

# 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, August 19, 2020** at the Boardroom, 893 Southwood Boulevard, Incline Village, Nevada.

## REVISION 1

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](mailto:info@ivgid.org) by 2:30 p.m. on Wednesday, August 19, 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\*  
Derrek Aaron (At-Large Member), Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), and Raymond Tulloch (At-Large Member)
- B. PUBLIC COMMENTS\* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.
- C. APPROVAL OF AGENDA (*for possible action*)
- D. GENERAL BUSINESS ITEM (*for possible action*)
  - 1. Review with Audit Committee, long range calendar (Requesting Trustee: Audit Committee Chairman Matthew Dent) – **page 1**
  - 2. Review, discuss, and possibly select an Audit Committee member to act as a liaison to Eide Bailly (Requesting Trustee: Audit Committee Member Sara Schmitz) – **pages 2 - 9**
  - 3. Presentation and Discussion Item Only – IVGID System of Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio – **pages 10 -57**
  - 4. Review, discuss, and possibly take action related to the following communications that have been received and are included:
    - a. April 7, 2020 e-mail communication received, subject: 14 points of errors in the CAFR from Cliff Dobler and Linda Newman (20 pages) – **pages 58 - 136**
      - i. Staff response and presentation (Requesting Staff Member: Director of Finance Paul Navazio)
    - b. April 2, 2020 e-mail communication regarding Dillon's Rule from Ms. Diane Heirshberg and May 2, 2020 e-mail communication from Attorney General Opinion (dated 2005) from Joy Gumz (13 pages) – **pages 137 - 158**
      - i. Update/Response (Requesting Member: District Legal Counsel Joshua Nelson)

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### Incline Village General Improvement District

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

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

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# NOTICE OF MEETING

**Agenda for the Audit Committee Meeting of August 19, 2020 - Page 2**  
**REVISION 1**

- c. July 15, 2020 e-mail communication received, subject: Expansion of 14 points to 20 and still counting from Cliff Dobler and Linda Newman (48 pages) – **pages 159 - 206**
  - d. August 7, 2020 e-mail communication asking Is IVGID Improperly Using the District's Ad Valorem Taxes? from Aaron Katz (2 pages) – **pages 207 - 208**
  - e. August 4, 2020 e-mail communication regarding Historic Memorandums/Letters from citizens on accounting and reporting the activities of Community Services and Beach recreation venues as Governmental Funds from Audit Committee Member Clifford F. Dobler (79 pages) – **pages 209 - 287**
  - f. **August 4, 2020 e-mail communication regarding Historical Memorandums/Letters from citizens on Punch Card Accounting from Audit Committee Member Clifford F. Dobler (97 pages) – pages 288 - 384**
  - g. **August 4, 2020 e-mail communication regarding Central Services Cost Allocations Plans from Audit Committee Member Clifford F. Dobler (10 pages) – pages 385 - 394**
- E. APPROVAL OF MEETING MINUTES (for possible action)
- 1. Audit Committee Meeting Minutes of July 29, 2020 – **pages 395 - 408**
- 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)

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**CERTIFICATION OF POSTING OF THIS AGENDA**

I hereby certify that on or before Friday, August 14, 2020, at 9:00 a.m., a copy of this agenda (Audit Committee Session of August 19, 2020) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; copies were either faxed or e-mailed to those people who have requested; and a copy was posted at the following six locations within Incline Village/Crystal Bay in accordance with NRS 241.020:

- 1. IVGID Anne
- 2. Incline Village Post
- 3. Crystal Bay Post
- 4. Raley's Shopping
- 5. Incline Village
- 6. IVGID's Recreation

**SUSPENDED – STATE OF NEVADA  
EXECUTIVE DEPARTMENT,  
DECLARATION OF EMERGENCY,  
DIRECTIVE 006 (SECTION 3), 016,  
018 and 021**

Vorderbruggen Building (Administrative Offices)  
Office  
Office  
Center  
Branch of Washoe County Library  
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)

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

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

## MEMORANDUM

**TO:** Audit Committee  
**FROM:** Trustee Matthew Dent  
**SUBJECT:** Audit Committee Long Range Calendar  
**DATE:** 8/10/2020

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### **I. BACKGROUND**

Trustee Dent received the following requests for future agenda items:

#### CAFR Questions/3<sup>rd</sup> Party Opinion

- Correction of incorrect capitalization CAFR 2018/2019 -Ray
- Advance collection of revenues to fund future capital expenses -Ray
- Enterprise Reporting - Cliff
- Punch Card Reporting - Cliff

#### Board Policies

- Expenditures budgeted - Ray
- District Pricing Policy – Matthew/Sara/Paul
- Revision to Capitalization Polices -Ray

#### AC Updates and Ongoing

- Ongoing updates regarding the independent audit - Paul
- Review financials quarterly per Policy 15.1.2.3 - Sara
- Review and discussion of DRAFT FY2019-20 CAFR – Paul
- Process for selecting new auditor - Paul
- Internal controls – progress reports and updates regarding internal audit regarding Moss Adams contract - Paul
  
- State of Nevada/DOT – switching back to Enterprise Funds - Paul
- New Financial System/Updated Chart of Accounts - Paul

## MEMORANDUM

**TO:** Audit Committee Chairman Dent

**FROM:** Trustee Sara Schmitz

**SUBJECT:** Audit Committee Liaison

**STRATEGIC**

**PLAN REFERENCE(S):** Policy 15.1.0

**DATE:** 8/10/2020

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### **I. RECOMMENDATION**

The Audit Committee makes a motion to appoint a representative as the interface between the Audit Committee and the Eide Bailly for the facilitation of the external audit per Policy 15.1.0 item 2.4.

### **II. BACKGROUND**

The Audit Committee is responsible for the oversight of the annual external audit. According to item 2.4, the Committee is to facilitate the external audit process. Therefore, it is recommended the Committee identify an individual to be responsible for this facilitation and act on behalf of the Committee in the fulfillment of the identified responsibilities.

### **III. BID RESULTS**

N/A

### **IV. FINANCIAL IMPACT AND BUDGET**

None.



**V. ALTERNATIVES**

Delegate the facilitation to the Director of Finance.

**VI. COMMENTS**

The Committee has the responsibility to provide independent oversight of the external audit process, so therefore it is my recommendation to assign a single point of contact to streamline the process while keeping the Audit Committee informed and involved.

**VII. STRATEGIC PLAN REFERENCE(S)**

Policy 15.1.0 item 2.4

**VIII. BUSINESS IMPACT**

This signal point of contract will streamline the audit oversight process.



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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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





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

**1.0 Independent auditor reports directly to the Audit Committee**

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

**2.0 Scope of Audit Committee's Authority and Responsibilities**

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

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

To fulfill these responsibilities, the Committee must:

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



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

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





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

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



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

- 2.8.4 Review any submissions received, monitor the status of all submissions, ensure their timely resolution, and the document handling or disposition.
- 2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.

**3.0 Meetings**

- 3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241. The Board of Trustees will be emailed a copy of the meeting minutes. Meeting minutes will be posted on the District website.
- 3.2 The committee will hold meetings at a minimum of once per quarter. All members are expected to attend on a regular basis.
- 3.3 Review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader. Communicate with the submitter, if known, regarding their submitted concern.
- 3.4 Review all past correspondence with action outstanding. Ensure responses and/or corrective action is taken in a timely manner.
- 3.5 The committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.6 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.7 An annual meeting is to be held with the independent external auditors, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's letter of findings.

## MEMORANDUM

**TO:** Audit Committee

**THROUGH:** 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

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### **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, 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](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

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**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, 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

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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
<b>Part 1 - Comprehensive Assessment of IVGID Internal Controls / PROJECT</b>  <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						
<b>Part 2 - Regular and Continual Review of Internal Controls</b>  <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						Ongoing	
<b>Part 3 - Internal Audit(s)</b>  a) <input type="checkbox"/> Concurrent with tasks identified in Part 1, develop comprehensive list of "areas" for internal controls Primary focus on areas with greatest "risk" to District related to liability, fraud, misappropriation of public funds and/or assets <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"  b) <input type="checkbox"/> Implement / Formalize periodic "impromptu" internal audits of operations and administrative practices and procedures Random, unscheduled, unannounced				Lead X Lead	X Lead		Annually Rpt		Annually Rpt		
<b>Part 4 - External Independent Auditor</b>  <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, procedures and roles Random sampling of transaction records (payroll, accounts payable, revenue, expenditures, fixed assets, debt).		X X	X X	X X		Lead Lead	Annually Rpt				

# 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 <i>Practice 7.2.0 Appropriate Level of Fund Balance</i>	VII	6.3.7 Pre-paid Expenses	7	Travel Expenses	115	1527	Use of IVGID Boardroom
8.1.0	Establishing the Estimated Useful Lives of Capital Assets	VIII	6.3.8 Investments	8	Procurement Cards	116	1538	Penalty and Interest Charges on Delinquent Accounts
9.1.0	Establishing Appropriate Capitalization Thresholds <i>Practice 2.9.0 Capitalization of Fixed Assets</i>	IX	6.3.9 Property and Equipment	9	Performance Management (Evaluations)	120	1575	Group Use of Beaches
10.1.0	Use of Local Government Investment Pools	X	6.3.10 Purchasing and Accounts Payable	10	Employee Separation	121	1581	Settlement of Lawsuits and Related Claims
11.1.0	Investment Management <i>Practice 2.11.0 Investment Management</i>	XI	6.3.11 Notes Payable / Long-Term Debt	11	Rules for Conduct and Behavior	127	1619	Complimentary Recreation Privileges
12.1.0	Multi-Year Capital Planning	XII	6.3.12 Accrued Liabilities	12	Disciplinary Actions and Appeals	129	1632	Relinquishment and Acquisition of Utility Easements / Encroachment Agreements
13.1.0	Capital Project Budgeting <i>Practice 12.2.0 Capital Expenditure</i>	XIII	6.3.13 Human Resources and Payroll	13	Concern/Dispute Resolution	132	1701	Fundraising / Donation Activities at District Facilities
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# Attachment 3

Accounting and Financial Procedures

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			Date	Current	Update	Obsolete	New	Draft	Review	Final	Date	Initial	Policy	Admin.	Compliance		
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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															
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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		
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# 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 include 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 and Effective February 10, 2010  
 Adopted June 13, 2012; Effective July 1, 2012  
 Adopted March 12, 2014; Effective April 1, 2014





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Adopted September 30, 2009; Effective November 1, 2009  
 Adopted and Effective February 10, 2010  
 Adopted June 13, 2012; Effective July 1, 2012  
 Adopted March 12, 2014; Effective April 1, 2014



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Adopted September 30, 2009; Effective November 1, 2009

Adopted and Effective February 10, 2010

Adopted June 13, 2012; Effective July 1, 2012

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

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### **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*.<sup>33</sup>

- 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.<sup>34</sup>
- 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

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**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  
approve 2020 Key Rates for the  
Championship Golf Course, Mountain  
Golf Course and Resident Play Passes

-2-

November 22, 2019

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 were 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			ISIRI (See 2019/20 CAFR)	Prior Year Adj 2019/20 CAFR	Clarify / Note In 2019/20 CAFR	
1	<p>Improper change in Accounting and Reporting from Business Activities (Enterprise) in 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 (not capital)</p> <p>Exchange vs non-exchange transactions - "fee" vs. "tax."</p>	X	X								<p>Recommend BOT review of and establishment of formal pricing policy</p> <p>At meeting of May 27, 2020 the BOT approved a resolution of intent to transition back to Enterprise Funds for fiscal year 2021/22.</p>
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 \$3.2 million (2017/18) to repair 1,080 ft</p> <p>Adit's \$546,000 Internal Engineering Charges</p> <p>By capitalizing and depreciating these costs, the financial statements are distorted... (notes expense aspect of assessment and temp repairs). Charges have a material impact on statement of Net Position</p> <p>Statement of Net Position (CAFR page 31), Statement of Activities (CAFR page 22) Statement of Net Position (CAFR page 30), Statement of Revenue, Expense, 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.</p>			X	X						
	<p>Accounting for repair work is consistent with current Board Policy (tax) 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.</p> <p>BOT Policy 9.3 Practice 2.9.0</p>										
1	<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</p> <p>Enterprise Funds \$300,000 - (TTD "cost-sharing" for environmental assessment)</p> <p>Statement of Net Position - (CAFR page 31), Statement of Activities (CAFR page 22), Statement of Revenue and Expenses (CAFR page 25), Statement of Revenue and Expenses (CAFR pages 24, 6, 29), Statement of Net Position (CAFR page 30) Statement of Revenue and Expenses (page 31), Statement of Cash Flows (page 32), Notes to Financial Statements (CAFR page 46)</p>	X	X		X		<p>Will review how BOT action to deleted Master Plan may impact FY2019/20 Financial Statements</p> <p>In general, studies and master plans that are related to, and lead to, construction of capital improvements are recorded as work-in-process and capitalized upon completion of project(s). In this case, the BOT has since taken action to remove the \$1.1 Master Plan (other than permit-related updates) from the District's Capital Plan. As such, it is appropriate to expense costs associated with a Master Plan that will not be implemented.</p>				
4	<p>Improper recording of revenues described in Note 11 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 monthly 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 affect 100% of those revenues by a contra revenue charge in the Community Services Special Revenue 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 \$469,000 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 1471, 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 322 Segment Information in Financial Statements Notes should be used only for enterprise funds. The CSSRF and BSRF are not enterprise funds.</p> <p>EideBally must provide an opinion on the validity of the accounting and routine complying with Nevada law, GAAP and GASB for "Punch Cards Utilized" transactions.</p>			X			<p>No basis for statement of "intent." Rather, it is more appropriate to view the District's Punch 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.</p> <p>False assertion. Punch cards used by parcel owners with no beach access are accounted for differently than those with beach access.</p>				
5	<p>Unallowable transfer of Funds for Central Services Cost Allocations. (Note 15) (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 Eich, 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 cuts 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 EideBally must be obtained.</p>			X			<p>BOT Policy 18.1.0 Practice 18.2.0</p> <p>False claim. Central Services Overhead allocations are considered generally-accepted accounting practice and consistent with full cost-recovery principles.</p> <p>The State of Nevada has (repeatedly) confirmed that there are no (legal) issues or concerns related to IVGID's use of Central Service Cost Allocation Plan to recover costs incurred by General Fund in support of non-General Fund supported activities. The only requirement is that the Board-approved Cost-Allocation Plan is based on sound methodology that allocates true costs reasonably and proportionally.</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	Filed Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	
6	<p>Item of false assertion to record Utility Fund deferred revenues (unearned) of \$433,380 as current revenues in the Proprietary Fund - 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 assumption 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 fee, a fine, or donations which are examples of NON EXCHANGE TRANSACTIONS.</p> <p>During the course of the audit performed by Eide Bailly LLP (Auditor) this change in accounting was discovered by the Auditor and considered the change to be a misstatement. Rather than correct the misstatement, Mr. Sickard Lori Farnsworth, Controller, provided the following statement to 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 (after 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 29) 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 funds 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 \$728,870 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 consist 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 services. 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 use Central Services Cost allocations as a component of "final 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			Corrected in 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, Sign, &amp; Workmen's Comp. apparently to confuse the reader and should be corrected.</p>											
3	<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)).</p> <p>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.</p> <p>Editorially 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 \$100,751 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.</p> <p>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 Paraxol Foundation Inc. in Note 16- Lease Obligation (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 12/31/2023.</p> <p>IVGID leases 2.35 acres of land which IVGID owns to the Paraxol 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>Falsely 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 \$ 51,608,341 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 \$27,535 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 #34 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>Conducting 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	FWGD Policy			Corrective Action	File Year Add 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 to satisfy 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 edit 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](mailto:kgrahmann@tax.state.nv.us).

Sincerely,

Kellie Grahmann  
Budget Analyst  
Local Government Finance  
Department of Taxation.

cc: Kelly Langley

# Attachment 3



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NO. 171-A | JUNE 1999

# Governmental Accounting Standards Series

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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.<sup>32</sup> (Permanent funds do not include *private-purpose*

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<sup>32</sup>An 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*.<sup>33</sup>

- 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.<sup>34</sup>

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<sup>33</sup>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.

<sup>34</sup>Based 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](mailto: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. 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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  - 2. Policy guides
  - 3. Application
- B. Definitions
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  - 3. Awarding agency
  - 4. Central service cost allocation plan
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  - 6. Cognizant agency
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  - 8. Contract
  - 9. Cost
  - 10. Cost allocation plan
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  - 1. Total cost
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- 3. Minor items
- F. Indirect Costs
  - 1. General
  - 2. Cost allocation plans and indirect cost proposals
  - 3. Limitation on indirect or administrative costs

#### G. Interagency Services H. Required Certifications General Principles for Determining Allowable Costs

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 6 $\frac{2}{3}$  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 6 $\frac{2}{3}$  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 allowability 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, 1990 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 reopening 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****Table of Contents****A. General****B. Definitions**

1. State public assistance agency
2. State public assistance agency costs

**C. Policy****D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans****E. Review of Implementation of Approved Plans****F. Unallowable Costs**

**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****Table of Contents****A. General****B. Definitions**

1. Indirect cost rate proposal
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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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BILLING CODE 3110-01-P

**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

Revised and Adopted May 27, 2020

# 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).

Effective for the year ended June 30, 2012 upon  
acceptance by the Board of Trustees  
Adopted February 29, 2012

# 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
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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 ( $\$468,000 \times 5.55\%$ ) 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 Vector 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:** [Wingquest, Indra S.](#); [Paul C. Navazio](#); [Tim Callicrate](#)  
**Subject:** Fw: Audit Committee & Questions for Auditors  
**Date:** Wednesday, July 29, 2020 8:57:54 AM

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Hi Susan,

Please share with the Audit Committee and CC me on the email. Thanks, Matthew

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**From:** Matthew Dent <[matthew.ivgid@gmail.com](mailto: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](http://www.matthewdent.com)

----- Forwarded message -----

**From:** **Tiffany Williamson** <[tawilliamson@eidebailly.com](mailto: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](mailto: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](mailto: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*.<sup>4</sup>

<sup>4</sup> 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 depreciation<sup>5</sup> or debt service), be recovered with fees and charges, rather than with taxes or similar revenues<sup>6</sup>.

<sup>5</sup> 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).<sup>7</sup>

<sup>7</sup> 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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What inspires you, inspires us.

[eidebailly.com](http://eidebailly.com)



*Independent member of HLB – the global advisory and accounting network.*

**From:** Matthew Dent <[matthew.ivgid@gmail.com](mailto:matthew.ivgid@gmail.com)>  
**Sent:** Friday, February 21, 2020 11:20 AM  
**To:** Tiffany Williamson <[tawilliamson@eidebailly.com](mailto: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  
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**From:** Diane Heirshberg <dbheirshberg@gmail.com>

**Sent:** Wednesday, April 8, 2020 10:06 PM

**To:** Matthew Dent; Sara Schmitz; Tim Callicrate

**Subject:** Dillon's Rule and General Improvement Districts; Questions for IVGID to Investigate

April 2, 2020

Dear IVGID Audit Committee, Ms. Schmitz and Messrs. Callicrate and Dent,

I was recently researching Dillon's Rule in connection with a request being made to Washoe County to combat the spread of the COVID-19 virus in Incline Village. I found that the Nevada State Legislature had passed a statute in 2015 to make the application of Dillon's Rule to County Commissioners less restrictive, but its application to other governmental entities, like General Improvement Districts, remains the same as it has been since its adoption in 1868. I am writing this email to bring Dillon's Rule and some complaints I have heard from local residents concerning IVGID accounting practices, to the attention of the audit committee. I sincerely recommend that IVGIB's audit committee seek legal counsel to investigate whether IVGID has the authority to make some of the questioned expenditures described below under Dillon's Rule.

Dillon's Rule was articulated by Iowa Supreme Court Chief Justice John Dillon in the case of Merriam v. Moody's Ex'rs, 25 Iowa 163, 170 in the year **1868**, as follows:

“In determining the question now made, it must be taken for settled law, that a municipal corporation possesses and can exercise the following powers and no others: **First, those granted in express words; second, those necessarily implied or necessarily incident to the powers expressly granted; third, those absolutely essential to the declared objects and purposes of the corporation—not simply convenient but indispensable; fourth, any fair doubt as to the existence of a power is resolved by the courts against the corporation—against the existence of the power.**”

In the 1860’s Justice Dillon considered local governments to be more corrupt than state governments, and sought to limit the power of local officials to sign contracts. In his decisions and later in a treatise he wrote “Commentaries on the Law of Municipal Corporations, he established a legal principle that local jurisdictions had no inherent powers granted by the people; **all authority flowed from the state.**

I would also note that the same principal was determined several months earlier by the Nevada Supreme Court in *tucker v. Mayor and Bd. Of Alderman*, 4 Nev 20, 26 (1868) so is was not a novel rule for Nevada. I have attached a 2013 article discussing Dillon’s Rule in Nevada provides a good discussion as to how Dillon’s Rule works in Nevada as it applies to GIDs.

The 1937 Nevada case, *Ronnow vs. City of Las Vegas*, 57 Nev 332 (1937) also provides instructive language on Dillon’s Rule:

“It is a general and undisputed proposition of law that a municipal corporation possesses and can exercise the following powers and no others: First, those granted in express words; second, those necessarily or fairly implied in or incident to the powers expressly granted; third, those essential to the declared objects and purposes of the corporation—not simply convenient but indispensable. Any fair, reasonable substantial doubt concerning the existence of a power is resolved by the courts against the corporation, and the power is denied. Of every municipal corporation the charter or statute by which it is created is its organic act. **Neither the corporation nor its officers can do any act, or make any contract, or incur any liability, not authorized thereby, or by some legislative act applicable thereto. All acts beyond the scope of the powers granted are void.**”

As you can see from the above discussion, Dillon’s Rule is very strict as applied to GIDs. Therefore, I want to review the issues that I have heard raised so that you can be aware of and investigate the issues and seek written legal counsel as to what you can and cannot do as a GID.

The following expenditures by IVGID have been raised as not authorized. I know nothing about the allegations, but I wanted to communicate to the audit committee that these issues should be reviewed with your counsel if they are occurring or have occurred. I do not know if any of these issues are accurate, but I have heard the following complaints:

1. IVGID has allegedly donated merchandise which it purchased to local charities. This raises the question as to whether IVGID has the power to donate to charities under Dillon’s Rule. I saw a specific statutory authorization for Washoe County to donate to charity but did not see a specific statutory authority for GIDs to do so. (I have not seen the authorizing documentation for IVGID specifically and do not know if there is authorizing language there.)
2. Donations are allegedly made by IVGID to local charities, and the Incline Village Visitor Bureau is only charged \$1.00 per year for rent, even though the Visitor Bureau collects so much money from transient occupancy tax from the County. Again, this goes to the Dillon’s Rule question as to whether IVGID has the power to donate to charities.
3. IVGID has allegedly been giving IVGID venue cards to employees to use at no cost. I noticed that NRS 318.185 gives the Board the power to fix employee compensation. I don’t know if the IVGID venue cards are formally part of the compensation, and if so whether that would be sufficient support for this activity under Dillon’s Rule.
4. IVGID has allegedly been sending employees on business trips and reimbursing business expenses, including travel. NRS 318.145, 318.210, 318.175, and 318.116 give authority to IVGID to take actions needed to fulfill its responsibilities, but in order to be sure which specific business expenses are necessary and authorized by

Dillon's Rule, you should review your practices and policies with an attorney. I strongly urge IVGID to prepare a written Business Expense Policy with an employee expense reimbursement form, all approved by your attorneys. This will allow employees to know which business expenses are necessary to operate, as the Business Expense Policy will limit hotels, food, travel, etc., and require the employees to submit a reimbursement form with attached original receipts; the Policy would also advise as to when employees can travel to conferences, trainings, etc. Allowing for per diem reimbursement would not suffice to justify the underlying "necessary" or "indispensable" purpose of the expense.

5. I was advised that instead of the standard expense reimbursement procedure described in 4 above, employees allegedly are or were given purchase cards, and there are no written directions on the use of purchase cards, and no advance or subsequent approval or disapproval of charges made on purchase cards. I cannot imagine that the attorney will approve the use of the purchase cards instead of formal expense reimbursement with approval by IVGID in advance of reimbursement payment to employees. I was advised of some of the described purposes for the purchase cards and would urge that some of the descriptions require scrutiny by your counsel for authorization under Dillon's Rule, including such things as "pizza for employees working non-stop", "Gung Ho" meeting at Brewforia, birthdays at MOFOS, lunch "after a tough week", food for a "going away party". Lunch, dinner and food expenses really need to be reviewed by your lawyers as to whether they are necessary/indispensable to the performance of IVGID's powers, rather than merely convenient.

6. IVGID allegedly has parties for birthdays, and celebrations and brings in food for employees or gives gift certificates. Whether the Courts or practice considers these as necessary rather than convenient needs to be discussed with your counsel.

7. It has been challenged that IVGID employees like the former General Manager, take people out to dinner as business entertainment. In one case Mr. Pinkerton took out the IVGID lawyers to dinner and was reimbursed. Again, the attorneys should advise as to what authority IVGID has for such activities, and when it is appropriate if at all, under Dillon's Rule to take people out for dinner who are being paid to provide services to IVGID, or otherwise.

8. Employees are allegedly rewarded with "IVGID bucks". Again, this should be reviewed by an attorney, and this activity if approved should be documented in your formal procedures.

In my opinion, a lawyer with expertise in municipal law as applied specifically to General Improvement Districts should give you written direction on:

1. What IVGID can and cannot do with respect to the types of expenditures described above, and others that you may have heard challenged;
2. Review and approve written policies that are drafted and a reimbursement form, and
3. Advise you what you need to do going backwards if Dillon's Rule has been violated.

If your lawyers have already given advice on the above issues, hopefully the audit committee can get access to the writings they sent. If the legal advice was oral, I hope you will have the attorneys put it in writing to show IVGID's good faith reliance on the advice of counsel. And for going forward, I would hope that you get advice from your counsel. Dillon's Rule is very strict as applied to GIDs, and without the advice of lawyers I frankly do not see how you can be sure you are in compliance with the Rule.

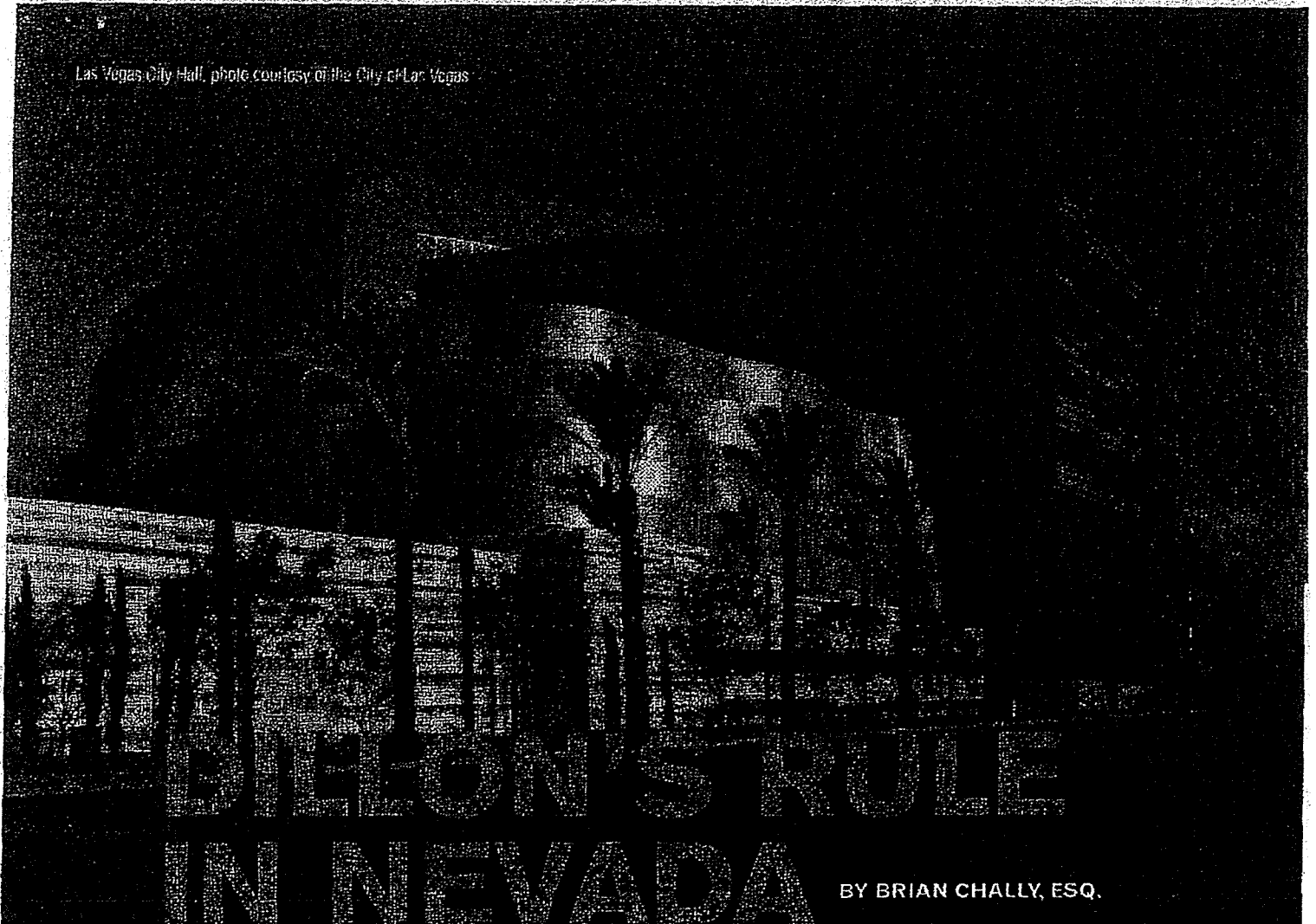
Please know that I am personally very happy with IVGID. My husband and I purchased our home in Incline in 2013, in large part because of the wonderful amenities IVGID has built, the recreation center, Diamond Peak, the golf courses, and the trails. I am only writing this email because I want IVGID to know about these concerns that are being expressed by local residents, and to enable IVGID to review these concerns so as to be sure that Incline is operating in accordance with all applicable laws, including Dillon's Rule. I also know that sometimes it is hard to change past activities that employees view as benefits, and that sometimes employees forget that a GID or governmental entity is different than a

regular business. But for the protection of IVGID, I think that these concerns should be looked at promptly, and addressed by the audit committee as needed.

