employment	105	1480	Personnel Management
4.1.0	Performance Measurement for Decision Making	IV	6.3.4	Cash	4	Compensation	110	1493	Community Relations Expenditures
5.1.0	Budgeting for Results and Outcomes	V	6.3.5	Revenue Cycle	5	Leave Plans	111	1494	Collection of Delinquent Special Assessments
6.1.0	Adoption of Financial Practices	VI	6.3.6	Production Cycle	6	Benefits	113	1517	Use of Trademark by Private Businesses and Persons
7.1.0	Appropriate Level of Fund Balance	VII	6.3.7	Pre-paid Expenses	7	Travel Expenses	115	1527	Use of IVGID Boardroom
	Practice 7.2.0 Appropriate Level of Fund Balance	VIII	6.3.8	Investments	8	Procurement Cards	116	1538	Penalty and Interest Charges on Delinquent Accounts
8.1.0	Establishing the Estimated Useful Lives of Capital Assets	IX	6.3.9	Property and Equipment	9	Performance Management (Evaluations)	120	1575	Group Use of Beaches
9.1.0	Establishing Appropriate Capitalization Thresholds	X	6.3.10	Purchasing and Accounts Payable	10	Employee Separation	121	1581	Settlement of Lawsuits and Related Claims
	Practice 2.9.0 Capitalization of Fixed Assets	XI	6.3.11	Notes Payable / Long-Term Debt	11	Rules for Conduct and Behavior	127	1619	Complimentary Recreation Privileges
10.1.0	Use of Local Government Investment Pools	XII	6.3.12	Accrued Liabilities	12	Disciplinary Actions and Appeals	129	1632	Relinquishment and Acquisition of Utility Easements / Encroachment Agreements
11.1.0	Investment Management	XIII	6.3.13	Human Resources and Payroll	13	Concern/Dispute Resolution	132	1701	Fundraising / Donnation Activites at District Facilities
	Practice 2.11.0 Investment Management	XIV	6.3.14	Budget Cycle	14	Health and Safety	134	N/A	Service of Alcoholic Beverages at IVGID Facilities
12.1.0	Multi-Year Capital Planning		6.3.15	Electronic Payment Systems	15	Definition of Terms	135	1760	Temporary Dog Park at Village Green
13.1.0	Capital Project Budgeting		6.3.18	Central Services Cost Allocation			136	N/R	Access to District Property and the Use of District Facilities for Expression
	Practice 13.2.0 Capital Expenditure						137	1801	Public Records
14.1.0	Debt Management			Procurement Cards Program			138	1849	Naming/Dedication of IVGID Facilities
	Practice 14.2.0 Debt Management						Other	1838	Establishing Special Revenue, Capital and Debt Fund Structure
15.1.0	Audit Committee								
16.1.0	Recreation Roll								
17.1.0	Personnel Policies								
18.1.0	Central Service Cost Allocation Plan								
	Practice 18.2.0 Central Services Cost Allocation Plan								
19.1.0	Appropriate Level of Working Capital								
	Practice 19.2.0 Appropriate Level of Working Capital								

Attachment 3

Accounting and Financial Procedures

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

Accounting and Financial Procedures

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

Attachment 4.a.

Ordinances set District rates, rules, and regulations as they apply to the operations of the District and service charges to the District's customers. Currently there are four active ordinances; they are as follows:

Ordinances 1 - An Ordinance Establishing Regulating Solid Waste Matter and the Collection, Removal and Disposal thereof:

This ordinance outlines the process of how solid waste rates are updated and determined each year, as well as, how service is provided by our Utility Fund. The District has entered into a Franchise Agreement with a third party to provide this service. The franchise agreement provides for an annual increase based on predetermined parameters.

Ordinance 2 – An Ordinance Establishing Rate Rules and Regulations for Sewer Service by the Incline Village General Improvement District:

This ordinance outlines the process of how sewer rates are determined each year, as well as, how service is provided within by our Utility Fund.

Ordinance 4 – Rules and Regulations for Water Service by the Incline Village General Improvement District:

This ordinance outlines the how water rates are determined each year and how service is provided within our Utility Fund.

Ordinance 7 – An Ordinance Establishing Rate Rules and Regulations for Recreation Passes and Recreation Punch Cards by the Incline Village General Improvement District:

This ordinance addresses fees and charges for the District's recreational business type activities; such as, our beaches, golf, ski, parks, and other recreational venues. This ordinance outlines fee structures and application of such fees on the users.

Attachment 4.b.

Policy and Practice Statements represent best business practices as they apply to the District. A policy statement is set by the Board of Trustees, as the highest authorization level. A Board Policy statement is broad and sweeping, and provides for sound financial and management practices. A Board Practice statement provides a framework for the procedures for the execution of the higher level Policy statement.

Current Board Policy and Practices include:

- Policy 1.1.0 Strategic Planning: This policy recognizes the importance of using some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending, broad organizational goals and sets key steps to execution. The policy outlines the need to initiate the strategic planning process, prepare a mission statement, assess environmental factors, identify critical issues, agree on a small number of broad goals, develop strategies to achieve Long Range Principles, develop objectives, create an Action Plan, incorporate performance measures, obtain approval of the plan, implement the plan, monitor progress, and finally to reassess the strategic plan.
- Policy 2.1.0 Financial Standards: This policy states that the Board of Trustees will maintain a set of Long Range Principles under the Strategic Planning Process. They will include at a minimum an element for each of the following areas: 1) Resources and Environment; 2) Finance; 3) Workforce; 4) Services; 5) Facilities; and 6) Communications.
- Policy 3.1.0 Conduct of Meetings of the Board of Trustees: This policy allows the Board of Trustees to fix the time and place of the regular meeting of the Board of Trustees and provide the manner in which special meetings may be called, for proceedings of the Incline Village General Improvement District, Washoe County and State of Nevada. It addresses regular meetings, special meetings, meeting places, holidays, item(s) of business, rules of proceedings, assures that Robert's Rules are followed, agenda preparation, reconsideration, public participation, officers of the Board, authorization to sign checks, facsimile signature, reports, consent calendar, legislative matters and conflict resolution.
- Policy 4.1.0 Performance Measurement for Decision Making: This policy states that program and service performance measures will be developed and used as an important component of long term financial planning and decision making. It is linked to the budgeting and performance measures as an integral part of the budget process. The expectation is that meaningful performance measures are produced and expanded as identified.

- Policy 5.1.0 Budgeting for Results and Outcomes: This policy establishes parameters to achieve the objective of integrating performance into the budgetary process. These processes will until conducting analysis, prioritize results, allocate resources, set measures, monitor outcomes and communicate performance results.
- Policy 6.1.0 Adoption of Financial Practices: This policy establishes that the District will maintain the following processes: 1) financial planning as it pertains to a balanced budget, long-range planning, and asset inventory; 2) revenue as it pertains to revenue diversification, fees and charges for services, use of one-time revenue and use of unpredictable revenues; 3) expenditures for debt capacity, issuance and management of debt service, reserve or stabilization accounts, and operating and capital expenditure accountability.
- Policy 7.1.0 Appropriate Level of Fund Balance: This policy addresses maintaining a formal practice on the level of fund balance that should be maintained in the General and Special Revenue Funds.
- Policy 8.1.0 Establishing the Estimated Useful Lives of Capital Assets: This policy addresses the estimated useful lives of the District's capital assets and the approach taken. Normally, the District's past experience with similar assets that guide the estimated useful lives. In situations where the documentation of the District's own past experience for a given type of capital asset, is not adequate for this purpose, the District will consider the experience of other governments, professionally determined specifications and private-sector enterprises. The following factors are also considered: quality, application of the asset, environmental conditions that impact the life, matching the asset to the department use, and maintenance of the asset.
- Policy 9.1.0 Establishing Appropriate Capitalization Thresholds: This policy addresses the guidelines in establishing capitalization thresholds and the estimated useful life. It addresses that the potentially capitalizable items should only be capitalized if they have an estimated useful life of greater than two years following the date of acquisition or placed into service; and that capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets. In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item. Capitalization thresholds, if the District is a recipient of Federal awards, then Federal requirements will prevail, when they prevent the use of the District capitalization thresholds.
- Policy 10.1.0 Use of Local Government Investment Pools: This policy outlines items for consideration when using Local Government Investment Pools (LGIPs); such as, the investment eligible under governing laws and that the

District fully understands the investment objectives, legal structure and operating procedures of the investment pool before placing any money in the pool.

- Policy 11.1.0 Investment Management: This policy addresses that the District properly managing the risk in its portfolios to achieve investment objectives and comply with investment constraints. This is accomplished by carefully and clearly defining what the objectives mean for safety, liquidity, and return to the District, preparing a cash flow projection to determine liquidity needs and the level and distribution of risk that is appropriate for the portfolio, considering political climate, stakeholders' view toward risk and risk tolerances, ensuring liquidity to meet ongoing obligations (investing a portion of the portfolio in readily available funds, such as Local Government Investment Pools, money market funds, or overnight repurchase agreements), establishing limits on positions in specific securities to protect against default risk, limiting investments in securities that have higher credit and/or market risks, defining parameters for maturity/duration ranges and establishing a targeted risk profile for the portfolio based on investment objectives and constraints, risk tolerances, liquidity requirements and the current risk/reward characteristics of the market.
- Policy 12.1.0 Multi-Year Capital Planning: The District will prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets. It is the District's opinion that a prudent multi-year capital plan identifies and prioritizes expected needs based on a community's strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs. The capital plan should cover a period of at least five years, preferably ten or more. This is accomplished by identifying needs, determining costs, prioritizing capital requests, and developing financing strategies. Currently, the District has taken the multi-year capital planning to twenty years.
- Policy 13.1.0 Capital Project Budgeting: This policy insures that the District prepares and adopts a formal capital budget as part of their annual budget process. The capital budget is directly linked to, and flows from the Multi-Year Capital Improvement Plan. The capital budget is adopted by formal action of the Board of Trustees, either as a component of the operating budget or as a separate capital budget. It will comply with all state and local legal requirements by preparing and adopting a capital budget and reporting on the capital budget.
- Policy 14.1.0 Debt Management: This policy establishes a comprehensive written debt management practice that it is reviewed annually in conjunction with the budget process and revised as necessary. It establishes debt limits, debt structuring practices, issuance practices, and the management of debt.

- Policy 15.1.0 Audit Committee: The Board of Trustees maintains an audit committee. This policy was recently amended to re-structure the committee to include five members – two Trustees and three At-Large appointees. As a general rule, no one having managerial responsibilities that fall within the scope of the audit should serve as a member. The Policy establishes that the independent auditor reports directly to the audit committee, the scope of the audit committee’s authority and responsibilities, and the structure of the audit committee.

- Policy 16.1.1 Recreation Roll: This policy supports the establishment and eligibility to pay the Recreation Facility Fee and, where applicable, the Beach Facility Fee. It sets the prescribed Recreation Facility Fee and the Beach Facility Fee to all qualifying real properties within the boundaries of the District and in one of the following categories: 1) all dwelling units on developed residential parcels; 2) all commercial parcels; and 3) all undeveloped residential parcels which are not designated as unbuildable.

- Policy 17.1.0 Personnel Policies: The Personnel Policies have been adopted by the Board of Trustees to carry out Incline Village General Improvement District’s level one policy statement to adopt uniform personnel policies that will enable each employee to make his/her fullest contribution to the programs and services of the District..

- Policy 18.1.0 Central Service Cost Allocation Plan: Establishes the basis for allocating and billing costs of services provided by the District’s General Fund to the Enterprise and Special Revenue Funds. This Policy provides for the costs allowed, allocation method and billings rates.

- Policy 19.1.0 Appropriate Level of Working Capital: The District will maintain a formal practice on the level of working capital that should be maintained in the Utility (Enterprise) Funds. Working capital is defined as current assets minus current liabilities; the District will consider certain characteristics of working capital that affect its use as a measure. Specifically, the “current assets” portion of working capital includes assets or resources that are reasonably expected to be realized in cash (e.g., accounts receivable) or consumed (e.g., inventories and prepaid expenses) within a year.

The following Practice statements support the high level Policies set by the Board of Trustees.

- Practice 7.2.0 Appropriate Level of Fund Balance: (Relevant Policies 1.1.0 Strategic Planning, 7.1.0 Appropriate Level of Fund Balance, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management): This practice sets the parameter to maintain Fund Balance in each governmental fund type in a manner which provides for contractual and bond and customer service obligations while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations. The General Fund must meet the minimum balance requirements under Nevada Administrative Code Section 354 (4% of operating expenses). The Special Revenue Funds utilize 25% of the current adopted budget operating expenditures (not including capital expenditure or debt service).
- Practice 9.2.0 Capitalization of Fixed Assets: (Relevant Policies: 8.1.0 Establishing the Estimated Useful Lives of Capital Assets and 9.1.0 Establishing Appropriate Capitalization Threshold for Capital Assets). This practice sets the capitalization thresholds and useful lives for asset classes. It also outlines the physical control to be exercised over District assets.

<u>Asset Class</u>	<u>Minimum cost</u>
Equipment	\$ 5,000.00
Structures and Land Improvements	\$10,000.00

In addition to cost, all of the following criteria shall also be used;

- 1) The normal useful life of the item is three or more years,
- 2) The item has an acquisition cost (including freight and installation) of at least the amounts listed above in each asset class,
- 3) The item will not be substantially reduced in value by immediate use,
- 4) In case of repair or refurbishment, the outlay will substantially prolong the life on an existing fixed asset or increase its productivity significantly, rather than merely returning the asset to a functioning unit or making repairs of a routine nature, and
- 5) The capitalization threshold is applied to individual items rather than to groups of similar items (e.g. desks and tables).

- Practice 11.2.0 Investment Management: (Relevant Policies: 10.1.0 Use of Local Government Investment Pools and 11.1.0 Investment Management): This practice outlines the District's ability to invest public funds in a manner which provides the highest investment return consistent with the need for safety and liquidity while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations governing the investment of public funds. The primary investment objective is to obtain the maximum investment return in light of the following constraints: safety, risk, liquidity, cash flow requirements and operating within the guidelines of statutes and regulations.

- Practice 13.2.0 Capital Expenditure: (Relevant Policies: 1.1.0 Strategic Planning, 9.1.0 Establishing Appropriate Capitalization Threshold for Capital Assets, 12.1.0 Multi-Year Capital Planning and 13.1.0 Capital Project Budgeting.) This practice outlines the authority and decision making responsibilities, financing resources and project life cycle for capital spending. It outlines clear levels of Trustees, General Manager, and operations staff duties as to planning, feasibility, scheduling, funding, design/specification, and constructing/acquisitions.

- Practice 14.2.0 Debt Management: (Relevant Policies: 11.1.0 Investment Management and 14.1.0 Debt Management and Limits.) This practice ensures that debt principal and interest payments are made on a timely and cost effective basis.

- Practice 14.2.1 Debt Issuance Limitations: (Relevant Policies: 11.1.0 Investment Management and 14.1.0 Debt Management and Limits.) This practice is to ensure that debt, through the issuance of bonded indebtedness, is limited to appropriate levels and the District will manage outstanding bonds through a measure of affordability as stated in the practice (such as, debt issued for non-utility purposes must remain within a Debt Coverage Ratio of at least 1.5 times). Debt issued for utility purposes must remain within a Debt Coverage Ratio of 1.75 times. Issuing a bond for any non-"utility" project or group of projects only when that is more than \$2,500,000, and can be repaid within 10 years of issuance and issuing a bond for any "utility" project or group of projects only when that is more than \$2,500,000 and can be repaid within 20 years of the completion of the project acquisition or construction.

- Practice 18.2.0 Central Service Cost Allocation Plan: Relevant Policy 18.1.0 Central Service Cost Allocation Plan, outlines the specific costs allowed for allocation (the District has selected to use only Accounting and Human Resources even though more are eligible), establishes the method for allocation including the basis as budgeted data, and identifies the manner of monthly billing for services and establishes a limit not to exceed budgeted

amounts.

- Practice 19.2.0 Appropriate Level of Working Capital: Relevant Policies: 1.1.0 Strategic Planning, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management, 17.1.0 Appropriate Level of Working Capital: This practice is to maintain Working Capital in each Enterprise Fund in a manner which provides for contractual, bond and customer service obligations, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations.

Attachment 4.c.

Policy Resolutions express the opinion, intention, or recognition by the Board of Trustees regarding District matters. The policy resolutions relating to financial matters are to be rescinded and converted into the current format of the Policies and Practice Statements that represent best business practice. Some policy resolutions have been repealed and replaced with Policy and Practice statements. The following Policy Resolutions impacting financial results are still in effect:

- Policy Resolution 105 aka **Resolution 1480**, Personnel Management: The Incline Village General Improvement District (IVGID) is committed to maintaining a dedicated and motivated work force, while developing its Staff's technical and professional standards to meeting changing demands for services with the Village. This policy statement establishes a framework which the Board of Trustees and the General Manager will use in addressing personnel matters within IVGID. The District operates under a Board-Manager form of government which places the Board of Trustees in the role of establishing overall IVGID policy direction. IVGID Staff is appointed to administer and execute day-to-day operations. The Manager is responsible for supervising these operations and providing general administrative direction. With regarding to IVGID personnel, it is the Board's responsibility to establish overall guidelines governing IVGID's approach to personnel matters. The Manager's role is to put these guidelines into the day-to-day practice of hiring, firing, motivating, promoting, demoting, compensating, and training individual employees.
- Policy Resolution 110 aka **Resolution 1493**, Policy Statement on Community Relations Expenditures. The purpose of this policy resolution is to ensure proper and frugal expenditure of public dollars for requests for financial participating in community events. The cash expenditure for any one event over \$1,000 must be approved by the Board of Trustees, and must be related to a purpose authorized by Nevada Revised Statues 318, sponsored by a local non-profit group, a one-time event, and the District's participation must be unique and not merely a contributor to a community fund-raising drive.
- Policy Resolution 132 aka **Resolution 1701**, Fundraising/Donation Activities at IVGID (District) Facilities: The purpose of this policy resolution is to establish a process and procedures by which the District donates the use of District facilities. This policy allows an organization to request the donation of a District facility. They must be a qualified, non-profit, volunteer organization or activity based in Incline Village/Crystal Bay, North Tahoe Region, government agency, or a local school that administers and conducts the activity themselves. The request will be considered on a first-come, first-served basis and use of District facilities will be evaluated on a venue by venue basis balancing capacity and the resident's needs as the key criteria. The activity must not be for commercial or personal gain with the exception that business

collaboration results in advertisements and its benefit to business. The activity must be overseen by the sponsoring organization and a lead individual identified to handle details up to and through the day of the event. This person must be someone who is in attendance at all times the day of the event. IVGID will have no responsibility for the administration of the event or for the funds collected by the activity.

- Policy Resolution 137 aka **Resolution 1801**, A policy for the provision of records to the public and an appointed of a District Public Records Officer. This policy resolution aligns the District public request with the Nevada Revised Statue 239, Nevada Public Records Law and Nevada Revised Statue 241, Nevada Open Meeting Law.

Attachment 4.d.

Policies and Procedures Manual for

Accounting & Financial Control



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Adopted March 12, 2014; Effective April 1, 2014

MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chairman

FROM: Paul Navazio
Director of Finance

SUBJECT: Status Report on 14 Points of Error in the CAFR for the Fiscal Year ending June 30, 2019

DATE: July 22, 2020

I. RECOMMENDATION

That the Audit Committee receive the attached summary of Staff's review of concerns referred by the Audit Committee related to the District's CAFR for the year ended June 30, 2019.

II. BACKGROUND

This agenda item has been prepared in order to provide the Audit Committee with a status update related to the review of 14 points of error in the CAFR for the Fiscal Year ending June 30, 2019 (from Cliff Dobler and Linda Newman) referred to Staff by the Audit Committee.

Comments related to each of the concerns referred to Staff are provided in the Summary Table included as Attachment 1. Selected items are discussed in greater detail in this memo.

As shared previously (verbal report to Audit Committee on June 30, 2020) the issues raised with respect to the District's FY2018/19 Comprehensive Annual Financial Report (CAFR) can be categorized into groupings based on the nature and import of each specific concern, which also necessarily considers the materiality of the concern as it relates to potential remedy or disposition of any valid concern. While the groupings necessarily represent Staff's subjective assessment of the underlying issue, these may prove helpful in the Audit Committee's overall understanding of both the issue raised and the Staff response and/or recommendation.

At the outset, it is important to note that several of the issues raised related to the District's FY2018/19 CAFR are claimed, by the author(s), as rising to the level of requiring the District to re-state its audited financial statements. These claims are based on an assertion that certain accounting practices are illegal, or represent gross errors and

omissions that impact the materiality of the District's financial statements. It is also worth noting that many, if not all, of the questions and issues have been responded to by Staff previously, and have also been raised with the District's independent auditor as well as the State of Nevada Department of Taxation, with whom the District is required to file its annual financial audit in compliance with NRS 354.624.

With the transition of responsibilities to a new Director of Finance, the Audit Committee has appropriately requested that each of the issues be reviewed with a fresh perspective and that a recommendation relative to disposition of each issue be provided for the Audit Committee's, and ultimately, the Board of Trustees' consideration.