Very truly yours,

Diane L. Becker

Las Vegas City Hall, photo courtesy of the City of Las Vegas



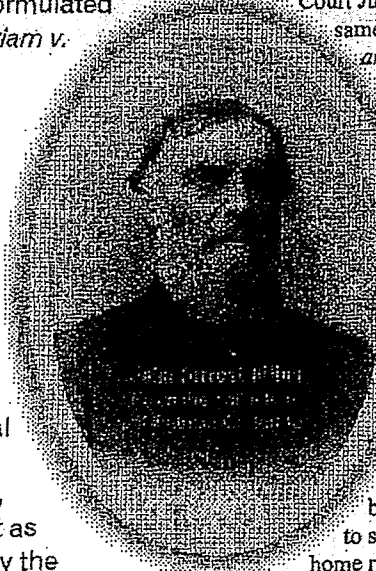
# DILLON'S RULE IN NEVADA

BY BRIAN CHALLY, ESQ.

Iowa Supreme Court Justice John Forrest Dillon penned his way into a measure of legal fame when he formulated the principle known as Dillon's Rule, in *Merriam v. Moody's Ex'rs*, 25 Iowa 163, 170 (1868).

He wrote:

In determining the question now made, it must be taken for settled law, that a municipal corporation possesses and can exercise the following powers and no others: First, those granted in express words; second, those necessarily implied or necessarily incident to the powers expressly granted; third, those absolutely essential to the declared objects and purposes of the corporation – not simply convenient, but indispensable; fourth, any fair doubt as to the existence of a power is resolved by the courts against the corporation – against the existence of the power.



Five months earlier, Nevada Supreme Court Justice J. F. Lewis enunciated the same principle in *Tucker v. Mayor and Bd. of Alderman*, 4 Nev.

20, 26 (1868), noting that this was a "general proposition," and apparently so well understood that no citation to authority was necessary. Lewis, however, lacked the reverberation of the author of *Treatise on the Law of Municipal Corporations*, first published in 1872, and a seminal work on the subject until well into the 20th century.

Today, approximately 31 states follow a strict version of Dillon's Rule; nine others are blended, with the rule not applying to some local entities, and 10 are home rule states. Dillon's Rule has been frequently described as a canon of statutory construction, but it does not function as a

**The 9/11 World Trade Center Monument,  
outside of Elko's City Hall.**

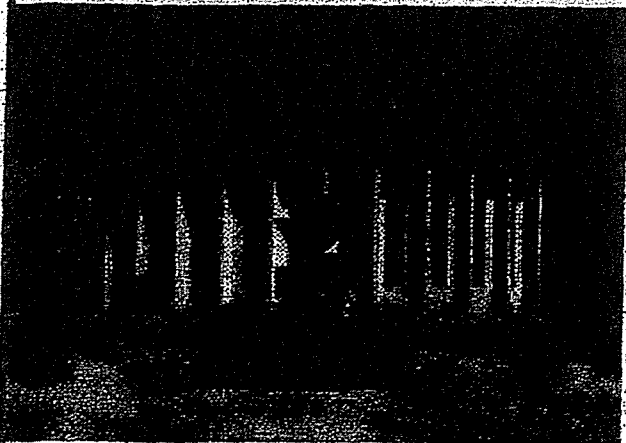


Photo courtesy of Curtis Calder, Elko City Manager

standard rule of construction where the intention of the enactment is to be discerned, if possible, from the language or, if necessary, from the statutory language or context of enactment.<sup>1</sup> Instead, it is a substantive, judicially-created rule that measures local government actions or enactments against its narrow standards and presumption—express, necessarily implied, absolutely essential, presumed not to exist.

Dillon's Rule is still an active factor in the Nevada municipal landscape, turning up in differing shapes in cases involving local entities and receiving detailed discussion in recent legislative sessions. This article will briefly recount that case law and legislative activity.

## Local Government Creation

Legislative creation of, and control over, local governmental entities stems from several constitutional provisions. Municipal corporations can be created in two ways. The first, under Nev. Const. art. 8, § 1, provides for creation by special law (NRS 46, city charters). The second, under Nev. Const. art. 8, § 8, allows for creation under general laws (NRS 266 (cities) and 318 (general improvement districts)). The third provision, Nev. Const. art. 4, § 25, applies to the creation of a uniform county and township government throughout the state (NRS 243, 244).

Thirteen Nevada cities exist by special acts created by city charters. Special acts have also been used to create approximately 14 other municipal corporations. Incorporation of cities by general law has been used for seven cities (most recently Fernley in 2001). Creation of districts, under general laws, to carry out specific functions is common and varied (from general improvement districts to weed control districts).

## Nevada Cases

Eight years after the Tucker decision, the court decided *State ex rel. Rosenstock v. Swift*, 11 Nev. 128 (1876), a case challenging the legislature's appointment of initial city officials as part of the law creating Carson City. The application of the rule to cities or other municipal corporations was affirmed and the unbounded constitutional authority of the legislature over their creation and existence was recognized.

The principle was first extended to counties in *Waltz v. Ormsby County*, 1 Nev. 376, 377 (1865). "[A]nd that such officers can have no powers except those expressly granted by the legislature, is too well established to admit of question now." It continues to the present day. *State ex rel. Harvey v. Second Judicial Dist. Court*, 117 Nev. 754, 773, 32 P3d 1263 (2001) ("Counties are legislative subdivisions of the state and obtain their authority from the legislature").

Most probably, the absence of cases involving special districts stems from the fact that such districts are created to carry out relatively narrow, statutorily specified purposes with the method of financing those activities also prescribed by the underlying statute. This is far different from the situation Nevada cities and counties face: an increasing myriad of functions imposed by the state or federal governments, with a taxing regime almost fully centralized and controlled by the state government.

Variations of Dillon's Rule appear in at least three forms. One involves police power regulation of enterprises involving liquor, gaming and adult entertainment.<sup>2</sup> As one commentator has noted, the court, in cases such as these, appears willing to apply a more flexible, "sensible" or "reasonable" reading of the rule.<sup>3</sup> A second involves preemption by state law, as in *Lamb v. Mirin*, 90 Nev. 329, 526 P2d 80 (1974), or a conflict with state law, as in *Falcke v. Douglas County*, 116 Nev. 583, 3 P3d 661 (2000). Third, a version of the rule has also been applied to state administrative agencies, as in *City of Henderson v. Kilgore*, 122 Nev. 331, 131 P3d 11 (2006).

Against this backdrop, generations of Nevada lawyers have advised their local government clients to proceed with caution, relying upon explicit statutory language.

## Nevada Legislation

The Nevada Legislature has been contemplating the dichotomy of Dillon's Rule and home rule for more than 60 years. A 1952 Legislative Counsel Bureau report (Home Rule in Nevada) highlighted the significant number of local measures introduced in a legislative session (15 percent in 1947), which, in the 2007 session, was approximately 9 percent. Issues identified with so much local legislation included undue demands on the time of legislators in a limited session; a concomitant reduced amount of time for statewide matters; log rolling with members voting for another's local legislation in return for favorable votes on their own legislation; and cursory examination of local legislation because of a lack of interest by a nonresident legislator.

Recent legislative attempts to readjust the balance have resulted in the introduction of bills to accomplish this goal.

In 2005, the Senate Government Affairs Committee introduced Senate Bill (SB) 427, which, for counties, sought to abolish Dillon's Rule and impose a liberal construction upon county powers. The power to impose or increase a tax was restricted, requiring specific statutory authorization.

The committee allowed SB 427 to expire silently and automatically, without a hearing under Joint Standing Rule 14.3.1:

continued on page 8

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**DILLON'S RULE IN NEVADA**

continued from page 7

The 2007 legislature took up the mantle, introducing SCR 10, calling for an interim study "concerning the powers delegated to local governments." A premise of the resolution was that "[a]llowing greater autonomy for local governments may promote more efficient use of limited governmental resources." The subjects of the study were to be the "structure, formation, function, and powers of local governments," the fiscal impact of abolishing Dillon's Rule, the feasibility of increasing local government powers and the experiences of states that had previously rejected Dillon's Rule. No further action was taken, and no interim study was conducted.

In 2009, a different tack was taken, with the introduction of SB 264. The bill shifted all tax authority – property, sales, room and fuel – to local governments. The bill sponsor, Senator Terry Care, noted the 2007 attempt at an interim study: "I had no success with this request. I am term-limited, so I am not requesting a study, but am trying to pass legislation." Care emphasized that local officials should be accountable to their constituents for taxing decisions, not legislators who often do not even reside in the locality seeking a tax increase. Senator William Raggio (and others) raised the question of statewide consistency: "Without limitation, control, supervision or monitoring, local governments will freewheel and compete for tax dollars. I can see problems ... Home rule cannot freewheel." Hearing on SB 264 Before the Senate Committee on Government Affairs 15, 17 (March 25, 2009).

At a followup Government Affairs Hearing eight days later, the winds had shifted, and so had Care: "Senator Care said SB 264 was perceived as a protax bill ... He proposed deleting the bill in its entirety and replacing it with language found in SCR 10 of the 74th Session." This time, the legislature authorized the formation of the Committee to Study Powers Delegated to Local Governments.

The eventual committee report made two main recommendations:

1. Create an advisory committee on intergovernmental relations, and
2. Adopt an incremental, Indiana-style approach to granting local governments additional powers.

Although both were introduced (as SB 385 and 392) in the 2011 session, they languished in Senate Committee on Government Affairs and perished, pursuant to Joint Standing Rule 14.3.3.

SB 385 – applied to both cities and counties, but not to other political subdivisions – abrogated Dillon’s Rule, and proposed a presumption that any doubt as to the existence of a power must be resolved in favor of its existence. The bill emphasized that a board is granted its powers by statute, as well as “[a]ll other powers necessary or desirable in the conduct of [its] affairs.” One limitation on the power to act is an express denial by the United States and/or Nevada Constitution, or by a statute. A second is if the power is granted to another entity. A final limitation involved prohibitions on conditioning or limiting civil liability, enacting laws governing civil actions, imposing duties on another political subdivision, imposing a tax – regulating in place of a state agency and ordering or conducting an election.

Proponents argued that the bill provided a list of limited powers and that, ultimately, the legislature could revoke the authority granted by the bill should it wish to do so. They also pointed out that bills do not get out of committee for a number of reasons, and that cities and counties, for reasons having nothing to do with the merits of a bill, must wait 18 months, under Nevada’s biennial legislative schedule, to again pursue the bill. The bill was voted out of the Senate Government Affairs Committee and sent to the Assembly Government Affairs Committee. Hearing on SB 385 Before the Senate Committee on Government Affairs 29, 31-32 (April 8, 2011).

The Assembly Committee provided a different reception. There was concern about the breadth of the expansion of powers, about the ability of local entities to responsibly handle new authority and about the quality and consistency of legal advice provided to local authorities. After this hearing, no further action was taken and SB 385 expired, pursuant to Joint Standing Rule No. 14.3.3. Hearing on SB 385 Before the Assembly Committee on Government Affairs 10, 13-14 (May 2, 2011).

The present session has seen the introduction of SB 2, a duplicate of SB 385 from 2011. The bill applies to counties and cities. Hearings were held on February 27 and April 12, before the Senate Government Affairs Committee, followed by an 18 to 2 floor approval on April 18.

## Conclusion

Some form of Dillon’s Rule has been a part of Nevada’s jurisprudence since early in its statehood. Recent efforts to abrogate the rule have included carefully demarcated areas (notably, taxation powers) where it will still apply in its present form. Passage, as has been repeatedly stated in committee testimony, would allow cities and counties much greater flexibility in dealing with mundane, day-to-day issues, such as naming rights for parks, graffiti removal or the towing of cars. ■

1. *Maynard v. Johnson*, 2 Nev. 16, reh’g denied, 2 Nev. 25, 33 (1866) (“Impressed by these influences and consideration, they passed the law, from the bowels of which we seek to eviscerate its meaning. Evisceribus Actus. What is its true meaning.”); Elijah Swiney, John Forrest Dillon Goes to School: Dillon’s Rule in Tennessee Ten Years After Southern Constructors, 79 Tenn. L. Rev. 103, 107-08 (2011).
2. *Ex Parte Sloan*, 47 Nev. 109, 217 P. 233 (1923); *State ex rel. Grimes v. Bd. of Comm’rs*, 53 Nev. 364, 1 P.2d 570 (1931); *Flick Theater, Inc. v. City of Las Vegas*, 104 Nev. 87, 752 P.2d 235 (1988).
3. *Louis v. Cook*, The Dream of Greater Municipal Autonomy: Should the Legislature or the Courts Modify Dillon’s Rule, a Common Law Restraint on Municipal Power?, 29 N.C. Cent. L. J. 194, 206-07 (2007).

**BRIAN CHALLY** is Legal Services Director for the Las Vegas Valley Water District and Southern Nevada Water Authority.

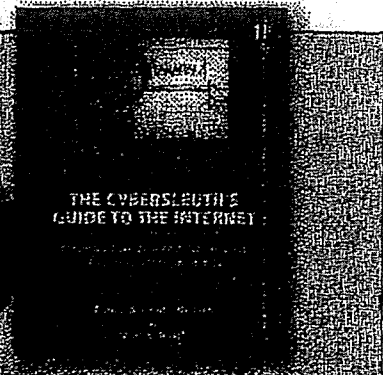
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**From:** Jgumz <jgumz@protonmail.com>  
**Date:** May 2, 2020 at 10:15:15 AM PDT  
**To:** tim callicrate <tim2tahoe@msn.com>, Sara Schmitz <schmitz61@gmail.com>, Matthew Dent <matthew.ivgid@gmail.com>  
**Cc:** Diane Heirshberg <dbheirshberg@gmail.com>  
**Subject:** Fw: Attorney General opinion 2005  
**Reply-To:** Jgumz <jgumz@protonmail.com>

To the Audit Committee:

I understand the Audit Committee is addressing Item 4b on Dillon's Rule at its meeting on May 6, 2020. Please be aware that the Nevada Attorney General provided a ruling in 2005 (attached).

*"The power conferred upon cities and counties in NRS 244.1505 and NRS 268.028 vests discretionary power to make charitable contributions only with the governing body of the city and the board of county commissioners. The power granted to cities and counties is in the nature of a public trust that may not be exercised or delegated in the absence of statutory authorization. Therefore, the county and cities cannot confer their discretionary power to make charitable contributions."*

Source: Nevada Attorney General Opinion (attached)

This Nevada Attorney General opinion should be included in any discussion and provided to your legal counsel. Matthew and Tim: this opinion has been provided in the past to you by email during 2019 and 2020.

Please let me know how to ensure this information and this specific opinion, 2005-01, is included in your and your legal counsel's consideration.

Joy Gumz  
Incline Village, NV

----- Original Message -----

On Wednesday, March 25, 2020 3:42 PM, Jgumz <jgumz@protonmail.com> wrote:

*The power conferred upon cities and counties in NRS 244.1505 and NRS 268.028 vests discretionary power to make charitable contributions only with the governing body of the city and the board of county commissioners. The power granted to cities and counties is in the nature of a public trust that may not be exercised or delegated in the absence of statutory authorization. Therefore, the county and cities cannot confer their discretionary power to make charitable contributions.*

Source: Nevada Attorney General Opinion (attached)

IVGID is not a city or county. So as if it is currently making any charitable contributions, donations, "sponsorships", or in-kind donations or charitable allowances - or planning this under its 2021 FY budget, , questions will be asked as to whether this is allowed under state law.

**OFFICIAL OPINIONS OF THE ATTORNEY GENERAL**

**AGO 2005-01 AGREEMENTS: CITIES AND TOWNS: COUNTIES:**

**FUNDS:** Due to the absence of legislative authority that provides cities and counties the power to delegate the discretionary function of making charitable contributions, TMWA is not vested with the power to make charitable donations to the River Fund.

Carson City, January 21, 2005

Honorable Richard A. Gammick, District Attorney, County of Washoe  
Post Office Box 30083, Reno, NV 89520

Dear Mr. Gammick:

You have requested our opinion concerning the Truckee Meadows Water Authority (TMWA) and whether it may make charitable contributions of money within its control to the Truckee River Fund (the River Fund), particularly from money collected from water customers. TMWA was created in the year 2000, when the cities of Reno and Sparks and the County of Washoe entered into a Cooperative Agreement (the Agreement) pursuant to chapter 277 of the Nevada Revised Statutes (NRS). TMWA was established to acquire the water assets and operations held by Sierra Pacific Power Company in the Truckee Meadows. The Agreement sets forth the Conferred Functions and Powers of TMWA in § 5 and § 6 respectively of the Agreement.

In July 2004, TMWA approved the creation of a River Fund by and between TMWA and the Community Foundation of Western Nevada, a Nevada non-profit corporation.<sup>1</sup> The general purpose of the River Fund is to distribute the net income and principal of the Fund for the exclusive use for projects that protect and enhance water quality or water resources of the Truckee River, or its watershed.

QUESTION

Whether TMWA may make charitable contributions to the River Fund?

ANALYSIS

Under Nevada law, cooperative agreements that establish a separate legal entity must specify the precise organization, composition, and nature of such

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<sup>1</sup> The Community Foundation of Western Nevada is a 501(c)(3) organization as set forth in the Internal Revenue Section Code of 1986 (26 U.S.C. 501 (c) (3)). This organization provides an umbrella charitable organization for Western Nevada communities to manage dedicated funds for specific purposes.

## OFFICIAL OPINIONS OF THE ATTORNEY GENERAL

entity and the powers delegated thereto. NRS 277.120(1). In accordance with the requirements of NRS 277.120(1), § 6 of the Agreement provides a detailed list of "Powers" pertaining to TMWA's operation of a public water system. The specified powers include TMWA's ability to purchase and sell property; employ staff; issue bonds, notes, and other obligations; execute contracts; exercise the power of eminent domain; and "perform all other acts necessary or convenient for the performance of any Conferred Function or the exercise of any of its powers."

TMWA's powers arise solely out of the Agreement; there is no express legislative authority granted to TMWA. Thus, it must be determined whether Reno, Sparks, and the County of Washoe have the power to make charitable contributions; whether these public entities are authorized to delegate to TMWA the power to make charitable contributions; and if so, whether that power was specifically delegated to TMWA in the Agreement.

The Nevada Legislature, pursuant to NRS 244.1505 and NRS 268.028, vested counties and incorporated cities in Nevada with the discretionary power<sup>2</sup> to expend money to nonprofit organizations created for religious, charitable, or educational purposes for a selected purpose if it provides a substantial benefit to the inhabitants. Therefore, counties and cities have discretionary power to expend money for charitable purposes.

It must next be determined whether counties and cities are authorized to delegate to another entity their express statutory power to expend money to nonprofit organizations created for religious, charitable, or educational purposes.

There is no express legislative authority that allows or prohibits a county or city from delegating its discretionary power to expend money to nonprofit organizations created for religious, charitable, or educational purposes. However, there is a general rule of law concerning the delegation of power by a public agency that has been expressed by this Office. This Office has opined, "powers conferred upon public agencies and officers which involve the exercise of judgment or discretion are in the nature of public trust and cannot be surrendered or delegated to subordinates in the absence of statutory authorization." Attorney General letter opinion to Howard Barrett (November 23, 1981) citing to *California Sch. Emp. A. v. Personnel Com'n. of P.V.U.S.D.*, 474 P.2d 436, 439 (Ca. 1970); See Op. Nev. Att'y Gen. No. 96-11 (April 25,

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<sup>2</sup> The power is discretionary because these statutes provide that a city and a board of county commissioners "may" expend money for charitable purposes.

**OFFICIAL OPINIONS OF THE ATTORNEY GENERAL**

1996) (City of Reno Redevelopment Agency had no authority to enact rules or regulations which altered or enlarged the terms of legislative enactments); *See also* 63C AM. JUR 2D *Public Officers and Employees* § 235 (2004).

The power conferred upon cities and counties in NRS 244.1505 and NRS 268.028 vests discretionary power to make charitable contributions only with the governing body of the city and the board of county commissioners. The power granted to cities and counties is in the nature of a public trust that may not be exercised or delegated in the absence of statutory authorization. Therefore, the county and cities cannot confer their discretionary power to make charitable contributions to TMWA. As a result, TMWA may not make charitable donations to the River Fund absent express legislative authority.

Based on the foregoing, it is unnecessary to determine whether the discretionary power to make charitable contributions was specifically delegated to TMWA.

CONCLUSION

Due to the absence of legislative authority that provides cities and counties the power to delegate the discretionary function of making charitable contributions, TMWA is not vested with the power to make charitable donations to the River Fund.

Sincere regards,

BRIAN SANDOVAL  
Attorney General

By: SONIA E. TAGGART  
Senior Deputy Attorney General





# Dillon's Rule Overview



**BEST BEST & KRIEGER**  
ATTORNEYS AT LAW



# Summary

- Introduction to Dillon's Rule
- Overview of Items at Issue
- Questions

\*\*\*This is a high-level review of complicated issues.\*\*\*



# Intro to Dillon's Rule

- Two basic ways to handle local governments (not buckets but continuum)
  - Dillon's Rule
  - Home Rule
- Dillon's Rule: Local gov can only act as permitted by state statute
- Home Rule: Local gov has the general authority to act (even if in contravention of state statutes)





# Intro to Dillon's Rule

- Dillon's Rule results from a 1868 Iowa case:
  - The true view is this: Municipal corporations owe their origin to, and derive their powers and rights wholly from, the legislature. It breathes into them the breath of life, without which they cannot exist. As it creates, so it may destroy. If it may destroy, it may abridge and control. Unless there is some constitutional limitation on the right, the legislature might, by a single act, if we can suppose it capable of so great a folly and so great a wrong, sweep from existence all of the municipal corporations in the State, and the corporation could not prevent it. We know of no limitation on this right so far as the corporations themselves are concerned. They are, so to phrase it, the mere tenants at will of the legislature.





# Intro to Dillon's Rule

- Nevada has traditionally been a Dillon's Rule state (*Rosenstock v. Swift*, 11 Nev. 128 (1876).)
  - However, provides some form of home rule to cities and counties
- Modifications to rule have not been extended to GIDs or other districts
  - Remain creatures of state statute



# Questions Re IVGID Authority

- IVGID has those basic powers set forth in NRS 318.116
  - Recreation
  - Sewer
  - Solid Waste
  - Water
- IVGID has those other express administrative powers in NRS 318





# Questions Re IVGID Authority

- IVGID's express powers include the following:
  - **NRS 318.205 Bylaws.** The board shall have the power to adopt and amend bylaws, not in conflict with the Constitution and laws of the State:
    1. For carrying on the business, objects and affairs of the board and of the district.
    2. Regulating the use or right of use of any project or improvement.
  - **NRS 318.210 Implied powers.** The board shall have and exercise all rights and powers necessary or incidental to or implied from the specific powers granted in this chapter. Such specific powers shall not be considered as a limitation upon any power necessary or appropriate to carry out the purposes and intent of this chapter.





# Questions Re IVGID Authority

Issue	Authorization	Notes
Business travel	NRS 318.180, 318.185, 318.210	<ul style="list-style-type: none"> <li>-Employees should receive reasonable reimbursements</li> <li>-Per diems are an option in lieu of reimbursements but may be taxable</li> <li>-Washoe County has adopted an ordinance. (WCC 5.351 et seq.)</li> </ul>
Employee rewards	NRS 318.180, 318.185, 318.210	<ul style="list-style-type: none"> <li>-Common way to recognize the hard work and efforts of employees</li> <li>-Should be reasonable</li> </ul>
Employee celebration expenses	NRS 318.180, 318.185, 318.210	-Same as above





# Questions Re IVGID Authority

Issue	Authorization	Notes
Non-monetary support to non-profits or community groups	NRS 318.116, 318.210	<ul style="list-style-type: none"> <li>-Support should be based on an express power (i.e., use of recreation facilities)</li> <li>-Policy can outline scope of program (See P&amp;P Reso No. 132 and Reso No. 1701)</li> </ul>
Monetary support to non-profits or community groups	NRS 318.116, 318.210	<ul style="list-style-type: none"> <li>-Support should be reasonable and based on an express power (furtherance of recreation)</li> </ul>





# Questions?

Joshua Nelson

Best Best & Krieger LLP

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**Note 18 - Segment Information for Community Services and Beach Special Revenue Funds (page 54 of 2019 CAFR) is a misuse of GASB intentions.**

According to GASB #34 paragraph 122 and 123, Segment Information is ONLY to be used for Enterprise Funds. The two IVGID Special Revenue Funds are NOT Enterprise Funds.

Note 18 has no relevance as Charges for Services by venue are included in the Community Services and Beach Special Revenue Funds - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the year ended June 30, 2019 (Exhibit C - page 28 and 29 of the 2019 CAFR).

Note 18 is a diversion to provide some information on the improper accounting for using Punch Cards for entry to the IVGID recreational venues. Such accounting has no basis under GAAP. There is no disclosure that "Punch Card Value Utilized" are actually dollar for dollar contra revenue amounts to offset fictional grossed up Charges for Services when Punch Cards are used. The offsets however do NOT follow the actual Charges for Services but are created based on predetermined percentages.

During fiscal 2019, \$468,000 was improperly transferred from the Community Services Special Revenue Fund to "pay for" the \$590,000 of Charges for Services at the Beaches. The remaining \$122,000 is a contra revenue offset in the Beach Special Revenue Fund. This transfer is required to be disclosed in Note 8 Interfund Accounts and Transfers. NRS Statutes are violated as transfers between Special Revenue Funds cannot be done..

For some comic relief

- Charges for services for the Championship and Mountain Golf do not agree with the amounts on page 28 of the 2019 CAFR
- "Function" is used 6 times with different meanings
- "Facility Fee" is used 5 times with no relevance
- "facility fee can be used to pay for charges for services in lieu of other forms of privileges". No logic here. IN LIEU is defined "to replace it or substitute for it". What?
- "Charges for Services are aggregated, while expenditures are provided by function". What is aggregated and where?
- Facility Fee have been listed separately by Fund and Function. Is the "Function type of Revenue or is it the Recreation Venues" - NO relevance here.

Exhibits -

A - GASB #34 - Segment Information.

B - 2019 CAFR Note 18 Segment Information for Community Services and Beach Special Revenue Funds

C- 2019 CAFR - Community Services and Beaches Special Revenue Funds - Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual



## EXHIBIT A - GASB #34

120. Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgment. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

### **Disclosures about Donor-restricted Endowments**

121. Note disclosures should include the following information about donor-restricted endowments:

- a. The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board, and how those amounts are reported in net assets
- b. The state law regarding the ability to spend net appreciation
- c. The policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

### **Segment Information**

122. Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an identifiable activity reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.<sup>48</sup> A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified. Segment disclosure requirements should be met by providing condensed financial statements in the notes:

- a. Type of goods or services provided by the segment.
- b. Condensed statement of net assets:
  - (1) Total assets—distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.

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<sup>48</sup>Segment disclosures are not required for an activity whose only outstanding debt is conduit debt for which the government has no obligation beyond the resources provided by related leases or loans. In addition, segment reporting is not required when an individual fund both is a segment and is reported as a major fund.

- (2) Total liabilities—distinguishing between current and long-term amounts. Amounts payable to other funds or component units should be reported separately.
- (3) Total net assets—distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.
- c. Condensed statement of revenues, expenses, and changes in net assets:
  - (1) Operating revenues (by major source).
  - (2) Operating expenses. Depreciation (including any amortization) should be identified separately.
  - (3) Operating income (loss).
  - (4) Nonoperating revenues (expenses)—with separate reporting of major revenues and expenses.
  - (5) Capital contributions and additions to permanent and term endowments.
  - (6) Special and extraordinary items.
  - (7) Transfers.
  - (8) Change in net assets.
  - (9) Beginning net assets.
  - (10) Ending net assets.
- d. Condensed statement of cash flows:
  - (1) Net cash provided (used) by:
    - (a) Operating activities.
    - (b) Noncapital financing activities.
    - (c) Capital and related financing activities.
    - (d) Investing activities.
  - (2) Beginning cash and cash equivalent balances.
  - (3) Ending cash and cash equivalent balances.

Determining whether to provide segment disclosures about component units that use enterprise fund accounting and reporting standards is a matter of professional judgment. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

123. Governments that want to present disaggregated data for their multiple-function enterprise funds beyond what is required for segment reporting (for example, net program cost information) are encouraged to present (as supplementary information) a statement of activities (as discussed in paragraphs 38–60). Special-purpose governments engaged only in business-type activities (paragraph 138) also are encouraged to present this information.

## EXHIBIT B

### 17. DUE TO OTHER GOVERNMENTS

The Nevada Department of Taxation has notified the District of refund of sales tax due another taxpayer, resulting in reductions of monthly Consolidated Tax Distributions. While the exact amount and terms for the reductions is not determined, sufficient information was available to arrive at an estimated \$60,000 liability. The refund applies to taxes received over three years ending in March 2017. The District share of this refund are being made through 18 monthly reductions that began with the July 2018 Consolidated Tax Distribution. The first twelve months resulted in \$28,946 applied to the \$60,000.

### 18. SEGMENT INFORMATION FOR COMMUNITY SERVICES AND BEACH SPECIAL REVENUE FUNDS

The District provides recreation functions through two individual special revenue funds. Each serves a different set of venues and customer base. A significant source of revenue for these functions for operations, capital expenditure and debt service comes directly from a facility fee assessed by parcel for each function and expenditure type. Facility Fees have been listed separately by fund and function. The operating portion of the facility fee is combined with charges for services to provide the resources for providing services. Charges for services are aggregated, while expenditures are provided by function. As stated in Note 1 T, part of the facility fee can be used to pay for charges for services in lieu of other forms of privileges. These are referred to as Punch Cards. The following are major functions included in Charges for Services and the approximate amounts of punch cards activity that is included.

	Charges for Services	Paid with Punch Cards	Punch Cards Value Utilized
<b>Community Services Fund:</b>			
Championship Golf	\$ 3,952,989	\$ 25,000	\$ -
Mountain Golf	690,668	56,000	-
Facilities	392,246	-	-
Ski	11,778,871	200,000	-
Community Programming	1,364,044	1,000	-
Parks	46,580	-	-
Tennis	153,435	-	-
Recreation Administration	<u>(730,819)</u>	<u>7,000</u>	<u>(757,000)</u>
Total	<u>\$ 17,648,014</u>	<u>\$289,000</u>	<u>\$(757,000)</u>
Beach Fund	<u>\$ 1,492,687</u>	<u>\$590,000</u>	<u>\$(122,000)</u>
District Total		<u>\$879,000</u>	<u>\$(879,000)</u>

### 19. COMMITMENTS AFFECTING FUTURE PERIODS

#### General Fund:

The District entered into an unemployment insurance contract with First Nonprofit Companies for total premiums of \$185,000 for calendar year 2019 services. As of June 30, 2019 \$92,500 in quarterly deposits are remaining as a part of the subsequent year's budget.

Charges for Services at Beaches     \$590,000  
Offset in Beach Fund                     ( 122,000)  
Transfer from Community Services     (468,000)



EXHIBIT C

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 COMMUNITY SERVICES SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,992,444	\$ 3,992,444	\$ 3,902,689	\$ (89,755)
Mountain Golf	690,926	690,926	740,968	50,042
Facilities	406,900	406,900	392,246	(14,654)
Ski	8,915,000	11,715,000	11,778,871	63,871
Community Programming and Recreation Center	1,305,414	1,305,414	1,364,044	58,630
Parks	67,740	67,740	46,580	(21,160)
Tennis	159,700	159,700	153,435	(6,265)
Recreation Administration	(510,600)	(510,600)	(730,819)	(220,219)
Subtotal Charges for Services	15,027,524	17,827,524	17,648,014	(179,510)
Facility Fees - Operations	1,765,150	1,765,150	2,984,399	1,219,249
Facility Fees - Capital Projects	3,612,400	3,612,400	2,508,528	(1,103,872)
Facility Fees - Debt Service	410,500	410,500	329,848	(80,652)
Intergovernmental Services	21,000	21,000	14,570	(6,430)
Interfund Services	77,920	77,920	86,060	8,140
Operating Grants	17,000	17,000	17,000	-
Investment Income	30,000	30,000	199,322	169,322
Miscellaneous - other	106,480	106,480	112,777	6,297
Total revenues	21,067,974	23,867,974	23,900,518	32,544
<b>EXPENDITURES</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	4,171,759	4,171,759	4,285,423	(113,664)
Mountain Golf	1,019,953	1,019,953	960,442	59,511
Facilities	547,202	547,202	482,527	64,675
Ski	7,353,714	7,783,714	7,830,948	(47,234)
Community Programming and Recreation Center	2,350,783	2,350,783	2,296,972	53,811
Parks	848,133	848,133	815,439	32,694
Tennis	263,670	263,670	253,544	10,126
Recreation Administration	375,000	375,000	363,285	11,715
Total expenditures	16,930,214	17,360,214	17,288,580	71,634
Excess (deficiency) of revenues over expenditures	4,137,760	6,507,760	6,611,938	104,178
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	241,875	241,875	645,000	403,125
Sale of assets	-	-	34,567	34,567
Insurance Proceeds	-	-	50,300	50,300
Contingency	(500,000)	(500,000)	-	500,000
Operating Transfers (Out) - Capital Projects	(6,070,675)	(6,070,675)	(3,678,473)	2,392,202
Operating Transfers (Out) - Debt Service	(410,500)	(410,500)	(329,848)	80,652
Total other financing sources (uses)	(6,739,300)	(6,739,300)	(3,278,454)	3,460,846
Net changes in fund balance	(2,601,540)	(231,540)	3,333,484	3,565,024
Fund Balance, July 1, as previously reported	11,515,351	10,645,469	10,645,469	-
Prior Period Adjustment	-	-	(645,000)	(645,000)
Fund Balance, July 1, as adjusted	11,515,351	10,645,469	10,000,469	(645,000)
Fund balance, June 30	\$ 8,913,811	\$ 10,413,929	\$ 13,333,953	\$ 2,920,024

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 BEACH SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Beach	\$ 1,338,500	\$ 1,338,500	\$ 1,492,687	\$ 154,187
Facility Fees - Operations	659,260	659,260	774,928	115,668
Facility Fees - Capital Projects	302,484	302,484	198,558	(103,926)
Facility Fees - Debt service	7,756	7,756	1,635	(6,121)
Investment earnings	13,500	13,500	36,188	22,688
Total revenues	<u>2,321,500</u>	<u>2,321,500</u>	<u>2,503,996</u>	<u>182,496</u>
<b>EXPENDITURES</b>				
<b>BEACH RECREATION:</b>				
Beach	<u>1,922,976</u>	<u>1,922,976</u>	<u>1,906,516</u>	<u>16,460</u>
Excess (deficiency) of revenues over expenditures	<u>398,524</u>	<u>398,524</u>	<u>597,480</u>	<u>198,956</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(50,000)	(50,000)	-	50,000
Operatign Transfers In	13,125	13,125	35,000	21,875
Operating Transfers (Out) - Capital Projects	(306,328)	(306,328)	(198,558)	107,770
Operating Transfers (Out) - Debt Service	<u>(7,756)</u>	<u>(7,756)</u>	<u>(1,635)</u>	<u>6,121</u>
Total other financing sources (uses)	<u>(350,959)</u>	<u>(350,959)</u>	<u>(165,193)</u>	<u>185,766</u>
Net changes in fund balance	<u>47,565</u>	<u>47,565</u>	<u>432,287</u>	<u>384,722</u>
Fund Balance, July 1, as previously reported	1,444,497	1,444,497	1,413,091	(31,406)
Prior Period Adjustment	-	-	(35,000)	(35,000)
Fund Balance, July 1, as adjusted	<u>1,444,497</u>	<u>1,444,497</u>	<u>1,378,091</u>	<u>(66,406)</u>
Fund balance, June 30	<u>\$ 1,492,062</u>	<u>\$ 1,492,062</u>	<u>\$ 1,810,378</u>	<u>\$ 318,316</u>

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



February 17, 2020

To: IVGID Trustee Audit Committee

From: Clifford F. Dobler

cc: Trustees Wong and Morris and Interim General Manager, Indra Winquest

Re: Improper Reporting of Facility Fees in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019 (CAFR)

Below is another grave misrepresentation in the CAFR which adds to the growing list of improper reporting which will ultimately require a restatement of the CAFR delivered to the Department of Taxation.

On May 22, 2018, The Board of Trustees adopted Resolution 1865 which set forth the amount of Recreation and Beach Facility Fees which property owners would be assessed for fiscal year 2019. These funds were specifically collected and allocated for operations, capital projects and debt service. In 2015, the Board of Trustees established three separate funds for Community Services and the Beaches to insure that the Facility Fees would be allocated in the manner described in each annual Resolution so stakeholders could see how their money is being spent.

For fiscal year ending June 30, 2019, the allocation of the Facility Fees for all Community Services and Beach recreational venues were established as:(Exhibit A) and were also made part of the 2018/2019 Budget Form 4404LGF.

	<u>Community Services</u>	<u>Beaches</u>
Operations	\$1,765,150	\$659,260
Capital Projects	\$3,612,400	\$302,484
Debt Service	<u>\$ 410,500</u>	<u>\$ 7,756</u>
Total	\$5,788,050	\$969,500

The CAFR for fiscal year 2019 , shows that the Facility Fees were actually allocated in different amounts. Director of Finance Eick apparently decided, on his own, that the Facility Fees would be allocated to provide an additional \$1,219,000 and \$116,000 in revenues for the Community Services and Beach **OPERATIONS** at the expense of lesser amounts for capital projects and debt service (Exhibit B & C). The Board of Trustees never approved this different allocation and Trustees Wong and Morris, members of the old Audit Committee did not request any correction.

The Board of Trustees decides how the Facility Fees must be spent and property owners expect that their money will be spent for the purpose they are collected. But Eick, without any oversight, decides what he wants. So instead of close to \$4,000,000 being allocated and actually spent on capital projects, a portion of the money is diverted to pay unknown and unbudgeted operating expenses now or in the future. A slush fund has effectively been built up to fuel higher operating expenses while important capital projects sit in the "planning stages."

To confuse the Trustees and Public even more, the "Pre Audit" Statement of Operating Sources and Uses for the year ended June 30, 2019 (which only reports operations and does not include capital

projects and debt service) the actual Facility Fees for Community Services and Beaches were similar to the assessments authorized in the Board Resolution and the Budget for the fiscal year. (Exhibit D & E), but were substantially different in the CAFR. There is no logical explanation to reallocate such large amounts other than to intentionally mislead the public.

Ironically, in fiscal year 2019, Diamond Peak actual operations exceeded the original budget expectations by \$2,386,000. So the \$1,765,150 of the Community Services Facility Fee allocated by the Board for operating short falls was NEVER required let alone allowing Eick to add another \$1,300,000 to the operating coffers. Did anyone get a refund? Not a chance. How about using the funds for capital projects our community has prioritized?

Eick also decided, on his own, to close down the capital project and debt service funds and collect all the money from user fees and the facility fees in the operating funds effective July 1, 2019. This is the ultimate lack of transparency which firmly contradicts the Board Resolution establishing the Funds in 2015. Within his budget transmittal letter dated May 22, 2019 (Exhibit F) he states: *"Therefore the Capital Projects and Debt Service funds will become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project"*. Apparently he felt he had the right to change Board Policies by a simple statement in a cover letter. He just got three votes from Wong, Horan and Morris to approve the 2019/2020 budget and made no mention of the need to amend the Resolution which established the funds. This, of course, holds no water but so what. Horan is now gone and the new Audit Committee will be tasked with restating the 2019 CAFR and the 2020 Budget.

As a result of Eick "cooking the books," the operating fund at June 30, 2019 for Community Services has a balance of \$13,333,853. This EXCEEDS the Board mandated appropriate level of fund balance by a staggering \$9,102,000. The operating fund for the Beaches is also sitting on \$1,810,000 when only \$481,000 should be the appropriate amount. Citizens need a new Burnt Cedar Pool and a new Incline Beach building and future Facility Fees should be directed towards those capital projects.

Please review this memorandum, provide me with what your intent will be on correcting this misrepresentation in the CAFR and provide me an answer if you received this memo. If you have any questions please let me know.

Exhibits:

A - Resolution 1865 - Incline Village General Improvement District Facility Fee Reconciliation by Parcel and Venue Component

B- CAFR - Community Services Special Revenue Fund - Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2019

C - CAFR - Beach Special Revenue Fund - Statement of Revenues, Expenditures and Changes in Fund Balance for the year ended June 30, 2019

D - Community Services Fund - Statement of Operating sources and Uses for the Period Ending June 30, 2019

E - Beach Fund - Statement of Operating sources and Uses for the Period Ending June 30, 2019

F - May 22, 2019 Budget Letter to Board of Trustees and Citizens of Incline Village and Crystal Bay Incline Village General Improvement District.

Incline Village General Improvement District Facility Fee Reconciliation by Parcel and Venue Component

RESOLUTION 1865  
 ADOPTED 5/23/2018  
 FOR FISCAL YEAR 2019

	Components per Parcel			Per Parcel Facility Fee	Total 2018-19 Facility Fee	Amount per Venue Component		
	Operating	Capital Projects	Debt Service			Operating	Capital Projects	Debt Service
<b>Recreation Facility Fee charged to 8,210 Parcels</b>								
Golf - Championship	\$ 22	\$ 52	\$ 24	\$ 98	\$ 804,580	\$ 180,620	\$ 426,920	\$ 197,040
Golf - Mountain	40	23	-	63	\$ 517,230	\$ 328,400	\$ 188,830	\$ -
Facilities	18	17	22	57	\$ 467,970	\$ 147,780	\$ 139,570	\$ 180,620
Diamond Peak Ski	(200)	226	3	29	\$ 238,090	\$ (1,642,000)	\$ 1,855,460	\$ 24,630
Youth & Family Programming	25	-	-	25	\$ 205,250	\$ 205,250	\$ -	\$ -
Senior Programming	21	-	-	21	\$ 172,410	\$ 172,410	\$ -	\$ -
Recreation Center	81	32	-	113	\$ 927,730	\$ 665,010	\$ 262,720	\$ -
Comm. Services Administration	108	53	-	161	\$ 1,321,810	\$ 886,680	\$ 435,130	\$ -
Parks	86	32	-	118	\$ 968,780	\$ 706,060	\$ 262,720	\$ -
Tennis	14	5	1	20	\$ 164,200	\$ 114,940	\$ 41,050	\$ 8,210
Recreation Allocation	\$ 215	\$ 440	\$ 50	\$ 705	\$ 5,788,050	\$1,765,150	\$3,612,400	\$410,500

<b>Beach Facility Fee charged to 7,756 Parcels</b>								
Beach Allocation	\$ 85	\$ 39	\$ 1	\$ 125	\$ 969,500	\$ 659,260	\$ 302,484	\$ 7,756

**Previous Fiscal Years**

	Operating	Capital Projects	Debt Service	Total Fee	
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**Recreation Facility Fee Allocation:**

2017-18	\$ 215	\$ 330	\$ 160	\$ 705	(2008 Ski Bond matured 6/2018)	
2016-17	\$ 250	\$ 320	\$ 160	\$ 730		
2015-16	\$ 266	\$ 308	\$ 156	\$ 730		
2014-15	\$ 211	\$ 303	\$ 216	\$ 730	(2004 Rec Bond matured 10/2014)	
(Operating \$190 + \$49 Reserves)	2013-14	\$ 239	\$ 277	\$ 214	\$ 730	
(Operating \$183 + \$75 Reserves)	2012-13	\$ 258	\$ 199	\$ 273	\$ 730	(2003 Rec Bond matured 3/2013)

**Beach Facility Fee Allocation:**

2017-18	\$ 85	\$ 39	\$ 1	\$ 125	
2016-17	\$ 75	\$ 24	\$ 1	\$ 100	
2015-16	\$ 75	\$ 24	\$ 1	\$ 100	
2014-15	\$ 65	\$ -	\$ 35	\$ 100	(2004 Rec Bond matured 10/2014)
2013-14	\$ 63	\$ -	\$ 37	\$ 100	
2012-13	\$ 66	\$ 17	\$ 17	\$ 100	(2003 Rec Bond matured 3/2013)

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,992,444	\$ 3,992,444	\$ 3,902,689	\$ (89,755)
Mountain Golf	690,926	690,926	740,968	50,042
Facilities	406,900	406,900	392,246	(14,654)
Ski	8,915,000	11,715,000	11,778,871	63,871
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Parks	67,740	67,740	46,580	(21,160)
Tennis	159,700	159,700	153,435	(6,265)
Recreation Administration	(510,600)	(510,600)	(730,819)	(220,219)
Subtotal Charges for Services	15,027,524	17,827,524	17,648,014	(179,510)
Facility Fees - Operations	1,765,150	1,765,150	2,984,399	1,219,249
Facility Fees - Capital Projects	3,612,400	3,612,400	2,508,528	(1,103,872)
Facility Fees - Debt service	410,500	410,500	329,848	(80,652)
Intergovernmental Services	21,000	21,000	14,570	(6,430)
Interfund Services	77,920	77,920	86,060	8,140
Operating Grants	17,000	17,000	17,000	-
Investment income	30,000	30,000	199,322	169,322
Miscellaneous - other	106,480	106,480	112,777	6,297
Total revenues	<u>21,067,974</u>	<u>23,867,974</u>	<u>23,900,518</u>	<u>32,544</u>
<b>EXPENDITURES</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	4,171,759	4,171,759	4,285,423	(113,664)
Mountain Golf	1,019,953	1,019,953	960,442	59,511
Facilities	547,202	547,202	482,527	64,675
Ski	7,353,714	7,783,714	7,830,948	(47,234)
Community Programming and Recreation Center	2,350,783	2,350,783	2,296,972	53,811
Parks	848,133	848,133	815,439	32,694
Tennis	263,670	263,670	253,544	10,126
Recreation Administration	375,000	375,000	363,285	11,715
Total expenditures	<u>16,930,214</u>	<u>17,360,214</u>	<u>17,288,580</u>	<u>71,634</u>
Excess (deficiency) of revenues over expenditures	<u>4,137,760</u>	<u>6,507,760</u>	<u>6,611,938</u>	<u>104,178</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	241,875	241,875	645,000	403,125
Sale of assets	-	-	34,567	34,567
Insurance Proceeds	-	-	50,300	50,300
Contingency	(500,000)	(500,000)	-	500,000
Operating Transfers (Out) - Capital Projects	(6,070,675)	(6,070,675)	(3,678,473)	2,392,202
Operating Transfers (Out) - Debt Service	(410,500)	(410,500)	(329,848)	80,652
Total other financing sources (uses)	<u>(6,739,300)</u>	<u>(6,739,300)</u>	<u>(3,278,454)</u>	<u>3,460,846</u>
Net changes in fund balance	<u>(2,601,540)</u>	<u>(231,540)</u>	<u>3,333,484</u>	<u>3,565,024</u>
Fund Balance, July 1, as previously reported	11,515,351	10,645,469	10,645,469	-
Prior Period Adjustment	-	-	(645,000)	(645,000)
Fund Balance, July 1, as adjusted	<u>11,515,351</u>	<u>10,645,469</u>	<u>10,000,469</u>	<u>(645,000)</u>
Fund balance, June 30	<u>\$ 8,913,811</u>	<u>\$ 10,413,929</u>	<u>\$ 13,333,953</u>	<u>\$ 2,920,024</u>

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT**  
**BEACH SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Beach	\$ 1,338,500	\$ 1,338,500	\$ 1,492,687	\$ 154,187
Facility Fees - Operations	659,260	659,260	774,928	115,668
Facility Fees - Capital Projects	302,484	302,484	198,558	(103,926)
Facility Fees - Debt service	7,756	7,756	1,635	(6,121)
Investment earnings	13,500	13,500	36,188	22,688
Total revenues	<u>2,321,500</u>	<u>2,321,500</u>	<u>2,503,996</u>	<u>182,496</u>
<b>EXPENDITURES</b>				
<b>BEACH RECREATION:</b>				
Beach	<u>1,922,976</u>	<u>1,922,976</u>	<u>1,906,516</u>	<u>16,460</u>
Excess (deficiency) of revenues over expenditures	<u>398,524</u>	<u>398,524</u>	<u>597,480</u>	<u>198,956</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(50,000)	(50,000)	-	50,000
Operation Transfers In	13,125	13,125	35,000	21,875
Operating Transfers (Out) - Capital Projects	(306,328)	(306,328)	(198,558)	107,770
Operating Transfers (Out) - Debt Service	(7,756)	(7,756)	(1,635)	6,121
Total other financing sources (uses)	<u>(350,959)</u>	<u>(350,959)</u>	<u>(165,193)</u>	<u>185,766</u>
Net changes in fund balance	<u>47,565</u>	<u>47,565</u>	<u>432,287</u>	<u>384,722</u>
Fund Balance, July 1, as previously reported	1,444,497	1,444,497	1,413,091	(31,406)
Prior Period Adjustment	-	-	(35,000)	(35,000)
Fund Balance, July 1, as adjusted	<u>1,444,497</u>	<u>1,444,497</u>	<u>1,378,091</u>	<u>(66,406)</u>
Fund balance, June 30	<u>\$ 1,492,062</u>	<u>\$ 1,492,062</u>	<u>\$ 1,810,378</u>	<u>\$ 318,316</u>

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



**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
STATEMENT OF OPERATING SOURCES AND USES**

**COMMUNITY SERVICES FUND**

**CURRENT YEAR TO BUDGET COMPARISON**

For Period Ending June 30, 2019

	Current Month Budget	Current Month Actual	Month Budget Variance	Current YTD Budget	Current YTD Actual	YTD Budget Variance
<b>OPERATING SOURCES</b>						
Charges for Services	1,057,925	828,732	(229,193)	17,799,224	17,641,773	(157,452)
Facility Fees	88,259	44,179	(44,080)	1,765,150	1,767,442	2,292
Intergovernmental - Operating Grants	4,600	3,384	(1,216)	38,000	31,570	(6,430)
Interfund Services	16,910	17,797	887	94,120	86,060	(8,060)
Investment Income	2,500	18,724	16,224	30,000	138,902	108,902
Misc Rev-Other Reportable Items	3,349	4,155	806	118,580	147,339	28,759
<b>TOTAL OPERATING SOURCES</b>	<b>1,173,543</b>	<b>916,972</b>	<b>(256,571)</b>	<b>19,845,074</b>	<b>19,813,086</b>	<b>(31,988)</b>
<b>OPERATING USES</b>						
Salaries and Wages	572,383	589,071	(16,688)	6,684,155	6,788,262	(104,107)
Employee Fringe	172,990	139,391	33,599	2,088,462	1,918,578	169,884
<b>Total Personnel Cost</b>	<b>745,373</b>	<b>728,462</b>	<b>16,911</b>	<b>8,772,617</b>	<b>8,706,840</b>	<b>65,777</b>
Professional Services	1,800	9,425	(7,625)	41,075	47,494	(6,419)
Services and Supplies	367,102	437,382	(70,279)	4,717,054	4,523,311	193,742
Insurance	15,433	17,241	(1,808)	328,845	348,063	(19,218)
Utilities	63,356	65,574	(2,218)	1,181,829	1,135,694	46,135
Cost of Goods Sold	154,822	180,274	(25,452)	1,450,595	1,604,555	(153,960)
Central Services Cost	64,017	64,017	0	768,200	768,200	0
Defensible Space	50,000	29,267	20,733	100,000	100,000	0
<b>Total Services &amp; Supplies</b>	<b>716,530</b>	<b>803,180</b>	<b>(86,649)</b>	<b>8,587,598</b>	<b>8,527,317</b>	<b>60,281</b>
<b>TOTAL OPERATING USES</b>	<b>1,461,903</b>	<b>1,531,641</b>	<b>(69,738)</b>	<b>17,360,214</b>	<b>17,234,157</b>	<b>126,057</b>
<b>OPERATING SOURCES(USES)</b>	<b>(288,360)</b>	<b>(614,669)</b>	<b>(326,309)</b>	<b>2,484,860</b>	<b>2,578,929</b>	<b>94,069</b>

pre audit

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
STATEMENT OF OPERATING SOURCES AND USES**

**BEACH FUND**

**CURRENT YEAR TO BUDGET COMPARISON**

For Period Ending June 30, 2019

	Current Month Budget	Current Month Actual	Month Budget Variance	Current YTD Budget	Current YTD Actual	YTD Budget Variance
<b>OPERATING SOURCES</b>						
Charges for Services	203,400	259,649	56,249	1,338,500	1,488,682	150,182
Facility Fees	32,964	16,488	(16,476)	659,260	659,945	685
Investment Income	1,125	3,448	2,323	13,500	22,576	9,076
<b>TOTAL OPERATING SOURCES</b>	<b>237,489</b>	<b>279,585</b>	<b>42,096</b>	<b>2,011,260</b>	<b>2,171,203</b>	<b>159,943</b>
<b>OPERATING USES</b>						
Salaries and Wages	122,411	132,443	(10,032)	833,105	847,293	(14,188)
Employee Fringe	25,532	24,998	534	209,334	191,817	17,517
<b>Total Personnel Cost</b>	<b>147,943</b>	<b>157,441</b>	<b>(9,498)</b>	<b>1,042,439</b>	<b>1,039,110</b>	<b>3,329</b>
Professional Services	1,000	0	1,000	17,550	5,550	12,000
Services and Supplies	52,654	60,915	(8,261)	533,568	501,560	32,008
Insurance	3,575	10,646	(7,071)	21,450	38,875	(17,425)
Utilities	13,847	15,772	(1,925)	114,069	130,847	(16,778)
Cost of Goods Sold	15,500	13,808	1,692	101,300	94,437	6,863
Central Services Cost	7,717	7,717	0	92,600	92,600	0
<b>Total Services &amp; Supplies</b>	<b>94,293</b>	<b>108,858</b>	<b>(14,565)</b>	<b>880,537</b>	<b>863,870</b>	<b>16,667</b>
<b>TOTAL OPERATING USES</b>	<b>242,236</b>	<b>266,299</b>	<b>(24,063)</b>	<b>1,922,976</b>	<b>1,902,980</b>	<b>19,996</b>
<b>OPERATING SOURCES(USES)</b>	<b>(4,747)</b>	<b>13,287</b>	<b>18,033</b>	<b>88,284</b>	<b>268,223</b>	<b>179,939</b>

pre audit

The District is expected to adopt the updated Community Services Master Plan during the budget year. Neither the operating nor capital budgets include any projects contemplated by this plan. Should any project's needs develop prior to June 30, 2020, they would have to follow the augmentation requirements to become authorized.

During the fiscal year 2016-2017 the District began the process of update and review of the Diamond Peak Master Plan by the Tahoe Regional Planning Agency (TRPA). This is a multi-year process that may not be completed until after June 30, 2020. A substantial portion of that capital project's budget will be carried over to 2019-20.

**Governmental Fund Balance**

The District Final Budget Summary reports the following select Fund Balances:

	Estimated Fund Balance <u>6/30/19</u>	Projected Minimum by Board <u>Policy</u>	Projected Fund Balance <u>6/30/20</u>
General Fund	\$ 3,093,112	\$ 199,000	\$ 2,304,242
Comm. Services SR	\$13,183,167	\$4,493,000	\$ 9,146,076
Beach Special Rev.	\$ 1,749,171	\$ 526,000	\$ 1,123,442

**Comparison across Fiscal Years Presented in Form 4404LGF**

A fundamental aspect of the Form 4404LGF is comparison of information across the audited results of the fiscal year ending June 30, 2018, an estimated result for the year ending June 30, 2019, along with a presentation of the Tentative and Final budgets for the year ending June 30, 2020. The form and content for those three periods utilizes the same accounting principles and methodologies. Comparisons can be made knowing that differences are the consequence of circumstances, not methodology.

One major variation year on year relates to the District's use of Capital Projects and Debt Service Funds for the Community Services and Beach activities from July 1, 2015 through June 30, 2019. The objective for using these funds was the expectation for the need to demonstrate the sources and uses of the facility fee for capital expenditure and debt service. Our experience has been expenditures are the most sought after information. This can be demonstrated effectively within the functional expenditure reporting in Special Revenue funds. Therefore the Capital Projects and Debt Service funds will become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project.

Another variation is in the level of activity for food and beverage operations. The fiscal year 2017-18 saw increased activity. However, the greatest jump for 2018-19 relates to the Beach Fund taking on delivering food and beverage services at the two beaches. For many years, this was a concessionaire service. The respective revenues and expenditures increase, as well as the bottom line results. This also resulted in increases to FTE's with the addition of staff.

December 7, 2019

To: Board of Trustees and Indra Winquest

From: Clifford F. Dobler

Re: Improper and erroneously reporting of fund balances and Notes in the Comprehensive Annual Financial Report for fiscal year ended June 30, 2019

The fund balances for the Community Services Special Revenue Fund and the Beach Special Revenue Fund have been reported erroneously on the Government Funds Balance Sheet - June 30, 2019 (page 23) which is part of the Comprehensive Annual Financial Report for fiscal year ending June 30, 2019 (CAFR) even date.

The fund balance has not provided for the amount of commitments which have been imposed by formal action of the Board of Trustees required by paragraph 10 & 12 of GASB #54. On May 22, 2019, the Board of Trustees adopted a budget which committed the use of \$4,037,091 of the Community Services Special Revenue Fund and the use of \$625,729 of the Beach Special Revenue Fund fund balances at June 30, 2019 for specific purposes which imposed constraints on those funds and which cannot be lifted unless the Board of Trustees takes action. These amounts should coincide with the commitments stated in Note 19 (page 55) of the CAFR and **MUST** be stated as committed fund balances on the Balance Sheets of both funds.

To consider the above \$4,662,820 of committed fund balances to be "assigned" contradicts the requirements of GASB #54.

To state in Note 1P and Note 15 of the CAFR that the authority of making an assignment can be specified by the District's General Manager cannot be substantiated by any Board Policy or Practice. To state in Note 1P that an assigned fund balance reflects an ***intent by management of the District.*** has no credibility since intent ***should be expressed by*** a) the Board of Trustees, or b) a Body (committee) or c) an official which the Board of Trustees has delegated the authority to assign amounts to be used for specific purposes. **The Board of Trustees have not expressed any of the choices.**

Any amounts of a fund balance committed by the Board of Trustees for specific uses should be displayed as a committed fund balance on the Government Funds Balance Sheet as of June 30, 2019.