Summary of Staff Findings & Recommendations

- 1) While selected questions may warrant additional consideration and remain under review, **Staff does not believe that any of the issues raised relative to the District's FY2019/20 audited financial statements rise to the level warranting a re-statement (re-publication) of the District's CAFR for the year ending June 30, 2019.**
- 2) Several items identified in the constituent questions assert that District accounting and financial reporting practices are illegal, in violation of applicable Nevada Revised Statutes. **Staff does not agree with any of these assertions and, to the contrary, finds that the District's financial statements conform to applicable laws and regulations.**
Provided via attachment to this report is a copy of the Compliance Letter from the State of Nevada Department of Taxation that states, in part, that :

The Department of Taxation has examined your final budget in accordance with NRS 354.598. We find the budget to be in compliance with the law and appropriate regulations.
- 3) Several issues raised also assert that the District's accounting practices or financial reporting for specific transactions or activities are inconsistent with Generally-accepted Accounting Principles (GAAP). Many of these assertions are based on interpretations of applicability of GAAP to the District's accounting practices or to individual transactions. While Staff acknowledges that inherent subjectivity involved in interpreting GAAP as promulgated through GASB pronouncements, a difference of opinion between and amongst members of the public, management and/or the independent auditor, while noteworthy, again, do not rise to the level of requiring restatement of past audited financial statements.
- 4) Acknowledging that many of the issues raised are valid questions and worthy of discussion, should past District accounting practices or interpretations warrant re-consideration, these are best addressed or clarified in the context of preparation and audit of future financial statements.
- 5) A subset of issues raised by constituents are best addressed through a review of existing Board policies and practices and, where appropriate, revisions to District

policies and practices that inform how the District accounts for and reports activities reflected in its audited financial statements.

The following section addresses, in more detail, specific issues that are presented by constituent(s) as inconsistent with GAAP / GASB:

Issue #1 – Improper change in accounting and reporting from Enterprise to Special Revenue

It is Staff's opinion that this assertion represents the primary basis for the argument that the District's accounting practices do not conform with GASB requirements and, by extension, violate NRS requirements that local agency budgets must comply with GASB.

As expressed, this assertion is based on provisions found in GASB 34 related to Proprietary (Enterprise) Funds. Specifically, while GASB provides guidelines for generally-accepted accounting practices, this section of GASB 34 establishes three criteria whereby Enterprise Fund accounting MUST be applied if any of the three criteria are met:

67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.³³

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.³⁴
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Having reviewed the above criteria in relation to the District's financial and accounting policies and practices, Staff finds that District does not meet ANY of the three criteria established by GASB 34 which require the use of Enterprise Funds.

Criteria (a) – Activity financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity.

Application to IVGID - in the context of the District's debt issued to support Community Services and Beach activities, this criteria is not met.

In support of this conclusion, one need only reference the bond documents associated with our outstanding debt that, consistent with GASB criteria (a), the District's debt was issued as a General Obligation bond secured by the full faith and credit of the District. Below is an excerpt from the Board resolution authorizing the 2012 refunding bond issuance. This language is also contained in the bond purchase agreements.



Resolution No. 1812

Page 13 of 66

A RESOLUTION AUTHORIZING THE ISSUANCE BY THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT OF ITS GENERAL OBLIGATION (LIMITED TAX) (REVENUE SUPPORTED) RECREATION REFUNDING BONDS, SERIES 2012, AND PROVIDING OTHER MATTERS RELATING THERETO.

protection and security of the owners of any and all of the outstanding Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction except as otherwise expressly provided in or pursuant to this Resolution.

SECTION 10. General Obligations. All of the Bonds, as to the principal thereof, the interest thereon and any prior redemption premiums due in connection therewith (the "Bond Requirements"), shall constitute general obligations of the District, which hereby pledges its full faith and credit for their payment. So far as possible, Bond Requirements shall be paid from Net Revenues. However, the Bonds as to all Bond Requirements shall also be payable from the General Taxes (except to the extent that other moneys such as Net Revenues are available therefor) as herein provided.

Criteria (b) – Laws or regulations that require that the activity's costs of providing services, including capital costs be recovered by fees and charges, rather than with taxes or similar revenues.

Application to IVGID – While the District, in practice, recovers the majority of its costs through fees and charges, there is no existing "law or regulation" that requires that this be the case.

Moreover, consistently, guidance provided for application of GAAP/GASB requirements cite as state laws that require that unemployment compensation funds and public entity

risk pools as examples of application of this criteria (see below excerpt from *2020 Governmental GAAP Guide for State and Local Governments*).

In addition, it is worth noting that as a General Improvement District established under NRS 318, the District is granted statutory taxing authority to support its activities.

2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

OBSERVATION: GASB Cod. Sec. 1300 fn. 7 specifically requires state unemployment compensation funds to be reported in enterprise funds due to this criterion. Public entity risk pools are also *required* to be reported in enterprise funds in accordance with GASB Cod. Sec. Po20.115. Administrative costs of the funds should be included in the general fund unless legal requirements exist that require the accounting and financial reporting of the resources in another fund. If the administrative activity is *not* required to be accounted for in an unemployment compensation enterprise fund, GASB Cod. Sec. 1300.705-8 surmises that such a requirement would invalidate the reasoning that an enterprise fund is required as the charges are not designed to recover the costs of administration.

Criteria (c) – The pricing policies of the activity establish fees and charges designed to recover its costs, including capital (such as depreciation and debt).

Application to IVGID – Based on a review of existing Board policies and District practices related to the setting of pricing and fees, the Director of Finance has concluded that this criteria does not directly apply to IVGID for several reasons.

First, while Board Policy 6.1.0, section 2.2 speaks to the setting of Fees and Charges for Services, this policy does not trigger the threshold contained in this GASB criteria. The policy merely speaks to adopting a process to set rates and “the extent to which” costs are recovered.

Policy 6.1.0

2.0 Revenue Understanding the revenue stream is essential to prudent planning. Most of these policies seek stability to avoid potential service disruptions caused by revenue shortfalls.

2.1 Revenue Diversification. The District shall adopt a process that encourages a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources.

2.2 Fees and Charges for Services. The District shall adopt process that identifies the manner in which fees and charges for services are set and the extent to which they cover the cost of the service provided.

In addition, a review of recent rate-setting practices within the District’s Community Services activities, and in particular golf and ski, pricing is not based (solely) on cost-recovery, but rather is largely based on market pricing – in particular as it relates to non-resident rates. Specifically, it is a long-standing practice that certain rates are based on the concept of “demand pricing” or “yield management”, which allows pricing to be set

(and in some cases be modified) based on the availability of access. In simple terms, ski rates – and in particular day passes for non-residents – are set and adjusted based on the number of skiers frequenting Diamond Peak in relation to the capacity of the venue.

Below is an excerpt from the February 21, 2020 Board memo for the agenda item where the Board of Trustees was asked to adopt season pass rates and resident rates for Diamond Peak.

Excerpt from February 21, 2020 Board Memorandum, setting Diamond Peak Season Pass rates for 2020-21 season:

Although to remain consistent with previous Community Services Memorandum's of Recommendations to Key Rates - **The IVGID Board of Trustees allows management to adjust prices to accomplish yield management provided the rate offered to the public is above the IVGID Picture Pass Holder rate.*

Similarly, in both the November 2019 Board memo related to the Board approval of Key Rates for golf activities as well as the budget workshop presentation provided to the Board in 2015, it is clearly stated that venue pricing practice includes consideration of yield management and, further, Staff is authorized by the Board of Trustees to adjust pricing accordingly.

Excerpt from November 22, 2019 Board memo related to Golf Key Rates for 2020 season:

Review, discuss and possibly -2- November 22, 2019
approve 2020 Key Rates for the
Championship Golf Course, Mountain
Golf Course and Resident Play Passes

This fee structure allows the staff to plan for programs, yield management tactics, golf club scheduling, outside tournament bookings, and other operational planning objectives for the coming golf season.

From March 31, 2015 Board Workshop re "Key Rates for Golf"

Note to Rate Schedule:

Rates have been provided only for the 2015 season.

2016 will be determined with the next budget cycle.

The IVGID Board of Trustees allow Staff to adjust prices to accomplish Demand Pricing and "Yield Management".

Issue #5 - Unallowable Transfer of Funds for Central Services Cost Allocation

The District's practice of allocating central services overhead costs incurred in the General Fund to activities funded by both Enterprise and Special Revenue funds is entirely consistent with GAAP and is thus allowable under the NRS.

While the NRS (354.613) includes a provision establishing specific requirements for allocations of central services overhead to enterprise funds, this provision does not preclude the allocation of central services overhead on non-enterprise activities.

It is Staff's position that NRS 354.17, which requires that local public agency budgets conform to GAAP, provides authority to the District to assess a central services allocation to activities funded from sources beyond solely Enterprise-funded activities.

Central services cost allocations are not only permitted, but also recommended as best-practice in cases where an entity has as an objective the accounting and reporting of activities on a "full-cost" basis. The principal behind central services cost allocations is not grounded in fund accounting, but rather is a key principal and practice in proper cost-accounting.

Generally-accepted cost-accounting principles related to charges for recovery of overhead costs are largely independent of funding source. The requirements for any cost-allocation plan to comply with generally-accepted accounting practices hinge on the methodology used to identify appropriate costs to be allocated as well as the basis of the overhead allocation to activities or functions support by the costs being allocated. (Note – most public agencies use guidance provided in the federal Office of Management and Budget (OMB) Circular 87 that spells out requirements for overhead costs allowable to be charged to federal grants).

In the context of the District's Central Services Cost Allocation plan, both the Independent Auditor and the State of Nevada merely require that the District's plan is based on a sound methodology (i.e. not arbitrary), and, in the case of the State of Nevada, that the plan is approved annually by the Board of Trustees as part of the annual budget process.

It needs to be noted that the District's Central Service Cost Allocation Plan is also governed by Board Policy 18.1 and Board Practice 18.2. When first adopted, this policy specifically referenced that Central Service Cost Allocation was applicable to Enterprise Fund activities. This was at a time when all District activities outside of the General Fund where accounted for under Enterprise Fund accounting (Community Services, Beach, Utilities and Internal Services). This policy was not updated when the District transitioned to Special Revenues funds for Community Services and Beach activities for the 2015/16 fiscal year. Nonetheless, the District's budget continued to assess overhead charges to Community Services and Beach funds and thus did not conform to the letter of Policy 18.1. The policy has since been amended (May 2020) to conform to the ongoing practice of allocating overhead costs borne by the General Fund to non-general fund supported activities based on generally-accepted best practices to full-cost accounting.

Attachments:

- 1 - Summary Table (Issue, Status, Disposition)
- 2 - State of Nevada, Department of Taxation: Compliance Letter, dated June 25,2020
- 3 - GASB 34 Excerpt re: Enterprise Funds
- 4 – OMB Circular A-87 (Federal Register/Vol. 70, No. 168/Wednesday, August 31, 2005/Rules and Regulations
- 5 – NRS 354.107, 354.613 and 354.624
- 6 – Board Policy 18.1.0
- 7 – Board Practice 18.2.0
- 8 – "14 Points of Error" referred to Staff by Audit Committee (Correspondence)

Attachment 1

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION				STATUS	Next Steps	DISPOSITION				COMMENT
		Error Omission	Accounting Practice	Interpretation / Opinion	IVGID Policy			Corrected in 2019/20 CAFR	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	
1	<p>Improper change in Accounting and Reporting from Business Activities (Enterprise) to Governmental Activities</p> <p>Cites NRS 354.17 and GASB #34 re requirements for use of Enterprise Fund accounting</p> <p>Costs recovered primarily through fees Pricing policies designed to recover costs (incl capital)</p> <p>Exchange vs non-exchange transactions - "fee" vs. "tax."</p>		X	X			IVGID does not meet the referenced GASB requirements related to use of Enterprise Funds					Recommend BOT review of and establishment of formal pricing policy
2	<p>Error in Capitalizing conditions assessments and temporary repair work on the Effluent Pipeline which must be expensed</p> <p>\$1.4 million over 3 years for Condition Assessment \$1.2 million (2017/18) to repair 1,080 lf Add'l. \$546,000 Internal Engineering Charges</p> <p>By capitalizing and depreciating these costs, the financial statements are distorted...(hides expense aspect of assessment and temp repairs). Charges have a material impact on statement of Net Position</p> <p><i>Statement of Net Position (CAFR page 21), Statement of Activities (CAFR page 22) Statement of Net Position (CAFR page 30), Statement of Revenues, Expenses, and Changes in Net Position (CAFR Page 31) and Notes to Financial Statements (CAFR pages 34-56). Also Management Discussion and Analysis and Transmittal Letter will be affected.</i></p>			X	X		Accounting for repair work is consistent with current Board Policy (xx.x) related to capitalization of assets. Policy is grounded in consideration of "useful life." Routine maintenance and repairs help ensure an asset reaches its useful life. Repair work that is deemed to extend the useful life of an asset are appropriately capitalized.					
3	<p>Feasibility and Master Plan Studies should be reclassified from Construction in Progress to expenses of Special Revenue Funds and Utility Fund</p> <p>studies on recreational venues which costs have been recorded as construction in progress. These studies are updates to master plans, recommendations for rehabilitation of existing facilities or potential new facilities. There was no construction in progress nor is there any assurance that any recommendations will be accomplished.</p> <p>Governmental Funds - \$658,736 Enterprise Funds \$300,000 - (TTD "cost-sharing" for environmental assessment)</p> <p><i>Statement of Net Position - (CAFR page 21), Statement of Activities (CAFR page 22), Statement of Revenues and Expenses (CAFR page 25), Statement of Revenues and Expenses (CAFR pages 28 & 29) Statement of Net Position (page 30) Statement of Revenues and Expenses (page 31), Statement of Cash Flows (page 32), Notes to Financial Statements (CAFR page 46)</i></p>	X	X		X		Will review how BOT action to deleted Master Plan may impact FY2019/20 Financial Statements					
4	<p>Improper recording of revenues described in Note 1T as a significant Accounting Policy called "Punch Cards Utilized" and in Note 18 as a Segment Information and failure to disclose the resulting cash interfund transfers in Note 7 and required payments to parcel owners that have no Beach access.</p> <p>This accounting scheme was initiated in fiscal year 2013 to increase noncash charges for services (revenues) in the Beach Fund (through 6/30/2014) and the Beach Special Revenue Fund (effective 7/1/2016 ("BSRF") and subsequently offset 100% of those revenues by a contra revenue charge in the Community Service Fund (through 6/30/2014) and the Community Services Special Revenue Fund (effective 7/1/2016 ("CSSRF"), resulting in a cash transfers of approximately \$2,230,000 since 2013. In fiscal year 2019 \$468,000 was transferred from the CSSRF to the BSRF.</p> <p>As a result for fiscal year 2019 revenue from charges for services of the BSRF have been overstated by 43% and correspondingly revenues from charges for services of the CSSRF has been understated by 3.7%.</p> <p>In addition, based on the May 22, 2019 board resolution 1871, a total of 455 parcel owners have been charged a facility fee which allows the use of only Community Services venues but their share of those facility fees have been transferred to the Beach venues in which they do not participate.</p> <p>According to GASB #34 paragraph 122. Segment Information in Financial Statement Notes should be used only for enterprise funds. The CCRS and BSRF are not enterprise funds.</p> <p>EideBailly must provide an opinion on the validity of the accounting and reporting complying with Nevada law, GAAP and GASB for "Punch Cards Utilized" transactions.</p>			X			No basis for statement of "intent." Rather, it is more appropriate to view the District's Puch Card Accounting practice as a means to address issue related to punch card utilization. More specifically, current punch card utilization results in residents/guests utilizing value of punch cards at various District venues without regard to funding used to purchase punch cards.					
5	<p>Unallowable transfer of Funds for Central Services Cost Allocations. (Note 1S) (CAFR page 42)</p> <p>Since July 1, 2015 certain unlawful transfers have been made from the Community Services Special Revenue Fund (CSSRF) and the Beach Special Revenue Fund (BSRF) to the General Fund based on provisions of NRS 354.613 subsection C. and Board of Trustee Policy 18.1.0. Both the NRS and Board IVGID Director of Finance, Gerald Eick, indicated in a memorandum to the IVGID Audit Committee dated November 27, 2019 that the transfers were made based on "following State guidance to share defined costs in the General Fund between operating governmental and enterprise funds."</p> <p>Since July 1, 2015 and including the budget for fiscal 2020, a staggering \$3,874,900 has been transferred from the CSSRF and the BSRF to the General Fund under the guise of Central Services Cost Allocations.</p> <p>A written opinion from EideBailly must be obtained.</p>			X			False claim. Central Services Overhead allocations are considered general-accepted accounting practice and consistent with full cost--recovery principles.					

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION				STATUS	Next Steps	DISPOSITION				COMMENT
		Error Omission	Accounting Practice	Interpretation / Opinion	IVGID Policy			Correction 2019/20 CAFR	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	
6	<p>Use of false assertion to record Utility Fund deferred revenues (unearned) of \$433,980 as current revenues in the Proprietary Funds - Statement of Revenues, Expenditures and Net Position (CAFR page 31) causing an increase in Net Position on Proprietary Funds - Statement of Net Position (CAFR Page 30).</p> <p>IVGID currently bills customers monthly in advance a minimum base rate for water and sewer service which will be delivered in the subsequent month. The billings are recorded as a receivable but a portion of the billing has historically been deferred and recorded as unearned revenue because the base rate is billed in advance of the services being provided.</p> <p>In fiscal year 2019, Mr. Eick, Director of Finance, decided on his own, that the advanced billings of base water and sewer rate should be considered current revenues based on a false assertion that base rates are a "non-exchange transaction" because the billing components are not tied to the receipt of any quantity of water and sewer services"</p> <p>The base rates for water and sewer services are charged to customers in EXCHANGE for providing a future service and could not be considered as a tax, a fine, or donations which are examples of NON EXCHANGE TRANSACTIONS.</p> <p>during the course of the audit performed by Eide Bailly L.P. (Auditor) this change in accounting was discovered by the Auditor and considered the change to be a misstatement. Rather than correct the misstatement, Mr. Eick and Lori Pommerenck, Controller, provided the following statement in the Management Representation to the effect the correction would have an "immaterial" effect on financial statements.</p> <p>Also note the amounts used in the Memorandum to the Audit Committee and the Representation Letter to the Auditor do not agree and are different by \$16,578. How is it possible that the Memorandum to the Audit Committee dated November 27, 2019 would have different amounts than the CAFR and Representation Letter delivered on November 18, 2019?</p> <p>However further discussions with the Auditors found a more compelling factor is that they are a non exchange transaction because the billing components are not tied to the receipt of any quantity of water or sewer services."</p> <p>Question for EideBailly - Are advanced billings for basic water and sewer services considered a non exchange transaction and if so why would that matter on not deferring advanced billing?</p>			X			Accounting practice for Utility revenues are under review...					
7	<p>Incorrect statements and failure to report all commitments in Note 19 - Commitments Affecting Future Periods (CAFR pages 54-55), and failure to report contractual arrangements as committed fund balance on the Balance Sheet of Governmental Funds.</p> <p>NOTE: The contracts reported in this section plus the contract above relating to governmental funds should be reported as a committed fund balance on the Balance Sheet (CAFR page 23) Total amount \$1,685,966</p> <p>GASB Statement #54 paragraph 10 provides the requirements for Committed Fund Balance: "Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance"</p> <p>The General Fund 2019/2020 Budget provided for a TRANSFER of fund to the Community Services Special Revenue Fund for only \$561,800 and DID NOT include a transfer of \$145,000 in contingency. These transfers violate NRS 354.6117, as the funds were specified for the Mountain Golf Course Clubhouse Renovation. The \$788,870 transfer exceeds the limitation imposed in NRS 354.6117 which is 10% of the total amount of the budgeted expenditures of the general fund.</p>			X			Per Governmental GAAP Guide for State and Local Government - Assigned Fund balances consists of amounts constrained by government's intent to be used for specific purposes, but are neither restricted or committed. Examples of "assigned" fund balances include encumbrances based on an executed purchase order or contract).					Also - see #13, below. Should review Board policy re delegation of authority for "assigned" fund balances .
8	<p>Improper Classification of Revenues in the Statement of Activities for the year ended June 30, 2019 (CAFR page 22)</p> <p>A. The Statement of Activities lists \$1,169,000 as Program Revenues -Charges for Services as received by the General Fund. These charges were generated by Central Services Cost Allocations (which may have been illegal transfers).</p> <p>These charges are not revenues but reduction of expenses as indicated in the Governmental Funds Fund Statement of Revenues and Expenses (CAFR - page 25) and the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance (CAFR - page 27).</p> <p>B. The Statement of Activities also lists Facilities Fees of \$6,756,410 as General revenues of Governmental activities. The Facility Fees are NOT General revenues but are fees charged to parcel owners for the specific use of making facilities available for all Community Services and Beach recreational venues. These Facility Fees are not general revenues but are specific revenues for the two funds mentioned above.</p> <p>The Facilities Fees are authorized to be collected by NRS 354.197 as fees (charges for services) for specific purposes.</p>			X			The District's accounting practice related to Central Services Cost Allocations is consistent with generally-accepted accounting practices. Central Services cost recovery is uniformly treated as revenue to the General Fund (in lieu of a credit to expenditures), similar to how other fund transfers are recorded (Transfer To = expense / Transfer FROM = Revenue). That said, many public agencies duly note Central Services Cost allocations as a component of "dual appropriations" (as are transfers and Internal Service Funds) in recognition that costs are ultimately reflected in both the "source" budget as well as the "receiving" budget. .					

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION				STATUS	Next Steps	DISPOSITION				COMMENT
		Error Omission	Accounting Practice	Interpretation / Opinion	IVGID Policy			Correction 2019/20 CAFR	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	
	<p>The Facility Fees must be listed as a Program Revenues under Charges for Services for the Community Services and the Beach and must be reclassified.</p> <p>C. The Internal Services fund has been named Fleet, Engineering, Bldgs. & Workman's Comp apparently to confuse the reader and should be corrected.</p>											
9	<p>Failure to report a grant for the Incline Park Ball Fields</p> <p>Failure to report a major grant of \$1,409,201 from the Incline-Tahoe Parks and Recreation Vision Foundation, Inc. via a Memorandum of Understanding dated March 18, 2019, as a Grant Receivable and also a Deferred Revenue</p> <p>effects the Statement of Net Position (CAFR page 21 and the Balance Sheet (CAFR page 23). GASB #33 (paragraph 19, 20, 21) clearly states that once all of four eligibility requirements are satisfied (there is no time limit) the grant commitment should be recorded as a receivable and as a revenues even though expenditures have not occurred. EdieBailey should provide an opinion on compliance with GASB #34 regarding accounting treatment for this grant.</p>		X	X			<p>This issue was responded to in memo to Audit Committee dated 11/29/19. While the grant was "awarded" during the FY2018/19 fiscal year, work on the subject project did not commence until the start of the new fiscal year. The grant revenue is being recorded in the fiscal year in which expenditures against the grant are incurred (FY2019/20).</p> <p>Balance Sheet will reflect grant revenues received in the current fiscal year.</p>					
10	<p>Mountain Golf Course Clubhouse Fire Damage Short Term Rehabilitation - Improper classification of temporary fire damage repairs as construction in progress rather than an operating expense</p> <p>Fire damage repairs of \$150,751 were completed on the interior of the Mountain Golf Course Clubhouse during fiscal 2019 in order to operate the facility for the 2019 golf season and thereafter would be abandoned as a complete renovation of the exterior and interior of the facility would begin in September 2019. These repairs were recorded as construction in progress. On August 14, 2019, contracts, staff time and a contingency budget for \$1,192,000 was approved by the Board of Trustees for a complete renovation of the facility. The fire damage repairs must be removed from Construction in Progress and charged off as an expense. There was never an intent to extend the life of these repairs past the 4 month golf season.</p>			X	X							
11	<p>Failure to disclose major leases with the U. S Department of Agriculture Forest Service and Parasol Foundation Inc. in Note 16 - Lease Obligations (CAFR page 53)</p> <p>IVGID has a Special Use Permit (effectively a lease) dated 7/17/2014 with the following basic terms: 361 acres of National Forest Service Land is leased to IVGID which is 49% of the Diamond Peak ski area. Expires on 12/23/2023.</p> <p>IVGID leases 2.35 acres of land which IVGID owns to the Parasol Foundation Inc. who constructed a 31,500 square foot building with a grant from an outside donor.</p>			X			<p>Pending review of the distinction between "leases" and "use permits"</p>					<p>Consider including Use Permits in future disclosures of lease obligations.</p>
12	<p>False statement in Note 1P Significant Accounting Policies to Financial Statements relating to Fund Balance</p> <p>Note 1P (CAFR page 41) regarding information provided on Fund Balance which states: "An assigned fund balance can be specified by the District's General Manager"</p> <p>It is quite unclear what that statement actually means. A reader may conclude that the \$14,036,495 reported as an assigned fund balance for the Community Services and Beach Special Revenue Funds (CAFR page 23) may have been given to the General Manager to be used as that person sees fit.</p> <p>GASB # 54 paragraph 13 states there are three choices who would determine intent to have a Fund Balance Assigned. There is no Board Policy or practice which would support the statement made in Note 1P and it should be removed.</p>			X			<p>Per Governmental GAAP Guide for State and Local Government - Assigned Fund balances consists of amounts constrained by government's intent to be used for specific purposes, but are neither restricted or committed. Intent should be expressed by either:</p> <p>a) the governing body itself, b) A body (ex. budget committee), or c) An official to which the governing body has delegated the authority to assign amounts to be used for a specific purpose</p>					
13	<p>Failure to report committed amounts of the fund balance for the Community Service Special Revenue Fund on the Governmental Funds Balance Sheet as of June 30, 2019 (CAFR page 23) to reflect commitments for three construction contracts executed in fiscal year 2020.</p> <p>Three construction contracts for \$ \$1,608,341 as disclosed in Note 19 (CAFR page 55) were budgeted and executed in fiscal year 2019, however, construction was not started. As such, the fund balance of the Community Services Special Revenue Fund should reflect the commitment of the Fund Balance for these contracts.</p> <p>In addition, a contract for \$77,535 executed on 9/13/2017 for replacing the roof at the Mountain Golf Course Clubhouse was outstanding at June 30, 2019. Construction did not commence until September, 2019. This contract should be also included in Note 19.</p> <p>GASB Statement #54 paragraph 10 provides the requirements for Committed Fund Balance</p>			X			<p>Review of accounting/reporting for contractual encumbrances are under review</p> <p>In general, when a contract is executed budgeted funds are encumbered so as to identify such funds as not available for other purposes. At year end, encumbrances should be reflected as obligations. Once expenses are incurred against encumbered contracts, the expense is recorded and the encumbrance is released (or reduced). Proper recording of encumbrances assists in reporting status of funds at a point in time. Given that these commitments are ultimately reflected as expenses in the period in which they are incurred, there is no compelling reason to revise prior financial statements as they will not impact the ending fund balances and/or statement of net positions as of June 30, 2020.</p> <p>Complicating this issue is the fact that the District's financial system, while reflecting an encumbrance for executed contract, does NOT reserve funding and thus reflects funds as "available" until actually expended. This issue is being reviewed in the context of the district's monthly financial reports, in addition to treatment in context of year-end financial statements.</p>					<p>Also, see #7, above</p>

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION				STATUS	Next Steps	DISPOSITION				COMMENT
		Error Omission	Accounting Practice	Interpretation / Opinion	IVGID Policy			Corrected in 2019/20 CAFR	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	
	<p>"Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance"</p> <p>"Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements."</p>											
14	<p>Improper reporting of Notes to Financial Statements</p> <p>The Notes to Financial Statements - Index (page 34) lists Note 1E as Budgets and Budgetary Accounting yet Note 1E in the text (page 37) states: Compliance with Nevada Revised Statutes and Nevada Administrative Code.</p> <p>This error needs correction.</p>					Will review and make any clarifying edits to the FY2019/20 CAFR.						

Attachment 2



STATE OF NEVADA
DEPARTMENT OF TAXATION

Web Site: <http://tax.nv.gov>
1550 College Parkway, Suite 115
Carson City, Nevada 89706-7937
Phone: (775) 684-2000 Fax: (775) 684-2020

RENO OFFICE
4600 Kietzke Lane
Building L, Suite 235
Reno, Nevada 89502
Phone: (775) 687-9999
Fax: (775) 688-1303

STEVE SISOLAK
Governor
JAMES DEVOLLD
Chair, Nevada Tax Commission
MELANIE YOUNG
Executive Director

LAS VEGAS OFFICE
Grant Sawyer Office Building, Suite 1300
555 E. Washington Avenue
Las Vegas, Nevada 89101
Phone: (702) 486-2300 Fax: (702) 486-2373

HENDERSON OFFICE
2550 Paseo Verde Parkway, Suite 180
Henderson, Nevada 89074
Phone: (702) 486-2300
Fax: (702) 486-3377

June 25, 2020

Mr. Paul C. Navazio
Incline Village GID
893 Southwood Blvd.
Incline Village, NV 89451

Re: Final Budget – Fiscal Year 20/21

Dear Mr. Navazio:

The Department of Taxation has examined your final budget in accordance with NRS 354.598. We find the budget to be in compliance with the law and appropriate regulations.

For future reference a budget message is mandatory only for cities and counties. Also, the message should include comparison and analysis of actual or expected results and budgeted results including any factors that might impact the budget either positively or negatively, as well as any adjustments from the *Revenue Projections* or *Pro Forma* as provided by the department.

Please be advised the following tax rates have been presented to the Nevada Tax Commission on June 25, 2020 for certification:

Operating tax rate	\$ 0.1172
Voter approved rate	0.0000
Legislative override rate	0.0139
Debt service rate	<u>0.0000</u>
	\$ 0.1311

If you should have any questions, please do not hesitate to call me at (775) 684-2065 or e-mail me at kgrahmann@tax.state.nv.us.

Sincerely,

Kellie Grahmann
Budget Analyst
Local Government Finance
Department of Taxation.

cc: Kelly Langley

Attachment 3

NO. 171-A | JUNE 1999

Governmental Accounting Standards Series

Statement No. 34 of the
Governmental Accounting
Standards Board

Basic Financial Statements—
and Management's Discussion
and Analysis—for State and
Local Governments



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Fund Financial Statements

Funds—Overview and Definitions

63. Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds. (See paragraphs 64–73.)

- a. Governmental funds (emphasizing major funds)
 - (1) The general fund
 - (2) Special revenue funds
 - (3) Capital projects funds
 - (4) Debt service funds
 - (5) Permanent funds
- b. Proprietary funds
 - (6) Enterprise funds (emphasizing major funds)
 - (7) Internal service funds
- c. Fiduciary funds and similar component units
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Agency funds.

Governmental Funds

64. Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. With the exception of permanent funds, those governmental funds are defined in NCGA Statement 1, as amended.

65. *Permanent funds* should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.³² (Permanent funds do not include *private-purpose*

³²An example is a cemetery perpetual-care fund, which provides resources for the ongoing maintenance of a public cemetery.

trust funds, defined in paragraph 72, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of *individuals, private organizations, or other governments.*)

Proprietary Funds

66. Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.³³

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.³⁴

³³These criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county's small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county's court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility's principal revenue source. Because these charges are the activity's principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund.

³⁴Based on this criterion, state unemployment compensation funds should be reported in enterprise funds.

- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

68. *Internal service funds* may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Fiduciary Funds

69. Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

70. *Pension (and other employee benefit) trust funds* should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

71. *Investment trust funds* should be used to report the external portion of investment pools reported by the sponsoring government, as required by Statement 31, paragraph 18.

72. *Private-purpose trust funds*, such as a fund used to report escheat property, should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Attachment 4

OFFICE OF MANAGEMENT AND BUDGET**2 CFR Part 225****Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)**

AGENCY: Office of Management and Budget

ACTION: Relocation of policy guidance to 2 CFR chapter II.

SUMMARY: The Office of Management and Budget (OMB) is relocating Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," to Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 as part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and nonprocurement agreements. Consolidating the OMB guidance and co-locating the agency regulations provides a good foundation for streamlining and simplifying the policy framework for grants and agreements as part of the efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107).

DATES: This document is effective August 31, 2005. This document republishes the existing OMB Circular A-87, which already is in effect.

FOR FURTHER INFORMATION CONTACT: Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202-395-3052 (direct) or 202-395-3993 (main office) and e-mail: Hai_M._Tran@omb.eop.gov.

SUPPLEMENTARY INFORMATION: On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106-107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A-87 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements.

Our relocation of OMB Circular A-87 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this notice relocates in 2 CFR the version of OMB

Circular A-87 as revised by the May 10, 2004 notice.

List of Subjects in 2 CFR Part 225

Accounting, Grant administration, Grant programs, Reporting and recordkeeping requirements, State, local, and Indian tribal governments.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

Authority and Issuance

■ For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, Chapter II, by adding a part 225 as set forth below.

PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87)**Sec.**

- 225.5 Purpose.
- 225.10 Authority
- 225.15 Background
- 225.20 Policy.
- 225.25 Definitions.
- 225.30 OMB responsibilities.
- 225.35 Federal agency responsibilities.
- 225.40 Effective date of changes.
- 225.45 Relationship to previous issuance.
- 225.50 Policy review date.
- 225.55 Information Contact.
- Appendix A to Part 225—General Principles for Determining Allowable Costs
- Appendix B to Part 225—Selected Items of Cost
- Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans
- Appendix D to Part 225—Public Assistance Cost Allocation Plans
- Appendix E to Part 225—State and Local Indirect Cost Rate Proposals

Authority: 31 U.S.C. 503; 31 U.S.C. 1111; 41 U.S.C. 405; Reorganization Plan No. 2 of 1970; E.O. 11541, 35 FR 10737, 3 CFR, 1966-1970, p. 939.

§ 225.5 Purpose.

This part establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

§ 225.10 Authority.

This part is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; the Chief Financial Officers Act of 1990; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").

§ 225.15 Background.

As part of the government-wide grant streamlining effort under Public Law 106-107, Federal Financial Award Management Improvement Act of 1999, OMB led an interagency workgroup to simplify and make consistent, to the extent feasible, the various rules used to award Federal grants. An interagency task force was established in 2001 to review existing cost principles for Federal awards to State, local, and Indian tribal governments; colleges and universities; and non-profit organizations. The task force studied "Selected Items of Cost" in each of the three cost principles to determine which items of costs could be stated consistently and/or more clearly.

§ 225.20 Policy.

This part establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. They are not intended to identify the circumstances or to dictate the extent of Federal and governmental unit participation in the financing of a particular Federal award. Provision for profit or other increment above cost is outside the scope of this part.

§ 225.25 Definitions.

Definitions of key terms used in this part are contained in Appendix A to this part, Section B.

§ 225.30 OMB responsibilities.

The Office of Management and Budget (OMB) will review agency regulations and implementation of this part, and will provide policy interpretations and assistance to insure effective and efficient implementation. Any exceptions will be subject to approval by OMB. Exceptions will only be made in particular cases where adequate justification is presented.

§ 225.35 Federal agency responsibilities.

Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices.

§ 225.40 Effective date of changes.

This part is effective August 31, 2005.

§ 225.45 Relationship to previous issuance.

(a) The guidance in this part previously was issued as OMB Circular

A-87. Appendix A to this part contains the guidance that was in Attachment A (general principles) to the OMB circular; Appendix B contains the guidance that was in Attachment B (selected items of cost); Appendix C contains the information that was in Attachment C (state/local-wide central service cost allocation plans); Appendix D contains the guidance that was in Attachment D (public assistance cost allocation plans); and Appendix E contains the guidance that was in Attachment E (state and local indirect cost rate proposals).

(b) This part supersedes OMB Circular A-87, as amended May 10, 2004, which superseded Circular A-87, as amended and issued May 4, 1995.

§ 225.50 Policy review date.

This part will have a policy review three years from the date of issuance.

§ 225.55 Information contact.

Further information concerning this part may be obtained by contacting the Office of Federal Financial Management, Financial Standards and Reporting Branch, Office of Management and Budget, Washington, DC 20503, telephone 202-395-3993.

Appendix A to Part 225—General Principles for Determining Allowable Costs

Table of Contents

- A. Purpose and Scope
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A. Purpose and Scope
 1. Objectives. This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as "Federal awards"). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

2. Policy guides.
 a. The application of these principles is based on the fundamental premises that:
 (1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR) recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.
 a. These principles will be applied by all Federal agencies in determining costs incurred by governmental units under

Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to, 2 CFR part 220, Cost Principles for Educational Institutions (OMB Circular A-21), and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, 2 CFR part 225 does apply to all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.

b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university or hospital), 2 CFR part 225 shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, 2 CFR part 220 (Circular A-21) shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Appendix; if a subaward is to some other non-profit organization, 2 CFR part 230, Cost Principles for Non-Profit Organizations (Circular A-122), shall apply.

c. These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price.

d. Where a Federal contract awarded to a governmental unit incorporates a Cost - Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A-87) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

e. Conditional exemptions.

(1) OMB authorizes conditional exemption from OMB administrative requirements and cost principles for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

(2) To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutorily-authorized consolidated planning and consolidated administrative funding and where most of the State agency's resources come from non-Federal sources, Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The

exemptions would be from all but the allocability of costs provisions of Appendix A subsection C.3 of 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); Appendix A, Section C.4 of 2 CFR 220, Cost Principles for Educational Institutions (Circular A-21); Appendix A, subsection A.4 of 2 CFR 230 Cost Principles for Non-Profit Organizations (Circular A-122); and from all of the administrative requirements provisions of 2 CFR part 215, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Circular A-110), and the agencies' grants management common rule.

(3) When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of 2 CFR part 225 (OMB Circular A-87), and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: Funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or its subrecipients.

B. Definitions

1. "Approval or authorization of the awarding or cognizant Federal agency" means documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a State/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.

2. "Award" means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.

3. "Awarding agency" means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

4. "Central service cost allocation plan" means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

5. "Claim" means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management

decision is made by the Federal awarding agency.

6. "Cognizant agency" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR part 225 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

7. "Common Rule" means the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule" originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles.

8. "Contract" means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): Awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 *et seq.*

9. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

10. "Cost allocation plan" means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms is further defined in this section.

11. "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

12. "Federally-recognized Indian tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.

13. "Governmental unit" means the entire State, local, or federally-recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award.

14. "Grantee department or agency" means the component of a State, local, or federally-recognized Indian tribal government which is responsible for the performance or administration of all or some part of a Federal award.

15. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect

cost rate as described in Appendix E of 2 CFR part 225.

16. "Local government" means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government.

17. "Public assistance cost allocation plan" means a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Appendix D of 2 CFR part 225.

18. "State" means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

i. Be the net of all applicable credits.

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

c. Market prices for comparable goods or services.

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

4. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See Appendix B to this part, item 11, "Depreciation and use allowances," for areas of potential application in the matter of Federal financing of activities.)

D. *Composition of Cost*

1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of costs. There is no universal rule for classifying certain costs as

either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

E. *Direct Costs*

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

c. Equipment and other approved capital expenditures.

d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. *Indirect Costs*

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

3. Limitation on indirect or administrative costs.

a. In addition to restrictions contained in 2 CFR part 225, there may be laws that further limit the amount of administrative or indirect cost allowed.

b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

G. *Interagency Services.* The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs. A standard indirect cost allowance equal to ten percent

of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix C to this part.

H. *Required Certifications.* Each cost allocation plan or indirect cost rate proposal required by Appendices C and E to this part must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices C and E to this part. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.

2. No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

Appendix B to Part 225—Selected Items of Cost

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Sections 1 through 43 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Appendix A to this part. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

1. *Advertising and public relations costs.*

a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

- (1) The recruitment of personnel required for the performance by the governmental unit of obligations arising under a Federal award;
- (2) The procurement of goods and services for the performance of a Federal award;
- (3) The disposal of scrap or surplus materials acquired in the performance of a Federal award except when governmental units are reimbursed for disposal costs at a predetermined amount; or
- (4) Other specific purposes necessary to meet the requirements of the Federal award.

d. The only allowable public relations costs are:

(1) Costs specifically required by the Federal award;

(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or

(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

e. Costs identified in subsections c and d if incurred for more than one Federal award or for both sponsored work and other work of the governmental unit, are allowable to the extent that the principles in Appendix A to this part, sections E. ("Direct Costs") and F. ("Indirect Costs") are observed.

f. Unallowable advertising and public relations costs include the following:

- (1) All advertising and public relations costs other than as specified in subsections 1. c, d, and e of this appendix;
- (2) Costs of meetings, conventions, convocations, or other events related to other activities of the governmental unit, including:
 - (a) Costs of displays, demonstrations, and exhibits;
 - (b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and
 - (c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;
- (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;
- (4) Costs of advertising and public relations designed solely to promote the governmental unit.

2. *Advisory councils.* Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.

3. *Alcoholic beverages.* Costs of alcoholic beverages are unallowable.

4. *Audit costs and related services.*

a. The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section 230 ("Audit Costs") of Circular A-133.

b. Other audit costs are allowable if included in a cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to an award.

c. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable, subject to the conditions listed in A-133, section 230 (b)(2).

5. *Bad debts.* Bad debts, including losses (whether actual or estimated) arising from

uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.

6. *Bonding costs.*

a. Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the governmental unit. They arise also in instances where the governmental unit requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

7. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like are allowable.

8. *Compensation for personal services.*

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

c. Unallowable costs. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.

d. *Fringe benefits.*

(1) Fringe benefits are allowances and services provided by employers to their

employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

e. Pension plan costs. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant

agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the governmental unit's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.

(3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit's contribution in future periods.

(4) When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.

(5) The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection 8.e. of this appendix for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For PRHB financed on a pay as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.

(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

(5) To be allowable in the current year, the PRHB costs must be paid either to:

(a) An insurer or other benefit provider as current year costs or premiums, or

(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

(1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by law, employer-employee agreement, or established written policy.

(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix;

(ii) The entire time period involved must be covered by the sample; and

(iii) The results must be statistically valid and applied to the period being sampled.