Exhibits - CAFR

A - Balance Sheet - page 23 of CAFR

B - Note 1P - Fund balance

C - Note 15 - Assigned Fund Balance

D - Note 19 - Commitments affecting future periods

E - GASB #54 - Committed and Assigned Fund Balance paragraphs 10 through 16





INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 GOVERNMENTAL FUNDS  
 BALANCE SHEET  
 JUNE 30, 2019

	GENERAL	COMMUNITY SERVICES SPECIAL REV.	BEACH SPECIAL REVENUE	COMMUNITY SERVICES CAP. PROJECTS	BEACH CAPITAL PROJECTS	COMMUNITY SERVICES DEBT SERV.	BEACH DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>								
Cash, cash equivalents and investments	\$ 4,619,115	\$ 14,751,053	\$ 1,945,888	\$ 372,676	\$ 109,433	\$	\$	\$ 21,799,405
Accounts receivable, net	1,754	13,026						17,780
Interest receivable on investments	16,732	17,704	2,370					36,806
Taxes and Fees from Washoe County	7,147	27,153	4,614					38,914
Grants receivable		1,417		369,662				371,079
Due from other governments	336,593	144,868	24,247					505,808
Inventories		573,951						573,951
Prepaid items	196,742	362,360	34,532					593,634
Restricted deposits	242,584	135,993	1,000					379,577
<b>Total assets</b>	<b>\$ 5,424,087</b>	<b>\$ 16,027,525</b>	<b>\$ 2,012,651</b>	<b>\$ 742,338</b>	<b>\$ 109,433</b>	<b>\$</b>	<b>\$</b>	<b>\$ 24,316,034</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities</b>								
Accounts payable	\$ 305,100	\$ 507,537	\$ 42,169	\$ 372,676	\$ 109,433	\$	\$	\$ 1,336,915
Accrued personnel costs	1,078,916	298,132	28,253					1,405,301
Due to other governments	32,750		12,528					45,278
Unearned revenue	45	1,887,903	119,323					2,052,271
<b>Total liabilities</b>	<b>1,415,917</b>	<b>2,693,572</b>	<b>202,273</b>	<b>372,676</b>	<b>109,433</b>	<b></b>	<b></b>	<b>4,793,871</b>
<b>Deferred Inflow of Resources</b>								
Deferred inflow	242,584			369,662				612,246
<b>Fund balance</b>								
Non-spendable	196,742	936,311	34,532					1,167,585
Restricted Deposits by Third Party Agreement		135,993	1,000					136,993
Assigned		12,261,649	1,774,846					14,036,495
Unassigned	3,568,844							3,568,844
<b>Total fund balance</b>	<b>3,765,586</b>	<b>13,333,953</b>	<b>1,810,378</b>	<b></b>	<b></b>	<b></b>	<b></b>	<b>18,909,917</b>
<b>Total liabilities and fund balance</b>	<b>\$ 5,424,087</b>	<b>\$ 16,027,525</b>	<b>\$ 2,012,651</b>	<b>\$ 742,338</b>	<b>\$ 109,433</b>	<b>\$</b>	<b>\$</b>	<b>\$ 24,316,034</b>

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

#### M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that will apply to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

#### N. Unearned Revenue and Refundable Deposits

The District's Utility Fund reads meters in 3 cycles over the course of a month. Billing occurs once a month. Billings for the next cycle are also reconciled with actual usage. Funds received for the Tahoe Water Suppliers Association are recognized only to the extent expended and may roll over to the next year.

The District's Community Services Fund recognizes unearned revenue to the extent it has issued user passes, gift or payment cards that can be applied to future purchases. There also are advance deposits made to reserve dates for facility rentals or program registrations. User passes expire with each season.

#### O. Long-Term Debt

In the government-wide financial statement, and proprietary fund financial statements, long term debts are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund statements net of related discounts. Bond discounts are amortized using the straight-line method and are amortized over the term of the related debt.

#### P. Fund Balance

In the fund financial statements, fund balance for governmental funds are reported in classifications that comprise a hierarchy based primarily on how amounts can be spent. These include "non-spendable" which are not expected to be converted to cash, such as inventory or prepaid items, "restricted" by conditions of law, regulation grants or contract with external parties, "committed" which arise from acts of the District's Board, "assigned" which reflect an intent by management of the District or "unassigned" which is the residual amount. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District, which can act by their resolution, prior to the end of the fiscal year, and thus commit fund balance. Once adopted, the limitation imposed by the Board of Trustees remains in place until a similar resolution is taken to remove or revise the limitation.

An assigned fund balance can be specified by the District's General Manager.

The District's Board of Trustees has adopted a policy and practice statement on the Appropriate Level of Fund Balance.

The District first utilizes restricted resources to finance qualifying activities then unrestricted resources, as they are needed when amounts are available for the same use. The District's Governmental fund types first utilizes committed resources as authorized, then assigned and then unassigned when amounts are available for the same use.



based on actuarial estimates provided by NVPACT for the amounts needed to pay claims as member of the risk sharing pool. For fiscal year ended June 30, 2019, the Internal Services Fund billed other District funds a total of \$504,519 and made member assessment payments for coverage of \$458,321. Member assessment payments are audited on the calendar year and paid the following July. Since the District will no longer be liable for costs for claims incurred prior to July 1, 2013, the use of the internal services fund ceased June 30, 2019. All future coverage is a purchased service.

Reconciliation of Workers Comp claims liability as of June 30, 2019, for claims incurred prior to July 1, 2013.

	Beginning Claims <u>Liability</u>	Claims <u>Made</u>	Claims <u>Payments</u>	General <u>Provision</u>	Ending Claims <u>Liability</u>
June 30, 2019	\$ 57,300	\$ -	\$ 57,300	\$ -	\$ -
June 30, 2018	\$156,000	\$ -	\$ -	\$ (98,700)	\$ 57,300
June 30, 2017	\$156,000	\$ -	\$ -	\$ -	\$156,000

**14. CONTINGENCIES**

The District participates in various federal programs, which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the District’s compliance with applicable grant requirements will be established at a future date.

Washoe County is currently the defendant in various lawsuits with property owners disputing the County Assessor’s valuation methods used for property within the Lake Tahoe Basin. The County intends to vigorously defend the Assessor’s valuations; however, the outcome of these lawsuits is not presently determinable. An adverse ruling could result in a rollback of property values and subsequent rebates to property owners. Similar cases have resulted in the County charging a portion of the rebates against the District’s tax settlements in 2012 through 2014. The impact of the current claims, on the District’s financial condition, cannot be reasonably estimated.

**15. ASSIGNED FUND BALANCE**

As of July 1, 2015, the Board of Trustees established Special Revenue, Capital Project and Debt Service funds for District Community Services and Beach activities. Based on governmental accounting standards the fund balance for the Special Revenue funds are assigned for the purpose of recreation privileges utilizing the facility fee. The fund balance in the Capital Projects and Debt Service Funds are assigned since they represent amounts designated through the budget process for approved but uncompleted expenditures under the direction of the District General Manager.

**16. LEASE OBLIGATIONS**

**Revenue:**

Miscellaneous revenue includes rent received for cell towers on District property. Under an agreement with American Tower \$20,082 was paid for a tower at the Mountain Golf Course. Its term is April 2007 to 2037 with extensions every five years, cancelable by either party. Rent increases 3% per year. Under an agreement with AT&T \$19,001 was paid for a tower at the Mountain Golf Course. Its term is October 2010 to 2035 with automatic extensions every five years, cancelable by the tenant. Rent increases 3% per year. Under an agreement with AT&T \$61,985 was paid for a tower at Diamond Peak Ski Resort. Its term is July 2013 to 2038 with extensions every five years, cancelable by the tenant. Rent increases 3.5% per year.

**Expenses:**

The Utility Fund paid \$4,476 for a leased copier under an agreement expiring December 2020.

**17. DUE TO OTHER GOVERNMENTS**

The Nevada Department of Taxation has notified the District of refund of sales tax due another taxpayer, resulting in reductions of monthly Consolidated Tax Distributions. While the exact amount and terms for the reductions is not determined, sufficient information was available to arrive at an estimated \$60,000 liability. The refund applies to taxes received over three years ending in March 2017. The District share of this refund are being made through 18 monthly reductions that began with the July 2018 Consolidated Tax Distribution. The first twelve months resulted in \$28,946 applied to the \$60,000.

**18. SEGMENT INFORMATION FOR COMMUNITY SERVICES AND BEACH SPECIAL REVENUE FUNDS**

The District provides recreation functions through two individual special revenue funds. Each serves a different set of venues and customer base. A significant source of revenue for these functions for operations, capital expenditure and debt service comes directly from a facility fee assessed by parcel for each function and expenditure type. Facility Fees have been listed separately by fund and function. The operating portion of the facility fee is combined with charges for services to provide the resources for providing services. Charges for services are aggregated, while expenditures are provided by function. As stated in Note 1 T, part of the facility fee can be used to pay for charges for services in lieu of other forms of privileges. These are referred to as Punch Cards. The following are major functions included in Charges for Services and the approximate amounts of punch cards activity that is included.

	Charges for Services	Paid with Punch Cards	Punch Cards Value Utilized
Community Services Fund:			
Championship Golf	\$ 3,952,989	\$ 25,000	\$ -
Mountain Golf	690,668	56,000	-
Facilities	392,246	-	-
Ski	11,778,871	200,000	-
Community Programming	1,364,044	1,000	-
Parks	46,580	-	-
Tennis	153,435	-	-
Recreation Administration	<u>(730,819)</u>	<u>7,000</u>	<u>(757,000)</u>
Total	<u>\$ 17,648,014</u>	<u>\$289,000</u>	<u>\$(757,000)</u>
Beach Fund	<u>\$ 1,492,687</u>	<u>\$590,000</u>	<u>\$(122,000)</u>
District Total		<u>\$879,000</u>	<u>\$(879,000)</u>

**19. COMMITMENTS AFFECTING FUTURE PERIODS****General Fund:**

The District entered into an unemployment insurance contract with First Nonprofit Companies for total premiums of \$185,000 for calendar year 2019 services. As of June 30, 2019 \$92,500 in quarterly deposits are remaining as a part of the subsequent year's budget.



**Capital Improvement Project Budget Carryover:**

The District budgets for capital improvement projects one year at a time for spending authority. The actual execution of construction or acquisition can span one or more fiscal years. The District identifies carryover and unspent budget authority for those projects. The amounts for governmental fund types are re-budgeted for the subsequent fiscal year. The unused Utility Fund resources become part of Unrestricted Net Position, and are budgeted under cash flow on the State of NV budget forms. Amounts carried over at year end are:

General Fund	\$ 201,000
Utility Fund (Non-effluent projects)	1,498,400
Effluent Pipeline Project	9,656,890
Community Services Fund	1,701,702
Beach Fund	108,050

**Budgeting for the Fiscal Year Ending June 30, 2020:**

The District's budgeting for the fiscal year ending June 30, 2020 anticipates a reduction in Net Position caused by completion of capital projects. The identified reductions include: General Fund by \$788,870 including \$561,800 to Community Services for the Mountain Golf Course capital project and \$145,000 for contingency, and in Community Services reduction for \$4,037,091 including the \$1,464,000 Mountain Course project, and \$1,285,000 for the Tennis Center Renovation. The Beach Fund has a reduction of \$625,729 resulting from the \$800,000 Burnt Cedar Pool Improvement.

Since Net Position is not reflected for each fund, fund balance should be used.

**The District has committed to these contractual arrangements for capital improvement projects:**

	<u>Contract Award</u>	<u>Completed at June 30, 2019</u>	<u>Remaining Commitment</u>
Utility Fund:			
Effluent Pipeline Project – State Route 28 Line Repairs			
State of Nevada	\$1,152,600	\$1,094,956	\$ 57,644
Replacement of Vactor Truck Awarded for assembly with fall 2019 delivery			
Atlantic Machinery, Inc.	\$ 416,564	\$ -	\$ 416,564
Community Services Fund:			
Incline Park Facility Renovation Awarded for May 2019 start, actual started July			
Rapid Construction	\$1,298,341	\$ -	\$1,298,431
Incline Creek Restoration Awarded for September 2019 start date			
Aspen Developers Corp.	\$ 273,000	\$ -	\$ 273,000
Cardno, Inc.	37,000	-	37,000

**20. RESTRICTED DEPOSIT HELD IN LAWSUIT**

The District has been engaged in a lawsuit with an individual over many years. A District Court decision made an award to the District for the recovery of fees. Both the Court decision and the fees awarded are under an appeal. In order to reduce possible longer-term exposure to the individual, the District received \$241,646 on September 14, 2017. These refunds are in a separate money market account and classified as a Deferred Inflow until all appeals under the lawsuit are resolved. The timeframe for a decision is unknown.

**21. STATE OF NEVADA TAX ABATEMENTS AFFECTING DISTRICT REVENUES**

The State of Nevada has entered into various tax abatement agreements that reduce the tax revenues of local governments. Taxes reduced include the Consolidated Tax, which includes allocated sales and use tax revenue. State law establishes the abatements. The District's estimated share of abatements for this fiscal year is \$21,199.



***Committed Fund Balance***

10. 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. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. 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.

11. In contrast to fund balance that is restricted by enabling legislation, as discussed in paragraph 9, amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process, as explained in paragraph 10. Constraints imposed on the use of *committed* amounts are imposed by the government, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the government that *commit* amounts to specific purposes is not considered to be legally enforceable, as defined in paragraph 9.

12. The formal action of the government's highest level of decision-making authority that commits fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

### *Assigned Fund Balance*

13. Amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements, as discussed in paragraph 21. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

14. Both the committed and assigned fund balance classifications include amounts that have been constrained to being used for specific purposes by actions taken by the government itself. However, the authority for making an assignment is not required to be the government's highest level of decision-making authority. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with regard to the committed fund balance classification. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Some governments may not have both committed and assigned fund balances, as not all governments have multiple levels of decision-making authority.

15. Assigned fund balance includes (a) all remaining amounts (except for negative balances, as discussed in paragraph 19) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose in accordance with the provisions in paragraph 13. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt

service, or permanent fund, the government has *assigned* those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the government itself. However, governments should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance.

16. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. As discussed in paragraph 15, assignments should not cause a deficit in unassigned fund balance to occur.

#### ***Unassigned Fund Balance***

17. Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance, as discussed in paragraph 19.

#### ***Classifying Fund Balance Amounts***

18. Fund balance classifications should depict the nature of the net resources that are *reported* in a governmental fund. An individual governmental fund could include



## NUMBER 18

**Irrelevant/and or lack of disclosure in 2019 CAFR Note 1J -Capital Assets - Significant Accounting Policies**

**1) A substantial amount of information disclosed in Note 1J have nothing to do with Significant Accounting Policies**

2) Expansive information is provided for the General Fund, the Community Services Special Revenue Fund and the Utility Fund regarding the types of capital assets. There is NO INFORMATION on the Beaches.

3) A complete long paragraph on Defensible Space is provided wherein all costs are expensed and has no relevance to capital projects

4) Information on Water Rights have been disclosed by no information on the extensive Land Coverage held by IVGID. See Exhibit A. Neither are accounting policies

4) Interest is NOT capitalized for assets used in business -type activities funded by debt. The only business type activity is the Utility Fund. There is no known capitalization of interest.

**THE INFORMATION PRESENT IN NOTE J IS NOT ACCOUNTING POLICIES (other than depreciation) . THE INFORMATION SHOULD BE INCLUDED IN NOTE 4 - CAPITAL ASSETS. Depreciation would be more proper in Note 4**

Exhibit A - Memorandum dated March 16, 2016 regarding Land Coverage.

## NUMBER 19

### **Failure to comply with GASB #54 (paragraph 27) on required information on Minimum Fund Balance Policies in Notes to Financial Statements.**

GASB #54 requirements

*"If a governing body has formally adopted a minimum fund balance policy (for example, in lieu of separately setting aside stabilizations amounts), the government should describe in the notes to the financial statements the policy established by the government that sets forth the minimum amount"*

Is the intent of GASB to just provide the name of the policy (as IVGID has done in Note 1P (page 41) or should a description of how the policies are determined, the amount, and if compliance is met.

The District's Board of Trustees has adopted a Policy (7.1) and Practice (7.2.0) statement on the Appropriate Level of Fund Balance

According to 2019/2020 Budget adopted on May 23, 2018 minimum Funds Balance Requirements were disclosed as:

General Fund	\$168,000
Community Services Special Revenue Fund	\$3,995,000
Beach Fund	\$420,000
Internal Services Fund	NONE

Utility Fund - The fund is not a governmental fund but an enterprise fund and there is no reporting of a fund balance. Board Policy 7.1 and Practice 7.2 do not apply

The District's Board of Trustees have adopted policy 19.1 and practice 19.2 regarding an Appropriate Level of Working Capital, which may purport to describe a minimum fund balance

### **Minimum Fund Balance is not described in the Board Policies or Practices.**

Obvious proper disclosure would be whether the policies were met

The only information provided is in Note P Fund Balance which states: *"The District's Board of Trustees has adopted a policy and practice statement on the Appropriate Level of Fund Balance."*



## NUMBER 20

### **Improper reporting of proceeds from asset sales**

Resolution 1838 clearly defines that any proceeds from the sale of Capital Assets of the Community Services and Beach venues must be recorded as a revenue source in the related Capital Project Funds for Community Services and Beaches.

During fiscal years 2016, 2017 and 2018, according to the CAFR's, \$198,135 of proceeds from the sale of capital assets of Community Services were recorded in the Special Revenue Fund thus violating Board Resolution 1838 which became effective on July 1, 2015.

A memorandum to the IVGID Audit Committee dated 9/3/2019 and a supplemental memorandum dated 9/17/2019 from Clifford F. Dobler and Linda Newman disclosed this improper reporting (Attachments #3 & #4).

On 11/27/2019, Mr. Gerald Eick, Director of Finance, provided a memorandum to the then existing Audit Committee providing an irrelevant explanation as item 7A (Attachment #1). The minutes of the Audit Committee meeting on December 11, 2019 simply indicated that the Auditors Eddie Baily had no concerns and the 2019 CAFR was approved by the Audit Committee (Attachment #2).

Apparently those memorandums fell on deaf ears as the 2019 CAFR (approved on 12-11-2019) and violations of Resolution 1838 continued as \$34,567 of proceeds from sale capital assets continued to be reported in the Community Services Special Revenue Fund. Oddly, another \$5,592 was reported as sales proceeds of Capital Assets in the Capital Project Fund. Go figure.

Over four consecutive years, a total of \$232,702 of resources were improperly reported in the wrong fund.

If the District is to comply with Resolution 1828 and attempt to honor Board decisions, a transfer of \$232,702 should be made from the Community Services Special Revenue Fund to the Community Services Capital Projects Fund to properly reflect requirements of Resolution 1838 and to disclose, in a footnote, to the 2019 CAFR the reason for the transfer.

Attachment #1 - Memorandum dated 11-27-2019

Attachment #2 - Minutes of Audit Committee meeting on December 11,2019

Attachment #3 - Memorandum dated 9-3-2019

Attachment #4 - Memorandum dated 9-17-2019

## Attachment #1

### MEMORANDUM

**TO:** Audit Committee Members  
Phil Horan, Kendra Wong and Peter Morris

**FROM:** Gerald W. Eick CPA CGMA  
Director of Finance

**SUBJECT:** Items of Note for the June 30, 2019 Comprehensive Annual Financial Report (CAFR) for Incline Village General Improvement District

**DATE:** November 27, 2019

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There are a number of items of interest or of note for this year's Comprehensive Annual Financial Report. They are being presented for the record for the Committee and the public because of the transition that will occur during the current fiscal year for the Director of Finance position.

**1. Prior Period Adjustment for the Workers Compensation Fund Transfers as approved by the Board of Trustees September 25, 2019.**

Note 22 on page 56 of the CAFR includes a discussion of the circumstances and consequences of the changes made to the authorization and reporting of the collective three transfers covering the fiscal years ending June 30, 2018 and 2019. It also notes the subsequent effect to the current fiscal year.

The Auditor's Report includes a paragraph noting the Prior Period Adjustment as a correction of an error because the opening Net Position as of June 30, 2018 was affected for multiple funds.

**2. Deferred Inflow from the Katz Appeal.**

The CAFR was delivered, as complete, by the Auditors on November 18. That is the last day for updating subsequent events. Several days later, the Nevada Supreme Court issued its finding on the appeal filed by Aaron Katz. The finding included awarding the District funds it has held pending the appeal. Note 20 on page 50 of the CAFR has the disclosures known at the time of the close. The effects of the award will become a transaction reported for the 2019-2020 fiscal year and its CAFR. Governmental Funds recognize revenue as it becomes available for use in operations. This item was reported as a Deferred Inflow recognizing it was funds received for a future period.



**3. Contingency for Tax Refund Lawsuit against Washoe County.**

Note 14 on page 53 of the CAFR reports the District relationship to the ongoing litigation between Washoe County and a citizens group for a second round of Property Tax Refunds by Washoe County. The District is not a direct party to the litigation but a similar prior case had substantial consequence when Washoe County passed through the effects of the refunds for three other years. The current case involves a similar set of circumstances. Recognition of a liability requires the ability to determine an amount and the probability of payment. There was a District Court decision released within the audit period. However, the Washoe County Board of Commissioners has taken an action to file an appeal, although that appeal has not yet been filed, that is enough to require the footnote.

**4. Utility Fund Change in Net Position exceeds Budget estimates at June 30, 2019.**

The District's Budget form for 2019-2020 Schedule F-1 included estimated Change in Net Position of \$1,930,950. The CAFR reports a Change in Net Position of \$2,650,244. The largest portion of the difference relates to the recognition of \$433,980 of utility billings as earned, when in past years' similar amounts have been unearned. The revenue relates to base fees billed in advance of the service period spanning the year end. Our focus for making these billings unearned has been being billed at the start of a service period. However, further discussion 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. As such, they are considered earned as billed. This is a one-time recognition of this item.

**5. Capital Expenditures not included in CAFR due to delays in delivery.**

As the District's budget for 2019-2020 was developed, projects in progress were reviewed regarding ability to complete them or be carried over. Two projects expected to be completed to a degree that would have them recognized at June 30, 2019, did not meet those expectations. The Utility Fund replacement of the vactor truck was ordered in December 2018 for delivery in six months; it actually arrived in September. The \$416,564 committed by the order is reported in Note 19 on page 55 of the CAFR. Also reported on that page is the Incline Park Facility Renovation construction contract for \$1,298,341.; this project actually started July 9. Since it is grant funded, neither the costs nor the revenue have been included at June 30, 2019. These items will be reported for the fiscal year June 30, 2020.



Given the changes in the timing of unrelated projects, the added expenditures should not affect budget totals for that year.

#### **6. Enhanced Footnote Disclosures for Cash and Investments and Long Term Debt.**

The footnotes are designed to support information contained in the basic financial statements. The CAFR includes District-wide and individual fund statements as well as referring to activities and functions. To aid in understanding the details in the Cash and Investments and the Long Term Debt Footnotes, additional information is presented in 2019 to identify amounts reported in different combinations.

The Cash and Investment footnote for 2018, and now for 2019, also inform users about the District choice to utilize the Local Government Investment Pool (LGIP) as an element of its cash and cash equivalents. This choice is allowed under Governmental Accounting Standards Board (GASB) guidance other than the GASB original pronouncement. This District made this choice in 2018 when it returned to using a certificate of deposit ladder for investments over multiple years for its longer term capital expenditure needs. We used the LGIP to retain liquidity for a large volume of capital projects in those years while also getting a good rate of return. For 2019-2020, much of that timing has changed. With recent changes by the Federal Reserve Bank intermediate term interest rates, and the probability of more precise determination of timing for projects, the amount of cash and equivalents may shift back to more investment. The LGIP may be used for that purpose. The current format of the footnote can accommodate whichever choice is made.

#### **7. Other Matters for the Audit Committee.**

In the course of the year and audit process, comments have been addressed to the Audit Committee by members of the community. To the extent necessary they are addressed by the Auditors, Staff, other addressees, and, if necessary, the Audit Committee. These comments often disagreed with the process or choice used by the District. The District's methods are acceptable to the Auditors and State regulators. If they were not, they would be reported in the Audit.

- A. Proceeds from sales of assets by Special Revenue funds are received and reported because those funds own the assets. This may not be readily apparent because it is only reported in the reconciliation from fund

statements to District-wide financial statements. Coverage sales went to Capital Projects.

- B. The Central Services Cost Allocation Plan follows State guidance to share defined costs in the General Fund between operating governmental and enterprise funds. All factors for the allocation are presented to demonstrate consistency across funds and fund type in the calculation of amount allocated. Therefore, more than just the part for the enterprise fund is shown to demonstrate consistent application of the allocation.
- C. To date we have no complaints sent by District employees to the Audit Committee through the email account monitored by the District Clerk. Further, no employee has approached the Audit Committee Chair to discuss any concerns they might have.



Minutes  
Meeting of December 11, 2019  
Page 2

**C. APPROVAL OF AGENDA (for possible action)**

Trustee Kendra Wong asked for changes to the agenda; none were requested therefore the agenda is approved as submitted.

**D. GENERAL BUSINESS ITEM (for possible action)**

- 1. Review, discuss and possibly approve the Presentation and Acceptance of June 30, 2019 Comprehensive Annual Financial Report including an Unmodified Report by the District's Auditor (Requesting Trustee: Chairman of the Audit Committee Phil Horan)**

Director of Finance Gerry Eick gave an overview of the submitted report and introduced the Audit Manager Tiffany Williamson, Eide Bailly, and turned over the presentation to Ms. Williamson who went over their materials within the report.

Trustee Morris asked if Ms. Williamson was aware of the concerns made by members of the public and how they are or are not recorded and could she comment on the receipt of those communications and how that did or did not change anything in the audit. Ms. Williamson said that her team reviewed all of them, discussed all of them with the Audit Chair, received materials from Staff, and it was their conclusion that there were no concerns with these concerns expressed by the public. Trustee Morris followed up by asking if there were any concerns expressed to management; Ms. Williamson responded no, none.

Director of Finance Eick went over the items of the note included in the packet.

Trustee Morris said that this is clearly a one time event so Staff is doing this one time and that this is a one time change from what we used to do and what we will be doing this point forward. Director of Finance Eick said yes, we will be reporting it this way from this point forward.

Trustee Morris said referencing agenda packet page 5, Workers Compensation, that this was the final step that the Board agreed to and there weren't any new changes. Director of Finance Eick said

there were no changes to the amounts of the transaction and it didn't change dollar amounts or which fund held them at different points in sequence. Trustee Morris asked about item 3, the Washoe County item, when will we pay that out ultimately. Director of Finance Eick said it will be paid for by the General Fund and that he believes that is appropriate for two reasons – one, general fund receives ad valorem taxes and two, the nature of the order and refund is about that tax and none of the other funds have received those monies as it should clearly be in the general funds. He will leave some notes for what we can do and that the General Fund will have to trade off some future items. Trustee Morris said, right now, in round numbers, is it around \$1.2 million dollars. Director of Finance Eick said the last time it was done, it took three (3) years to do it and cost us \$1.245 million dollars so his rough estimate, using the court order, and we will have to see where it is going and similar number to last time at \$1.25 million dollars, we have fund balance of three million dollars which we thought might go to a building. It will be noticeable but the General Fund has the best opportunity to do this payback. Trustee Morris said, referencing agenda packet page 8, item C, that he appreciates Staff setting that up e-mail and asked if it was well published. Director of Finance Eick said when it was created, we asked every one of the Senior Managers to announce it to their Staff. He made written notice, in the audit report, and on the Intranet; employees are aware that it exists.

Trustee Morris made a motion that the District's Audit Committee accept and recommend to the Board of Trustees approval and acceptance of the June 30, 2019 unmodified audit report, direct Staff to file the Comprehensive Annual Financial Report (CAFR) with the State of Nevada, and make it generally available for public use. Trustee Wong seconded the motion. Trustee Wong asked for any further comments, hearing none, she called the question - the motion was passed unanimously.

2. **Review, discuss, and possibly approve the designation of Audit Firm for Audit Services for Fiscal Year Ending June 30, 2020 – Eide Bailly, LLP at a cost of \$58,500 (the last year of a five year contractual obligation) (Requesting Trustee: Chairman of the Audit Committee Phil Horan)**

Director of Finance Eick went over the submitted materials.

## Attachment #3

### MEMORANDUM

TO: IVGID Audit Committee Chair Trustee Phil Horan

CC: IVGID Board Chair and Member of the Audit Committee Kendra Wong  
IVGID Board Treasurer and Member of the Audit Committee Peter Morris  
IVGID Board Secretary Tim Callicrate  
IVGID Trustee Matthew Dent  
IVGID Interim General Manager Indra Winquist  
Eide Bailly Audit Engagement Partner Dan Carter  
Deputy Director Jeffrey Mitchell, Nevada Department of Taxation

FROM: Clifford F. Dobler and Linda Newman

DATED: September 3, 2019

SUBJECT: Incorrect and Improper Reporting of Financial Information in the IVGID Comprehensive Annual Financial Report ("CAFR") for fiscal year 2018

Dear Audit Committee Chair Horan;

The above referenced CAFR on pages 25 and 28 incorrectly reported \$85,562 from the sale of Capital Assets as other financing sources in the Community Services Special Revenue Fund. According to Resolution 1838 which was adopted by the Board of Trustees and in effect as of July 1, 2015, any sale of capital assets must be reported in the Community Services Capital Projects Fund. Please note that the table on page 3 of Resolution 1838 was poorly drafted and misstated the Community Services Capital Projects Fund as the Community Services Capital Expenditure Fund. Apparently, there was no review by an attorney. To be perfectly clear, the sale of capital assets is a source of revenues for the Community Services Capital Project Fund and must be reported as revenues in the Community Services Capital Project Fund. These revenues CANNOT be reclassified as "other financing sources" in the Community Services Special Revenue Fund.

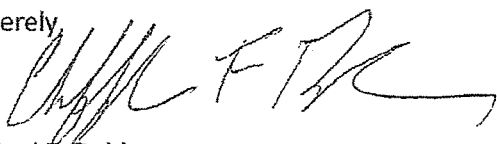
This improper reporting also does not comply with Governmental Accounting Standards Board Statement ("GASB") #54 Paragraph 33, which states that "financial resources which are restricted, committed or assigned to expenditures for capital outlays" must be reported in Capital Project Funds. Once again, the Board Resolution establishing the Community Services Capital Projects Fund restricts, commits or assigns the sale of capital assets as financial resources for the Capital Projects Fund. These resources cannot be reclassified as "other financing sources" for a different fund.