(b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.(6)(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those

claimed as allowable costs under Federal awards.

i. Donated services.

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

9. *Contingency provisions.* Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see section 22.c. of this appendix), pension plan reserves (see section 8.e.), and post-retirement health and other benefit reserves (section 8.f.) computed using acceptable actuarial cost methods.

10. *Defense and prosecution of criminal and civil proceedings, and claims.*

a. The following costs are unallowable for contracts covered by 10 U.S.C. 2324(k), "Allowable costs under defense contracts."

(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded nolo contendere to a charge of fraud or similar proceeding (including filing of a false certification).

(2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).

b. Legal expenses required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.

11. *Depreciation and use allowances.*

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided for in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.

b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

c. The computation of depreciation or use allowances will exclude:

(1) The cost of land;

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and

(3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

d. Where the depreciation method is followed, the following general criteria apply:

(1) The period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used.

(2) Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

e. When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

f. Where the use allowance method is followed, the following general criteria apply:

(1) The use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs.

(2) The use allowance for equipment will be computed at an annual rate not exceeding 6½ percent of acquisition cost.

(3) When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6½ percent equipment use allowance limitation.

g. A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

12. *Donations and contributions.*

a. Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

b. Donated services received:

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the Federal Grants Management Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

13. *Employee morale, health, and welfare costs.*

a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

b. Such costs will be equitably apportioned to all activities of the governmental unit. Income generated from any of these activities will be offset against expenses.

14. *Entertainment.* Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

15. *Equipment and other capital expenditures.*

a. For purposes of this subsection 15, the following definitions apply:

(1) "Capital Expenditures" means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting practices.

(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5000.

(3) "Special purpose equipment" means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

(4) "General purpose equipment" means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

b. The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency.

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

(4) When approved as a direct charge pursuant to section 15.b(1), (2), and (3) of this appendix, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement.

(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see section 37 of this appendix, Rental costs, concerning the allowability of rental costs for land, buildings, and equipment.

(6) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(7) When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

16. *Fines and penalties.* Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

17. *Fund raising and investment management costs.*

a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.

b. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this and other appendices of 2 CFR part 225 are allowable.

c. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subsection C.3.b. of Appendix A to this part.

18. *Gains and losses on disposition of depreciable property and other capital assets*

and substantial relocation of Federal programs.

a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the un depreciated basis of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 11 and 15 of this appendix.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection 22.d of this appendix.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection 18.a. of this appendix, e.g., land or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.

19. General government expenses.

a. The general costs of government are unallowable (except as provided in section 43 of this appendix, Travel costs). These include:

(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government;

(2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;

(3) Costs of the judiciary branch of a government;

(4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by program statute or regulation (however, this does not preclude the availability of other legal activities of the Attorney General); and

(5) Costs of other general types of government services normally provided to

the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.

20. Goods or services for personal use.

Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

21. Idle facilities and idle capacity.

As used in this section the following terms have the meanings set forth below:

(1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.

(2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.

(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between: that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays; and the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

(4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, property taxes and depreciation or use allowances.

b. The costs of idle facilities are unallowable except to the extent that:

(1) They are necessary to meet fluctuations in workload; or

(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

22. Insurance and indemnification.

a. Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.

b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:

(1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.

c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award or as described below. However, the Federal Government will

participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

d. Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

(1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit's settlement rate for those liabilities and its investment rate of return.

(2) Earnings or investment income on reserves must be credited to those reserves.

(3) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.

(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If individual departments or agencies of the governmental

unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

(5) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

e. Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 8.f. for post retirement health benefits), are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.

f. Insurance refunds shall be credited against insurance costs in the year the refund is received.

g. Indemnification includes securing the governmental unit against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided in subsection 22.d of this appendix.

h. Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable.

23. Interest.

a. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation.

b. Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable subject to the conditions in section 23.b.(1) through (4) of this appendix. Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions in section 23.b. (1) through (4) of this appendix.

(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;

(2) The assets are used in support of Federal awards;

(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.

(4) For debt arrangements over \$1 million, unless the governmental unit makes an initial equity contribution to the asset purchase of 25 percent or more, the governmental unit

shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-Federal entities shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

(5) Interest attributable to fully depreciated assets is unallowable.

24. Lobbying.

a. General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" (see Section J.24 of Appendix A to 2 CFR part 220), including definitions, and the Office of Management and Budget "Government-wide Guidance for New Restrictions on Lobbying" and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

b. Executive lobbying costs. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or regulatory matter on any basis other than the merits of the matter.

25. *Maintenance, operations, and repairs.* Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 11 and 15 of this appendix).

26. Materials and supplies costs.

a. Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

b. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.

c. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

27. *Meetings and conferences.* Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see section 14, Entertainment costs, of this appendix.

28. Memberships, subscriptions, and professional activity costs.

a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.

b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

d. Costs of membership in organizations substantially engaged in lobbying are unallowable.

29. Patent costs.

a. The following costs relating to patent and copyright matters are allowable: cost of preparing disclosures, reports, and other documents required by the Federal award and of searching the art to the extent necessary to make such disclosures; cost of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government; and general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements (but see sections 32, Professional service costs, and 38, Royalties and other costs for use of patents and copyrights, of this appendix).

b. The following costs related to patent and copyright matter are unallowable: Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award; costs in connection with filing and prosecuting any foreign patent application; or any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government (but see section 38, Royalties and other costs for use of patents and copyrights, of this appendix).

30. Plant and homeland security costs.

Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to section 15, Equipment and other capital expenditures, of this appendix.

31. *Pre-award costs.* Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

32. Professional service costs.

a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. In addition, legal and related services are limited under section 10 of this appendix.

b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- (1) The nature and scope of the service rendered in relation to the service required.
- (2) The necessity of contracting for the service, considering the governmental unit's capability in the particular area.
- (3) The past pattern of such costs, particularly in the years prior to Federal awards.
- (4) The impact of Federal awards on the governmental unit's business (*i.e.*, what new problems have arisen).
- (5) Whether the proportion of Federal work to the governmental unit's total business is such as to influence the governmental unit in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.
- (6) Whether the service can be performed more economically by direct employment rather than contracting.
- (7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.
- (8) Adequacy of the contractual agreement for the service (*e.g.*, description of the service, estimate of time required, rate of compensation, and termination provisions).

c. In addition to the factors in subparagraph b, retainer fees to be allowable must be supported by available or rendered evidence of bona fide services available or rendered.

33. *Proposal costs.* Costs of preparing proposals for potential Federal awards are

allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.

34. Publication and printing costs.

a. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.

b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the governmental unit.

c. Page charges for professional journal publications are allowable as a necessary part of research costs where:

- (1) The research papers report work supported by the Federal Government; and
- (2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

35. Rearrangement and alteration costs.

Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.

36. *Reconversion costs.* Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

37. Rental costs of buildings and equipment.

a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

b. Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.

c. Rental costs under "less-than-arm's-length" leases are allowable only up to the amount (as explained in section 37.b of this appendix) that would be allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not

limited to those between divisions of a governmental unit; governmental units under common control through common officers, directors, or members; and a governmental unit and a director, trustee, officer, or key employee of the governmental unit or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a governmental unit may establish a separate corporation for the sole purpose of owning property and leasing it back to the governmental unit.

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained in subsection 37.b of this appendix) that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13, Accounting for Leases, shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 23 of this appendix. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.

38. Royalties and other costs for the use of patents.

a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

(1) The Federal Government has a license or the right to free use of the patent or copyright.

(2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.

(3) The patent or copyright is considered to be unenforceable.

(4) The patent or copyright is expired.

b. Special care should be exercised in determining reasonableness where the royalties may have been arrived at as a result of less-than-arm's-length bargaining, *e.g.*:

(1) Royalties paid to persons, including corporations, affiliated with the governmental unit.

(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.

(3) Royalties paid under an agreement entered into after an award is made to a governmental unit.

c. In any case involving a patent or copyright formerly owned by the governmental unit, the amount of royalty allowed should not exceed the cost which would have been allowed had the governmental unit retained title thereto.

39. *Selling and marketing.* Costs of selling and marketing any products or services of the governmental unit are unallowable (unless allowed under section 1. of this appendix as allowable public relations costs or under section 33. of this appendix as allowable proposal costs.

40. Taxes.

a. Taxes that a governmental unit is legally required to pay are allowable, except for self-

assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision is applicable to taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.

b. Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.

c. This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.

41. *Termination costs applicable to sponsored agreements.* Termination of awards generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the Federal award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this appendix in termination situations.

a. The cost of items reasonably usable on the governmental unit's other work shall not be allowable unless the governmental unit submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the governmental unit, the awarding agency should consider the governmental unit's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the governmental unit shall be regarded as evidence that such items are reasonably usable on the governmental unit's other work. Any acceptance of common items as allocable to the terminated portion of the Federal award shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. If in a particular case, despite all reasonable efforts by the governmental unit, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this and other appendices of 2 CFR part 225, except that any such costs continuing after termination due to the negligent or willful failure of the governmental unit to discontinue such costs shall be unallowable.

c. Loss of useful value of special tooling, machinery, and equipment is generally allowable if:

(1) Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the governmental unit,

(2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency, and

(3) The loss of useful value for any one terminated Federal award is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as

the terminated portion of the Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, machinery, or equipment was acquired.

d. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated Federal award less the residual value of such leases, if:

(1) The amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the Federal award and such further period as may be reasonable, and

(2) The governmental unit makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.

e. Settlement expenses including the following are generally allowable:

(1) Accounting, legal, clerical, and similar costs reasonably necessary for:

(a) The preparation and presentation to the awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for default (see Subpart __.44 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A-102); and

(b) The termination and settlement of subawards.

(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the Federal award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Subparts __.31 and __.32 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A-102.

f. Claims under subawards, including the allocable portion of claims which are common to the Federal award, and to other work of the governmental unit are generally allowable. An appropriate share of the governmental unit's indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Appendix A to this part. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

42. *Training costs.* The cost of training provided for employee development is allowable.

43. *Travel costs.*

a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the

trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities. Notwithstanding the provisions of section 19 of this appendix, General government expenses, travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards.

b. Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

c. Commercial air travel.

(1) Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would:

(a) Require circuitous routing;

(b) Require travel during unreasonable hours;

(c) Excessively prolong travel;

(d) Result in additional costs that would offset the transportation savings; or

(e) Offer accommodations not reasonably adequate for the traveler's medical needs.

The governmental unit must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.

(2) Unless a pattern of avoidance is detected, the Federal Government will generally not question a governmental unit's determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the governmental unit can demonstrate either of the following:

(aa) That such airfare was not available in the specific case; or

(b) That it is the governmental unit's overall practice to make routine use of such airfare.

d. Air travel by other than commercial carrier. Costs of travel by governmental unit-owned, -leased, or -chartered aircraft include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of such costs that exceeds the cost of allowable commercial air travel, as provided for in subsection 43.c. of this appendix, is unallowable.

e. Foreign travel. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip

must receive such approval. For purposes of this provision, "foreign travel" includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term "foreign travel" for a governmental unit located in a foreign country means travel outside that country.

Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans

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 - A. *General.*
 - 1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.
 - 2. Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.
 - B. *Definitions.*

1. "Billed central services" means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.

2. "Allocated central services" means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.

3. "Agency or operating agency" means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.

C. *Scope of the Central Service Cost Allocation Plans.* The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in section E. Costs of central services omitted from the plan will not be reimbursed.

D. *Submission Requirements.*

1. Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.

2. Each local government that has been designated as a "major local government" by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually. OMB periodically lists major local governments in the **Federal Register**.

3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.

E. *Documentation Requirements for Submitted Plans.* The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced

for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

1. *General.* All proposed plans must be accompanied by the following: An organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this and other appendices to this part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

2. *Allocated central services.* For each allocated central service, the plan must also include the following: A brief description of the service*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.

3. *Billed services.*

a. *General.* The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.

b. *Internal service funds.*

(1) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: A brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this and other appendices of this part, with an explanation of how variances will be handled.

(2) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

c. Self-insurance funds. For each self-insurance fund, the plan shall include: The fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted must be identified and explained.

d. Fringe benefits. For fringe benefit costs, the plan shall include: A listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies*; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit's funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:

Certificate of Cost Allocation Plan

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87), and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in

accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

F. Negotiation and Approval of Central Service Plans.

1. All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/ approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.

2. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.

3. Negotiated cost allocation plans based on a proposal later found to have included costs that: Are unallowable as specified by law or regulation, as identified in Appendix B of this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

G. Other Policies.

1. Billed central service activities. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

2. Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full

recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

3. Carry-forward adjustments of allocated central service costs. Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry-forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This "carry-forward" procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

4. Adjustments of billed central services. Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: A cash refund to the Federal Government for the Federal share of the adjustment, credits to the amounts charged to the individual programs, adjustments to future billing rates, or adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

5. Records retention. All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

6. Appeals. If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

7. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

Appendix D to Part 225—Public Assistance Cost Allocation Plans

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- D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans
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A. *General.* Federally-financed programs administered by State public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan. This appendix extends these requirements to all Federal agencies whose programs are administered by a State public assistance agency. Major federally-financed programs typically administered by State public assistance agencies include: Temporary Assistance to Needy Families (TANF), Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

B. Definitions.

1. "State public assistance agency" means a State agency administering or supervising the administration of one or more public assistance programs operated by the State as identified in Subpart E of 45 CFR part 95. For the purpose of this appendix, these programs include all programs administered by the State public assistance agency.

2. "State public assistance agency costs" means all costs incurred by, or allocable to, the State public assistance agency, except expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.

C. *Policy.* State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR part 95. The plan will include all programs administered by the State public assistance agency. Where a letter of approval or disapproval is transmitted to a State public assistance agency in accordance with Subpart E, the letter will apply to all Federal agencies and programs. The remaining sections of this appendix (except for the requirement for certification) summarize the provisions of Subpart E of 45 CFR part 95.

D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans.

1. State public assistance agencies are required to promptly submit amendments to the cost allocation plan to HHS for review and approval.

2. Under the coordination process outlined in subsection E, affected Federal agencies will review all new plans and plan amendments and provide comments, as appropriate, to HHS. The effective date of the plan or plan amendment will be the first day of the quarter following the submission of the plan or amendment, unless another date is specifically approved by HHS. HHS, as the cognizant agency acting on behalf of all affected Federal agencies, will, as necessary, conduct negotiations with the State public assistance agency and will inform the State agency of the action taken on the plan or plan amendment.

E. Review of Implementation of Approved Plans.

1. Since public assistance cost allocation plans are of a narrative nature, the review during the plan approval process consists of evaluating the appropriateness of the proposed groupings of costs (cost centers) and the related allocation bases. As such, the Federal Government needs some assurance that the cost allocation plan has been implemented as approved. This is accomplished by reviews by the funding agencies, single audits, or audits conducted by the cognizant audit agency.

2. Where inappropriate charges affecting more than one funding agency are identified, the cognizant HHS cost negotiation office will be advised and will take the lead in resolving the issue(s) as provided for in Subpart E of 45 CFR part 95.

3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more funding agencies, the dispute shall be resolved in accordance with the appeals procedures set out in 45 CFR part 75. Disputes involving only one funding agency will be resolved in accordance with the funding agency's appeal process.

4. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, the Office of Management and Budget will lend assistance, as required, to resolve such problems in a timely manner.

F. *Unallowable Costs.* Claims developed under approved cost allocation plans will be based on allowable costs as identified in 2 CFR part 225. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods: a cash refund, offset to a subsequent claim, or credits to the amounts charged to individual awards.

Appendix E to Part 225—State and Local Indirect Cost Rate Proposals

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 - 5. Predetermined rate
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D. Submission and Documentation of Proposals

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E. Negotiation and Approval of Rates

F. Other Policies

- 1. Fringe benefit rates
- 2. Billed services provided by the grantee agency
- 3. Indirect cost allocations not using rates
- 4. Appeals
- 5. Collections of unallowable costs and erroneous payments
- 6. OMB assistance

A. General.

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

2. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix C to this part) and not otherwise treated as direct costs.

3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.

4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local-wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation

or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.

5. This appendix does not apply to State public assistance agencies. These agencies should refer instead to Appendix D to this part.

B. Definitions.

1. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

2. "Indirect cost rate" is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

3. "Indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives.

4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

5. "Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.

6. "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

7. "Provisional rate" means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.

8. "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

9. "Base period" for the allocation of indirect costs is the period in which such

costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates.

1. General.

a. Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2 of this appendix.

b. Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4 of this appendix.

2. Simplified method.

a. Where a grantee agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by classifying the grantee agency's total costs for the base period as either direct or indirect, and dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit's department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.

b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

c. The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution.

3. Multiple allocation base method.

a. Where a grantee agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate

cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.

b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that: it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and it is common to the benefitted functions during the base period.

d. Except where a special indirect cost rate(s) is required in accordance with subsection 4, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual Federal awards included in that function by use of a single indirect cost rate.

e. The distribution base used in computing the indirect cost rate for each function may be total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution. An indirect cost rate should be developed for each separate indirect cost pool developed. The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.

4. Special indirect cost rates.

a. In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources

employed, the organizational arrangements used, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that: the rate differs significantly from the rate which would have been developed under subsections 2. and 3. of this appendix, and the award to which the rate would apply is material in amount.

b. Although 2 CFR part 225 adopts the concept of the full allocation of indirect costs, there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary to develop a special rate for the affected award. Where a "restricted rate" is required, the procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.

a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

b. A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The Office of Management and Budget (OMB) will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of 2 CFR 225 and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan.

c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).

d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central

service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

2. Documentation of proposals. The following shall be included with each indirect cost proposal:

a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b of this appendix. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.

b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency in a subsequent proposal.

c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.

d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification. Each indirect cost rate proposal shall be accompanied by a certification in the following form:

Certificate of Indirect Costs

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87). Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal

Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

E. Negotiation and Approval of Rates.

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.

2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantee agency's costs, that the rate is not likely to exceed a rate based on actual costs. Long-term agreements utilizing predetermined rates extending over two or more years are encouraged, where appropriate.

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.

4. Refunds shall be made if proposals are later found to have included costs that are unallowable as specified by law or regulation, as identified in Appendix B to this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

F. Other Policies.

1. Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (*i.e.*, the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the cognizant agency.

2. Billed services provided by the grantee agency. In some cases, governmental units provide and bill for services similar to those covered by central service cost allocation plans (*e.g.*, computer centers). Where this

occurs, the governmental unit should be guided by the requirements in Appendix C to this part relating to the development of billing rates and documentation requirements, and should advise the cognizant agency of any billed services. Reviews of these types of services (including reviews of costing/billing methodology, profits or losses, etc.) will be made on a case-by-case basis as warranted by the circumstances involved.

3. Indirect cost allocations not using rates. In certain situations, a governmental unit, because of the nature of its awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for review, negotiation, and approval.

4. Appeals. If a dispute arises in a negotiation of an indirect cost rate (or other rate) between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

5. Collection of unallowable costs and erroneous payments. Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded (including interest chargeable in accordance with applicable Federal agency regulations).

6. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

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OFFICE OF MANAGEMENT AND BUDGET

2 CFR Part 230

Cost Principles for Non-Profit Organizations (OMB Circular A-122)

AGENCY: Office of Management and Budget.

ACTION: Relocation of policy guidance to 2 CFR chapter II.

SUMMARY: The Office of Management and Budget (OMB) is relocating Circular A-122, "Cost Principles for Non-Profit Organizations," to Title 2 in the Code of Federal Regulations (CFR), subtitle A, chapter II, part 230. This relocation is part of our broader initiative to create 2 CFR as a single location where the public can find both OMB guidance for grants and agreements and the associated Federal agency implementing regulations. The broader initiative provides a good foundation for streamlining and simplifying the policy framework for grants and agreements, one objective of OMB and Federal

agency efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107).

DATES: Part 230 is effective August 31, 2005. This document republishes the existing OMB Circular A-122, which already is in effect.

FOR FURTHER INFORMATION CONTACT: Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202-395-3052 (direct) or 202-395-3993 (main office) and e-mail: *Hai_M._Tran@omb.eop.gov*.

SUPPLEMENTARY INFORMATION: On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106-107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A-122 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements.

Our relocation of OMB Circular A-122 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this document relocates in 2 CFR the version of OMB Circular A-122 as revised by the May 10, 2004 notice.

List of Subjects in 2 CFR Part 230

Accounting, Grant programs, Grants administration, Non-profit organizations, Reporting and recordkeeping requirements.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

Authority and Issuance

■ For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, chapter II, by adding a part 230 as set forth below.

PART 230—COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-122)

- Sec.
- 230.5 Purpose.
- 230.10 Scope.
- 230.15 Policy.
- 230.20 Applicability.
- 230.25 Definitions.
- 230.30 OMB responsibilities.
- 230.35 Federal agency responsibilities.
- 230.40 Effective date of changes.

- 230.45 Relationship to previous issuance.
- 230.50 Information Contact.
- Appendix A to Part 230—General Principles
- Appendix B to Part 230—Selected Items of Cost
- Appendix C to Part 230—Non-Profit Organizations Not Subject to This Part

Authority: 31 U.S.C. 503; 31 U.S.C. 1111; 41 U.S.C. 405; Reorganization Plan No. 2 of 1970; E.O. 11541, 35 FR 10737, 3 CFR, 1966-1970, p. 939

§ 230.5 Purpose.