Last, but not least, it is clear that such improper reporting most likely violates NRS 354.570 as Special Revenue Funds cannot report revenue sources for major capital projects. Since the sale of the capital assets, if properly recorded, would have been part of all revenue sources in the Community Services Capital Projects Fund and without a definition of "major capital project" we would also conclude that reporting the sales of Capital Assets in the Special Revenue Fund would not comply with NRS 354.570.

Improperly reporting the sale of Capital Assets in the Community Services Special Revenue Fund rather than correctly reporting the sale in the Community Services Capital Projects Fund violates generally accepted accounting principles. It also materially misstates the total revenues in the Community Services Capital Projects Fund. As you can see on page 57 of the CAFR, the District has only reported \$1,980 for the Sales of Assets in the Capital Projects Fund and combined with Charitable-Capital Grants reflects total Revenues of \$158,755. The omission of the \$85,562 from the sale of assets has resulted in understating the Capital Projects Fund revenues by 35%. Failure to comply with generally accepted accounting principles and materially understating revenues requires the restatement of the 2018 Comprehensive Annual Financial Report. It is your responsibility as Audit Committee Chair to notify our Auditor Eide Bailly, LLC immediately.

Please acknowledge receipt of this memorandum and advise at your earliest convenience the actions you are taking to ensure that this matter is properly addressed.

Sincerely,



Clifford F. Dobler

email: [cfdobler@aol.com](mailto:cfdobler@aol.com)

mobile: 775-722-4487



Linda Newman

email: [linda@marknewman.net](mailto:linda@marknewman.net)

mobile: 775-225-1836

Exhibits:

Exhibit "A" - Pages 25 & 28 of the 2018 Comprehensive Annual Financial Report as of June 30, 2018

Exhibit "B" - Resolution 1838 adopted by IVGID Board of Trustees effective July 1, 2015

Exhibit "C" - Pages 14 & 15 of GASB #54 Paragraph 33

Exhibit "D" - NRS 354.570: Definition of Special Revenue Fund

Exhibit "E" - Page 57 of the 2018 Comprehensive Annual Financial Report as of June 30, 2018

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL	COMMUNITY SERVICES SPECIAL REV.	BEACH SPECIAL REVENUE	COMMUNITY SERVICES CAP. PROJECTS	BEACH CAPITAL PROJECTS	COMMUNITY SERVICES DEBT SERV.	BEACH DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>								
Ad valorem taxes	\$ 1,521,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,521,623
Personal Property Tax	12,671	-	-	-	-	-	-	12,671
Intergovernmental	-	-	-	-	-	-	-	-
Consolidated taxes	1,388,529	-	-	-	-	-	-	1,388,529
Local Government Tax Act	248,721	-	-	-	-	-	-	248,721
Services	-	20,220	-	-	-	-	-	20,220
Charges for Services	-	14,632,554	1,266,613	-	-	-	-	15,899,167
Interfund Services	-	74,014	-	-	-	-	-	74,014
Facility Fees - Operations	-	1,759,641	657,842	-	-	-	-	2,417,483
Facility Fees - Capital Expenditure	-	2,700,812	301,833	-	-	-	-	3,002,645
Facility Fees - Debt Service	-	1,309,499	7,739	-	-	-	-	1,317,238
Operating Grants	-	17,000	-	-	-	-	-	17,000
Capital Grants	-	-	-	156,775	-	-	-	156,775
Investment income	89,960	69,303	3,288	-	-	-	-	162,551
Miscellaneous	2,033	109,462	-	-	-	-	-	111,495
Total revenues	<u>3,266,537</u>	<u>20,692,535</u>	<u>2,236,345</u>	<u>156,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,352,162</u>
<b>EXPENDITURES</b>								
<b>GENERAL GOVERNMENT</b>								
Manager	355,012	-	-	-	-	-	-	355,012
Townees	176,450	-	-	-	-	-	-	176,450
Accounting	833,348	-	-	-	-	-	-	833,348
Information Services	820,658	-	-	-	-	-	-	820,658
Risk Management	127,032	-	-	-	-	-	-	127,032
Human Resources	597,875	-	-	-	-	-	-	597,875
Health & Wellness	24,594	-	-	-	-	-	-	24,594
Community & Employee Relations	188,682	-	-	-	-	-	-	188,682
Administration	462,552	-	-	-	-	-	-	462,552
Central Services Cost Allocation Income	(1,094,000)	-	-	-	-	-	-	(1,094,000)
Capital Outlay	115,813	-	-	-	-	-	-	115,813
<b>RECREATION</b>								
Championship Golf	-	4,055,702	-	-	-	-	-	4,055,702
Mountain Golf	-	972,171	-	-	-	-	-	972,171
Facilities	-	448,797	-	-	-	-	-	448,797
Ski	-	7,034,327	-	-	-	-	-	7,034,327
Community Programming and Recreation Center	-	2,232,105	-	-	-	-	-	2,232,105
Parks	-	818,298	-	-	-	-	-	818,298
Tennis	-	228,530	-	-	-	-	-	228,530
Recreation Administration	-	357,498	-	-	-	-	-	357,498
Beach	-	-	1,619,746	-	-	-	-	1,619,746
Capital Outlay	-	-	-	3,985,926	221,348	-	-	4,207,274
Debt Service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	1,184,494	5,506	1,190,000
Interest	-	-	-	-	-	103,846	731	104,577
Total expenditures	<u>2,606,016</u>	<u>16,137,428</u>	<u>1,619,746</u>	<u>3,985,926</u>	<u>221,348</u>	<u>1,288,340</u>	<u>6,237</u>	<u>25,781,011</u>
Excess revenues (expenditures)	660,521	4,555,107	616,599	(3,749,151)	(221,248)	(1,285,340)	(6,237)	570,221
<b>OTHER FINANCING SOURCES:</b>								
Sale of Capital Assets	16	85,562	857	1,980	-	-	-	88,415
Transfers In (Out) - Facility Fees for Capital Expenditure	-	(2,908,812)	(301,833)	2,700,812	301,833	-	-	-
Transfers In (Out) - Facility Fees for Debt Service	-	(1,309,499)	(7,739)	-	-	1,309,499	7,739	-
Transfers In (Out) - From (to) Other Sources	-	(385,000)	35,000	950,000	-	-	-	600,000
Net change in fund balance	660,537	325,328	342,854	(16,359)	80,585	24,159	1,502	1,338,636
Fund balance, July 1	1,862,249	10,380,141	1,070,237	2,423,806	5,155	27,394	3,104	15,712,086
Fund balance, June 30	<u>\$ 2,522,786</u>	<u>\$ 10,645,469</u>	<u>\$ 1,413,091</u>	<u>\$ 2,327,477</u>	<u>\$ 85,740</u>	<u>\$ 51,553</u>	<u>\$ 4,606</u>	<u>\$ 17,050,722</u>

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



**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,687,462	\$ 3,687,462	\$ 3,763,372	\$ 75,910
Mountain Golf	683,670	683,670	632,261	(51,409)
Facilities	358,225	358,225	355,696	(2,529)
Ski	8,268,215	9,118,215	9,155,646	37,431
Community Programming and Recreation Center	1,266,772	1,266,772	1,289,953	23,181
Parks	54,400	54,400	48,910	(5,490)
Tennis	167,500	167,500	145,197	(22,303)
Recreation Administration	(510,000)	(510,000)	(758,481)	(248,481)
Subtotal Charges for Services	13,976,244	14,826,244	14,632,554	(193,690)
Facility Fees - Operations	1,761,710	1,761,710	1,759,641	(2,069)
Facility Fees - Capital Projects	2,704,020	2,704,020	2,700,842	(3,178)
Facility Fees - Debt Service	1,311,040	1,311,040	1,309,499	(1,541)
Intergovernmental Services	31,100	31,100	20,220	(10,880)
Interfund Services	91,000	91,000	74,014	(16,986)
Operating Grants	17,000	17,000	17,000	-
Investment income	48,000	48,000	69,303	21,303
Miscellaneous - other	86,400	86,400	109,462	23,062
Total revenues	20,026,514	20,876,514	20,692,535	(183,979)
<b>EXPENDITURES</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	3,868,494	3,868,494	4,055,702	(187,208)
Mountain Golf	1,035,767	1,035,767	972,171	63,596
Facilities	497,074	497,074	448,797	48,277
Ski	6,701,155	7,071,155	7,024,327	46,828
Community Programming and Recreation Center	2,314,961	2,314,961	2,232,105	82,856
Parks	850,849	850,849	818,298	32,551
Tennis	278,428	278,428	228,530	49,898
Recreation Administration	428,446	428,446	357,498	70,948
Total expenditures	15,975,174	16,345,174	16,137,428	207,746
Excess (deficiency) of revenues over expenditures	4,051,340	4,531,340	4,555,107	23,767
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	645,000	645,000	645,000	-
Sale of assets	-	-	85,562	85,562
Contingency	(475,000)	(475,000)	-	475,000
Operating Transfers (Out) - Capital Projects	(5,604,020)	(5,604,020)	(3,650,842)	1,953,178
Operating Transfers (Out) - Debt Service	(1,311,040)	(1,311,040)	(1,309,499)	1,541
Total other financing sources (uses)	(6,745,060)	(6,745,060)	(4,229,779)	2,515,281
Net changes in fund balance	(2,693,720)	(2,213,720)	325,328	2,539,048
Fund Balance, July 1	9,835,803	10,320,141	10,320,141	-
Fund balance, June 30	\$ 7,142,083	\$ 8,106,421	\$ 10,645,469	\$ 2,539,048

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



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

**RESOLVED**, by the Board of Trustees of the Incline Village General Improvement District, Washoe County, Nevada, that

**WHEREAS**, pursuant to Nevada Administrative Code (NAC) Section 354.241, a local government is required to adopt a Resolution to create a fund types covered by Nevada Revised Statute 354.624 5 (a); and

**WHEREAS**, the District Community Services and Beach Funds provides services as defined under Nevada Revised Statute (NRS) 318, which in effect requires the use of those Fund's fund balance for a specific purpose; and

**WHEREAS**, on December 10, 2014, the Board of Trustees directed staff to apply for approval of the District's 2015-16 budget by the Nevada Department of Taxation utilizing Special Revenue, Capital Projects and Debt Service Fund accounting for Community Services and the Beach Funds; and

**WHEREAS**, the District expects to receive notice that its budget is found to be in compliance with NRS 354.598 by the Nevada Department of Taxation.

**NOW, THEREFORE, IT IS ORDERED**, as follows:

1. Effective July 1, 2015 the Incline Village General Improvement District, Nevada shall establish the governmental fund type Special Revenue, Capital Projects and Debt Service Funds for use by its Community Services and Beach Funds.
2. The table on the last page of this Resolution contains the required elements 1-4 and 6-7 under NAC 354.241, element 5 is met by the existing fund balance of the affected funds.



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

\* \* \* \* \*

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly passed and adopted at a regularly held meeting of the Board of Trustees of the Incline Village General Improvement District on the 21st day of May, 2015, by the following vote:

AYES, and in favor thereof, Trustees:

NOES, Trustees:

ABSENT; Trustees:

\_\_\_\_\_  
Jim Hammerel  
Secretary, IVGID Board of Trustees



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

Fund Name	Purpose	Source of Revenues	Short-term Expenditures	Long-term Expenditures	Plan for Fund Balance	Adequacy of Fund Balance
Community Services – Special Revenue	Recreational activities conducted by the District under NRS 318, other than Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide recreational activities	Transfers out to capital purchases and debt service to support recreational activities	Meet the minimum necessary to maintain District recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Sales of coverage and capital assets and transfers from the Community Services Special Revenue Fund	Operating expenditures related to Community Services capital expenditures	Capital purchases to support Community Services recreational activities	Meet the minimum necessary to execute Community Services capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Transfer from the Community Services Special Revenue Fund	Operating expenditures related to Community Services debt service expenditures	Debt service expenditures to support Community Services recreational activities	Meet the minimum necessary to execute Community Services debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Special Revenue	Recreational activities conducted by the District under NRS 318 for Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide Beach recreational activities	Transfers out to capital purchases and debt service to support Beach recreational activities	Meet the minimum necessary to maintain District Beach recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Sales of coverage and capital assets and transfers from the Beach Special Revenue Fund	Operating expenditures related to Beach capital expenditures	Capital purchases to support Beach recreational activities	Meet the minimum necessary to execute Beach capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Transfer from the Beach Special Revenue Fund	Operating expenditures related to Beach debt service expenditures	Debt service expenditures to support Beach recreational activities	Meet the minimum necessary to execute Beach debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance

**Governmental Fund Type Definitions**

28. Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds, as discussed in paragraphs 29–35.

***General Fund***

29. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

***Special Revenue Funds***

30. 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. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

31. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.<sup>2</sup> Other

---

<sup>2</sup>For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the *fund balance* in the fund's balance sheet.



resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

32. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.

#### *Capital Projects Funds*

33. 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. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

#### *Debt Service Funds*

34. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Exhibit "D"

`NRS 354.570 "Special revenue fund" defined. "Special revenue fund" means a fund used to account for specific revenue sources, other than sources for major capital projects, which are restricted by law to expenditure for specified purposes

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance	
	Original	Final			
<b>REVENUES</b>					
Sales of Assets	\$ -	\$ -	\$ 1,980	\$ 1,980	
Charitable - Capital Grants	-	-	156,775	156,775	
Total revenues	-	-	158,755	158,755	
<b>EXPENDITURES</b>					
<b>COMMUNITY SERVICES RECREATION:</b>					
Championship Golf	New projects	570,100	570,100	538,138	31,962
	Carryover projects	255,550	255,550	125,983	129,567
Mountain Golf	New projects	413,000	413,000	312,024	100,976
	Carryover projects	184,450	184,450	90,931	93,519
Facilities	New projects	109,950	109,950	105,273	4,677
	Carryover projects	149,000	149,000	93,331	55,669
Ski	New projects	2,305,122	2,305,122	1,525,333	779,789
	Master Plan	690,000	690,000	7,422	682,578
	Carryover projects	418,000	418,000	281,266	136,734
Community Programming	New projects	194,130	194,130	71,100	123,030
	Carryover projects	113,000	113,000	-	113,000
Parks	New projects	268,000	268,000	498,206	(230,206)
	Carryover projects	177,000	177,000	103,107	73,893
Tennis	New projects	46,660	46,660	5,000	41,660
	Carryover projects	20,000	20,000	-	20,000
Comm. Serv. Administration	New projects	95,000	95,000	76,926	18,074
	Carryover projects	208,000	208,000	71,886	136,114
Total expenditures		6,216,962	6,216,962	3,905,926	2,311,036
Excess (deficiency) of revenues over expenditures		(6,216,962)	(6,216,962)	(3,747,171)	2,469,791
<b>OTHER FINANCING SOURCES</b>					
Operating Transfers In - Facility Fees		2,704,020	2,704,020	2,700,842	(3,178)
Operating Transfers In - CIP		2,900,000	2,900,000	950,000	(1,950,000)
Total other financing sources		5,604,020	5,604,020	3,650,842	(1,953,178)
Net changes in fund balance		(612,942)	(612,942)	(96,329)	516,613
Fund Balance, July 1		2,284,781	2,284,781	2,423,806	139,025
Fund balance, June 30		\$ 1,671,839	\$ 1,671,839	\$ 2,327,477	\$ 655,638

Note: The State Budget Form 4404LGF recognized Facility Fee revenue in the Community Services and Beach fund, while utilizing transfers to the Capital Projects and Debt Service Funds for expenditure.

## Attachment #4

### MEMORANDUM

TO: IVGID Audit Committee Chair Trustee Phil Horan

CC: IVGID Board Chair and Member of the Audit Committee Kendra Wong  
IVGID Board Treasurer and Member of the Audit Committee Peter Morris  
IVGID Board Secretary Tim Callicrate  
IVGID Trustee Matthew Dent  
IVGID Interim General Manager Indra Winquist  
Eide Bailly Audit Engagement Partner Dan Carter  
Deputy Director Jeffrey Mitchell, Nevada Department of Taxation

FROM: Clifford F. Dobler and Linda Newman

DATED: September 17, 2019

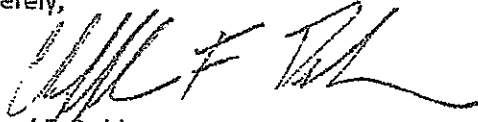
SUBJECT: Supplement to our September 3, 2019 Memorandum to Report Incorrect and Improper Reporting of Financial Information in the IVGID Comprehensive Annual Financial Report ("CAFR") for fiscal years 2016 and 2017

Dear Audit Committee Chair Horan;

As a supplement to our September 3, 2019 memorandum regarding incorrect and improper reporting of capital asset sales in the 2018 CAFR, we are reporting that the CAFRs for fiscal year 2016 and 2017 have the same improprieties. Sales of Capital Assets were \$34,409 in fiscal 2016 and \$78,264 in fiscal 2017. Both sales were reported in the Community Services Special Revenue Fund in violation of Board Resolution 1838 and GASB Statement #54. (Exhibit A and Exhibit B). These sales should have been reported in the Community Services Capital Project Fund. All information in our September 3, 2019 memorandum should be reviewed in conjunction with this supplement.

From the very first fiscal year the District changed the Community Services and Beach Funds from Enterprise Funds to governmental Special Revenue, Capital Projects and Debt Service Funds, improper accounting and reporting has flourished. Additional reviews of the District's fiscal year CAFRs continues to validate our conclusion that the District has non-existent or completely ineffective internal controls.

Sincerely,



Clifford F. Dobler

email: [cfdobler@aol.com](mailto:cfdobler@aol.com)

mobile: 775-722-4487



Linda Newman

email: [linda@marknewman.net](mailto:linda@marknewman.net)

mobile: 775-225-1836

Exhibits:

Exhibit A - Page 29 of Fiscal Year 2016 CAFR

Exhibit B - Page 27 of Fiscal Year 2017 CAFR



**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,014,400	\$ 3,014,400	\$ 3,488,229	\$ 473,829
Mountain Golf	654,450	654,450	645,126	(9,324)
Facilities	301,280	301,280	275,156	(26,124)
Ski	6,498,000	9,898,000	10,202,972	304,972
Community Programming and Recreation Center	1,206,502	1,206,502	1,264,177	57,675
Parks	55,900	55,900	59,421	3,521
Tennis	177,300	177,300	166,533	(10,767)
Recreation Administration	(517,500)	(517,500)	(521,179)	(3,679)
Subtotal Charges for Services	11,390,332	14,790,332	15,580,435	790,103
Facility Fees - Operations	2,176,146	2,176,146	2,180,524	4,378
Facility Fees - Capital Projects	2,519,748	2,519,748	2,524,818	5,070
Facility Fees - Debt service	1,276,236	1,276,236	1,278,804	2,568
Intergovernmental Services	19,400	19,400	15,787	(3,613)
Operating Grants	17,000	17,000	18,440	1,440
Investment income	30,000	30,000	58,438	28,438
Sale of assets	-	-	34,409	34,409
Miscellaneous - recovery of capital costs	-	-	236,615	236,615
Miscellaneous - other	184,100	184,100	238,238	54,138
Total revenues	17,612,962	21,012,962	22,166,508	1,153,546
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	3,214,726	3,214,726	3,526,103	(311,377)
Mountain Golf	966,386	966,386	937,694	28,692
Facilities	435,308	435,308	432,187	3,121
Ski	5,602,106	6,652,106	6,441,024	211,082
Community Programming and Recreation Center	2,227,819	2,227,819	2,228,727	(908)
Parks	772,894	772,894	715,538	57,356
Tennis	273,055	273,055	256,359	16,696
Recreation Administration	325,226	325,226	315,943	9,283
Total expenditures	13,817,520	14,867,520	14,853,575	13,945
Excess (deficiency) of revenues over expenditures	3,795,442	6,145,442	7,312,933	1,167,491
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(200,000)	(200,000)	-	200,000
Operating Transfers (Out) - Capital Projects	(3,433,212)	(3,433,212)	(3,530,675)	(97,463)
Operating Transfers (Out) - Debt Service	(1,284,091)	(1,284,091)	(1,285,185)	(1,094)
Total other financing sources (uses)	(4,917,303)	(4,917,303)	(4,815,860)	101,443
Net changes in fund balance	(1,121,861)	1,228,139	2,497,073	1,269,934
Fund Balance, July 1	5,294,138	5,294,138	5,357,755	63,617
Fund balance, June 30	\$ 4,172,277	\$ 6,522,277	\$ 7,854,828	\$ 1,332,551

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,571,100	\$ 3,571,100	\$ 3,542,663	\$ (28,437)
Mountain Golf	709,300	709,300	627,986	(81,314)
Facilities	280,100	280,100	387,701	107,601
Ski	7,482,600	10,182,600	11,326,968	1,144,368
Community Programming and Recreation Center	1,242,000	1,242,000	1,274,149	32,149
Parks	54,400	54,400	45,430	(8,970)
Tennis	166,500	166,500	166,577	77
Recreation Administration	(517,500)	(517,500)	(573,542)	(56,042)
Subtotal Charges for Services	12,988,500	15,688,500	16,797,932	1,109,432
Facility Fees - Operations	2,045,500	2,045,500	2,050,554	5,034
Facility Fees - Capital Projects	2,618,240	2,618,240	2,619,078	838
Facility Fees - Debt service	1,309,120	1,309,120	1,309,540	420
Intergovernmental Services	24,900	24,900	22,233	(2,667)
Interfund Services	72,500	72,500	87,711	15,211
Operating Grants	17,000	17,000	17,000	-
Investment income	24,000	24,000	23,608	(392)
Sale of assets	-	-	78,264	78,264
Miscellaneous - other	86,400	86,400	107,820	21,420
Total revenues	19,186,160	21,886,160	23,113,720	1,227,560
<b>EXPENDITURES</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	3,721,700	4,026,700	3,944,772	81,928
Mountain Golf	1,013,190	1,071,190	1,002,359	68,831
Facilities	445,810	475,810	498,578	(22,768)
Ski	6,288,251	6,769,251	6,810,598	(41,547)
Community Programming and Recreation Center	2,287,770	2,294,770	2,225,893	68,877
Parks	860,516	899,516	821,033	78,483
Tennis	272,225	272,225	262,369	9,856
Recreation Administration	351,014	351,014	354,357	(3,343)
Total expenditures	15,240,476	16,160,476	15,919,959	240,517
Excess (deficiency) of revenues over expenditures	3,945,684	5,725,684	7,193,761	1,468,077
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	400,000	400,000	400,000	-
Contingency	(450,000)	(450,000)	-	450,000
Operating Transfers (Out) - Capital Projects	(3,369,240)	(3,817,240)	(3,818,908)	(1,668)
Operating Transfers (Out) - Debt Service	(1,309,120)	(1,309,120)	(1,309,540)	(420)
Total other financing sources (uses)	(4,728,360)	(5,176,360)	(4,728,448)	447,912
Net changes in fund balance	(782,676)	549,324	2,465,313	1,915,989
Fund Balance, July 1	7,138,818	7,854,828	7,854,828	-
Fund balance, June 30	\$ 6,356,142	\$ 8,404,152	\$ 10,320,141	\$ 1,915,989

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

## Herron, Susan

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**From:** Matthew Dent  
**Sent:** Monday, August 10, 2020 8:40 AM  
**To:** Herron, Susan  
**Subject:** Fw: Is IVGID Improperly Using the District's Ad Valorem Taxes?

AC Meeting 8/18/20 Item 4D

### Matthew Dent

Vice Chairman, Board of Trustees  
Incline Village General Improvement District  
893 Southwood Blvd., Incline Village, NV 89451  
Cell: 775-530-1345 [www.matthewdent.com](http://www.matthewdent.com)



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**From:** s4s@ix.netcom.com <s4s@ix.netcom.com>  
**Sent:** Friday, August 7, 2020 7:03 PM  
**To:** Matthew Dent  
**Cc:** Sara Schmitz; Dobler Cliff; Aaron Derreck; Ray Tulloch  
**Subject:** Is IVGID Improperly Using the District's Ad Valorem Taxes?

To Chairperson Dent, and other Honorable Members of the IVGID Audit Committee:

So I happened to examine the web pages for the Indian Hill GID. IHGID provides water, sewer and recreational facility services). It does not charge the equivalent of a Rec Fee.

I came across this:

"The Ad Valorem taxes (property taxes) that Indian Hills residents pay do not fund in any way the Water and Sewer Departments, by law we cannot use the tax funds to assist those enterprise departments. The only way we can support our Water and Sewer funds is the monthly rates charged to residents" (see <http://indianhillsnevada.com/Administration.shtml>).

I ask the Committee to determine through IVGID's attorney if this is an accurate statement and if so, the NRS which makes this statement accurate.

And here's why.

IVGID staff represent that "The General Fund *sole function* is to provide administrative support to the District's proprietary funds" [see page 14 of the 2015-16 CAFR]. Per page 16 of the 2015-16 CAFR "the District's proprietary funds consist of Utilities, Community Services, Beach and Internal Services."

In other words, for years IVGID's financial activities have been unlawful because ad valorem taxes have been used to subsidize overspending in the district's Community Services and Beach Funds.

There's another reason why staff's use of ad valorem taxes has been improper. And I referenced this at the Board's July 22, 2020 meeting.

NRS 350.0045 instructs that where a local government levies ad valorem taxes (and IVGID levies such taxes), premiums on general obligation debt (in other words, our recreation bonds) must be paid with those taxes.

Please investigate this point and if warranted, file a criminal complaint as well as notify the Dept' of Taxation asking them what they intend to do about this?

Thank you, Aaron Katz



MEMORANDUM

TO: Audit Committee Chair Dent

CC: Board Clerk Herron

FROM: Audit Committee Member Clifford F. Dobler

DATED: August 4, 2020

Re: Historic Memorandums/Letters from citizens on accounting and reporting the activities of Community Services and Beach recreational venues as Governmental Funds

Please include in the next Audit Committee Board Packet and distribute to each Audit Committee member the attached 9 memorandums and/or letters sent to the IVGID Board of Trustees, IVGID Audit Committee, Nevada Department of Taxation, and IVGID auditor during the years 2015 to 2016. These documents are all in reference to the accounting referenced above.

It is appropriate that the newly formed Board of Trustees have a comprehensive history of concerns by citizens regarding this matter.

Sincerely,

Clifford F. Dobler



**ENTERPRISE VS SPECIAL REVENUE**  
**ATTACHMENT 1**

November 30, 2015

To: IVGID Board of Trustees - Audit committee (Wong, Hammerel & Callicrate)

From: Clifford F. Dobler

Re: Accounting change for Community Services and Beaches from Enterprise Funds to Special Revenue Funds

Dear Audit Committee:

On May 21, 2015, the Board of Trustees adopted Resolution Number 1838 creating Special Revenue, Capital Projects and Debts Service Funds for the IVGID Community Services and Beach Funds. It should be noted that a Special Revenue Fund was created only for operations and the Capital Projects and Debt Service Funds were established simply as governmental funds.

As such the focus of this presentation is whether the operating activities of the community service venues and the beaches should be accounted and reported using a Special Revenue Fund.

Prior to adoption of this Resolution and in accordance with the Government Accounting Standards Board ("GASB") Statement No. 34 and NRS 354.517, the accounting for the Community Services and Beach Funds were qualified and reported as Enterprise Funds.

On October 27, 2015 the Department of Taxation for the State of Nevada issued Guidance Letter 15-002 which provides guidance in the use of Enterprise Funds and Special Revenue Funds.

Page 2 of Guidance Letter 15-002 advises: "When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular kind of fund. For example, a governmental fund, such as a special revenue fund, generally has activities which are financed through taxes, intergovernmental revenues, and other non-exchange revenues. In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an exchange transaction, in which each party

receives and gives up essentially equal values... **An enterprise fund essentially reports exchange transactions."**

In the case of IVGID all revenue sources (other than capital grants) for the Community Services Fund and the Beach Fund are exchange transactions. The Recreation Facility Fee and the Beach Fee which are adopted annually by the Board of Trustees are approved by a resolution which states: "The Trustees find that the owners of the parcels are directly benefited in a fair and reasonable way for the sums which they are charged." In other words the parcel owners are receiving and giving up essentially equal values. As such, an exchange transaction has occurred. In addition, user fees at each of the venues are considered exchange transactions.

Based upon a comprehensive review and complete analysis of Guidance Letter 15-002, Resolution Number 1838 should never have been adopted by the Board as the Community Services Fund and Beach Fund are indeed Enterprise Funds and not Special Revenue Funds. The accounting and reporting of the activities of the Community Services and Beaches should not be changed.

## **Why use an Enterprise fund?**

NRS 354.517 defines an enterprise fund as a fund established to account for operations 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 the 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.

Paragraph 67 of GASB Statement No. 34 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Additionally, pursuant to paragraph 67 (c), if the pricing policies of the district for the fees and charges are designed to recover its costs, including capital costs (such as depreciation or debt service), then enterprise fund accounting **MUST** be used.

**As defined above, it is clear that the funding (revenues) from activities of the Community Service venues and the Beaches are by fees which include user fees and the Recreation Facility Fee and Beach Fee to cover operating costs and all capital costs including debt service for capital improvements.**

## **Why would you use a Special Revenue fund?**

Paragraph 30 of GASB Statement No. 54 states that 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**. Proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

Since the Recreation Facility Fee and Beach Fee together with the various user fees are used for debt service and capital projects, it appears that the Special Revenue Fund accounting and reporting should not be utilized. Historically the majority of the Recreational Facility Fee and Beach Fee were used for debt service and capital projects.

If it is apparent that Special Revenue Fund accounting should **not** be used and Enterprise Fund accounting should be used, then on what basis did the Board of Trustees approve the change in accounting and reporting? As stated in the Guidance Report, "An activity may no longer be reported as a special revenue fund based only on management's desire to account for it separately."

## **Why the need for the Change?**

According to the Memorandum dated December 1, 2014 from Gerald W. Eick to the Board of Trustees various reasons to change the accounting and reporting were provided. None of the rationales were based upon or relevant to NRS or GASB standards.