This part establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations.

§ 230.10 Scope.

(a) This part does not apply to colleges and universities which are covered by 2 CFR part 220 Cost Principles for Educational Institutions (OMB Circular A-21); State, local, and federally-recognized Indian tribal governments which are covered by 2 CFR part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); or hospitals.

(b) The principles deal with the subject of cost determination, and make no attempt to identify the circumstances or dictate the extent of agency and non-profit organization participation in the financing of a particular project. Provision for profit or other increment above cost is outside the scope of this part.

§ 230.15 Policy.

The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. The principles do not attempt to prescribe the extent of cost sharing or matching on grants, contracts, or other agreements. However, such cost sharing or matching shall not be accomplished through arbitrary limitations on individual cost elements by Federal agencies.

§ 230.20 Applicability.

(a) These principles shall be used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement. All of these instruments are hereafter referred to as awards. The principles do not apply to awards under which an organization is not required to account to the Federal Government for actual costs incurred.

Attachment 5

NRS 354.107 Regulations.

1. The Committee on Local Government Finance may adopt such regulations as are necessary for the administration of this chapter.

2. The Committee on Local Government Finance shall adopt regulations prescribing the format of the financial statement posted on the Internet website of a city or county pursuant to NRS 244.225, 268.030 and 354.210.

3. Any regulations adopted by the Committee on Local Government Finance must be adopted in the manner prescribed for state agencies in chapter 233B of NRS.

(Added to NRS by 2001, 2317; A 2011, 3579)

NRS 354.613 Enterprise funds: Loan or transfer of money in or associated with fund; increase in amount of fee imposed for purpose of fund; compliance reports; remedy for violation; regulations; applicability; plan to eliminate certain transfers from fund.

1. Except as otherwise provided in this section, the governing body of a local government may, on or after July 1, 2011, loan or transfer money from an enterprise fund, money collected from fees imposed for the purpose for which an enterprise fund was created or any income or interest earned on money in an enterprise fund only if the loan or transfer is made:

(a) In accordance with a medium-term obligation issued by the recipient in compliance with the provisions of [chapter 350](#) of NRS, the loan or transfer is proposed to be made and the governing body approves the loan or transfer under a nonconsent item that is separately listed on the agenda for a regular meeting of the governing body, and:

(1) The money is repaid in full to the enterprise fund within 5 years; or

(2) If the recipient will be unable to repay the money in full to the enterprise fund within 5 years, the recipient notifies the Committee on Local Government Finance of:

(I) The total amount of the loan or transfer;

(II) The purpose of the loan or transfer;

(III) The date of the loan or transfer; and

(IV) The estimated date that the money will be repaid in full to the enterprise fund;

(b) To pay the expenses related to the purpose for which the enterprise fund was created;

(c) For a cost allocation for employees, equipment or other resources related to the purpose of the enterprise fund which is approved by the governing body under a nonconsent item that is separately listed on the agenda for a regular meeting of the governing body; or

(d) Upon the dissolution of the enterprise fund.

2. Except as otherwise provided in this section, the governing body of a local government may increase the amount of any fee imposed for the purpose for which an enterprise fund was created only if the governing body approves the increase under a nonconsent item that is separately listed on the agenda for a regular meeting of the governing body, and the governing body determines that:

(a) The increase is not prohibited by law;

(b) The increase is necessary for the continuation or expansion of the purpose for which the enterprise fund was created; and

(c) All fees that are deposited in the enterprise fund are used solely for the purposes for which the fees are collected.

3. Upon the adoption of an increase in any fee pursuant to subsection 2, the governing body shall, except as otherwise provided in this subsection, provide to the Department of Taxation an executed copy of the action increasing the fee. This requirement does not apply to the governing body of a federally regulated airport.

4. The provisions of subsection 2 do not limit the authority of the governing body of a local government to increase the amount of any fee imposed upon a public utility in compliance with the provisions of [NRS 354.59881](#) to [354.59889](#), inclusive, for a right-of-way over any public area if the public utility is billed separately for that fee. As used in this subsection, "public utility" has the meaning ascribed to it in [NRS 354.598817](#).

5. This section must not be construed to:

(a) Prohibit a local government from increasing a fee or using money in an enterprise fund to repay a loan lawfully made to the enterprise fund from another fund of the local government; or

(b) Prohibit or impose any substantive or procedural limitations on any increase of a fee that is necessary to meet the requirements of an instrument that authorizes any bonds or other debt obligations which are secured by or payable from, in whole or in part, money in the enterprise fund or the revenues of the enterprise for which the enterprise fund was created.

6. The Department of Taxation shall provide to the Committee on Local Government Finance a copy of each report submitted to the Department on or after July 1, 2011, by a county or city pursuant to [NRS 354.6015](#). The Committee shall:

(a) Review each report to determine whether the governing body of the local government is in compliance with the provisions of this section; and

(b) On or before January 15 of each odd-numbered year, submit a report of its findings to the Director of the Legislative Counsel Bureau for transmittal to the Legislature.

7. A fee increase imposed in violation of this section must not be invalidated on the basis of that violation. The sole remedy for a violation of this section is the penalty provided in [NRS 354.626](#). Any person who pays a fee for the enterprise for which the enterprise fund is created may file a complaint with the district attorney or Attorney General alleging a violation of this section for prosecution pursuant to [NRS 354.626](#).

8. For the purposes of paragraph (c) of subsection 1, the Committee on Local Government Finance shall adopt regulations setting forth the extent to which general, overhead, administrative and similar expenses of a local government of a type described in paragraph (c) of subsection 1 may be allocated to an enterprise fund. The regulations must require that:

(a) Each cost allocation makes an equitable distribution of all general, overhead, administrative and similar expenses of the local government among all activities of the local government, including the activities funded by the enterprise fund; and

(b) Only the enterprise fund's equitable share of those expenses may be treated as expenses of the enterprise fund and allocated to it pursuant to paragraph (c) of subsection 1.

9. Except as otherwise provided in subsections 10 and 11, if a local government has subsidized its general fund with money from an enterprise fund for the 5 fiscal years immediately preceding the fiscal year beginning on July 1, 2011, the provisions of subsection 1 do not apply to transfers from the enterprise fund to the general fund of the local government for the purpose of subsidizing the general fund if the local government:

(a) Does not increase the amount of the transfers to subsidize the general fund in any fiscal year beginning on or after July 1, 2011, above the amount transferred in the fiscal year ending on June 30, 2011, except for loans and transfers that comply with the provisions of subsection 1; and

(b) Does not, on or after July 1, 2011, increase any fees for any enterprise fund used to subsidize the general fund except for increases described in paragraph (b) of subsection 5.

10. On and after July 1, 2021, the provisions of subsection 1 apply to transfers from an enterprise fund described in subsection 9 to the general fund of a local government for the purpose of subsidizing the general fund unless:

(a) On or before July 1, 2018, the Committee on Local Government Finance has approved a plan adopted by the governing body of the local government to eliminate transfers from an enterprise fund to subsidize the general fund of the local government that are not made in compliance with subsection 1, which must include, without limitation, a plan to reduce, by at least 3.3 percent each fiscal year during the term of the plan, the amount of the transfers from the enterprise fund to the general fund of the local government for the purpose of subsidizing the general fund; and

(b) In accordance with the plan approved by the Committee on Local Government Finance pursuant to paragraph (a), for each fiscal year during the term of the plan, the local government reduces by at least 3.3 percent the amount of the transfers from the enterprise fund to the general fund of the local government for the purpose of subsidizing the general fund.

11. Each plan approved by the Committee on Local Government Finance pursuant to subsection 10 is subject to annual review by the Committee.

12. After the expiration of the term of a plan approved by the Committee on Local Government Finance pursuant to subsection 10, the provisions of subsection 1 apply to the local government that adopted the plan.

13. The provisions of this section do not apply to an enterprise fund created by the governing body of a local government for the purpose of providing telecommunication services pursuant to the provisions of NRS 710.010 to 710.159, inclusive.

(Added to NRS by 2011, 1686; A 2011, 1692; 2013, 2712; 2017, 1046, 1049; 2019, 1319)

NRS 354.624 Annual audit: Requirements; designation of auditor; scope and disposition; dissemination; prohibited provision in contract with auditor.

1. Each local government shall provide for an annual audit of all of its financial statements. A local government may provide for more frequent audits as it deems necessary. Except as otherwise provided in subsection 2, each annual audit must be concluded and the report of the audit submitted to the governing body as provided in subsection 6 not later than 5 months after the close of the fiscal year for which the audit is conducted. An extension of this time may be granted by the Department of Taxation to any local government that submits an application for an extension to the Department. If the local government fails to provide for an audit in accordance with the provisions of this section, the Department of Taxation shall cause the audit to be made at the expense of the local government. All audits must be conducted by a certified public accountant or by a partnership or professional corporation that is registered pursuant to [chapter 628](#) of NRS.

2. The annual audit of a school district must:

(a) Be concluded and the report submitted to the board of trustees as provided in subsection 6 not later than 4 months after the close of the fiscal year for which the audit is conducted.

(b) If the school district has more than 150,000 pupils enrolled, include an audit of the expenditure by the school district of public money used:

(1) To design, construct or purchase new buildings for schools or related facilities;

(2) To enlarge, remodel or renovate existing buildings for schools or related facilities; and

(3) To acquire sites for building schools or related facilities, or other real property for purposes related to schools.

3. The governing body may, without requiring competitive bids, designate the auditor or firm annually. The auditor or firm must be designated, and notification of the auditor or firm designated must be sent to the Department of Taxation not later than 3 months before the close of the fiscal year for which the audit is to be made.

4. Each annual audit must cover the business of the local government during the full fiscal year. It must be a financial audit conducted in accordance with generally accepted auditing standards in the United States, including findings on compliance with statutes and regulations and an expression of opinion on the financial statements. The Department of Taxation shall prescribe the form of the financial statements, and the chart of accounts must be as nearly as possible the same as the chart that is used in the preparation and publication of the annual budget. The report of the audit must include:

(a) A schedule of all fees imposed by the local government which were subject to the provisions of [NRS 354.5989](#);

(b) A comparison of the operations of the local government with the approved budget, including a statement from the auditor that indicates whether the governing body has taken action on the audit report for the prior year;

(c) If the local government is subject to the provisions of [NRS 244.186](#), a report showing that the local government is in compliance with the provisions of paragraphs (a) and (b) of subsection 1 of [NRS 244.186](#); and

(d) If the local government is subject to the provisions of [NRS 710.140](#) or [710.145](#), a report showing that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

5. Each local government shall provide to its auditor:

(a) A statement indicating whether each of the following funds established by the local government is being used expressly for the purposes for which it was created, in the form required by [NRS 354.6241](#):

(1) An enterprise fund.

(2) An internal service fund.

(3) A fiduciary fund.

(4) A self-insurance fund.

(5) A fund whose balance is required by law to be:

(I) Used only for a specific purpose other than the payment of compensation to a bargaining unit, as defined in [NRS 288.134](#); or

(II) Carried forward to the succeeding fiscal year in any designated amount.

(b) A list and description of any property conveyed to a nonprofit organization pursuant to [NRS 244.287](#) or [268.058](#).

(c) If the local government is subject to the provisions of [NRS 244.186](#), a declaration indicating that the local government is in compliance with the provisions of paragraph (c) of subsection 1 of [NRS 244.186](#).

(d) If the local government is subject to the provisions of [NRS 710.140](#) or [710.145](#), a declaration indicating that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

6. The opinion and findings of the auditor contained in the report of the audit must be presented at a meeting of the governing body held not more than 30 days after the report is submitted to it. Immediately thereafter, the entire report, together with the management letter required by generally accepted auditing standards in the United States or by regulations adopted pursuant to [NRS 354.594](#), must be filed as a public record with:

(a) The clerk or secretary of the governing body;

(b) The county clerk;

(c) The Department of Taxation; and

(d) In the case of a school district, the Department of Education.

7. After the report of the audit is filed by the local government, the report of the audit, including, without limitation, the opinion and findings of the auditor contained in the report of the audit, may be disseminated by or on behalf of the local government for which the report was prepared by inclusion, without limitation, in or on:

- (a) An official statement or other document prepared in connection with the offering of bonds or other securities;
- (b) A filing made pursuant to the laws or regulations of this State;
- (c) A filing made pursuant to a rule or regulation of the Securities and Exchange Commission of the United States; or
- (d) A website maintained by a local government on the Internet or its successor,

↳ without the consent of the auditor who prepared the report of the audit. A provision of a contract entered into between an auditor and a local government that is contrary to the provisions of this subsection is against the public policy of this State and is void and unenforceable.

8. If an auditor finds evidence of fraud or dishonesty in the financial statements of a local government, the auditor shall report such evidence to the appropriate level of management in the local government.

9. The governing body shall act upon the recommendations of the report of the audit within 3 months after receipt of the report, unless prompter action is required concerning violations of law or regulation, by setting forth in its minutes its intention to adopt the recommendations, to adopt them with modifications or to reject them for reasons shown in the minutes.

(Added to NRS by [1965, 735](#); [A 1967, 939](#); [1969, 800](#); [1971, 1344](#); [1973, 184](#); [1975, 451](#), [1688](#), [1801](#); [1977, 547](#); [1981, 313](#), [1768](#); [1987, 1043](#); [1989, 620](#); [1995, 1896](#), [1935](#); [1997, 574](#), [1611](#), [1739](#); [1999, 472](#), [2945](#); [2001, 1810](#); [2003, 1231](#); [2005, 292](#), [1344](#))

NRS 354.6241 Contents of statement provided by local government to auditor; expenditure of excess reserves in certain funds; restrictions on use of budgeted ending fund balance in certain circumstances. [Effective through June 30, 2021.]

1. The statement required by paragraph (a) of subsection 5 of [NRS 354.624](#) must indicate for each fund set forth in that paragraph:

- (a) Whether the fund is being used in accordance with the provisions of this chapter.
- (b) Whether the fund is being administered in accordance with generally accepted accounting procedures.
- (c) Whether the reserve in the fund is limited to an amount that is reasonable and necessary to carry out the purposes of the fund.
- (d) The sources of revenues available for the fund during the fiscal year, including transfers from any other funds.
- (e) The statutory and regulatory requirements applicable to the fund.
- (f) The balance and retained earnings of the fund.

2. Except as otherwise provided in subsection 3 and [NRS 354.59891](#) and [354.613](#), to the extent that the reserve in any fund set forth in paragraph (a) of subsection 5 of [NRS 354.624](#) exceeds the amount that is reasonable and necessary to carry out the purposes for which the fund was created, the reserve may be expended by the local government pursuant to the provisions of [chapter 288](#) of NRS.

3. For any local government other than a school district, for the purposes of [chapter 288](#) of NRS, a budgeted ending fund balance of not more than 16.67 percent of the total budgeted expenditures, less capital outlay, for a general fund:

- (a) Is not subject to negotiations with an employee organization; and
- (b) Must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits.

(Added to NRS by [1995, 1934](#); [A 2001, 387](#), [1812](#); [2011, 1690](#); [2015, 2967](#); [2019, 3608](#))

NRS 354.6241 Contents of statement provided by local government to auditor; expenditure of excess reserves in certain funds; restrictions on use of budgeted ending fund balance in certain circumstances. [Effective July 1, 2021.]

1. The statement required by paragraph (a) of subsection 5 of [NRS 354.624](#) must indicate for each fund set forth in that paragraph:

- (a) Whether the fund is being used in accordance with the provisions of this chapter.
- (b) Whether the fund is being administered in accordance with generally accepted accounting procedures.
- (c) Whether the reserve in the fund is limited to an amount that is reasonable and necessary to carry out the purposes of the fund.
- (d) The sources of revenues available for the fund during the fiscal year, including transfers from any other funds.
- (e) The statutory and regulatory requirements applicable to the fund.
- (f) The balance and retained earnings of the fund.

2. Except as otherwise provided in subsections 3 and 4 and [NRS 354.59891](#) and [354.613](#), to the extent that the reserve in any fund set forth in paragraph (a) of subsection 5 of [NRS 354.624](#) exceeds the amount that is reasonable and necessary to carry out the purposes for which the fund was created, the reserve may be expended by the local government pursuant to the provisions of [chapter 288](#) of NRS.

3. For any local government other than a school district, for the purposes of [chapter 288](#) of NRS, a budgeted ending fund balance of not more than 16.67 percent of the total budgeted expenditures, less capital outlay, for a general fund:

- (a) Is not subject to negotiations with an employee organization; and
- (b) Must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits.

4. For a school district, for the purposes of [chapter 288](#) of NRS, a budgeted ending fund balance of not more than 16.6 percent of the total budgeted expenditures for a county school district fund:

- (a) Is not subject to negotiations with an employee organization; and

(b) Must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits.

(Added to NRS by [1995, 1934](#); A [2001, 387, 1812](#); [2011, 1690](#); [2015, 2967](#); [2019, 3608, 4240](#), effective July 1, 2021)

NRS 354.6245 Review of annual audits by Department of Taxation; referral of accountant who issued noncompliant audit to Nevada State Board of Accountancy; plan of correction of violations.

1. The Department of Taxation shall review each annual audit to determine whether it complies with regulations adopted pursuant to [NRS 354.594](#). Any independent auditor's report, whether upon financial position and results of operations or upon internal financial controls, which the Department believes may not comply with those regulations must be referred by the Department to the Nevada State Board of Accountancy for investigation and such action in respect to the issuing accountant as the Board may find appropriate in the circumstances.

2. In its review of the annual audits submitted, the Department shall identify all violations of statute and regulation reported therein. Within 60 days after the delivery of the annual audit to the local government, the governing body shall advise the Department what action has been taken to prevent recurrence of each violation of law or regulation or to correct each continuing violation. The Department shall evaluate the local government's proposed plan of correction and, if the plan is satisfactory, shall so advise the governing body. If the plan is not satisfactory, the Department shall advise the governing body that it deems the plan inadequate and propose an alternative plan. Within 30 days thereafter the governing body shall report its assent to the Department's plan or request a hearing before the Nevada Tax Commission. This hearing must be held at the next meeting of the Commission, but the hearing must not be held more than 90 days after such a request is received. The determination of the Nevada Tax Commission is final.

3. If the governing body fails to submit a proposed plan of correction pursuant to subsection 2, or the Executive Director of the Department of Taxation determines that the plan established is not being complied with, he or she must, through the Office of the Attorney General, seek a writ from a court of competent jurisdiction to compel compliance.

(Added to NRS by [1981, 310](#); A [1983, 252](#))

NRS 354.625 Records relating to property and equipment; control of inventory. The governing body of every local government shall:

1. Cause to be established and maintained adequate property and equipment records and, where appropriate, adequate inventory controls. Any local government created after July 1, 1975, shall establish such records and controls within 1 year after its creation unless the Department of Taxation grants an extension of time.

2. Require that all such property, equipment and inventory records clearly indicate specific ownership.

3. Designate, by entry in the minutes of the governing body, the officer, employee or officers or employees responsible for the maintenance of property and equipment records and, where appropriate, inventory records, and notify the Department of Taxation of such designation.

(Added to NRS by [1967, 940](#); A [1975, 157, 1689](#))

NRS 354.6256 Use of proceeds of certain obligations to pay operating expenses prohibited; exceptions. The proceeds from any obligation issued by a local government that has a term which is more than 1 year must not be used to pay operating expenses, except that:

1. The proceeds of any obligation issued to construct or acquire a facility may be used to pay operating expenses for the period provided in subsection 7 of [NRS 350.516](#).

2. The proceeds of a medium-term obligation issued by a local government with respect to which the Nevada Tax Commission has determined that a severe financial emergency exists pursuant to [NRS 354.685](#) may be used to pay operating expenses with the approval of the Executive Director of the Department of Taxation.

(Added to NRS by [2001, 2318](#))

NRS 354.626 Unlawful expenditure of money in excess of amount appropriated; penalties; exceptions.

1. No governing body or member thereof, officer, office, department or agency may, during any fiscal year, expend or contract to expend any money or incur any liability, or enter into any contract which by its terms involves the expenditure of money, in excess of the amounts appropriated for that function, other than bond repayments, medium-term obligation repayments and any other long-term contract expressly authorized by law. Any officer or employee of a local government who willfully violates [NRS 354.470](#) to [354.626](#), inclusive, is guilty of a misdemeanor and upon conviction thereof ceases to hold his or her office or employment. Prosecution for any violation of this section may be conducted by the Attorney General or, in the case of incorporated cities, school districts or special districts, by the district attorney.

2. Without limiting the generality of the exceptions contained in subsection 1, the provisions of this section specifically do not apply to:

(a) Purchase of coverage and professional services directly related to a program of insurance which require an audit at the end of the term thereof.

(b) Long-term cooperative agreements as authorized by [chapter 277](#) of NRS.

(c) Long-term contracts in connection with planning and zoning as authorized by [NRS 278.010](#) to [278.630](#), inclusive.

(d) Long-term contracts for the purchase of utility service such as, but not limited to, heat, light, sewerage, power, water and telephone service.

(e) Contracts between a local government and an employee covering professional services to be performed within 24 months following the date of such contract or contracts entered into between local government employers and employee organizations.

(f) Contracts between a local government and any person for the construction or completion of public works, money for which has been or will be provided by the proceeds of a sale of bonds, medium-term obligations or an installment-purchase agreement and that are entered into by the local government after:

(1) Any election required for the approval of the bonds or installment-purchase agreement has been held;

(2) Any approvals by any other governmental entity required to be obtained before the bonds, medium-term obligations or installment-purchase agreement can be issued have been obtained; and

(3) The ordinance or resolution that specifies each of the terms of the bonds, medium-term obligations or installment-purchase agreement, except those terms that are set forth in subsection 2 of NRS 350.165, has been adopted.

↳ Neither the fund balance of a governmental fund nor the equity balance in any proprietary fund may be used unless appropriated in a manner provided by law.

(g) Contracts which are entered into by a local government and delivered to any person solely for the purpose of acquiring supplies, services and equipment necessarily ordered in the current fiscal year for use in an ensuing fiscal year and which, under the method of accounting adopted by the local government, will be charged against an appropriation of a subsequent fiscal year. Purchase orders evidencing such contracts are public records available for inspection by any person on demand.

(h) Long-term contracts for the furnishing of television or FM radio broadcast translator signals as authorized by NRS 269.127.

(i) The receipt and proper expenditure of money received pursuant to a grant awarded by an agency of the Federal Government.

(j) The incurrence of obligations beyond the current fiscal year under a lease or contract for installment purchase which contains a provision that the obligation incurred thereby is extinguished by the failure of the governing body to appropriate money for the ensuing fiscal year for the payment of the amounts then due.

(k) The receipt by a local government of increased revenue that:

(1) Was not anticipated in the preparation of the final budget of the local government; and

(2) Is required by statute to be remitted to another governmental entity.

(l) An agreement authorized pursuant to NRS 277A.370.

(Added to NRS by 1965, 736; A 1969, 801; 1971, 1016, 1345; 1973, 68, 1155; 1975, 40, 279, 711; 1981, 1769; 1985, 648; 1987, 1720; 1995, 1908; 1997, 573; 1999, 833; 2001, 1812, 2324; 2003, 162, 802; 2005, 579; 2009, 432, 852; 2011, 1690, 2728; 2013, 2715)

Attachment 6



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

POLICY. The District will maintain practices in conformity with the Nevada Revised Statute Section 354.107 (Regulations) and 354.613(c) (Enterprise Funds Cost Allocation), including:

- 0.1 Central Service Cost Allocation Plan for accumulating, allocating and developing billing rates on allowable costs of services provided by the District's General Fund to departments, divisions and Funds.
- 0.2 This Policy and related Practice can only be modified by a non-consent agenda item during a regular meeting of the Board of Trustees.

The District's adopted other Financial Policies (6.1.0) that should be used to frame major practice initiatives and be summarized in the budget document. This Policy is specific to the equitable distribution of general, overhead, administrative and similar costs incurred by the District's General Fund in the process of supporting the operation of the District funds.

The underlying practice, along with any others that may be adopted for other financial purposes, will be reviewed during the budget process. The Finance and Accounting staff should review the practices to ensure continued relevance and to identify any gaps that should be addressed with new practices. The results of the review should be shared with the Board of Trustees during the review of the proposed budget. Each budget year, the current Central Service Cost Allocation Plan will be filed with the Nevada Department of Taxation as required.

Practice categories that should be considered for development, adoption and regular review are as follows:

- 0.1.1 Costs Allowed
- 0.1.2 Allocation Method
- 0.1.3 Billing rates for services provided

Attachment 7



**Budgeting and Fiscal Management
Central Service Cost Allocation Plan
Practice 18.2.0**

RELEVANT POLICY: 18.1.0 Adoption of Central Service Cost Allocation Plan

1.0 COSTS ALLOWED

- 1.0.1 Costs will be determined in accordance with generally accepted accounting principles and approved by the Board of Trustees as part of the annual budget process, including any budget augmentation.
- 1.0.2 Costs incurred by a department, division or Fund specifically associated with their activities and operation will be Direct Costs to those departments, divisions or Funds.
- 1.0.3 Costs incurred for a common or joint purpose, benefitting more than one objective, will be considered Indirect Costs. These Indirect Costs must be necessary and reasonable for proper and efficient performance and administration.
- 1.0.4 Costs incurred may include, without limitation:
 - 1.0.4.1 Legislative costs for the Board of Trustees
 - 1.0.4.2 Legal Costs
 - 1.0.4.3 General Administration
 - 1.0.4.4 Emergency Services
 - 1.0.4.5 Public Relations
 - 1.0.4.6 Property Management
 - 1.0.4.7 Grants Management
 - 1.0.4.8 Contract, Procurement and Accounts Payable
 - 1.0.4.9 Grounds and Building Maintenance
 - 1.0.4.10 Budgeting, Accounting, Payroll and Audit
 - 1.0.4.11 Human Resources and Risk Management
 - 1.0.4.12 Information Technology and Communications
 - 1.0.4.13 Warehouse and Storage

Effective for the year ended June 30, 2012 upon acceptance by the Board of Trustees
Adopted February 29, 2012



**Budgeting and Fiscal Management
Central Service Cost Allocation Plan
Practice 18.2.0**

1.0.5 Applicable Credits

1.0.5.1 Applicable Credits will reduce the total costs allowed, when the credit relates directly to a transaction included in total costs.

1.0.6 Costs allowed should be deemed reasonable, ordinary and necessary for the operation of an Enterprise Fund.

2.0 ALLOCATION METHOD

2.0.1 The District's Proprietary Funds include both Enterprise and Internal Service Funds. The Internal Service Funds have and will continue to develop specific billing rates for services based on individual units of service to each department, division or Fund. Enterprise Funds will be billed an annual allocation of Indirect Costs Allowed, net of applicable credits, as evidenced by the adopted budget. The General Fund and Internal Service Funds be allocated a portion of these costs, but will not be billed, as it would only add a layer to recalculating their related rates and charges to the other funds.

2.0.2 The proportion of the allocation will be based on budget data in the form of statistics or amounts.

2.0.3 The basis of the allocation will be scheduled in support of current rates and be presented to the Board of Trustees in conjunction with establishing the Operating Budget for each fiscal year.

2.0.4 The Allocation Method for each Cost will be appropriate in relation to the cost's objective or measurement.



**Budgeting and Fiscal Management
Central Service Cost Allocation Plan
Practice 18.2.0**

3.0 BILLING RATES

- 3.0.1 Monthly billings will be recorded and paid from the Enterprise Funds to the General Fund, based on a total as adopted with the District's Annual Operating Budget, including any Board approved amendments or budget augmentation.
- 3.0.2 The June billing each year, may be adjusted such that the total charges to the Enterprise Funds, for the fiscal year ending that respective June, does not exceed the actual allowed incurred costs net of actual applicable credits. The District may bill less than the budgeted total for a fiscal year, but in no case can the total billing exceed the total approved with the adoption of the District Annual Operating Budget for that fiscal year, including any Board approved amendments or budget augmentation.
- 3.0.3 Payment for billings will be considered completed by an entry in the general ledger for the District, through the Cash Clearing Fund, with appropriate amounts posted to the General Fund and the respective Enterprise Fund(s).

Attachment 8

Number 1

Improper change in Accounting and Reporting from Business Activities (Enterprise) to Governmental Activities

There could be no basis in changing the accounting and reporting of the Community Services and Beach Funds from Enterprise funds to Government funds.

Historically, up until June 30, 2015, the activities of the recreational venues of the Community Service and Beach venues were accounted for and reported as Enterprise funds based on a bedrock of facts:

1) Nevada Revised Statutes 354.517 defines an enterprise fund as a fund established to account for operations (1) which are financed and conducted in a manner similar to the operations of private business enterprises, where the intent of the governing body is to have expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through charges to the users.

2) Paragraph 67 of GASB #34 states:

that an enterprise fund may be used to report any activity for which a fee is charged to external users for good or services.

Activities are **required** to be reported as enterprise funds if any **one** of the three criteria are met

Two of the three conditions are met as follows:

Laws and regulations require that the activity's cost of providing services, including capital costs (such as depreciation), be recovered with fees and charges, rather than with taxes or similar revenues.

Note: NRS 318-197

The pricing policies of the activity establish fees and charges designed to recover its cost, including capital costs (such as depreciation or debt service)

Note: Board Policy 6.1.0

All of the above requirements for enterprise accounting are met by the facts from the citations above. Historically, IVGID reported

Mr. Eick, Director of Finance for f IVGID in conjunction with the former GM Pinkerton and Legal Council Jason Guinasso chose to ignore the facts and created an **alternative set of facts**.

1) Decided the recreational venues were not conducted in a manner similar to a private business. Other than providing services for Parks, all remaining venues Golf, Ski, Facilities, Recreation Center and Tennis

are operated similar to a private business and most revenues are obtained from these business activities.

2) Ignored that the primary sources of revenues from the activities were charges to users. Substantially all revenues of both Community Services and Beach venues are charges to users (which include the Facility Fees).

3) Decided that the Facility Fees collected pursuant to NRS 318-197 were no longer charges for services but somehow were a tax and subsequently considered an imposed non exchange transaction (which are defined as taxes, fines, penalties, Gift/donations, grants, entitlements, and promises to give). This is totally false. The Facility Fees are exchange transactions. In exchange for payment of the Facility Fee, parcel owners can obtain Resident Cards and Punch Cards which can be used to obtain lower user rates at the recreational venues. Approximately 22,000 Resident Cards and 11,000 Punch Cards are obtained annually by residents. These residents obtain the Cards because they obviously believe that an equal value or more value is received via lower user rates at recreations venue in exchange for the payment of the Facility Fees.

4) Decided that the Districts pricing policies had changed yet Board Policy 6.1.0 adopted by the Board and effective on July 1, 2015 had not changed

5) Created Note 19 - Subsequent Events in the CAFR for fiscal year ending June 30, 2014

"Effective July 1, 2015, with its new fiscal and budget year, the District began utilizing Special Revenue, Capital Projects and Debt Service governmental fund accounting for the Community Services and the Beach Fund., which have to date been accounted for as enterprise funds. The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide recourses for capital expenditures and debt service cannot be displayed in a readily understandable fashion for its constituents."

There is no evidence that the approach to the pricing of services has ever changed. A change in accounting and reporting is not guided by constituents not being able to understand how funds are displayed.

At the December 16, 2015 IVGID Audited Committee meeting, Mr. Dan Carter of EideBailly provided answers to questions by members of the Audit Committee regarding the change in accounting. In response Mr. Carter stated: *"I guess I'll caveat the discussion with the fact that you know again that's a management decision and a board approved decision. We can't be in anyway be seen as approving those functions because we have to keep our independence with management what goes on up here."*

In another statement Mr. Carter stated: *It is unusual up here when we use the word fee like the Community Services fee and the Beach fee because it's actually technically a tax.*

It is quite clear that EideBailly never provided an opinion on the accounting transition, however, it was stated by IVGID management that the auditors provided consent for the transition. In addition, IVGID management stated that the Department of Taxation had approved the transition. This was totally false.

The basis assumption that the Facility Fees was a tax rather than a charge for services created a misguided understanding of the actual revenues being collected from parcel owners.

A separate opinion by EdieBailly is required that the change in accounting and reporting for the Community Services and Beach venues from Business activities to Governmental activities was either appropriate or inappropriate, based on GASB #34 and NRS.

Number 2

Error in Capitalizing conditions assessments and temporary repair work on the Effluent Pipeline which must be expensed

Statement of Net Position (CAFR page 21), Statement of Activities (CAFR page 22) Statement of Net Position (CAFR page 30), Statement of Revenues, Expenses, and Changes in Net Position (CAFR Page 31) and Notes to Financial Statements (CAFR pages 34-56). Also Management Discussion and Analysis and Transmittal Letter will be affected.

Since 2012, IVGID intended on replacing 6 miles of Effluent Pipeline in State Highway 28 and increased customer utility rates to provide resources for the replacement.

After a major spill from a leak in the effluent pipeline occurred in 2014, the Nevada Department of Environmental Protection ("NDEP") required IVGID to "provide a plan that shall immediately implemented to evaluate and repair or replace the export pipeline to protect Lake Tahoe and the Tahoe Basis from future unanticipated discharges" . IVGID immediately conducted a conditions assessment on the 6 miles of pipeline which had cumulated costs of approximately \$1.4 million over a three year period. These costs were initially recorded as construction in progress then transferred to Capital Assets to be depreciated. These assessments were required by the NDEP mandate and should be expensed.

Approximately \$1.2 million was spent in 2017 and 2018 to repair only 1,080 linear feet of effluent pipeline which costs was recorded as construction in progress and then transferred to Capital assets in 2019. These repairs were temporary in nature to satisfy NDEP mandates and should have been expensed as incurred. The District intends to relocate the existing effluent pipeline to the center of Highway 28 which will result in abandoning the existing pipeline within the next three years. The costs do not meet the requirements of Board practices or required minimum life of 10 years. According to Board Practice 2.9.0 - 1.2.4 any repair or refurbishment that will be capitalized, the outlay will substantially prolong the life on an existing fixed asset, rather than returning the asset to a functioning unit or making repairs of a routine nature.

An additional \$546,000 (21%) of charges from the Internal Services Engineering Department relating to the assessments and repairs was also transferred from Construction in Progress to Capital Assets. These charges must be expensed.

By capitalizing these costs and depreciating the costs over an extended time period the financial statements of the Utility Fund are distorted and hides the actual expense impact of mandated assessments and temporary repairs.

According to Note 1J Significant Accounting Policies (CAFR page 40) the capitalization depreciable life for infrastructure assets are between 10 and 50 years. As such these repairs costs must be expensed.

These charge offs of approximately \$3,100,000 will have a material impact on the Utility Fund Statement of Net Position (CAFR page 30), the Statement of Revenue, Expenses, and Changes in Net

Position (CAFR page 31) and the Statement of Cash Flows (CAFR page 32). Also the Statement of Net Position for the entire District (CAFR page 21) will required restatement.

In addition, Note 4 (CAFR page 46) and Management Discussion and Analysis (CAFR pages 15 & 19) will require corrections

Number 3

Feasibility and Master Plan Studies should be reclassified from Construction in Progress to expenses of Special Revenue Funds and Utility Fund affecting Statement of Net Position - (CAFR page 21), Statement of Activities (CAFR page 22), Statement of Revenues and Expenses (CAFR page 25), Statement of Revenues and Expenses (CAFR pages 28 & 29) Statement of Net Position (page 30) Statement of Revenues and Expenses (page 31), Statement of Cash Flows (page 32), Notes to Financial Statements (CAFR page 46)

Feasibility and Master Plan Studies

Several consultants have provided studies on recreational venues which costs have been recorded as construction in progress. These studies are updates to master plans, recommendations for rehabilitation of existing facilities or potential new facilities. There was no construction in progress nor is there any assurance that any recommendations will be accomplished.

The following is the list of studies that have been recorded as construction in progress.

Governmental Funds

Ski Area Master Plan Implementation - Phase 1	\$67,302.73	Speculation - on short term ground lease
Ski Area Master Plan Update & Summer Activities Assessment	156,029.78	Speculation - on short term ground lease
Tennis Facility Study	40,142.24	Did not follow recommendations
Parks and Recreation Master Plan Update	261,501.64	Speculation
Incline Beach Facility Study	<u>133,759.86</u>	Speculation
	\$658,736.25	

Enterprise Fund

Cost sharing with Tahoe Transportation District - Environmental		
Assessment Effluent Pipeline Co-Location in Bike Path	\$300,000.00	Speculation - Probably of abandonment

These studies should be expensed and removed from construction in progress

Number 4

Improper recording of revenues described in Note 1T as a significant Accounting Policy called "Punch Cards Utilized" and in Note 18 as a Segment Information and failure to disclose the resulting cash interfund transfers in Note 7 and required payments to parcel owners that have no Beach access.

This accounting scheme was initiated in fiscal year 2013 to increase noncash charges for services (revenues) in the Beach Fund (through 6/30/2014) and the Beach Special Revenue Fund (effective 7/1/2016 ("BSRF")) and subsequently offset 100 % of those revenues by a contra revenue charge in the Community Service Fund (through 6/30/2014) and the Community Services Special Revenue Fund (effective 7/1/2016 ("CSSRF")), resulting in a cash transfers of approximately \$2,230,000 since 2013. In fiscal year 2019 \$468,000 was transferred from the CSSRF to the BSRF.

As a result for fiscal year 2019 revenue from charges for services of the BSRF have been overstated by 43% and correspondingly revenues from charges for services of the CSSRF has been understated by 3.7%.

In addition, based on the May 22, 2019 board resolution 1871, a total of 455 parcel owners have been charged a facility fee which allows the use of only Community Services venues but their share of those facility fees have been transferred to the Beach venues in which they do not participate. These parcel owners represent 5.55% of all parcel owners and their share of the facility fee paid or \$26,000 (\$468,000 X 5.55%) has been transferred to the Beaches. Since 2013 \$124,000 of revenues from parcel owners not participating in the Beach venues have been transferred to the Beach Fund.

No revenues should have been recognized as the value of each punch card had been paid and recorded as revenues when the Recreation Facility Fee and Beach Fee was paid. No revenues were created by subsequently using a punch card to obtain a lower charge for services (user fees) at the recreational venues. This accounting scheme is a double booking of revenues with unrelated contra revenue offsets.

At the December 16, 2015 IVGID Audit Committee meeting, Mr. Dan Carter, provided answers to the Committee members questions, which indicate he did not have an understanding of what false accounting was transpiring and stated that IVGID had a policy for the accounting. There is no policy.

According to GASB #34 paragraph 122 Segment Information in Financial Statement Notes should be used only for enterprise funds. The CCRS and BSRF are not enterprise funds.

EideBailly must provide an opinion on the validity of the accounting and reporting complying with Nevada law, GAAP and GASB for "Punch Cards Utilized" transactions.

Number 5

Unallowable transfer of Funds for Central Services Cost Allocations. (Note 1S) (CAFR page 42)

Since July 1, 2015 certain unlawful transfers have been made from the Community Services Special Revenue Fund (CSSRF) and the Beach Special Revenue Fund (BSRF) to the General Fund based on provisions of NRS 354.613 subsection C and Board of Trustee Policy 18.1.0. Both the NRS and Board Policy only relate to Enterprise Funds. Both the CSSRF and the BSRF are governmental funds not enterprise Funds.

After a September 23, 2019 letter from Clifford F. Dobler and Linda Newman, Incline Village citizens, expressing concern about the illegal transfers made based on the above NRS and Board Policy, the IVGID Director of Finance, Gerald Eick, indicated in a memorandum to the IVGID Audit Committee dated November 27, 2019 that the transfers were made based on "following State guidance to share defined costs in the General Fund between operating governmental and enterprise funds." A subsequent public records request revealed that IVGID cannot produce the State Guidance. There is also no evidence that the Auditors opined.

Since July 1, 2015 and including the budget for fiscal 2020, a staggering \$3,874,900 has been transferred from the CSSRF and the BSRF to the General Fund under the guise of Central Services Cost Allocations.

Several Basic Financial Statements will require restatement if the Central Services Cost Allocations were not allowed.

A written opinion from EideBailly must be obtained.

Number 6

Use of a false assertion to record Utility Fund deferred revenues (unearned) of \$433,980 as current revenues in the Proprietary Funds - Statement of Revenues, Expenditures and Changes in Net Position (CAFR page 31) causing an increase in Net Position on Proprietary Funds - Statement of Net Position (CAFR page 30).

IVGID currently bills customers monthly in advance a minimum base rate for water and sewer service which will be delivered in the subsequent month. The billings are recorded as a receivable but a portion of the billing has historically been deferred and recorded as unearned revenue because the base rate is billed in advance of the services being provided.

In fiscal year 2019, Mr. Eick, Director of Finance, decided on his own, that the advanced billings of base water and sewer rate should be considered current revenues based on a false assertion that base rates are a "non-exchange transaction" because the billing components are not tied to the receipt of any quantity of water and sewer services" (item #4 of Memorandum dated November 27, 2019 from Gerald W. Eick to the IVGID Audit Committee).

The base rates for water and sewer services are charged to customers in EXCHANGE for providing a future service and could not be considered as a tax, a fine, or donations which are examples of NON EXCHANGE TRANSACTIONS. Mr. Eick's narrative is NOT A LOGICAL EXPLANATION FOR NO LONGER DEFFERING BASE RATES BILLED IN ADVANCE

Apparently during the course of the audit performed by Eide Bailly L.P. (Auditor) this change in accounting was discovered by the Auditor and considered the change to be a misstatement. Rather than correct the misstatement, Mr. Eick and Lori Pommerenck, Controller, provided the following statement in the Management Representation Letter to Auditor dated November 18, 2019:

"The effects of the uncorrected misstatement below aggregated by you during the current engagement is immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole:

Revenues	417,402
Net Position	417,402

To pass on recording the prior year impact to revenue for nonexchange fees billed in advance

It is quite apparent, the decision NOT to correct the misstatement was by IVGID management and the Auditor may be seeking legal protection through reliance on Managements representatons.