One of the main thrusts of the Memorandum seemed to be the desire to separate the **REVENUES** into three funds: one for operating, one for capital projects and one for debt service.

According to the Memorandum on the second page second complete paragraph, "Enterprise Funds report operations, which does not really reflect a flow of resources. A flow of **resources (revenues)** format would ultimately make it clear how much goes to operations versus capital expenditure and debt service."

Furthermore in the third full paragraph of the same page he states: "Utilization of the Special Revenue Fund, which isolates operating revenues and expenditures, along with Capital Projects and Debt Service Funds, will allow the District to clearly identify the three main elements of the flow of transactions for Community Services and the Beach."

On page 3 first full paragraph Mr Eick writes "Separation occurs both **for revenue and expenditure**. Under this model, the District would be able to demonstrate through budgeting, accounting and reporting, **the separate uses of the facility fee for operating, capital and debt.**"

In other words, the facility fee (a revenue item) would be authorized, appropriated and committed to three separate uses: operating, capital projects and debt service.

## **The Bait and Switch:**

However, based on Resolution Number 1838 a sheet with various boxes indicates that the **ENTIRE (ALL)** Recreation Facility Fee and Beach Fee would be reported as REVENUE in the Special Revenue operating fund and then **transfers** from the Special Revenue operating fund to the Capital Project and Debt Service funds would occur. **THUS THE FACILITY FEE WOULD ONLY BE REPORTED IN THE OPERATING FUND WHICH CONTRADICTS THE PREVIOUS PARAGRAPHS of Mr. Eick's December1, 2014 memorandum.**

To continue the contradiction, on May 21, 2015 the FINAL budget for the fiscal year ending 6/30/2016 submitted to the State of Nevada Department of Taxation



on page 12 for the Community Services Special Revenue fund "Charges for Services" reported and allocated ALL of the **REVENUE** collected from the Recreation Facility Fee to the Special Revenue fund and concealed the fee by dividing it into the various venues. Subsequently, on page 14, transfers out of the Special Revenue Fund were made to the Capital Project and Debt Service funds. The same reporting treatment was used for the Beach Fund on pages 15 and 17. As to the Capital Project and Debt Service funds **NO REVENUES** are reported only transfers in labeled "other financing sources" are noted on pages 18 and 21.

**SO WHAT IS GOING ON HERE?** The decision to create the Special Revenue Funds, Capital Project Funds and Debt Services Funds was to SEPARATE the revenues into each fund. The revenues as reported to the State were **NOT** separated. As a result the revenues for operating activities have been vastly overstated and the revenues for the capital project and debt services funds are **nonexistent**. **WHERE IS THE CLARITY AND TRANSPARENCY HERE?**

To further continue the contradiction, current monthly operating reports for the Community Service venues and the Beaches continue to record the ENTIRE RECREATION FACILITY FEE as revenue for the Operating Fund. **AGAIN WHERE IS THE CLARITY AND TRANSPARENCY HERE?**

Not only should Special Revenue Fund reporting not be instituted but when done anyhow the reporting is still not in compliance with what was sold to the Board of Trustees

## **Conclusion:**

In accordance with Guidance letter 15-002, NRS 354.517 and GASB Statement No. 34, the activities of the Community Service venues and the Beach venue require Enterprise Fund accounting and reporting.

Mr. Gerald W. Eick's Memorandums to the Board of Trustees on December 1, 2014 and May 7, 2015 recommending and establishing a change from Enterprise Fund accounting and reporting to Special Revenue Fund accounting and reporting

do not conform to the definitions, standards or examples provided by the State of Nevada Department of Taxation Guidance Letter 15-002.

In addition, the implementation of Resolution Number 1838 and the reporting of the budget to the State of Nevada **DID NOT** follow the recommendations Mr. Eick presented in his two memorandums nor does this resolution satisfy his stated goals of providing and communicating accurate, transparent and understandable financial reports.

My observation is this is just an "end run" around not having to report depreciation or interest expense in operating results. Thus the bottom line (PROFIT) for the two operating funds will appear to be much more profitable and will assist management in selling the public on how improved the operations have become.

Based on the Guidance Letter 15-002, the NRS requirements and GASB statements it would be difficult to believe that the "look see" by IVGID's attorney and the independent auditing firm would "bless" the accounting change as acceptable. Another review by both firms and the Board of Trustees would seem prudent.

This appears to be a complete breakdown of communication, including misleading and incorrect information from Staff to the Board of Trustees and the community at large.

Enclosures: Guidance Letter 15-002 dated October 27, 2015(NO APPENDIX)

Letter to BofT from Gerald Eick dated December 1, 2014

cc: Department of Taxation - State of Nevada

Dan Carter - Edie Bailly.





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**Guidance Letter 15-002**

Date: October 27, 2015

To: County Finance Officers

From: Terry E. Rubald, Deputy Executive Director, Department of Taxation

CC: Committee on Local Government Finance, Marvin Leavitt, Chairman  
Deonne Contine, Executive Director, Department of Taxation  
Kelly Langley, Supervisor, Local Government Finance, Division of Local Government Services

Subject: Special Revenue Funds and Enterprise Funds

**SUMMARY:**

This Guidance Letter recognizes Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34, "Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles. In addition, this Guidance Letter discusses the nature and use of special revenue funds and enterprise funds, and provides examples.

*This Guidance Letter does not change any interpretations of any existing general accounting principles followed by a local government. The purpose in issuing this Guidance Letter is to raise awareness about differences between using special revenue fund and enterprise fund accounting, by highlighting and discussing certain GASB statements in relation to Nevada law.*

**AUTHORITY FOR THIS LETTER:**

NRS 354.472(1)(d): One of the purposes of the Local Government Budget and Finance Act is to provide for the control of revenues, expenditures and expenses in order to promote prudence and efficiency in the expenditure of public money. NRS 354.612(2) requires fund financial statements and other schedules to be prepared in accordance with generally accepted accounting principles.

**APPLICATION:**

The Department finds that Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34, "Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of

financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles.

Based on the definitions of proprietary fund and special revenue fund found in NRS 354.553 and 354.570, as well as GASB No. 34, a special revenue fund is a type of governmental fund, whereas an enterprise fund is a type of proprietary fund.<sup>1</sup> In either case, the level of financial reporting must be based on a determination of whether the special revenue fund or the enterprise fund is a major or non-major fund.<sup>2</sup> The criteria for designation as a major fund is measured by whether the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type. In addition, the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund must be at least 5 percent of the corresponding total for all governmental and enterprise funds combined.<sup>3</sup>

When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular kind of fund. For example, a governmental fund, such as a special revenue fund, generally has activities which are financed through taxes, intergovernmental revenues, and other non-exchange revenues. In a *nonexchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an *exchange* transaction, in which each party receives and gives up essentially equal values.<sup>4</sup> Business-type activities financed in whole or in part by fees charged to external parties for goods or services are usually, but not always, reported in enterprise funds.<sup>5</sup> An enterprise fund essentially reports exchange transactions.

GASB No. 34, ¶78 outlines the financial statements required for governmental funds, including a balance sheet and statement of revenues, expenditures, and changes in fund balances. GASB No. 34, ¶91 indicates the required financial statements for a proprietary fund include a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows.

### **Enterprise Funds**

NRS 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 the 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; or (2) for which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

Similarly, ¶67 of GASB Statement No. 34 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. In addition:

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*.

- 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—

<sup>1</sup>See complete statutory reference for NRS 354.553 and 354.570 at the end of this Guidance Letter. See also, ¶63, ¶64, ¶66, ¶67, GASB Statement No. 34 (June 1999), pp. 25-26.

<sup>2</sup>¶75, GASB Statement No. 34 (June 1999), p. 28.

<sup>3</sup>¶76, GASB Statement No. 34 (June, 1999), p. 28.

<sup>4</sup>¶7, GASB Statement No. 33 (December, 1998), p. 3.

<sup>5</sup>¶15, GASB Statement No. 34 (June, 1999), p. 9.



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.)<sup>6</sup>

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

Footnote 33 to ¶67 states that:

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.

In explaining enterprise fund reporting requirements, GASB 34, ¶387 states that:

Perhaps most significantly, this Statement makes clear that enterprise fund reporting should be used for any activity that is financed with *debt secured solely by net revenue* from its fees and charges to external users. Enterprise fund reporting is also required for any activity that operates under *laws or regulations* requiring that its costs of providing services, including capital costs (depreciation or debt service), be recovered with fees and charges. The final criterion—requiring enterprise fund reporting for any activity for which management establishes fees and charges, pursuant to its *pricing policies*, designed to recover its costs of providing services, including capital costs—is similar to the existing criterion. However, it adds an element of objectivity by basing the standard on established policies rather than management's intent. Further, this Statement makes clear that all criteria for required use of enterprise fund reporting should be applied only in the context of an activity's principal revenue sources. For example, paragraph 67a requires an activity to be reported as an enterprise fund if the activity is financed by debt secured solely by a pledge of the net revenue from fees and charges of the activity. To apply the principal revenue source test in relation to this criterion, a government should compare an activity's pledged revenues to its total revenues.

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<sup>6</sup> In practice, there are exceptions. For example, sometimes general obligation (GO) backing is needed for enterprise funds in small rural communities so a lower interest rate can be obtained from the state bond bank. Using GO backed revenue bonds does not automatically require a change from an enterprise fund to a special revenue fund.



## **Examples of an Enterprise Fund**

### **Background**

A general power of a county is acquire, improve, equip, operate and maintain a variety of projects, including sewerage and water projects. *NRS 244A.057*. The Board of County Commissioners may issue special obligation bonds to acquire, improve and equip any sewerage or water project. *NRS 244A.0587*. A county may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 244A.063*.<sup>7</sup>

For example, the Douglas County Board of County Commissioners established the Carson Valley Water Utility Fund by resolution adopted May 3, 2012. See *Appendix for Exhibit 1, Resolution No. 2012R-037*. The Board resolved to use the existing working capital from four individual water utility funds to establish a consolidated water utility fund and further resolved to recover the costs of operation of the water system, including overhead, through user charges, without producing any significant amount of profit in the long run. The new Water Utility Fund is designed to account for all revenues and all charges related to the consolidated operations, management and rate setting of four legacy utilities.

### **Analysis**

In this example the Douglas County Board of County Commissioners has the authority to establish an enterprise fund pursuant to *NRS 354.612*. The resolution meets the conditions in *NRS 354.612* for an enterprise fund. For instance, subparagraph 4 requires the local government to furnish working capital for the fund which the resolution addressed by transferring the working capital from four legacy utilities to the current fund. In addition, *NRS 354.612(4)* requires the recovery of the costs of operation, including overhead, without "producing any significant amount of profit in the long run." This objective was also included in the resolution and specifically referenced "user charges" as the means by which operation costs would be recovered. The resolution was consistent with the authority provided in *NRS Chapter 244A*.

"User charges" take the form of water usage fees and connection charges. Payment by water users of usage fees and connection charges are exchange transactions because each party gives up and receives something of equal value. Rates are typically set to recover costs of operation and maintenance. This meets the definition of *GASB 34 ¶ 67(c)* requiring the use of an enterprise fund when pricing policies for fees and charges are designed to recover costs.

### **Special Revenue Funds**

*GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions,"* updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. The nature of a special revenue fund is discussed at Paragraph 30:

30. 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. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not

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<sup>7</sup> Cities have similar authority. A general power of a city is to acquire, improve, equip, operate and maintain a variety of projects including sewerage and water projects. *NRS 268.730*. A city may defray the cost of acquisition, improvement and equipment through general obligation bonds, which may be payable from taxes and further secured by a pledge of other revenues derived from any other income-producing project of the city. *NRS 268.732*. A city may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 268.738*.

be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

GASB Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: non-spendable, restricted, committed, assigned and unassigned. These classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

The terms “restricted” or “committed” are references to constraints placed on the use of the revenue source. For example, a fund balance is “restricted” when the constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.<sup>8</sup> A “committed” fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. “Committed” amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action, such as legislation, resolution, or ordinance, which was employed to previously commit those amounts. A 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.<sup>9</sup>

In the past, special revenue funds were reported in instances where there was a specific spending purpose, but not necessarily a specific revenue source. The new definition of a special revenue fund means that local governments need to evaluate resources *received* to determine if they qualify for reporting in a special revenue fund. An activity may no longer be reported as a special revenue fund based only on management’s desire to account for it separately. For all major special revenue funds reported, local governments will need to disclose the purpose of the fund and the revenues and other resources reported in the funds in the notes to the financial statements.

***Please note that the change in classifications of fund balance and special revenue fund financial statement reporting requirements detailed in Statement No. 54 does not require changes in the way a local government budgets and internally accounts for special revenue funds; and the Department has not changed the budget reporting forms to reflect the new classifications.***

In addition, GASB Statement No. 54 states at Paragraph 31:

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a *substantial portion* of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Local governments may use the following calculation to determine whether an activity would qualify for reporting as a special revenue fund:

$$\text{Substantial portion of inflows} = \frac{(\text{restricted revenues} + \text{committed revenues})}{\text{Total Inflows reported in the fund}}$$

<sup>8</sup> ¶34, GASB Statement No. 34 (June 1999), p. 16. See also ¶8, GASB Statement No. 8 (February 2009), p. 4.

<sup>9</sup> ¶10, GASB Statement No. 10 (February 2009), p. 5.

In the calculation, restricted revenues are defined as resources externally restricted or having restrictions imposed by internal enabling legislation (same definition as restricted net assets used in government-wide reporting). The committed revenues are resources with constraints imposed by the highest level of the government, where the constraints can be removed only by a similar action of the same governing body. Total Inflows are defined as the inflows of all financial resources. Total inflows will include transfers and other financing sources such as debt issuances.<sup>10</sup>

“Substantial portion” of inflows is not defined in Statement No. 54, however, the Government Finance Officers Association has indicated “around 20 percent” is reasonable for justifying a special revenue fund; and it is a commonly used threshold. Local governments also need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds.<sup>11</sup>

An example of how to analyze or “prove up” whether the total revenue sources are substantially restricted, committed or assigned to the specified purpose of the fund is attached as Exhibit 2 from Churchill County. If the analysis shows that the restricted and committed resources are less than 20%, then the local government can take action to remedy the situation by going through the process of formally committing additional resources so that the inflow of restricted and committed resources represent a substantial component of the total inflow.

### ***Examples of Special Revenue Funds***

Two examples of a special revenue fund may be found in the Appendix of this Guidance Letter. The first example is a special revenue fund for a landscape maintenance district created by resolution adopted by the Douglas County Board of Commissioners. See *Exhibit 3 in the Appendix*. In this case, the initial financing source is a developer funded security deposit and subsequent revenue will be annual assessments levied on benefiting property owners. The revenue will be restricted to expenditures for improvements or maintenance of parcels within the district.

A second example of a special revenue fund is the “Infrastructure Fund” created by resolution adopted by the Carson City Board of Supervisors. See *Exhibit 4 in the Appendix*. The revenue source is a sales tax of one-eighth of one percent (0.125%). The proceeds of the tax may only be used to fund certain public infrastructure projects identified in the Plan of Expenditure adopted by the Board of Supervisors on April 17, 2014.

In both examples, the revenue source meets the definition of a “committed” fund source because the governing board took formal action to restrict the use of the revenue. However, we would need more information to determine whether those committed funds represent a “substantial” portion – at least 20% - of the total revenue inflow.

### ***Example of a Special Revenue Fund – Or is it? – Fire Districts***

#### ***Background***

A fire protection district formed pursuant to NRS Chapter 474 may sue and be sued; arbitrate claims; and contract and be contracted with. *NRS 474.125*. In addition, a fire protection district may impose a property tax rate not to exceed 1 percent of the assessed value within the district, including net proceeds, to cover the costs of establishing, equipping and maintaining the district with fire-fighting facilities. *NRS 474.190*. Under *NRS 474.200(3)*, two separate funds must be created for the district, an operating fund and a district emergency fund. The district emergency fund must be used solely for emergencies and must not be used for regular operating expenses. In addition, the district may issue

<sup>10</sup> Washington State Auditor’s Office, “GASB Statement 54 – Focusing on Special Revenue Funds,” page 37, accessed 4-17-15 at <http://digitalarchives.wa.gov/WA.Media/do/BE1679E72F5484784D2834ACA64AE00E.pdf>

<sup>11</sup> Ibid, p. 37 and New York Division of Local Government and School Accountability, “Fund Balance Reporting and Governmental Fund Type Definitions,” p. 5, accessed 4-17-15 at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

bonds for purchase of equipment and acquisition of property; and may levy a tax sufficient to pay for the bonds. Under NRS 474.300(4), proceeds of the tax levied for debt service must be placed in a special fund to pay the principal and interest on the bonds.

### ***Analysis***

Clearly the property taxes in this example are imposed non-exchange revenues resulting from an assessment on property. This is a characteristic of a governmental fund rather than a business-entity type fund.

Next, the analysis should consider whether the governmental fund is a special purpose fund. As discussed in GASB No. 54, ¶ 30, a special revenue fund is used to account for and report the proceeds of specific revenue sources which are restricted or committed to expenditure for specified purposes other than debt service or capital projects. In this example, the district may levy a tax to pay for bonds for equipment and property, so the revenue received for debt service does not necessarily mean the fund is a special revenue fund.

NRS 474.200(3) requires a portion of the property tax to be deposited in the district emergency fund, and the fund must be used solely for emergencies. In this case, the property tax revenue source appears to be restricted for a specified purpose other than debt service or capital projects. "Money collected to meet unforeseen emergencies" appears to be a restriction.

Further analysis is needed, however, because the emergency fund may still not qualify as a special revenue fund. This is so because the uses which may be made from the emergency fund need to be defined in order to determine whether the fund balance should be reported as restricted or committed.

Some governments formally set aside amounts in governmental funds under formal stabilization-type policies that can be expended only when certain specific non-routine circumstances exist. For example, typical purposes for which stabilization funds are set aside include emergency situations; unanticipated significant revenue shortages or budgetary imbalances; working capital needs; contingencies; and others. The authority for such funds generally is derived from statute, ordinance, resolution, charter, or constitution<sup>12</sup>, as in this example.

For purposes of reporting fund balance, stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in GASB Statement No. 54, as amended, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund.

In this example, the source of the emergency fund is a portion of the property tax rate and is restricted. However, GASB 54 states that "a stabilization amount that can be accessed in an emergency would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed. If the revenue from the property tax is restricted or committed, then the emergency fund qualifies as a special revenue fund. If the source is not restricted or committed, then the stabilization arrangement discussed above applies.

### ***Example of Application of Criteria to determine whether Fund is an Enterprise Fund or a Special Revenue Fund***

#### ***Nevada General Improvement District***

NRS 318.197 permits a governing board of a general improvement district to fix 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. NRS 318.197 is permissive rather than

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<sup>12</sup> ¶20, GASB Statement No. 54 (February 2009), p. 9.



mandatory in that the governing board “may” fix rates, tolls or charges to cover the costs of services or facilities furnished.

The board may “pledge the revenue for the payment of any indebtedness or special obligations of the district.” Such rates and tolls constitute a perpetual lien on and against the property served, and may be collected on the tax roll together with the county’s general taxes (NRS 318.201). In addition, NRS 318.225 grants the governing board the power and authority to levy ad valorem taxes. NRS 318.275 permits the district to borrow money and issue GO bonds, revenue bonds, and special assessment bonds. Revenue bonds issued for the purpose of acquiring or improving facilities appertaining to the basic purpose of the district must be made payable solely out of the net revenues for any and all of the income-producing facilities and services provided by the district (NRS 318.320). General obligation bonds and other general obligation securities payable from general property taxes may be additionally secured by a pledge of and lien on net revenues. (NRS 318.325).

Applying GASB Statement 34, ¶67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. However, if the general improvement district’s activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, then it would be required to use the enterprise fund accounting. This would be the case if the district issued revenue bonds pursuant to NRS 318.320. If the district’s activity is financed with debt secured by both taxes and user fees, then it is not required to use enterprise fund accounting, as would be the case under NRS 318.325 for GO bonds secured by taxes or a combination of taxes and fees. Finally, under ¶67(c), if the pricing policies of the district for the fees and charges are designed to recover its costs, including capital costs (such as depreciation or debt service), then enterprise fund accounting must be used.

If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, ¶67, then standard governmental fund reporting must be used. If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created. The restricted and committed revenue must be recognized as revenue of the special revenue fund rather than the general fund. Total inflows include restricted revenues, committed revenues, transfers in and any other financing sources.

**If you have any questions about this guidance letter, please call the Local Government Finance Section of the Division of Local Government Services, Department of Taxation at (775) 684-2100.**

WEBSITE LOCATIONS:

Nevada Revised Statutes (NRS): <http://www.leg.state.nv.us/NRS/>

Nevada Administrative Code: <http://www.leg.state.nv.us/NAC/CHAPTERS.html>

Department of Taxation Guidance letters: <http://www.tax.state.nv.us>; then select “Publications;” then select Assessment Standards Publications and “Guidance letters.”



## MEMORANDUM

**TO:** Board of Trustees

**THROUGH:** Steven J. Pinkerton  
General Manager

**FROM:** Gerald W. Eick, CPA CGMA  
Director of Finance, Accounting, Risk Management and Information  
Technology

**SUBJECT:** Establishing Special Revenue, Capital Projects, and Debt Service funds, as well as related sub-funds, for Community Services Fund and the Beach Fund, effective for July 1, 2015

**DATE:** December 1, 2014

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### **I. RECOMMENDATION**

That the Board of Trustees makes a motion to authorize Staff to assemble and report an Operating and Capital Budget for the fiscal year beginning July 1, 2015 to the State of Nevada Department of Taxation, Local Governments Division, that utilizes Special Revenue, Capital Project, and Debt Service Fund accounting for the Community Services Fund (which is comprised of the sub-funds Golf, Facilities, Ski, Recreation, Other Recreation, Parks and Tennis) and for the Beach Fund.

### **II. BACKGROUND**

Staff has identified that the District's determination of fees and charges no longer is best reflected by an accounting under the Enterprise Fund format. The premise of Enterprise Funds is that pricing policies establish fees and charges designed to cover its costs including capital costs (such as depreciation or debt service). This premise will remain reasonably in place though the year ending June 30, 2015 to have continued to use and be consistent with our historical format. However, it is clear the magnitude of what the District does, as a responsible asset manager, requires the District to put as much planning and operating efforts into capital expenditure which in turn requires multi-year decision making and carries operating consequences. An example of such consequences is our building reserves for future projects. Another example is repurposing amounts that once were used to pay debt service to fund capital expenditures.

Measurement and reporting of these consequences no longer is served effectively by using the Enterprise Fund format however Utilities would continue as our only Enterprise Fund.

Accounting is both an art and a science. The science comes from the many standards that exist. For governments, it is mostly in the form of generally accepted governmental accounting principles. The art comes mostly in how information is assembled and communicated. Over the last few years, the District has set facility fees with stated elements for operations, capital, and debt, with an occasional eye to reserves. This has been done balancing the context of the total fee and long term capital expenditures and debt service and is as such identified, by the District, as "smoothing". We are pushing the definition for use of an Enterprise Fund. Our perspective is heavily affected by multi-year approach not a single operating period.

A number of community members have expressed frustration with not understanding our financial reports. Much of this complexity is caused by the standard by which Enterprise Funds report operations, which does not really reflect a flow of resources. A flow of resources format would ultimately make it clear how much goes to operations versus capital expenditure and debt service. That is why the District has presented budgets in two ways - based on operating results and Total Sources and Uses. However, despite a desire to provide maximum information, the result has been even greater confusion about why two budget formats.

Utilization of the Special Revenue Fund, which isolates operating revenues and expenditures, along with Capital Projects and Debt Service Funds, will allow the District to clearly identify the three main elements of the flow of transactions for Community Services and the Beach. Financial statement users, regulators, internal managers, and the public will all have one format and one consistent measurement of revenues and expenditures. Our internal management budgets, monthly reporting, audit reporting, and State budget document will be more concise and have a similar appearance. This simplicity and clarity alone justifies the change.



### **III. FINANCIAL IMPACT AND BUDGET**

The effects of these changes are a matter of where transactions are reported. It does not change the total dollars. Many common elements of our current Total Sources and Uses budget would be used but will be separated by those which constitute Special Revenue (operations), versus Capital Projects, and Debt Service. Separation occurs both for revenue and expenditure. Under this model, the District would be able to demonstrate, through budgeting, accounting and reporting, the separate uses of the facility fee for operating, capital and debt. We have talked about it many times and presented it many ways in special reports, but we find users are still confused. Use of this new format would help to eliminate this confusion. Also, compliance with a restriction such as sales of coverage, which can only be used for capital, would be easier to identify and track over time, as would the accumulation of reserves for any category.

### **IV. ALTERNATIVES**

The District could continue to utilize the Enterprise Fund format. Our auditors have acknowledged they can see both our current interpretation and our reasoning for change. They will support the change when we conclude it should be made. We are still close enough to either definition to consider both. However, as time progresses and we make more financial decisions with a longer view, the community will not be served either for understanding nor a reflection of what is occurring by using the Enterprise Fund format for Community Services and the Beach. Staff feels the change is inevitable and should be made now. We are already making multi-year decisions relative to capital plans. The change also minimizes the complexity and misunderstanding we have with those who read our reports. Not changing does not seem appropriate.

### **V. COMMENTS**

Our new General Manager has many decades of experience with governmental accounting and reporting as a user. One of his first observations was why we were not utilizing Special Revenue Funds to report our Community Services and Beaches. Special Revenue Fund standards get its name from the recognition that governments often receive a revenue source for a particular purpose. Demonstrating compliance with both the measurements and the actual functional use of those revenues is an important part of the community's comfort with the

Establishing Special Revenue, Capital Projects, and Debt Service funds, as well as related sub-funds, for Community Services Fund and the Beach Fund, effective for July 1, 2015

-4-

December 1, 2014

operation of its government. This is opportunity for the District to be clear and transparent with the flow of resources, how they are used, and because of the separate funds, also demonstrate a pattern of compliance, readiness or instances where these objectives are not met.

The District has recently upgraded its accounting system. During this process, Staff has already developed a revised chart of accounts that would facilitate the new funds. Also, for the last five years, under the current system, the Director of Finance has monitored a process by which all activity could be converted to the new format once the change is adopted. It may not be necessary to convert all years but it is possible if the need is determined. The most common use of historical data is the prior and current year comparison we use as we develop a future budget. We'd expect to convert the years ending June 30, 2014 and 2015 to facilitate the new budget.

**ENTERPRISE VS SPECIAL REVENUE  
ATTACHMENT 2**



February 18, 2016

TO: Audit Committee - Trustees Callicrate, Wong and Hammerel

RE: Question asked of Dan Carter of EideBailly at Audit Committee Meeting on 12/16/2015 regarding the transition from Enterprise Fund Accounting and Reporting to Special Revenue Fund Accounting and Reporting

Partial transcript of Question and Answer and my observations and comments

### **Question by Jim Hammerel**

Mr. Hammerel stated that questions from **other** community members as well as Trustees not on the Audit Committee might come up relative to the review and approval of the District's transition to Enterprise Fund Accounting from Special Revenue Fund Accounting and whether it was appropriate or not appropriate. He asked Mr. Carter to comment on the District's transition to Enterprise Fund Accounting.

Mr. Carter corrected Mr. Hammerel noting that the transition was from Enterprise Fund Accounting to Special Revenue Fund Accounting.

My Comments: In the interest of clarity, it would have been helpful for Mr. Hammerel to make mention that the transition concerned the District's Community Services Fund and the Beach Fund. My memorandum dated November 30, 2015 to the IVGID Audit Committee clearly delineates that the transition was NOT appropriate. I cited the Nevada Revised Statutes and the GASB statements included and detailed in the Department of Taxation Guidance Letter 15-002 dated October 27, 2015 which clearly defined when an Enterprise or Special Revenue Fund should be used. I believe that other community members expressed similar objections. The concerns and conclusions raised in my memo were not addressed by the Audit Committee and Mr. Hammerel did not take this opportunity to ask Mr. Carter to counter my specific conclusions. That being said, it may be that Mr. Hammerel never reviewed my memorandum or analyzed the points of fact. He may have simply relied upon Senior Staff's assertions that the transition was appropriate and was asking the auditor this question to validate the Board's reliance upon General Manager Pinkerton and Director of Finance Eick's representations.

### **Answer by Dan Carter**

Mr. Dan Carter's response was quite lengthy and quite a run around. A definitive answer of Mr. Hammerel's question on whether or not the accounting and reporting transition was appropriate or not appropriate was not provided. Keep in mind that Mr. Eick in previous memorandums to the Board of Trustees claimed that the audit firm and the District's legal counsel took a "look see" at this accounting change and everything was A OK. Also be aware that after the Board of Trustees approved the transition in the spring of 2015 that the State of Nevada Department of Taxation issued Guidance Letter 15-002 clearly defining with reference to Nevada Statutes and Government Accounting Standards Board (GASB) Statements when an Enterprise Fund or a Special Revenue Fund should be used. This

information was recapped on page two and three of my November 30, 2015 memorandum. Mr. Eick at a Board workshop session on December 3, 2015 assembled a multi-paged presentation to try and convince the Board of Trustees that the "transition" was on the right track. An enormous effort was made to distinguish differences in Government Accounting and Business Accounting. There was no mention of generally accepted accounting principles, GASB Statements or the State of Nevada Department of Taxation Guidance Letter.

Remarkable as it may seem Mr. Carter states: "We can't be in any way seen as approving those functions because we have to keep our independence with management on what goes on up here." Mr. Carter further states: "I certainly can't guarantee that we won't have issues at the back end."

Mr. Carter's response contradicts Mr. Eicks's verbal and written representations that this transition was approved by the auditor.

Mr. Carter later remarks: "we had specific conversations with the Department of Taxation but it was more about the use of Special Revenue Funds. There are specific guidance in GASB about what can and can't be accounted for with a Special Revenue Fund and it kind of came out of – it's not really an issue up here but we have a lot of governments with just dozens and dozens of Special Revenue Funds. Any time something new came up they would just create a new fund to account for it. So GASB was trying to clean that up. And put in some pretty strict guidance as far as what when a Special Revenue Fund can be used."

Mr. Carter's expansive narrative would have proven informative to the Audit Committee and the community if he had also explained the strict guidance provided by GASB. Please refer to page 2 and 3 of my memorandum which examines and states why the activities at Community Services and the Beach Fund must be reported and accounted for as Enterprise Funds and does not meet the guidelines to qualify as Special Revenue Funds.

Mr. Carter states: "It is unusual up here when we use the word *fee* like the Community Services Fee or the Beach Fee because it's technically a TAX .... so the fact that there's a **restriction** on the use of that tax money is exactly what a Special Revenue Fund is used for." Apparently, Mr. Carter disagrees with IVGID's collection of the Recreation Facility Fees and Beach Facility Fees as FEES and considers both to be a TAX. Mr. Carter seems to have no understanding that in addition to these Recreation Facility and Beach Facility Fees he refers to as a TAX, over 60% OF THE REVENUES GENERATED AT THE RECREATIONAL VENUES ARE SALES OF FOOD AND BEVERAGE , SPORTING GOOD APPAREL AND USER FEES TO SKI OR PLAY A ROUND OF GOLF - AMONG OTHER EXCHANGE TRANSACTIONS. I can only surmise that he has determined that those other revenues might also be considered a tax. I am also unclear on what "restrictions" are placed on all this "tax money".

At this point, one can rightfully draw a conclusion that Mr. Carter is attempting to shape the user revenues of the Community Services and Beaches into a tax with restrictions in order to attempt some compliance with Paragraph 30 of GASB Statement No. 54. If that is indeed the case, he has failed.

As Mr. Carter approaches the conclusion of his REMARKABLE response, he states: "It is disclosed as a subsequent event in the current year CAFR but I think on a go forward basis once we can get through the transitional period I would hope that it would be, you know, a clear way to report the activities of everything that runs through those two funds." No opinion, no guidance, no reference to accounting standards or statutes only hope. WHAT AN ANSWER.

So based on Mr. Carter's voluble response that did not validate whether the transition from Enterprise Fund Accounting and Reporting to Special Revenue Fund Accounting and Reporting was appropriate, with the exception of Trustee Callicrate, Trustee Wong, Hammerel, Dent and Horan approved the audited financial statements that included the subsequent event footnote which states the transition was made.

If any of you would like to reread the Guidance Letter issued by the State of Nevada Department of Taxation or my comprehensive memorandum I would be more than happy to resend them to you. You can also recheck your email inbox or ask Susan Herron for copies.

Please read NRS 354.517 defining an Enterprise Fund and also GASB Statement No. 34 (paragraph 67) which clearly defines that the activities of the Community Services and Beach Funds are REQUIRED to be reported as Enterprise Funds.

The voluminous material provided by Mr. Eick in several Board Meetings and Workshops attempting to make the case for a transition to Special Revenue Funds are all IRRELEVANT.

Your independent audit engagement partner does not have the requisite knowledge to perform a competent independent audit. This memorandum and my previous memorandums on the misallocation of the punch card discounts and the inappropriate accounting transition substantiate this assessment.

You cannot validate a CAFR that you know to be inaccurate. It is your responsibility to ensure that the CAFR is prepared professionally and it accurately represents the District's financial statements.

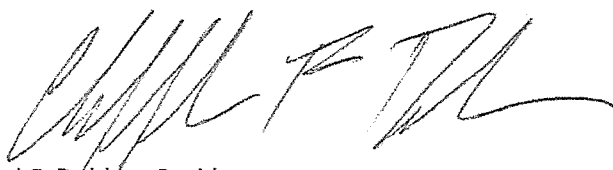
My advice: Discuss the misallocation of the punch card discounts and the accounting transition with Senior Management of the CPA firm and request a new audit engagement partner to take charge. You are heading into a buzz saw as you attempt to issue bonds in the future and prepare to utilize this CAFR to fraudulently misrepresent the District's operations and fiscal health to taxpayers, fee payers, investors and local, state and federal regulatory agencies.

My Final Comments: Rest assured that these material accounting deceptions and misrepresentations which you have failed to correct and continue to sponsor will only result in challenging the performance of your fiduciary responsibilities as Trustees and the integrity of the District's financial statements. I am actively researching additional areas of manipulative accounting allocations which I will continue to bring to you in the future.

Now is the time to take corrective action!

I will not let this go away or allowed it to be buried by time and neglect.

I will make every effort to improve Eide Bailly's understanding of the misallocation of the punch cards and the improper accounting transition and I am quite certain corrective action will be taken.

A handwritten signature in black ink, appearing to read 'Clifford F. Doblér', with a stylized flourish at the end.

Clifford F. Doblér - Resident

cc: Eide Bailly

cc: Trustee Dent

cc: Trustee Horan

cc: Department of Taxation

**ENTERPRISE VS SPECIAL REVENUE  
ATTACHMENT 3**



MEMORANDUM

TO: Trustees Callicrate, Dent, Hammerel, Horan and Wong

CC: Susan Herron – Please include in the next Board Packet

FROM: Clifford F. Dobler

DATED: March 10, 2016

RE: Note 19 Subsequent Event of the 6-30-2015 Comprehensive Annual Financial Report -Page 46

Attached is page 46 with Note 19 of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. I have highlighted in yellow the sentences in paragraphs 2 and 3 reflecting a significant discrepancy in the Net Position of the Community Services Fund and the Beach Fund.

In paragraph 2, the District states that prior to the audit, in the budget document filed with the State of Nevada Department of Taxation the NET POSITION for the Community Services Fund and the Beach Fund were estimated to be **\$5,294,138** and **\$1,302,486** respectively.

In paragraph 3, based on the audit the NET POSITION of the Community Services Fund and the Beach Fund WAS **\$44,762,511** and **\$5,701,288** respectively. It further states: "These amounts are adequate to satisfy their role in supporting the budget for the fiscal year ending June 30, 2016."

Aside from the amusement value and outright confusion for anyone relying upon this information: **HOW IS THIS POSSIBLE?** From my perspective, a discrepancy of this magnitude would require an explanation. **So what's up?** I happen to know, but would the average reader or Trustee know?

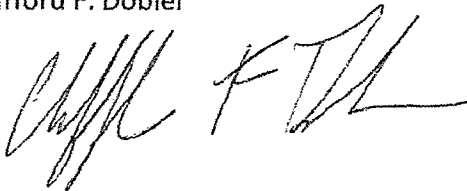
Now, if I called Mr. Eick and asked him to elaborate and correct the footnote he would simply say NO. I would then say: "I will, therefore, have to report this to the Board." His answer, based on past experience, would be "Go for it."

Footnote 19 is one example of a multitude of unclear and incomplete explanations and inaccuracies occurring throughout the CAFR.

**WHY:** No real review by the auditors and the absence of General Manager and Trustee oversight.

If you have an interest, I can point to several inaccuracies warranting correction throughout the Report. Of course, this would be if anyone is really interested. As I have said before, you need my help.

Clifford F. Dobler



The District has committed to these capital improvement projects through contractual arrangements:

	<u>Contract Award</u>	<u>Completed at June 30, 2015</u>	<u>Remaining Commitment</u>
Utility Fund			
Water main Replacement Q&D Construction, Inc.	\$596,560	\$267,848	\$328,712
Community Services Fund			
Creek Restoration Cardno, Inc.	\$227,000	\$197,773	\$ 29,227
Ski Resort Point of Sales System			
Active Network	\$313,449	\$132,400	\$181,049

#### 18. EXTRAORDINARY EXPENSE FOR UTILITY FUND

In April 2014, a leak occurred in the District's effluent pipeline that results in damage to an area highway. Leaks of this magnitude and consequence are not expected in the normal course of operations and thus the repairs costs have been reported as an extraordinary expense. In July 2014 the District incurred \$26,906 of repair costs to complete the paving of the State highway affected by the leak.

#### 19. SUBSEQUENT EVENT

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 Fund 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 resources for capital expenditure and debt service cannot be displayed in a readily understandable fashion for its constituents.

The Board of Trustees has approved a budget, which has been filed with the State of Nevada Department of Taxation, which reflects this change. The remaining action will be to have the Board of Trustees approve the transfer of the Net Position of the Community Services Fund and the Beach Fund upon conclusion of the audit process and the acceptance of that report. The budget document filed with the State estimated that amount to be \$5,294,138 for the Community Services Fund, and \$1,302,486, for the Beach Fund. The District presented a template for calculating the transfer amount to the Nevada Department of Taxation Committee on Local Government Finance and outlined its intended method to convert from accrual based accounting under an enterprise fund, to modified accrual accounting for the Special Revenue governmental funds, which would go forward. No Net Position is considered directly related to either the capital projects funds or debt service funds at July 1, 2015.

Based on the audit as of June 30, 2015 the Net Position of the Community Services Fund is \$44,762,511. The Net Position for the Beach Fund is \$5,701,288. These amounts are adequate to satisfy their role in supporting the budget for the fiscal year ending June 30, 2016. The amount of capital project carryover \$1,115,576 (See Note 17) was known and set as a part of the approval of the operating and capital budget.

As of October 28, 2015 the District agreed to a settlement of the suit, described in Note 12, that will result in collecting \$245,000.

**ENTERPRISE VS SPECIAL REVENUE  
ATTACHMENT 4**

## MEMORANDUM

March 15, 2016

To: IVGID Trustees Wong, Hammeral, Callicrate, Dent, and Horan

From: Clifford F. Dobler

Re: Transition from an Enterprise Fund to a Special Revenue Fund for Community Services and the Beaches

The IVGID Community Service Fund and the Beach Fund can **ONLY** be Enterprise Funds based on THREE main concepts which are requirements under the Nevada Revised Statutes and GASB #34. The transition of these two funds to Special Revenue Funds would be in violation of Nevada Revised Statutes and not in accordance with GASB #34.

### Requirement under Nevada Revised Statutes

NRS 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 the 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; OR (2) for which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

Can there be any doubt that the expenses of providing goods or services of the various recreational venues are financed or recovered through charges to the users. Based on the June 30, 2015 Comprehensive Annual Financial Report total operating revenues of the Community Service Fund and the Beach Fund were \$18,272,166 of which \$11,913,577 is SALES and FEES of goods and services. So about 65% of revenues are from goods and services which would be considered a PRIMARY financing sources.

The remaining revenue is the Recreation Fee and the Beach Fee. According to Resolution 1837 adopted by the board of trustees to collect Recreation Standby and Services Charges AKA Recreation Facility Fee and Beach Fee which are also charges to users for services albeit a mandatory charge. With these fees the vast majority of expenses are financed and recovered PRIMARILY through charges to users.

### Requirement under Government Accounting Standard Board

Statement 34 paragraph 67 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods and services **IN ADDITION**:

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*.

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.

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

**c. THE PRICING POLICY OF THE ACTIVITY ESTABLISH FEES AND CHARGES DESIGNED TO RECOVER ITS COSTS, INCLUDING CAPITAL COSTS (SUCH AS DEPRECIATION OR DEBT SERVICE)**

As I indicated in bold and caps, item C is exactly what IVGID does on an annual basis with the budget and has been doing the same pricing policy for years. So based on item C alone the Community Service Fund and the Beach Fund are REQUIRED to be accounted for as enterprise funds. Pricing the principal revenue sources

Think about this: Is the pricing policy of the utility fund the same as the pricing policy of the recreational funds? Of course it is. So how could the Staff of IVGID suggest that pricing policies have changed.

#### **Requirements for Exchange and Non-Exchange Transactions**

When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular type of fund. For example, a governmental fund, such as a **special revenue fund**, generally has activities which are financed through taxes, intergovernmental revenues, and other *non-exchange* revenues. In a *non-exchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an *exchange* transaction, in which each party receives and gives up essentially equal values. (GASB Statement #33 para 7 page3). Business type activities financed in whole or in part by fees charged to external parties for goods and services are usually, but not always, reported in enterprise funds (GASB Statement #34 para 15 page 9). An enterprise fund essentially reports exchange transactions.

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**ENTERPRISE VS SPECIAL REVENUE**  
**ATTACHMENT 5**

Memorandum

Dated: June 4, 2016

To: Terry E. Rubald, Deputy Executive Director, Department of Taxation

From: Clifford F. Dobler

Subject: October 27, 2015 Guidance Letter 15-002 Special Revenue Funds and Enterprise Funds

Sent via e mail

Attached is a copy of the first eight pages of Guidance Letter 15-002.

After a detailed review, I noted six items which may warrant revision.

I have underlined the items in Red for easy identification:

1. Page 2, Second Complete Paragraph: The quote from footnote #5 - the words "but not always" was added. These three words are not found on page 9 of GASB Statement No. 34
2. Page 2, Footnote #1: The reference in Footnote #1 for GASB Statement No. 34 refers to pp25-26. Page 27 relating to pricing policies was omitted although it is part of the text
3. Page 8, Second Complete Paragraph, Line 2: "since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197 an enterprise fund is not required to be used." This statement cannot be found in any part of NRS 318.197 nor does the content of the Statute even imply such a statement.
4. Page 8, Second Complete Paragraph Lines 1-3: "Applying GASB Statement 34 Paragraph 67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. " Taken in context with the misstatements noted above in item 3, neither NRS 318.197 nor GASB 34 Paragraph 67(a-c) substantiates this correlation and conclusion.
5. Page 8, Third Complete Paragraph, First two lines: "If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, Paragraph 67, then standard governmental fund reporting **MUST** be used." This is incorrect. The first sentence of GASB Statement No. 34 Paragraph 67 actually states: "Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services." The balance of this Paragraph 67 establishes the activities required to be reported as enterprise funds if any of the criteria in clauses (a) – (c) are met. This Paragraph 67 also states: "Governments should apply each of these criteria in the context of the activity's principal revenue sources." There is no inference in this Paragraph 67 to suggest that any government that is not "required" to use Enterprise Fund accounting and reporting **MUST** use standard governmental fund reporting. GASB No. 34 Paragraph 67 and its clauses clearly state when Enterprise Funds are mandatory and when their utilization is an option.

6. Page 8, Third Complete Paragraph, Line 3: "If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created." There is no footnote to source this statement.

I respectfully request your review of the above with emphasis on items #3 through #5 as it has a major impact on how Incline Village General Improvement District or any GID may have interpreted the Guidance Letter. It may be apparent from an in-depth analysis, that the provider of these almost breathless paragraphs for the Example of a Nevada GID may not have a complete and accurate understanding of Nevada Revised Statutes and relevant GASB Statements. There appears to be minimal evidence presented by the provider to substantiate that proper criteria has been applied to determine if a Nevada General Improvement District Fund qualifies as a Special Revenue Fund.

Thank you in advance for your consideration.

Clifford F. Dobler

Resident of Incline Village, NV

775-722-4487

A handwritten signature in black ink, appearing to read 'C. F. Dobler', with a long horizontal flourish extending to the right.



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DEPARTMENT OF TAXATION

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Fax: (702) 486-3377

**Guidance Letter 15-002**

Date: October 27, 2015

To: County Finance Officers

From: Terry E. Rubald, Deputy Executive Director, Department of Taxation

CC: Committee on Local Government Finance, Marvin Leavitt, Chairman  
Deonne Contine, Executive Director, Department of Taxation  
Kelly Langley, Supervisor, Local Government Finance, Division of Local Government Services

Subject: Special Revenue Funds and Enterprise Funds

**SUMMARY:**

This Guidance Letter recognizes Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34, "Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles. In addition, this Guidance Letter discusses the nature and use of special revenue funds and enterprise funds, and provides examples.

*This Guidance Letter does not change any interpretations of any existing general accounting principles followed by a local government. The purpose in issuing this Guidance Letter is to raise awareness about differences between using special revenue fund and enterprise fund accounting, by highlighting and discussing certain GASB statements in relation to Nevada law.*

**AUTHORITY FOR THIS LETTER:**

NRS 354.472(1)(d): One of the purposes of the Local Government Budget and Finance Act is to provide for the control of revenues, expenditures and expenses in order to promote prudence and efficiency in the expenditure of public money. NRS 354.612(2) requires fund financial statements and other schedules to be prepared in accordance with generally accepted accounting principles.

Guidance Letter 15-002 was approved by the Committee on Local Government Finance on October 27, 2015.

**APPLICATION:**

The Department finds that Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34,

"Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles.

Based on the definitions of proprietary fund and special revenue fund found in NRS 354.553 and 354.570, as well as GASB No. 34, a special revenue fund is a type of governmental fund, whereas an enterprise fund is a type of proprietary fund.<sup>1</sup> In either case, the level of financial reporting must be based on a determination of whether the special revenue fund or the enterprise fund is a major or non-major fund.<sup>2</sup> The criteria for designation as a major fund is measured by whether the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type. In addition, the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund must be at least 5 percent of the corresponding total for all governmental and enterprise funds combined.<sup>3</sup>

When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular kind of fund. For example, a governmental fund, such as a special revenue fund, generally has activities which are financed through taxes, intergovernmental revenues, and other non-exchange revenues. In a *nonexchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an *exchange* transaction, in which each party receives and gives up essentially equal values.<sup>4</sup> Business-type activities financed in whole or in part by fees charged to external parties for goods or services are usually, but not always, reported in enterprise funds.<sup>5</sup> An enterprise fund essentially reports exchange transactions.

GASB No. 34, ¶78 outlines the financial statements required for governmental funds, including a balance sheet and statement of revenues, expenditures, and changes in fund balances. GASB No. 34, ¶91 indicates the required financial statements for a proprietary fund include a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows.

### ***Enterprise Funds***

NRS 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 the 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; or (2) for which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

Similarly, ¶67 of GASB Statement No. 34 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. In addition:

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*.

<sup>1</sup>See complete statutory reference for NRS 354.553 and 354.570 at the end of this Guidance Letter. *See also*, ¶63, ¶64, ¶66, ¶67, GASB Statement No. 34 (June 1999), pp. 25-26.

<sup>2</sup>¶75, GASB Statement No. 34 (June 1999), p. 28.

<sup>3</sup>¶76, GASB Statement No. 34 (June, 1999), p. 28.

<sup>4</sup>¶7, GASB Statement No. 33 (December, 1998), p. 3.

<sup>5</sup>¶15, GASB Statement No. 34 (June, 1999), p. 9.



- 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.)<sup>6</sup>
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- 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).

Footnote 33 to ¶67 states that:

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.

In explaining enterprise fund reporting requirements, GASB 34, ¶387 states that:

Perhaps most significantly, this Statement makes clear that enterprise fund reporting should be used for any activity that is financed with *debt secured solely by net revenue* from its fees and charges to external users. Enterprise fund reporting is also required for any activity that operates under *laws or regulations* requiring that its costs of providing services, including capital costs (depreciation or debt service), be recovered with fees and charges. The final criterion—requiring enterprise fund reporting for any activity for which management establishes fees and charges, pursuant to its *pricing policies*, designed to recover its costs of providing services, including capital costs—is similar to the existing criterion. However, it adds an element of objectivity by basing the standard on established policies rather than management's intent. Further, this Statement makes clear that all criteria for required use of enterprise fund reporting should be applied only in the context of an activity's principal revenue sources. For example, paragraph 67a requires an activity to be reported as an enterprise fund if the activity is financed by debt secured solely by a pledge of the net revenue from fees and charges of the activity. To apply the principal revenue source test in relation to this criterion, a government should compare an activity's pledged revenues to its total revenues.

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<sup>6</sup> In practice, there are exceptions. For example, sometimes general obligation (GO) backing is needed for enterprise funds in small rural communities so a lower interest rate can be obtained from the state bond bank. Using GO backed revenue bonds does not automatically require a change from an enterprise fund to a special revenue fund.

## **Examples of an Enterprise Fund**

### **Background**

A general power of a county is acquire, improve, equip, operate and maintain a variety of projects, including sewerage and water projects. *NRS 244A.057*. The Board of County Commissioners may issue special obligation bonds to acquire, improve and equip any sewerage or water project. *NRS 244A.0587*. A county may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 244A.063*.<sup>7</sup>

For example, the Douglas County Board of County Commissioners established the Carson Valley Water Utility Fund by resolution adopted May 3, 2012. See *Appendix for Exhibit 1, Resolution No. 2012R-037*. The Board resolved to use the existing working capital from four individual water utility funds to establish a consolidated water utility fund and further resolved to recover the costs of operation of the water system, including overhead, through user charges, without producing any significant amount of profit in the long run. The new Water Utility Fund is designed to account for all revenues and all charges related to the consolidated operations, management and rate setting of four legacy utilities.

### **Analysis**

In this example the Douglas County Board of County Commissioners has the authority to establish an enterprise fund pursuant to *NRS 354.612*. The resolution meets the conditions in *NRS 354.612* for an enterprise fund. For instance, subparagraph 4 requires the local government to furnish working capital for the fund which the resolution addressed by transferring the working capital from four legacy utilities to the current fund. In addition, *NRS 354.612(4)* requires the recovery of the costs of operation, including overhead, without “producing any significant amount of profit in the long run.” This objective was also included in the resolution and specifically referenced “user charges” as the means by which operation costs would be recovered. The resolution was consistent with the authority provided in *NRS Chapter 244A*.

“User charges” take the form of water usage fees and connection charges. Payment by water users of usage fees and connection charges are exchange transactions because each party gives up and receives something of equal value. Rates are typically set to recover costs of operation and maintenance. This meets the definition of *GASB 34 ¶ 67(c)* requiring the use of an enterprise fund when pricing policies for fees and charges are designed to recover costs.

### **Special Revenue Funds**

*GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,”* updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. The nature of a special revenue fund is discussed at Paragraph 30:

30. 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. The term “*proceeds of specific revenue sources*” establishes that one

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<sup>7</sup> Cities have similar authority. A general power of a city is to acquire, improve, equip, operate and maintain a variety of projects including sewerage and water projects. *NRS 268.730*. A city may defray the cost of acquisition, improvement and equipment through general obligation bonds, which may be payable from taxes and further secured by a pledge of other revenues derived from any other income-producing project of the city. *NRS 268.732*. A city may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 268.738*.

or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

GASB Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: non-spendable, restricted, committed, assigned and unassigned. These classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

The terms “restricted” or “committed” are references to constraints placed on the use of the revenue source. For example, a fund balance is “restricted” when the constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.<sup>8</sup> A “committed” fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. “Committed” amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action, such as legislation, resolution, or ordinance, which was employed to previously commit those amounts. A 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.<sup>9</sup>

In the past, special revenue funds were reported in instances where there was a specific spending purpose, but not necessarily a specific revenue source. The new definition of a special revenue fund means that local governments need to evaluate resources *received* to determine if they qualify for reporting in a special revenue fund. An activity may no longer be reported as a special revenue fund based only on management’s desire to account for it separately. For all major special revenue funds reported, local governments will need to disclose the purpose of the fund and the revenues and other resources reported in the funds in the notes to the financial statements.

***Please note that the change in classifications of fund balance and special revenue fund financial statement reporting requirements detailed in Statement No. 54 does not require changes in the way a local government budgets and internally accounts for special revenue funds; and the Department has not changed the budget reporting forms to reflect the new classifications.***

In addition, GASB Statement No. 54 states at Paragraph 31:

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise *a substantial portion* of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Local governments may use the following calculation to determine whether an activity would qualify for reporting as a special revenue fund:

Substantial portion of inflows = (restricted revenues + committed revenues)

<sup>8</sup> ¶34, GASB Statement No. 34 (June 1999), p. 16. See also ¶8, GASB Statement No. 8 (February 2009), p. 4.

<sup>9</sup> ¶10, GASB Statement No. 10 (February 2009), p. 5.

## Total Inflows reported in the fund

In the calculation, restricted revenues are defined as resources externally restricted or having restrictions imposed by internal enabling legislation (same definition as restricted net assets used in government-wide reporting). The committed revenues are resources with constraints imposed by the highest level of the government, where the constraints can be removed only by a similar action of the same governing body. Total Inflows are defined as the inflows of all financial resources. Total inflows will include transfers and other financing sources such as debt issuances.<sup>10</sup>

"Substantial portion" of inflows is not defined in Statement No. 54, however, the Government Finance Officers Association has indicated "around 20 percent" is reasonable for justifying a special revenue fund; and it is a commonly used threshold. Local governments also need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds.<sup>11</sup>

An example of how to analyze or "prove up" whether the total revenue sources are substantially restricted, committed or assigned to the specified purpose of the fund is attached as Exhibit 2 from Churchill County. If the analysis shows that the restricted and committed resources are less than 20%, then the local government can take action to remedy the situation by going through the process of formally committing additional resources so that the inflow of restricted and committed resources represent a substantial component of the total inflow.

### **Examples of Special Revenue Funds**

Two examples of a special revenue fund may be found in the Appendix of this Guidance Letter. The first example is a special revenue fund for a landscape maintenance district created by resolution adopted by the Douglas County Board of Commissioners. See *Exhibit 3 in the Appendix*. In this case, the initial financing source is a developer funded security deposit and subsequent revenue will be annual assessments levied on benefiting property owners. The revenue will be restricted to expenditures for improvements or maintenance of parcels within the district.

A second example of a special revenue fund is the "Infrastructure Fund" created by resolution adopted by the Carson City Board of Supervisors. See *Exhibit 4 in the Appendix*. The revenue source is a sales tax of one-eighth of one percent (0.125%). The proceeds of the tax may only be used to fund certain public infrastructure projects identified in the Plan of Expenditure adopted by the Board of Supervisors on April 17, 2014.

In both examples, the revenue source meets the definition of a "committed" fund source because the governing board took formal action to restrict the use of the revenue. However, we would need more information to determine whether those committed funds represent a "substantial" portion – at least 20% - of the total revenue inflow.

### **Example of a Special Revenue Fund – Or is it? – Fire Districts**

#### **Background**

A fire protection district formed pursuant to NRS Chapter 474 may sue and be sued; arbitrate claims; and contract and be contracted with. *NRS 474.125*. In addition, a fire protection district may impose a property tax rate not to exceed 1 percent of the assessed value within the district, including net proceeds, to cover the costs of establishing, equipping and maintaining the district with fire-fighting facilities. *NRS 474.190*. Under *NRS 474.200(3)*, two separate funds must be created for the district,

<sup>10</sup> Washington State Auditor's Office, "GASB Statement 54 – Focusing on Special Revenue Funds," page 37, accessed 4-17-15 at <http://digitalarchives.wa.gov/WA.Media/do/BE1679E72F5484784D2834ACA64AE00E.pdf>

<sup>11</sup> Ibid, p. 37 and New York Division of Local Government and School Accountability, "Fund Balance Reporting and Governmental Fund Type Definitions," p. 5, accessed 4-17-15 at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

an operating fund and a district emergency fund. The district emergency fund must be used solely for emergencies and must not be used for regular operating expenses. In addition, the district may issue bonds for purchase of equipment and acquisition of property; and may levy a tax sufficient to pay for the bonds. Under NRS 474.300(4), proceeds of the tax levied for debt service must be placed in a special fund to pay the principal and interest on the bonds.

### ***Analysis***

Clearly the property taxes in this example are imposed non-exchange revenues resulting from an assessment on property. This is a characteristic of a governmental fund rather than a business-entity type fund.

Next, the analysis should consider whether the governmental fund is a special purpose fund. As discussed in GASB No. 54, ¶ 30, a special revenue fund is used to account for and report the proceeds of specific revenue sources which are restricted or committed to expenditure for specified purposes other than debt service or capital projects. In this example, the district may levy a tax to pay for bonds for equipment and property, so the revenue received for debt service does not necessarily mean the fund is a special revenue fund.

NRS 474.200(3) requires a portion of the property tax to be deposited in the district emergency fund, and the fund must be used solely for emergencies. In this case, the property tax revenue source appears to be restricted for a specified purpose other than debt service or capital projects. "Money collected to meet unforeseen emergencies" appears to be a restriction.

Further analysis is needed, however, because the emergency fund may still not qualify as a special revenue fund. This is so because the uses which may be made from the emergency fund need to be defined in order to determine whether the fund balance should be reported as restricted or committed.

Some governments formally set aside amounts in governmental funds under formal stabilization-type policies that can be expended only when certain specific non-routine circumstances exist. For example, typical purposes for which stabilization funds are set aside include emergency situations; unanticipated significant revenue shortages or budgetary imbalances; working capital needs; contingencies; and others. The authority for such funds generally is derived from statute, ordinance, resolution, charter, or constitution<sup>12</sup>, as in this example.

For purposes of reporting fund balance, stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in GASB Statement No. 54, as amended, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund.

In this example, the source of the emergency fund is a portion of the property tax rate and is restricted. However, GASB 54 states that "a stabilization amount that can be accessed in an emergency would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed. If the revenue from the property tax is restricted or committed, then the emergency fund qualifies as a special revenue fund. If the source is not restricted or committed, then the stabilization arrangement discussed above applies.

### ***Example of Application of Criteria to determine whether Fund is an Enterprise Fund or a Special Revenue Fund***

#### ***Nevada General Improvement District***

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<sup>12</sup> ¶20, GASB Statement No. 54 (February 2009), p. 9.



NRS 318.197 permits a governing board of a general improvement district to fix 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. NRS 318.197 is permissive rather than mandatory in that the governing board "may" fix rates, tolls or charges to cover the costs of services or facilities furnished.

The board may "pledge the revenue for the payment of any indebtedness or special obligations of the district." Such rates and tolls constitute a perpetual lien on and against the property served, and may be collected on the tax roll together with the county's general taxes (NRS 318.201). In addition, NRS 318.225 grants the governing board the power and authority to levy ad valorem taxes. NRS 318.275 permits the district to borrow money and issue GO bonds, revenue bonds, and special assessment bonds. Revenue bonds issued for the purpose of acquiring or improving facilities appertaining to the basic purpose of the district must be made payable solely out of the net revenues for any and all of the income-producing facilities and services provided by the district (NRS 318.320). General obligation bonds and other general obligation securities payable from general property taxes may be additionally secured by a pledge of and lien on net revenues. (NRS 318.325).