Also note the amounts used in the Memorandum to the Audit Committee and the Representation Letter to the Auditor do not agree and are different by \$16,578. How is it possible that the Memorandum to the Audit Committee dated November 27, 2019 would have different amounts than the CAFR and Representation Letter delivered on November 18, 2019?

Materiality is not the issue as Utility Fund revenues have been overstated by only 3.4%. The false assertion created by Mr. EICK was delineated in the Memorandum to the Audit Committee involving EideBailly which stated:"However further discussions with the Auditors found a more compelling factor is that they are a non exchange transaction because the billing components are not tied to the receipt of any quantity of water or sewer services."

Question for EideBailly - Are advanced billings for basic water and sewer services considered a non exchange transaction and if so why would that matter on not deferring advanced billing?

Number 7

Incorrect statements and failure to report all commitments in Note 19 - Commitments Affecting Future Periods (CAFR pages 54-55), and failure to report contractual arrangements as committed fund balance on the Balance Sheet of Governmental Funds.

- Capital Improvement Project Budget Carryover -

The following projects had committed Budgets outstanding but were not included

Incline Park Facility Renovation - \$1,174,741 affecting Community Service

Purchase of Vactor Truck - \$416,564 affecting Utility Fund

Incline Creek Park Restoration - Amount of the carryover should be \$303,895 which is the unspent amount of two contracts. Only \$214,000 was included in the project carryover thus understating the carry over amount by \$89,895.

- The District has committed to these contractual arrangements for capital improvement projects-

Failure to report a roofing contract with Kodiak Roofing & Waterproofing dated 9/13/2017 for \$77,535. Work on the contract did not start until September 2019. The contract amount was included as a Capital Improvement Project budget carryover.

NOTE: The contracts reported in this section plus the contract above relating to governmental funds should be reported as a committed fund balance on the Balance Sheet (CAFR page 23) Total amount \$1,685,966

GASB Statement #54 paragraph 10 provides the requirements for Committed Fund Balance

"Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance"

The specific purpose would be the future contract costs. There is no longer intent to be an "Assigned" fund balance as an obligation was created.

The constraints imposed would be approval of the contracts by IVGID Board of Trustees (they being the highest level of decision-making authority)

- Budgeting for Fiscal Year Ending June 30, 2020

The General Fund 2019/2020 Budget provided for a TRANSFER of fund to the Community Services Special Revenue Fund for only \$561,800 and DID NOT include a transfer of \$145,000 in contingency. These transfers violate NRS 354.6117, as the funds were specified for the Mountain Golf Course Clubhouse Renovation. The \$788,870 transfer exceeds the limitation imposed in NRS 354.6117 which is 10% of the total amount of the budgeted expenditures of the general fund.

The narrative fails to address the actual Fund name.

According to the narrative a total of \$4,037,091 of accumulated resources in the Community Services Special Revenue Fund and \$625,729 in the Beach Special Revenue fund will be used for capital projects in direct violation of GASB Statement #54 paragraph 30

As Stated: "Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects".

Note: Separate capital project and debt service funds for the Community Services venues and the Beach venues were established by Resolution by the Board of Trustees effective July 1, 2015 and were discontinued as stated in the Letter of Transmittal (page 4) of the CAFR. Disclosure in the Notes to the Financial Statements would be required.

Edie Bailly must opine on apparent non compliance with GASB #54

Number 8

Improper Classification of Revenues in the Statement of Activities for the year ended June 30, 2019 (CAFR page 22)

A. The Statement of Activities lists \$1,169,000 as Program Revenues -Charges for Services as received by the General Fund. These charges were generated by Central Services Cost Allocations (which may have been illegal transfers).

These charges are not revenues but reduction of expenses as indicated in the Governmental Funds Fund Statement of Revenues and Expenses (CAFR - page 25) and the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance (CAFR - page 27).

B. The Statement of Activities also lists Facilities Fees of \$6,756,410 as General revenues of Governmental activities. The Facility Fees are NOT General revenues but are fees charged to parcel owners for the specific use of making facilities available for all Community Services and Beach recreational venues. These Facility Fees are not general revenues but are specific revenues for the two funds mentioned above.

The Facilities Fees are authorized to be collected by NRS 354.197 as fees (charges for services) for specific purposes.

The Facility Fees must be listed as a Program Revenues under Charges for Services for the Community Services and the Beach and must be reclassified.

C. The Internal Services fund has been named Fleet, Engineering, Bldgs. & Workman's Comp apparently to confuse the reader and should be corrected.

Number 9

Failure to report a grant for the Incline Park Ball Fields

Failure to report a major grant of \$1,409,201 from the Incline-Tahoe Parks and Recreation Vision Foundation, Inc. via a Memorandum of Understanding dated March 18, 2019, as a Grant Receivable and also a Deferred Revenue (possibly a current revenue) which effects the Statement of Net Position (CAFR page 21 and the Balance Sheet (CAFR page 23). GASB #33 (paragraph 19, 20, 21) clearly states that once all of four eligibility requirements are satisfied (there is no time limit) the grant commitment should be recorded as a receivable and as a revenues even though expenditures have not occurred.

The \$1,298,341 construction contract for the Ball fields project was issued in May, 2019 and was disclosed as a contractual arrangement in Note 19, however, was NOT included the **Capital Improvement Project Budget Carryover** section of Note 19.

EdieBailly should provide an opinion on compliance with GASB #34 regarding accounting treatment for this grant.

Number 10

Mountain Golf Course Clubhouse Fire Damage Short Term Rehabilitation

Improper classification of temporary fire damage repairs as construction in progress rather than an operating expense

Fire damage repairs of \$150,751 were completed on the interior of the Mountain Golf Course Clubhouse during fiscal 2019 in order to operate the facility for the 2019 golf season and thereafter would be abandoned as a complete renovation of the exterior and interior of the facility would begin in September 2019. These repairs were recorded as construction in progress. On August 14, 2019, contracts, staff time and a contingency budget for \$1,192,000 was approved by the Board of Trustees for a complete renovation of the facility.

The fire damage repairs must be removed from Construction in Progress and charged off as an expense. There was never an intend to extend the life of these repairs past the 4 month golf season.

There are several financial statements which will have to be restated together with Management Discussion and Analysis

Note 11

Failure to disclose major leases with the U. S Department of Agriculture Forest Service and Parasol Foundation Inc. in Note 16 - Lease Obligations (CAFR page 53)

IVGID has a Special Use Permit (effectively a lease) dated 7/17/2014 with the following basic terms:

361 acres of National Forest Service Land is leased to IVGID which is 49% of the Diamond Peak Ski area

Expires on 12/23/2023

Permit is not renewable

New permit is required. Sole discretion of Forest Service

Land use fees are various percentages based on 49% of the adjusted gross income from sales of Alpine and Nordic lift tickets, passes and ski school operations.

Monthly payments are required if previous year payments exceed \$10,000

Total payment in fiscal year 2019 is unknown.

IVGID leases 2.35 acres of land which IVGID owns to the Parasol Foundation Inc. who constructed a 31,500 square foot building with a grant from an outside donor.

The lease was executed 1/12/2000

The lease is for 30 years with 3 options for 10 years each

The lease is for \$1 per year

Only charities/non profits can occupy the building

Parasol must maintain a \$1,325,000 replacement endowment account during term of the lease

Parasol must keep the building substantially occupied during term of the lease

THE LAND WAS APPRAISED FOR \$1,000,000 ON JULY 7, 2017

Number 12

False statement in Note 1P Significant Accounting Policies to Financial Statements relating to Fund Balance

Note 1P (CAFR page 41) regarding information provided on Fund Balance which states:

"An assigned fund balance can be specified by the District's General Manager"

It is quite unclear what that statement actually means. A reader may conclude that the \$14,036,495 reported as an assigned fund balance for the Community Services and Beach Special Revenue Funds (CAFR page 23) may have been given to the General Manager to be used as that person sees fit.

GASB # 54 paragraph 13 states there are three choices who would determine intent to have a Fund Balance Assigned

a) the governing body itself

b) a body (a budget or finance committee)

or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes

There is no Board Policy or practice which would support the statement made in Note 1P and it should be removed.

Number 13

Failure to report committed amounts of the fund balance for the Community Service Special Revenue Fund on the Governmental Funds Balance Sheet as of June 30, 2019 (CAFR page 23) to reflect commitments for three construction contracts executed in fiscal year 2020.

Three construction contracts for \$ \$1,608,341 as disclosed in Note 19 (CAFR page 55) were budgeted and executed in fiscal year 2019, however, construction was not started. As such, the fund balance of the Community Services Special Revenue Fund should reflect the commitment of the Fund Balance for these contracts.

In addition, a contract for \$77,535 executed on 9/13/2017 for replacing the roof at the Mountain Golf Course Clubhouse was outstanding at June 30, 2019. Construction did not commence until September, 2019. This contract should be also included in Note 19.

GASB Statement #54 paragraph 10 provides the requirements for Committed Fund Balance

"Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance"

The specific purpose would be the future contract costs (there is no longer intent to be an "Assigned" balance as an obligation was created.

The constraints imposed would be approval of the contracts by IVGID Board of Trustees (they being the highest level of decision-making authority)

"Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements."

Number 14

Improper reporting of Notes to Financial Statements

The Notes to Financial Statements - Index (page 34) lists Note 1E as Budgets and Budgetary Accounting yet Note 1E in the text (page 37) states: Compliance with Nevada Revised Statutes and Nevada Administrative Code.

This error needs correction.

From: [Matthew Dent](#)
To: [Herron, Susan](#)
Cc: [Winquest, Indra S.](#); [Paul C. Navazio](#); [Tim Callicrate](#)
Subject: Fw: Audit Committee & Questions for Auditors
Date: Wednesday, July 29, 2020 8:57:54 AM

Hi Susan,
Please share with the Audit Committee and CC me on the email. Thanks, Matthew

From: Matthew Dent <matthew.ivgid@gmail.com>
Sent: Wednesday, July 29, 2020 8:26 AM
To: Matthew Dent
Subject: Fwd: Audit Committee & Questions for Auditors

Susan,
Please forward the correspondence below to the Audit Committee and CC me. Thank you,
Matthew



Matthew Dent

Incline Village GID Board of Trustees
893 Southwood Blvd. Incline Village, NV 89451
775.530.1345 | www.matthewdent.com

----- Forwarded message -----

From: **Tiffany Williamson** <tawilliamson@eidebailly.com>
Date: Tue, Feb 25, 2020 at 4:17 PM
Subject: RE: Audit Committee & Questions for Auditors
To: Matthew Dent <matthew.ivgid@gmail.com>

Matthew,
I am looking into what we discussed this morning and have a few preliminary thoughts:

First, as to criteria (b), I looked at NRS 318.197 (copied below) and I am not seeing how this requires that the activity's costs are fully recovered with fees and charges. It does state that fees can be set, but doesn't require a calculation that all costs are recovered.

NRS 318.197 Rates, tolls and charges; liens; regulations governing connection and disconnection for facilities and services of district; collection of charges and penalties.

1. The board may fix, and from time to time increase or decrease, electric energy, cemetery, swimming pool, other recreational facilities, television, FM radio, sewer, water, storm drainage, flood control, snow removal, lighting, garbage or refuse rates, tolls or charges other than special assessments, including, but not limited to, service charges and standby service charges, for services or facilities furnished by the district, charges for the availability of service, annexation charges, and minimum charges, and pledge the revenue for the payment of any indebtedness or

special obligations of the district.

2. Upon compliance with subsection 9 and until paid, all rates, tolls or charges constitute a perpetual lien on and against the property served. A perpetual lien is prior and superior to all liens, claims and titles other than liens of general taxes and special assessments and is not subject to extinguishment by the sale of any property on account of nonpayment of any liens, claims and titles including the liens of general taxes and special assessments. A perpetual lien must be foreclosed in the same manner as provided by the laws of the State of Nevada for the foreclosure of mechanics' liens. Before any lien is foreclosed, the board shall hold a hearing thereon after providing notice thereof by publication and by registered or certified first-class mail, postage prepaid, addressed to the last known owner at his or her last known address according to the records of the district and the real property assessment roll in the county in which the property is located.

3. The board shall prescribe and enforce regulations for the connection with and the disconnection from properties of the facilities of the district and the taking of its services.

4. The board may provide for the collection of charges. Provisions may be made for, but are not limited to:

(a) The granting of discounts for prompt payment of bills.

(b) The requiring of deposits or the prepayment of charges in an amount not exceeding 1 year's charges from persons receiving service and using the facilities of the enterprise or from the owners of property on which or in connection with which services and facilities are to be used. In case of nonpayment of all or part of a bill, the deposits or prepaid charges must be applied only insofar as necessary to liquidate the cumulative amount of the charges plus penalties and cost of collection.

(c) The requiring of a guaranty by the owner of property that the bills for service to the property or the occupants thereof will be paid.

5. The board may provide for a basic penalty for nonpayment of the charges within the time and in the manner prescribed by it. The basic penalty must not be more than 10 percent of each month's charges for the first month delinquent. In addition to the basic penalty, the board may provide for a penalty of not exceeding 1.5 percent per month for nonpayment of the charges and basic penalty. The board may prescribe and enforce regulations that set forth the date on which a charge becomes delinquent. The board may provide for collection of the penalties provided for in this section.

6. The board may provide that charges for any service must be collected together with and not separately from the charges for any other service rendered by it, and that all charges must be billed upon the same bill and collected as one item.

7. The board may enter into a written contract with any person, firm or public or private corporation providing for the billing and collection by the person, firm or corporation of the charges for the service furnished by any enterprise. If all or any part of any bill rendered by the person, firm or corporation pursuant to a contract is not paid and if the person, firm or corporation renders any public utility service to the person billed, the person, firm or corporation may discontinue its utility service until the bill is paid, and the contract between the board and the person, firm or corporation may so provide.

8. As a remedy established for the collection of due and unpaid deposits and charges and the penalties thereon an action may be brought in the name of the district in any court of competent jurisdiction against the person or persons who occupied the property when the service was rendered or the deposit became due or against any person guaranteeing payment of bills, or against any or all such persons, for the collection of the amount of the deposit or the collection of delinquent charges and all penalties thereon.

9. A lien against the property served is not effective until a notice of the lien, separately prepared for each lot affected, is:

(a) Mailed to the last known owner at his or her last known address according to the records of the district and the real property assessment roll of the county in which the property is located;

(b) Delivered by the board to the office of the county recorder of the county within which the property subject to such lien is located;

(c) Recorded by the county recorder in a book kept by the county recorder for the purpose of recording instruments encumbering land; and

(d) Indexed in the real estate index as deeds and other conveyances are required by law to be indexed.

Second, as to criteria (c), I looked at the policy you mentioned (copied below) and am not sure that this would meet the criteria that pricing policies are designed to recover the costs. It does state that there should be an adopted process for how fees and services are set and the extent to which they cover the costs of the service, but not that they do recover all costs.

2.0 Revenue Understanding the revenue stream is essential to prudent planning. Most of these policies seek stability to avoid potential service disruptions caused by revenue shortfalls.

2.1 Revenue Diversification. The District shall adopt a process that encourages a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources.

2.2 Fees and Charges for Services. The District shall adopt process that identifies the manner in which fees and charges for services are set and the extent to which they cover the

cost of the service provided.

Lastly, I am still researching this, but I believe that the facility fee charged is an imposed nonexchange transaction as the homeowner must pay it. I understand that the homeowner does receive a benefit for this fee, but it is an assessment imposed on the homeowner. In this case, this would not go toward fees and charges for services.

Please let me know your thoughts on reading the NRS and the Board policy and I will continue my research as well.

Thanks,
Tiffany

From: Tiffany Williamson

Sent: Sunday, February 23, 2020 2:51 PM

To: Matthew Dent <matthew.ivgid@gmail.com>

Subject: RE: Audit Committee & Questions for Auditors

Matthew,

It was nice to speak with you as well. Please see my comments below regarding each of your questions.

1. As I noted on the phone, the facility fee and punch cards are included in our audit of revenue each year, but we do not have documentation that was provided to IVGID in 2016. I would suggest the Board meeting with management to obtain an understanding of the accounting for the punch cards. We can also discuss this if we set up a meeting.
2. In our audit of IVGID (and all of our audits), we considered internal control relevant to the District's preparation and fair presentation of the financial statements so that we could design audit procedures that are appropriate, but not to express an opinion on the effectiveness of the District's internal control.

What that means is that we gain an understanding of internal controls in areas that are significant to the financial statements. We then walkthrough certain controls in each area that we determine are key by interviewing those involved in the control and reviewing documentation of the control occurring. We do not currently test internal controls. We can also further discuss this if we set up a meeting.

To obtain documentation of the District's internal processes and controls, this would need to be provided to you by management.

3. As I noted on the phone, we obtained the memos the Board received from concerned citizens and discussed them with the audit committee and management. For purposes of our audit, we gained an understanding of the memos and concluded that management's treatment of the issues was reasonable. We did not provide any

response to the memos, however we can discuss further if we set up a meeting.

4. For the year ended June 30, 2016, the District determined that it was more appropriate to account for the Community Services and Beach Funds as governmental type funds rather than as enterprise funds, which is how they had been previously accounted for. Below is an excerpt from Section 1300 of the Codification of Governmental Accounting and Financial Reporting Standards (GASB). I have highlighted the first sentence that Enterprise funds **may** be used to report any activity for which a fee is charged to external users for goods or services. The next sentence describes when enterprise funds are **required** to be used. Management determined, and we concurred, that they did not meet the three criteria that would require the use of enterprise funds and therefore it was acceptable to set up governmental funds for the Community Services and Beach Funds. Below the Proprietary Funds section, I have also include excerpts regarding the three types of governmental funds that the Community Services and Beach Funds use for your reference.

Proprietary Funds

.109 **Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services** or fiduciary activities that have the characteristics in paragraph .116 of this section. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.⁴

⁴ These criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county's small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county's court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility's principal revenue source. Because these charges are the activity's principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund. [GASBS 34, fn33]

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation⁵ or debt service), be recovered with fees and charges, rather than with taxes or similar revenues⁶.

⁵ As used in this section, the term *depreciation* (and related forms of the term) includes amortization of intangible assets. [GASBS 51, ¶5]

6. Based on this criterion, state unemployment compensation funds should be

reported in enterprise funds. [GASBS 34, fn34]

c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).⁷

⁷ The focus of these criteria is on fees charged to external users. [GASBS 37, ¶14]
[GASBS 34, ¶67 , as amended by GASBS 84, ¶19]

Governmental Funds

.105 *Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

.106 *Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

.107 *Debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

I did look at the 2/26 Board meeting agenda, and did not see this item, although I may be missing it. I would note that while both types of funds may be technically allowed, I would not recommend repeatedly switching between these types of funds as that leads to inconsistency and incomparability. Also, it would be beneficial to let the new Director of Finance research this matter and provide a recommendation before moving forward on this.

Please let me know if you would like to schedule a time to discuss further. I am available for a call to clarify anything prior to your Board meeting Wednesday and I am mostly available the week of March 2 if you would like to meet in person. As I noted on the phone, I am happy to look into the matters above and meet with you, but the time I am incurring is falling outside the scope of our engagement letter to issue an opinion on the June 30, 2019 financial statements and I will need to bill the District for my time. Please let me know if that is an issue.

Thank you,

Tiffany Williamson

Senior Manager

Eide Bailly LLP

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T 775.337.3961

F 775.689.9299

What inspires you, inspires us.

eidebailly.com

Independent member of HLB – the global advisory and accounting network.

From: Matthew Dent <matthew.ivgid@gmail.com>
Sent: Friday, February 21, 2020 11:20 AM
To: Tiffany Williamson <tawilliamson@eidebailly.com>
Subject: Audit Committee & Questions for Auditors

Hi Tiffany,

It was a pleasure speaking with you today, I appreciate you taking the time! As discussed, I was recently appointed the Audit Committee Chair and I have been tasked with getting a few answers to questions for the Board. Please provide the following:

1. Please provide the documentation or working papers regarding the \$4,200 response by Eide Bailly on the punch cards. The District can speak to this issue and we need to have an understanding as Board in order to do what is best for our community.
2. Since Eide Bailly stated they reviewed internal controls related to the audited financial statements, what specific internal controls were reviewed? What were the representations made by staff? We have tried to get this information from Staff and are being told Eide Bailly is in possession of this and Staff doesn't have anything.
3. Please provide the responses given to the audit committee and reviewed with staff regarding all the 2019 memos the Board received from concerned citizens.
4. What is the regulation or law that requires the Community Services venues to be a "Special Revenue Fund" and also what documentation or language Eide Bailly still has that was given to staff or could help us further understand this issue. (This item is the most pressing since the Board has agendized making the change back to Enterprise Fund at the 2/26 Board Meeting)

I appreciate you taking the time to review my questions and get us a response or provide the requested documentation. If you have any questions or need further clarification, please do not hesitate to reach out. Thank you, Matthew



Matthew Dent

Incline Village GID Board of Trustees
893 Southwood Blvd. Incline Village, NV 89451
775.530.1345 | www.matthewdent.com

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MINUTES

AUDIT COMMITTEE MEETING OF JUNE 30, 2020 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 Dent on Tuesday, June 30, 2020 at 4:00 p.m. at the Chateau located at 955 Fairway Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Trustees Matthew Dent and Sara Schmitz. Trustee Tim Callicrate was absent.

Also present was Staff members Controller Lori Pommerenck and Director of Finance Paul Navazio.

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

B. PUBLIC COMMENTS*

Linda Newman said good afternoon; she respectfully requests this Committee require Staff and others to provide written reports on the substantive issues they are directed to address and these written reports be included in the Board packet. Staff and the Attorney's verbal reports preclude this Board and our citizens from studying the information and coming prepared with informed comments, direction and relevant questions at the meetings. Background information and the materials being referenced should also be included in the packet. On today's agenda she is specifically referring to Mr. Winquest's verbal report on the whistle blower process. Clearly this update is important enough to be documented and the current process as it exists should also be provided. This also applies to Counsel Nelson's findings and research on the District's compliance with Dillon's Rule and the comparison of IVGID employee rewards/incentives to Washoe County. Although the agenda item refers to activities and an email, as well as rewards/incentives these are not provided. The same omission occurs in neglecting the specific citations of NRS and other applicable laws being referenced. The verbal and written report from Mr. Navazio has omitted any written report on the 14 points of errors in the 2019 CAFR and has omitted the 14 points under review. The spreadsheet of reconciling the budget to the State Forms has exceeded my comprehension. She is only aware of this Board approving the State forms and am unaware of the Board approving any other Budget. She does not know what is being reconciled. She hopes this Committee understands and can explain it. For your consideration, she would also like to recommend that the Audit Committee and its new members receive training from an independent internal auditing professional. Perhaps, this Committee can reach out to Washoe County or Carson City or another Nevada governmental agency and engage the individuals that

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provided training for their Audit Committee. She also strongly urges you to accelerate the timing for the training and the inclusion of these new members' participation on this Committee.

Aaron Katz said that he was encouraged when he saw the new makeup and what he thought was going to be a policy where the questions could be directed to the committee like items D.2. and D.3. So on June 18 he sent an e-mail to the Board regarding refunds of the Recreation Fee. He never received an acknowledgement and it was not included on the next agenda. On June 27, he sent a follow up e-mail to Trustee Schmitz and asked for it to be an item on this agenda similar to D.2. or D.3. No acknowledgement or communication back. He does understand that this request may not have been in enough time but is for the next one so he asks it to be agendaized on the next meeting and get a response from the attorney.

Margaret Martini said she is looking forward to the addition of Mr. Aaron, Mr. Dobler and Mr. Tulloch on this Committee. She is very appreciative of their willingness to volunteer their time and expertise to provide vital oversight assistance to our Board for the benefit of everyone in our community. She is hopeful that the Audit Committee will encourage other members of the Board and Senior Staff to establish citizen advisory committees. Our community has dozens of successful, talented and experienced professionals willing to volunteer and serve on these committees to help the District formulate its strategic plans, budget and implement multi-year capital projects and find viable resources and solutions to existing problems. As the issues she is most interested in are verbal reports, she will await the upcoming discussion. She does hope that in the future, more written material will be provided in advance so that she may have an opportunity to publicly express her views at the start of the meeting.

Cliff Dobler thanked the Board members that voted to allow him to be on the Audit Committee and that he will continue to work hard as he has done in the past. He wants to talk a bit about the restating the 2019 Comprehensive Annual Financial Report. Tonight, we will hear verbally about the fourteen errors in the 2019 CAFR delivered in early January by Linda Newman and himself. We will be adding between five and ten more points. The materiality of the errors cannot be looked at as the District as a whole but is required for each major fund and as such, a restatement should occur. The largest error was capitalizing approximately \$3.1 million of repairs to the effluent pipeline rather than charging the amounts off as an expense. This error's impact on the 2019 CAFR turned the net operating income of the Utility Fund from a positive \$2.5 million to a loss of almost six hundred thousand. The second largest error is to report in the statement of activities that the six million seven hundred and fifty-six thousand four hundred and ten dollars of the facilities fees collected from property owners for community services and beach recreation venues is a general revenue. That error suggests that the facility fees can be used to pay for expenditures in the General Fund and the Utility Fund; totally incorrect. We will be adding to the fourteen points the proper reporting of sales of assets and the misuse of segmented information as a footnote for special revenue funds. Segmented information can only be used for enterprise funds. The list will be expanded

over the next two weeks. Consideration should also be given to putting the one hundred page CAFR on a diet. Only about fifty percent is actually audited. The twenty pages of the statistical section should be reviewed to determine the necessity to report this information. It is probably highly corrupted, never been audited, and who knows if it is correct or not.

Frank Wright said that he is a candidate for the Board and that he wants to congratulate the Board for selecting the outstanding members you selected as it is a major, major improvement to the way things are done. As we move forward with the financials, the biggest and most outrageous problem we have is these punch cards. Who in the heck created this mess? We have a mess of inequality that runs rampant in our community. They are misused, abused and just absolutely a disaster. You are not going to be able to fix it so you will have to eliminate them. You have no idea how they are being used and it is horrible and there is some lady on Craigslist who was trying to buy one. The value that is assessed varies from parcel to parcel and from community to community Crystal Bay to Incline Village – needs to be adjusted and it needs to be fixed. As we move forward, he hopes you look at these things and find a better way of doing it. Mr. Wright concluded by stating that he hopes you will have them accompanied by a picture pass person and not just by a punch card as they are shuffled all over the community and they go to everybody.

Audit Committee Chairman Matthew Dent said that he wanted to pointed out and state that Mr. Tulloch, Mr. Aaron and Mr. Dobler are all on this call; these are the three future member of the Audit Committee and he wanted to make it official.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent said that was going to move General Business Item D.5 to D.0 so that the Audit Committee can review the status of where we are at and then asked for any other changes; receiving none, the agenda was approved as amended.

D. GENERAL BUSINESS ITEM (for possible action)

D.0. Review and discuss implementation of Board Policy 15.1.0 (Audit Committee) as amended by Board action at the meeting of May 6, 2020. (moved from General Business Item D.5.)

Audit Committee Chairman Dent said that, as of the last meeting, we are twenty-two days ahead of where we were to be, the Board appointed three new members, and Trustee Schmitz is putting together a list for training. Trustee Schmitz said that she wanted to thank all of the eight candidates that applied and who were interested in helping us out with this endeavor. She hopes that we get some more Citizen Advisory Committees going forward. Where we are right now is in the process of putting together training for the newly appointed members, she reached out to Washoe County and Washoe County doesn't have any official training.

Trustee Schmitz continued by stating that she and Staff are working to reach out to the POOL/PACT that is similar to the onboarding of a new Trustees – Open Meeting Law training, Ethics training, and Good Governance training and that we will be trying to get something scheduled to complete that training. Trustee Schmitz said that she also requested that the Director of Finance provide the completed budgets and that the 4404 forms be shared. Her goal is to have all this training thing set up and delivered here shortly in July however some of it will depend on POOL/PACT and how they are able to do things via Zoom. This will be followed with getting them engaged and involved. Trustee Schmitz concluded by saying that she still thinks we will be ahead of schedule and looking forward to working with all of them.

D.1. Verbal Report from Interim District General Manager Indra Winquest: Update on the whistle blower process for anonymous reporting by employees, reporting through the website by the public, and the plans with target dates for communicating to employees and the public.

Interim District General Manager Winquest gave an overview with the highlights being:

- Had some discussions – was working with Trustee Schmitz on this item.
- Changing the current process, a lot of questions came up with Legal.
- Two aspects – confidential with the employee and how a member of staff can report anything that this staff member might find useful and then members of the community submittals.
- Employee side – questions about public records, how do we ensure as much confidentiality as possible, what does that mean if there is a public records request.
- Before we bring this back to the Board for review and approval, we will sort through these items.
- Information Technology is involved and looking at different possibilities.

Audit Committee Chairman Dent said previously any complaints would be sent to the District Clerk and now they are being forwarded to the Audit Committee Chair. Interim District General Manager Winquest said yes, that is correct and that change has been made. Trustee Schmitz asked what was the target date for having a solution on the confidential employee submittal and then the public side. Interim District General Manager Winquest said ideally, Staff would like to get this wrapped up by the next Audit Committee meeting so July or August. District General Counsel Josh Nelson said the balancing test is where we want to make sure whatever process that is set up is confidential; he looks forward to working on that to get to finalization.

D.2. Verbal Report from Director of Finance Paul Navazio: Share with the Audit Committee the spreadsheet developed by IVGID's Controller for

reconciling the budget to the 4404 State Forms and status of Staff's review of the 2018/2019 CAFR (14 points of errors in the CAFR from Cliff Dobler and Linda Newman dated April 7, 2020).

Director of Finance Paul Navazio gave a verbal report with the following being the highlights:

- ✓ Got a request to help understand how the budget forms work together.
- ✓ Spent some time with Trustee Schmitz to walk through the original reconciliation that was included in May 27 packet; clarified, modified and noted that it is a work in progress.
- ✓ The outcome was a preview or update on what we working on and still working on Trustee Schmitz' suggestions.
- ✓ Asked the District's Controller to give an overview of the reconciliation and then get the Audit Committee's support to get refinement.

Director of Finance Navazio said that there really isn't a full roll up on the State forms. The way to look at the schedule is that it asks one to look at the component parts and the District's Controller will go over that. There is not a convenient roll up and that is the reason why question comes up so it is appropriate that it be addressed. District Controller Lori Pommerenck gave an overview of the reconciliation that was provided in the Board packet of May 27, 2020 (on pages 21 and 22) and updated on page 4 of tonight's Board packet. Trustee Schmitz said that one of the things that she told the Director of Finance that she would do is to go out to opengov and see if they did in fact match for revenue and expenditures; she did verify those top numbers, it is in opengov, and the numbers do match. Trustee Schmitz then asked that Staff explain the revision that is going to be made to this so it truly matches the 4404 form as it relates to Community Services and Beach fund? District Controller Pommerenck said that there will be additional columns to break out the Community Services capital and debt and they will have an additional four more columns for operating, capital and debt and the same will be done for the Beach fund. Trustee Schmitz said and that is because that is the way it is on the 4404 form - correct? District Controller Pommerenck said yes, that is correct. Director of Finance Navazio said that the more detail we can show, the easier it is to understand the roll up. Trustee Schmitz asked what are the next steps with this effort? Director of Finance Navazio said continue to refine this reconciliation presentation and that it would be helpful, if anyone is interested, to have some additional meetings with Trustees and/or the members of the new Audit Committee to help gain understanding. Staff wants to get more input to get this to be intuitive. We also need to determine how much focus we want to spend on the State forms and then how we present the budget to our residents so we have more work to do on that piece. Staff does have to maintain the State forms and perhaps we shift the focus to present the budget so it is more digestible and presentable to the community and not use the form to present the budget to the community. District Controller Pommerenck said she appreciates the feedback as she works

with it every day and that the general ledger is there. It is just how we present it as we have varied wants on reporting. Director of Finance Navazio said that we have to strike the balance as we can show it any number of ways and we don't want that statement to give rise to the notion of the District having multiple sets of books so we have to be very careful about tying back and reconciling but we need to settle on how people want to see it as we have to be careful. Trustee Schmitz said that she wants to use the tools and doesn't want to spend quite so much time on custom human created reports as they are error prone as we are all humans and we all make mistakes. Audit Chairman Dent thanked Staff and Trustee Schmitz for all the work that has been done and said that when he first got on the Board there were four or five sets of books so now we are down to two. Director of Finance Navazio said that he appreciates the comments about verbal versus written and that he would be happy to follow up with a document that folks can point to and that we can share and get feedback upon. The Audit Committee has referred the original fourteen questions and that there have been other issues that have been referred to. It was stated, by one of the callers, that more are coming, keep them coming and we will work through them. The summary for today is that Staff has done a fair amount of research and looking into the history. Each of these issues have been categorized because some would fall potentially under the errors and omissions, which is a factual misstatement, transactions are missing or just a wrong number so that is one category. There were a number of questions that speak to the proper accounting treatment and practice which is a different group of issues. Then there is a group of issues that, as a working title, is categorized as difference of interpretations or opinions. Another way to group these issues is, without regard to passing judgment on any issue or concern that has come up, is that there should be some thought given to if it is something that needs to be addressed, what is the proper next step in terms of resolution. On the matrix for disposition of an item, as has been suggested one option would be to correct the 2019 CAFR, publish updated CAFR, update the audit opinion and refile with the State of Nevada. Another viable option for some of these issues is that we need to consider is to make a prior year adjustment or correction and that could be handled in the preparation of the 2020/21 CAFR. This method is not uncommon, a prior year adjustment, and then there are two other categories – hindsight missing information or misworded or misstated which Staff can clarify and make note on the upcoming CAFR such as authority to assign fund balances and leases properly shown or not shown in one of the schedules. We can still address those and clarify going forward, and from his perspective, the threshold to go back and republish the 2019 CAFR, particularly at this point, is pretty high. Barring any issue that rise to that level, and he has not concluded that any of the issues raised rise to the level, Staff might make a prior year correction as we prepare the 2020/21 CAFR and that would be reviewing the capitalization policy. Director of Finance Navazio said that is the general update and that it was interesting to hear some speakers who have forwarded some of this information and say it is egregious and in looking at some of these issues, such as enterprise versus special revenue, punch card accounting, and the central services overhead rate, he would like to assure

everyone that he has yet to come across an issue that remotely suggests that anything Staff is doing in the financial statements is improper and/or illegal which he thinks would be a very high threshold to go back and correct. That said, all of these issues are worthy of discussion in moving forward and how we treat them and to what extent we go back and make any adjustments going forward and more importantly how we want to go about consistently treat accounting treatment for some of the transactions that are at the core of some of these concerns. He is happy to bring this to somewhat of a closure as we are here, at June 30, 2020, and none of these issues rise to the level of reproducing another 2019 CAFR and refiling with the State of Nevada. Audit Committee Chairman Dent said that you laid out three different boxes and will you be bringing that back to us at the next meeting so we can start to address each of those? Director of Finance Navazio said yes and that he can review that with the new and current Audit Committee members. There are issues that need to be corrected which are legitimate issues and that we need to get clarification for consistency and that he is not dismissing these however the appropriate vehicle is moving forward with our current year financials and beyond. Audit Committee Chairman Dent asked if Staff could put together a list of things that rise to level of corrections and those that aren't as big of a deal? This is the first pass as you were new at the time or not even on board so we wanted to give you the first pass and then decide or see if we need a consultant. Trustee Schmitz said that one of the things that we have talked about as we embarked on this effort was to make sure we had things in writing so we don't get asked the same questions and have your research and analysis recorded somewhere; what is the timetable for having actual written responses to these particular issues you have brought forward? Director of Finance Navazio said that it could be as early as the next Audit Committee meeting depending on when it is scheduled and/or the Board items from tonight. There will be a summary of the key observations, findings and reference documentation to support a recommended disposition, in a matrix form, that could be put together fairly quickly. Trustee Schmitz said that would be great and would be very helpful as we just don't want to continue to have the same questions brought up and discussed. It's much better to have things written down so we can say here it is, we did this and this is what we learned. Director of Finance Navazio said that he is happy to shoot for that and that he will start focusing on the most significant ones so as to have them at the next meeting. He also stated that he is happy to review them, in advance, with the Audit Committee members as well.

- D.3. Verbal Report from District General Counsel Joshua Nelson: (A) Update on his findings and pending research into Dillon's Rule as it relates to specific District related activities, including but not limited to the email submitted by Ms. Heirshberg and (B) Update on how our employee rewards/incentives compare to Washoe County and their compliance with NRS and other applicable laws.**

District General Counsel Nelson gave his PowerPoint presentation which is incorporated herewith by reference. Trustee Schmitz said for the items of employee rewards and celebrations, that she believes that Washoe County, it has been brought to our attention anyway, has a very, very small budget for these types of activities so did you do any research to determine why Washoe County has such a limit? District General Counsel Nelson said that he started that research and that he would like feedback on how detailed you would like to get. Audit Committee Chairman Dent said that he feels like in order to completely tackle this issue, it needs to take into account what our budgets are for each of these things, do a legal review of the General Manager's spending authority for budgeted and unbudgeted items, and make it a future agenda item to completely close the loop on this item. We hear that the General Manager has fifty thousand dollars spending authority and what does that mean as that can help us to make a lot of progress. Trustee Schmitz said that the term "reasonable" is used quite frequently and we need a definition in some way and the other things are we have enterprise funds, special revenue funds and the general fund and is there any difference based on the type of fund? And where the monies actually come from? District General Counsel Nelson said that reasonable is a legal term and having a policy is required. Trustee Schmitz said wants to be clear on what this committee is asking District General Counsel to do as she thinks there is some additional work to be done to identify the policies that need to be drafted or are their policies in existence that need to be reviewed as she thinks that might be a good next step – do you agree? Audit Committee Chairman Dent said he totally thinks that would be a good next step. Interim District General Manager Winqest said that Staff will make sure that we get District General Counsel Nelson all of our current policies, budgets, etc. and any history he may need. District General Counsel Nelson said that he was not suggesting that there is not a current policy or an inadequate one rather that it is high level before looking at the District's existing policies.

D.4. Review, discuss and possibly take action related to the following communications that have been received and are included: (Requesting Trustee: Sara Schmitz) *(due to time restraints, this item was not discussed)*

D.4.a. May 26, 2020 e-mail communication Rec Fee from Joy Gumz (2 pages)

D.4.b. June 15, 2020 e-mail communication Burnt Cedar Water Disinfection Plant – another budgeting and reporting fiasco from Clifford F. Dobler (2 pages)

D.5. Review and discuss implementation of Board Policy 15.1.0 (Audit Committee) as amended by Board action at the meeting of May 6, 2020. *(moved to General Business Item D.0.)*

- D.6. Set the date/time for the next Audit Committee Meeting (Requesting Trustee: Audit Committee Chairman Matthew Dent) *(due to time restraints, this item was not discussed)***

E. APPROVAL OF MEETING MINUTES (for possible action)

E.1. Audit Committee Meeting Minutes of May 27, 2020

District Clerk Susan Herron said that Trustee Schmitz had requested one change and that change has been made. Audit Committee Chairman Dent asked for any further changes, none were received, so the minutes were approved as amended.

F. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

Linda Newman said Mr. Navazio stated that there is nothing remotely improper or illegal with the District's accounting but failed to provide any documentation to support his assertion. She would like to draw your attention to the District's accounting and reporting of the Community Services and the Beaches as governmental funds although they are required to be reported as Enterprise Funds under GASB 34. When you violate a GASB statement, you are not complying with Generally Accepted Accounting Principles. Nevada law requires compliance with Generally Accepted Accounting Principles. Failure to prepare financial statements in accordance with Generally Accepted Accounting Principles is unlawful. It is a violation of Nevada law. Mr. Navazio also referred to the District's accounting and reporting of punch card utilization as not remotely improper or illegal. Is he stating that no unlawful transfers from the Community Services to the Beaches have occurred? And, that not disclosing such transfers is lawful? Among many, these are two key issues that she would like Mr. Navazio to state in writing with supporting documentation to back up his statement that the District's accounting is not remotely improper or illegal.

Margaret Martini passed on her opportunity to speak at this time.

Frank Wright said he is a candidate for the Board and that he has a lot of problems with Staff's assertion about powers because it has been given to the powers to the GID. If it has to do with philanthropy, because it is tied to recreation, how much can they do? Have, in the past, certain agencies and entities get a lot of our amenities donated? That is improper. IVGID provides recreation, water and sewer, and is not in the business to fund outside entities and tying to some recreation facility - he thinks it is wrong. The money we give to our Rec Fee should be for the parcel owner and those who recreate here. It is not right and he had problems with Parasol and their one dollar per year give away. This is recreation money. He doesn't think that was intended to buy land. He hopes that legal will weigh in and while he doesn't think that Staff's statements were out of line, button down

and get legal advice from a competent attorney and find laws as backups on how we are spending our money.

Cliff Dobler said he listened to the presentation given by Staff and that they are reconciling one budget to the State budget yet Staff said that the tentative budget was IVGID's budget and that was what was on the State forms. He taught his kids about having a savings account and it is a fund. Every entity does a 4404 form that starts up with money, add money and end up with money. Avoiding the fund balance is an escape such that you don't know if you are dipping into that. Ridiculous on using fund balance. Stop this nonsense on two separate reports – it is unnecessary. You need to get Staff talking about their ideas – restate something, incorporate something on prior period adjustments, restate the CAFR - prior period adjustments don't tell you anything as it shows what happened in the particular year not in the following year. Thresholds – what are they? Has he developed his own thresholds? In all of his readings, the statements have to be restated, when it gets reformed, he will discuss it all and that there are rules and not the Staff rules.

Judith Miller said she listened to Mr. Nelson's explanation on how the District can give away to non-profits and her experience, with Washoe County, is that the gift of donation is usually tied to a service. DPSEF comes to mind and they organize a ski team. Some of these organizations have nothing to do with recreation however maybe the event does. The service they provide is something that IVGID should be required to do as that is the conclusion that she has come to in looking at many of the Washoe County donations.

G. ADJOURNMENT (for possible action)

The meeting was adjourned at 5:27 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.