Applying GASB Statement 34, ¶67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. However, if the general improvement district's activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, then it would be required to use the enterprise fund accounting. This would be the case if the district issued revenue bonds pursuant to NRS 318.320. If the district's activity is financed with debt secured by both taxes and user fees, then it is not required to use enterprise fund accounting, as would be the case under NRS 318.325 for GO bonds secured by taxes or a combination of taxes and fees. Finally, under ¶67(c), if the pricing policies of the district for the fees and charges are designed to recover its costs, including capital costs (such as depreciation or debt service), then enterprise fund accounting must be used.

If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, ¶67, then standard governmental fund reporting must be used. If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created. The restricted and committed revenue must be recognized as revenue of the special revenue fund rather than the general fund. Total inflows include restricted revenues, committed revenues, transfers in and any other financing sources.

**If you have any questions about this guidance letter, please call the Local Government Finance Section of the Division of Local Government Services, Department of Taxation at (775) 684-2100.**

**WEBSITE LOCATIONS:**

Nevada Revised Statutes (NRS): <http://www.leg.state.nv.us/NRS/>

Nevada Administrative Code: <http://www.leg.state.nv.us/NAC/CHAPTERS.html>

Department of Taxation Guidance letters: <http://www.tax.state.nv.us>; then select "Publications;" then select Assessment Standards Publications and "Guidance letters."

**ENTERPRISE VS SPECIAL REVENUE**

**ATTACHMENT 6**

Memorandum - June 1, 2016

To: IVGID Board of Trustees

From: Clifford F. Dobler

Re: Facility Fee Clarification Memo dated May 23, 2016 to Trustee Phil Horan, Audit Committee Chair from Daniel Carter, Partner of Eide Bailly LLP

Five months ago, after completing the independent audit of the District's 2015 CAFR, Mr. Carter stated that the Recreation Facility Fee and Beach Facility Fee were "actually technically a tax. It's collected by the Washoe County Assessor's Office and remitted to you guys along with regular property taxes so the fact that there's a restriction on the use of that tax money is exactly what a special revenue fund is used for." Less than a week ago, Mr. Carter chose to correct this statement by claiming the Facility Fees, are not a tax but an "imposed non-exchange revenue" and "classification of imposed non-exchange transaction may be more appropriately accounted for in a special revenue fund." Unfortunately, this is Mr. Carter's second mistake. To be clear, as defined in GASB Statement No. 33, non-exchange transactions involve the government giving or receiving value without directly receiving (or giving) equal value in exchange. Examples of non-exchange revenues include property (ad valorem) taxes, fines and penalties and property forfeitures.

If Mr. Carter were familiar with Board Resolution 1847 approving the Report for Collection of Recreation Standby and Service Charges or visited the District's website detailing the Recreation Privileges for Parcels assessed the Recreation Fee and Beach Fee he would have known that these fees are in fact exchange transactions. You as Trustees affirm annually that our Recreation Fees allow us the availability and use of the Incline Village Championship and Mountain Golf Courses, Diamond Peak, tennis courts and other recreational properties and facilities. In addition, we receive reduced rates for season passes and reduced daily rates—all benefits which inure to the owners of properties assessed. You also state that we are directly benefited in a fair and reasonable way for the sums we are charged.

Neither the Board, nor Mr. Carter could possibly conclude that the District collects the Recreation Facility and Beach Facility Fees and provides nothing in return. To relabel these Fees as "non-exchange revenues" to justify the use of special revenue funds is a contortion of logic worthy of an acrobat. A CPA would recognize that values are in-fact exchanged. As the lead partner of Eide Bailly auditing the Community Services and Beach Funds, Mr. Carter should also be aware that the principle sources of revenue for the activities of these Funds are the fees and rates charged to external users of its goods or services. Both Funds are financed and conducted in a manner similar to the operations of private business enterprises and Enterprise Fund Accounting and Reporting should be used.

Attachments: Exhibit A - Facility Fee Clarification Memo from Daniel Carter dated May 23, 2016  
Exhibit B - Resolution No. 1847

cc: Eide Bailly – Risk Management  
Department of Taxation





## Memo

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**To:** Phil Horan, Chairman  
Incline Village General Improvement District Audit Committee

**From:** Daniel Carter, Partner  
Eide Bailly LLP

**Date:** May 23, 2016

**Subject:** Facility Fee Clarification

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Eide Bailly presented our June 30, 2015 audit report to the Audit Committee of the Incline Village General Improvement District at the December 16, 2015 meeting. At this meeting a question was raised regarding the transition from enterprise fund accounting to governmental fund accounting. During my explanation of the use of governmental fund accounting, specifically as it relates to utilization of special revenue funds to account for the Facility Fee, I referred to the Facility Fee as a tax. This was an incorrect statement resulting from an attempt to simplify the discussion of the differences between exchange fees and imposed non-exchange revenues. By way of clarification I offer the following expanded explanation.

Enterprise fund accounting is primarily used when exchange fees (for example, the fee to play a round of golf) support the fund so that it is expected to be self-sustaining. Imposed non-exchange revenues result from assessments imposed by governments on individuals (for example, property tax or other assessment). Classification of imposed non-exchange transaction may be more appropriately accounted for in a special revenue fund.

While the Facility Fee meets the definition of an imposed non-exchange revenue it is not a tax. The Facility Fee is a charge pursuant to NRS 318.197 and collected on the tax roll pursuant to NRS 318.201.



**RESOLUTION NO. 1847**

**A RESOLUTION APPROVING THE REPORT  
FOR COLLECTION ON THE WASHOE COUNTY TAX ROLL  
OF RECREATION STANDBY AND SERVICE CHARGES  
(ALSO KNOWN AS RECREATION FACILITY FEE AND BEACH FACILITY  
FEE)**

**RESOLVED** by the Board of Trustees of the Incline Village General Improvement District, Washoe County, Nevada, that

**WHEREAS**, pursuant to Resolutions No. 419 and 420, as amended, and the order of this Board, a report entitled "Report for Collection on the County Tax Roll of Recreation Standby and Service Charges" has been prepared and filed with this Board, a report on recreation fees to be collected for the fiscal year 2016-17 for the use of Burnt Cedar and Incline Beaches and for the availability of use of the Incline Village Championship and Mountain Golf Courses, Diamond Peak, tennis courts, and other recreational properties and facilities for the District and its people;

**WHEREAS**, this Board has examined said report and finds the same to be sufficient for further proceedings in relation thereto;

**WHEREAS**, it is proposed that the charges contained in said report be collected on the general County tax roll on *(in two separate and distinct lines items identified as Recreation Facility Fee and Beach Facility Fee)* which general District taxes are to be collected for said year;

**WHEREAS**, on April 27, 2016, this Board adopted its Resolution No. 1846, A Resolution Preliminarily Approving The Report For Collection Of Recreation Standby And Service Charges, wherein it fixed May 18, 2016, at 5:30 p.m. at the Chateau, 955 Fairway Boulevard, Incline Village, Nevada, as the time and place when and where the Board would hear said report and all objections and protests, if any, to the report, and might revise, change, reduce or modify any charge therein, and finally approve and adopt same.

**WHEREAS**, notice of said hearing has been given by publication once a week for two weeks prior to the date of hearing, in the *North Lake Tahoe Bonanza*, a newspaper of general circulation printed and published within the District.





**RESOLUTION NO. 1847**

**A RESOLUTION APPROVING THE REPORT  
FOR COLLECTION ON THE COUNTY TAX ROLL  
OF RECREATION STANDBY AND SERVICE CHARGES  
(ALSO KNOWN AS RECREATION FACILITY FEE AND BEACH FACILITY FEE)**

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**WHEREAS**, said Board met at said time and place and \_\_\_\_\_ (XX) person(s) appeared and \_\_\_\_\_ (X) person(s) protested against the charges made on their property and against said report, and the Board fully heard all persons and considered all matters and was fully advised in the premises, and did by motion revise, change, reduce or modify any of the charges therein which, in its opinion, were so required in order that said charges be equitably distributed among the several parcels of property contained in the report;

**NOW, THEREFORE, IT IS ORDERED** as follows:

1. That protests were not made at or before said hearing by the owners of a majority of separate parcels of property described in said report, and that said Board has jurisdiction to take further proceedings in relation thereto;

2. That all revisions, changes, reductions or modifications required, be made in said report that are, in the opinion of the Board, required to be made in order that said charges be equitably distributed among the parcels of property contained therein, and all other protests are overruled.

3. That said report contains all of the properties within the District that will be benefited by being charged for the costs of the acquisition, administration, operation, maintenance and improvement of the recreational facilities, including the improvements thereon, and of the servicing of bonds issued or to be issued therefor.

4. The Board of Trustees finds that each parcel assessed pursuant to this Resolution and in its report for the collection on the Washoe County tax roll of standby and service charges for the fiscal year 2016-17 is specifically benefited as follows:

- (a) Ordinance No. 7 sets forth in detail the specifics of the benefits available to property owners of all properties, whether improved or unimproved.



**RESOLUTION NO. 1847**

**A RESOLUTION APPROVING THE REPORT  
FOR COLLECTION ON THE COUNTY TAX ROLL  
OF RECREATION STANDBY AND SERVICE CHARGES  
(ALSO KNOWN AS RECREATION FACILITY FEE AND BEACH FACILITY FEE)**

Page 3 of 4

- (b) The Board specifically finds that the availability of the use of IVGID's beaches; boat launch ramp; Championship golf course; Mountain golf course; tennis facilities; the Chateau; Diamond Peak Ski Resort, and Recreation Center, including reduced rates for season passes and reduced daily rates, are all benefits which inure to the owners of properties assessed hereunder. The Board also finds that such benefits are provided to said properties whether or not they are developed.
- (c) In conclusion, the Trustees find that the owners of the parcels set forth herein are directly benefited in a fair and reasonable way for the sums which they are charged.

5. That the rates charged for natural, intrinsic and fundamental distinctions are reasonable in their relation to the object of the charges imposed in said report, and that said charges have been apportioned in relation to said natural, intrinsic, fundamental and reasonable distinctions among said rates,

6. That said report, as revised, changed, reduced or modified, if any, is hereby adopted and that all of the charges herein constitute a perpetual lien on and against each of the parcels of property in the amount set opposite their description in said report, which lien is effective as of the date on which general taxes for the fiscal year 2016/2017 become a lien.

7. The Secretary shall file with the Washoe County Treasurer a copy of the report with a statement endorsed thereon over his signature that it has been finally adopted by the Board, and the Washoe County Treasurer shall enter the amounts of the charges (*in two separate and distinct lines items identified as Recreation Facility Fee and Beach Facility Fee*) against the respective lots or parcels of land as they appear on the current Washoe County tax roll.

8. The Washoe County Treasurer shall include the amount of the charges (*in two separate and distinct lines items identified as Recreation Facility Fee and Beach Facility Fee*) on the bills for taxes levied against respective lots or parcels of land in said report, or, in his discretion, issue separate bills therefor



**RESOLUTION NO. 1847**

**A RESOLUTION APPROVING THE REPORT  
FOR COLLECTION ON THE COUNTY TAX ROLL  
OF RECREATION STANDBY AND SERVICE CHARGES  
(ALSO KNOWN AS RECREATION FACILITY FEE AND BEACH FACILITY FEE)**

Page 4 of 4

and separate receipts for collection on account thereof; and said amounts shall be collected at the same time and in the same manner and by the same persons as, together with and not separately from the general taxes for the District, and shall be delinquent at the same time and thereafter be subject to the same delinquent penalties; and all laws applicable to the levy, collection, and enforcement of general taxes of the District, including, but not limited to, those pertaining to the matters of delinquency, correction, cancellation, refund, redemption and sale, are applicable to such charges.

\* \* \* \* \*

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly passed and adopted at a regularly held meeting of the Board of Trustees of the Incline Village General Improvement District on the 18th day of May, 2016, by the following vote:

- AYES, and in favor thereof, Trustees
- NOES, Trustees
- ABSENT, None

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Tim Callicrate  
Secretary, IVGID Board of Trustees

**ENTERPRISE VS SPECIAL REVENUE**  
**ATTACHMENT 7**

September 19, 2016

TO: State of Nevada Department of Taxation

With copies to: IVGID Board of Trustees and Jeff Strand - Eide Bailly Risk Management

From: Clifford F. Dobler and Linda Newman

Re: Improper reporting of Revenues in order to satisfy conditions of GASB No 54

Incline Village General Improvement District ('IVGID') has filed with the Nevada Department of Taxation annual budgets on form 4404LGF for fiscal year June 30, 2016 and June 30, 2017. Within the budgets the reporting for the operations of Community Services and the Beach were changed from Enterprise Funds to Special Revenue, Capital Project and Debt Service Funds based on a resolution establishing the new funds passed by the Board of Trustees of IVGID on May 21, 2015.

Based on the definitions of special revenue funds, capital project funds and debt service funds as provided in GASB Statement #54 on paragraphs 30 to 34, the type and amount of revenues received by IVGID in these funds would NOT allow IVGID to account and report the activities of Community Services and the Beaches as Governmental Funds.

#### **Failed justification for imposed non exchange transactions**

In justifying the decision to change the accounting and reporting, IVGID staff determined that the Recreational Standby Fee assessed annually to each parcel owner and the Beach Fee assessed annually to the same parcel owners except 428 parcels whose owners do not have beach access, somehow changed overnight from charges for services ('exchange revenues') to a community support fee ('imposed non exchange revenue') thereby allowing the accounting and reporting to change from Proprietary Fund accounting and reporting to Governmental Fund accounting and reporting .

This thinking to arbitrarily change the descriptive character of the two Fees cannot be supported by any actual facts. Each year when assessing the Recreational Standby Fee and the Beach Fee the Board of Trustees approves how each Fee will be allocated to pay for operating expenses, capital projects and debt service and passes a resolution stating (page 3 item 4c of Resolution No 1837) "In conclusion, the Trustees find that the owners of the parcels set forth herein are directly benefited in a fair and reasonable way for the sums which they are charged".

Each year a parcel owner is entitled to obtain 5 Recreation Passes or Recreation Punch Cards in any combination **in exchange** for their payment of the Recreation Standby Fee and Beach Fee. If the parcel owner decides to receive Recreation Passes then a lower fee can be obtained at the various recreational venues and free access to the beaches. If the parcel owner decides to receive Recreation Punch Cards the parcel owner receives \$166.00 in prepaid funds which can be used to buy down the guest rates to the resident rates, established by IVGID for the various recreational venues. In addition, at any time, a resident can decide to purchase additional Recreational Punch Cards for \$166.00 per card. It is quite obvious that each parcel owner has a choice in determining what combinations of Recreation



Passes or Recreation Punch Cards would be best to recoup the cost of the Recreational Standby Fees and Beach Fees based on their anticipated use of their Recreation Passes or Recreation Punch Cards.

According to the approved budget for the year ended June 30, 2017, the Staff of IVGID states in the Performance Measures (page 81-90) that the discounts to the community (as compared to market rates) were and are projected as follows:

	2015/2016 <u>(est. Actual)</u>	2016/2017 <u>(Budget)</u>
Beaches/Parks and Recreation	\$255,900	\$261,700
Diamond Peak Ski Resort	\$475,983	\$375,550
Golf Courses	\$1,293,952	\$1,002,340

In addition, in calendar year 2015 of the 172,000 visits to the beaches approximately 100,000 were residents with free access which if the market price of \$12.00 per adult was applied another \$1,200,000 in "discounts" have occurred.

So to create the idea that the Recreation Standby Fee and Beach Fee are non exchange revenues cannot be supported by the factual exchanges taking place.

**Understanding the definition of a Special Revenue Fund**

Now let us study the definition of a special revenue fund in three parts as provided in GASB Statement No 54.

Paragraph 30 - 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.**

Once IVGID staff decided that the Recreational Standby Fee and the Beach Fee were the specific revenue sources which were restricted or committed to expenditures for specified purposes then by definition those specified purposes cannot be for debt service or capital projects. As such, the specific revenue source **must be limited** only to that portion of the Recreational Standby Fee and Beach Fee allocated for operations. The remaining portion for capital projects and debt service must be reported in the Capital Project Fund and the Debt Service Fund. If properly reported the amount of revenues reported in the Special Revenue fund would be SUBSTANTIALLY LESS then what has been reported on the State budget forms the past two years.

Based on the two resolutions and budgets approved by the Board of Trustees for the fiscal years ended June 30, 2016 and 2017 the Recreational Standby Fee and the Beach Fee has been restricted and committed for three specific purposes in the following table below and as such should have been reported as a revenue source in each fund. However the ENTIRE amount of the Fees were reported in the Special Revenue Fund for the State Budget.

	<u>Operations Special Rev</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Reported to State in Special Revenue Fund</u>
<u>Recreational Standby Fee</u>				
2015-2016	\$2,176,412	\$2,520,056	\$1,276,392	\$5,972,860
2016-2017	\$2,045,500	\$2,618,240	\$1,308,120	\$5,972,860
<u>Beach Fee</u>				
2015-2016	\$580,800	\$185,856	\$7,744	\$774,400
2016-2017	\$580,800	\$185,856	\$7,744	\$774,400

The Recreational Standby Fee and Beach Fee should have been allocated to the three funds established above, HOWEVER the Staff of IVGID determined that the ENTIRE Fees should be reported as a revenue source in the SPECIAL REVENUE Fund and then make TRANSFERS from the Special Revenue Fund for the amounts restricted and committed for Capital Projects and Debt Service Funds. THIS IS NOT THE CORRECT ACCOUNTING AND REPORTING WHICH SHOULD BE DONE. The revenue restricted and committed to each fund should be reported as revenue in each fund and not be grossed up in one fund and then transferred out to another fund. This is in complete violation of complying with the definition stated in GASB Statement No. 54

It should be noted that in the 2015-2016 Budget the Recreational Standby Fee and the Beach Fee were reported as "Charges for Services" wherein the 2016-2017 reported both Fees as "Community Support".

Based on the restricted and committed revenue sources for Capital Projects and Debt Service there should have been no reason for IVGID Staff to report the ENTIRE Recreational Standby Fee and Beach Fee in the Special Revenue Fund.

So why was it done and not be in compliance with GASB Statement No.#54 definition for a Special Revenue Fund?

GASB Statement No. 54 Paragraph 31 states: *The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a SUBSTANTIAL PORTION of the inflows reported in the fund.*

Since IVGID staff has determined that the specific revenue sources is the Recreational Standby Fee and Beach Fee which have been erroneously considered be an imposed non exchange revenue sources then these Fees would have to comprise a Substantial Portion of each Funds Revenues.

The Substantial Portion of inflows is not defined in GASB Statement No.54, however, the Government Finance Officers Association has indicated "around 20%" is reasonable for justifying the use of a special revenue fund and it is a commonly used threshold (see page 6 of Guidance Letter15-002 issued on October 27, 2015 from Nevada Department of Taxation). Local governments may use the following calculation to determine whether an activity would qualify for reporting as a special revenue fund:

Substantial portion of inflows = (restricted revenues + committed revenues)

Total Inflows reported in the Fund

See pages 5 and 6 of Guidance Letter 15-002 dated October 27, 2015 for information about "Substantial Portion".

**The problem and the IVGID Staff attempt to fake the 20% threshold .**

For the two fiscal years ending June 30, 2016 and June 30,2017 the total inflows reported on the State Budget forms 4404LGF for the Community Services Special Revenue Fund was \$17,612,962 and \$19,586,160 respectively . These amounts included the ENTIRE Recreational Standby Fee rather than the proper amount which excludes restricted and committed revenues for Capital Projects and Debt Service . Adjusted to exclude the revenues for Capital Projects and Debt Service the total inflows would be \$13,616,514 and \$15,678,800 respectively

Applying the Formula above to determine if the new "Imposed non exchange revenue" of the FEES applicable only to a Special Revenue Fund would be a Substantial Portion of the Special Revenue Fund Revenue results in the following:

Community Services Fund	<u>2015-2016</u>	<u>2016-2017</u>
Restricted and committed revenues	<u>\$2,176,412</u>	<u>\$2,045,500</u>
Total Inflows Reported in the Fund (adjusted)	\$13,616,514	\$15,678,800
Substantial Portion of inflows	15.93%	13.00%

As can clearly be seen the Restricted and Committed revenues generated from the Recreational Standby Fee applicable to the Special Revenue Fund **DOES NOT CONSTITUTE A SUBSTANTIAL PORTION OF THE INFLOWS TO QUALIFY THE ACCOUNTING AND REPORTING OF THE COMMUNITY SERVICES ACTIVITIES AS A SPECIAL REVENUE FUND.**

Applying the formula for the Beach Fund indicates that the Beach Fee would constitute a substantial portion of the inflows based on the budgets for the same two years calculated as follows:

Beach Fund	<u>2015-2016</u>	<u>2016-2017</u>
Restricted and committed revenues	<u>\$580,800</u>	<u>\$580,800</u>
Total Inflows Reported in the Fund (adjusted)	\$1,556,900	\$1,589,700
Substantial Portion of inflows	37.30%	36.53%

The trick conspired by the IVGID staff was to report the ENTIRE Recreational Standby Fee and Beach Fee revenue as the restricted or committed revenues for specific purposes INCLUDING CAPITAL PROJECTS

AND DEBT SERVICE which is completely contrary to the Definition of a Special Revenue Funds under GASB Statement No. 54. The reporting of the ENTIRE amount of the Recreational Standby Fee as Revenue was a brash attempt to meet the requirements that the Recreational Standby Fee for the Community Services Special Revenue Fund constituted the substantial portion ("around 20%") of the total inflows.

This reporting to the State was either a complete misunderstanding of GASB Statement No. 54 or deliberate by the Staff of IVGID.

#### **CONCLUSION**

**There is no doubt that the activities of the Community Services and the Beachs are business type operations and should have continued to be reported under Priporitory Fund accounting as outlined in GASB Statement # 34.**

**IVGID staff has failed to provide any credible evidence that the types of activities are Government activities**

**To pivot from one form of accounting and reporting based on the idea that a single source of revenues**

**ENTERPRISE VS SPECIAL REVENUE**

**ATTACHMENT 8**



Memorandum - October 26, 2016

To: IGVID Board of Trustees

From: Clifford F. Dobler

Re: Explanation of Revenue differences between budget reports

To be included in next board packet

After reviewing Dick Warren's memorandum on the multitude of different budgets which exist for the fiscal year ended 6/30/2015, I can shed some light of one of the major reporting discrepancies which may help solve some of the mystery.

The REVENUES for the community services and beach special revenue funds reported to the state do not agree with the reports to citizens.

The reason is simple. Just look at page 13 and 14 of GASB #54. Passing a board resolution to meet legal requirements for the formation of new funds does not change accounting and reporting requirements.

In order to qualify for reporting under special revenue funds, the proceeds of specific revenue sources must be restricted or committed for specified expenditures and cannot be for CAPITAL PROJECTS AND DEBT SERVICE.

In addition the specific revenue source must be a SUBSTANTIAL PORTION of all revenues of a fund. The substantial portion has been considered to be around 20%.

IVGID staff considers the REC FEE and BEACH FEE to be the required specific revenue source.

The REC FEE and BEACH FEE must also be a non exchange revenue source which **they are not** and that was mentioned to this board at the last meeting.

The REC FEE and BEACH FEE is approved annually by the BofT specifically for operations, capital projects and debt service. Three separate and fixed amounts.

So then each authorized portion of the REC FEE and BEACH FEE would be budgeted into each of the three separate funds. This is done correctly for reports to the citizens.

The state report however is the official report. IVGID has decided rather than follow GASB #54 appropriately it became necessary to report the ENTIRE REC FEE and BEACH FEES as Specific Revenue Sources in order to reach the required "SUBSTANTIAL PORTION" of revenues to be considered a special revenue fund.

If IVGID followed GASB #54, which it did not, and reported to the State the proper portion of the REC FEE and BEACH FEE into the separate funds the SUBSTANTIAL PORTION requirement could not be reached thus reporting Community Services activities under Special revenue funds could not be considered and Enterprise accounting would be required.

Historically for fiscal years 2011-2016 for Community Services activities the portion of the REC FEE allocated to operations in relation to the total revenues was a low of 8.33% and a high of 15.46% never reaching "around 20%". Thus the REC FEE as a portion of the total revenues never achieved a SUBSTANTIAL PORTION of around 20% to ever consider special revenue fund accounting and reporting.

The BEACH FEE allocated to operations in relation to the total revenues would be a SUBSTANTIAL PORTION to consider special revenue fund accounting but fails because the BEACH FEE is an exchange transaction thus not qualifying for special revenue accounting.

**ENTERPRISE VS SPECIAL REVENUE  
ATTACHMENT 9**

## Memorandum

Date: March 17, 2017

To: Kelly Langley, Supervisor, Local Government Finance, Division of Local Government Services - Department of Taxation

From: Clifford F. Dobler and Linda Newman

Re: Errors and Misrepresentations in DOT Guidance Letter 15-002 Special Revenue Funds and Enterprise Funds dated October 27, 2015

On January 4, 2017 via telephone conferencing Mr. Dobler reported to the Committee on Local Government Finance that he had not received a response to a Memorandum sent to Terry Rubald on June 4, 2016 and hand delivered on June 6, 2016. He followed up with an email request for a response on July 6, 2016 and did not receive a reply before Ms. Rubald retired from the Department.

Mr. Dobler's Memorandum addressed two inadvertent errors and four material misstatements in the above referenced Guidance Letter. Of particular concern was the factually incorrect statements in the Example of a Nevada General Improvement District. Within the follow-up July 6, 2016 email he had asked for the source of this Example. As Nevada Revised Statutes and GASB Statements were misinterpreted and all the appropriate criteria for establishing a Special Revenue Fund was not met, it was apparent that this Example could not have been composed by the Department of Taxation.

As these errors and misstatements stand uncorrected, we respectfully request your review of the Memorandum to address the six items in the Guidance Letter which warrant revision. We also request the courtesy of a response with your findings.

Unfortunately, we must report that Senior Management of our District, the Incline Village General Improvement District (IVGID), has improperly cited the Guidance Letter Example as validating the conversion of two Enterprise Funds to

Special Revenue, Capital Projects and Debt Service Funds. It has been cited by Senior Staff and the Trustee Chair of the Audit Committee at public meetings to arrest any challenges to the propriety of this conversion and may have been instrumental in gaining the necessary Trustee votes to approve the District's 2016 CAFR.

Treasurer Trustee Dent was kind enough to provide an excerpt from an email sent by IVGID General Manager Steve Pinkerton. Presumably this email was also sent to the entire Board of Trustees prior to their meeting to approve the 2016 CAFR. In this email, General Manager Pinkerton highlighted the Nevada General Improvement District Example used on Page 7 and 8 of Guidance Letter 15-002 to substantiate the justification, validation and authority for the District to use Special Revenue Funds to account and report the activities of the Community Services and Beach Funds.

Trustee Audit Committee Chair Horan even stated at the February 8, 2017 IVGID Board Meeting that the District's practices are in compliance with the Guidance Letter. At the same time the Guidance Letter states in the Summary that it does not change any interpretation of any existing general accounting principles followed by a local government. As such, **compliance** was not the purpose of the Guidance Letter although the example was used to validate the District's use of Special Revenue Funds.

During the past 18 months, we reviewed all documentation relating to the Incline Village General Improvement District's implementation of the change of accounting and reporting for the Community Services and Beach Funds from Proprietary Enterprise Funds to Governmental Special Revenue, Capital Projects and Debt Service Funds. Based upon all our research, including specific sections of the Guidance Letter, there can be no doubt that the change could not have been made if factual and complete information had been presented by IVGID Senior Management to the Department of Taxation, the Committee on Local Government Finance, the Board of Trustees, and the District's Auditors.

We have submitted several comprehensive memorandums to the Committee on Local Government Finance, the Department of Taxation, the IVGID Board of



Trustees, the IVGID Trustee Audit Committee and Eide Bailly, the District's Independent Auditing Firm. These memorandums contained ample evidence of the District's misapplication of accounting principles and noncompliance with Nevada Revised Statutes and GASB Statements 33, 34 and 54. All these memorandums have failed to receive Trustee Audit Committee or Full Board Review and we have never received a written response.

In place of addressing our allegations of the District's failure to meet the criteria for establishing Special Revenue Funds required by GASB Statements 33, 34 and 54 and NRS 354, Senior Management has used the DOT's approval of the District's 2016 Budget and the Guidance Letter as its defense when publicly questioned by Trustees and other members of the community. It has also cited the Auditor's rendering of a "clean opinion" on the District's financials. The scope of the Audit did not include rendering an opinion on the District's use of Special Revenue Funds, nor, according to the Audit Engagement Letter, independently report upon the District's compliance with Generally Accepted Accounting Principles and compliance with Nevada Law. On two occasions at Trustee Audit Committee Meetings convened in December 2014 and December 2015 to approve the District's CAFR, the Audit Engagement Partner when questioned would not opine on the change in accounting claiming it was a "management decision" and stated the auditors would only audit the "back end" after the accounting change was made.

Two of our Trustees, Matthew Dent and Tim Callicrate have taken the time to review our Memorandums and relevant statutes and are convinced that the accounting change was not appropriate. In fact, at the time these Governmental Special Revenue Funds were established in May of 2015 on the same day the Board approved the District's FY 2016 Budget, Trustee Callicrate voted against both motions.

On December 14, 2016 an IVGID Board of Trustees meeting was held to approve the 2016 Comprehensive Annual Financial Report ("CAFR") which presented the financial statements of the Community Services and Beach Funds as governmental accounting Special Revenue funds for the first time. Both Trustee

Dent and Trustee Callicrate voted not to approve the CAFR based upon the District's improper formation of Special Revenue Funds and the abandonment of Proprietary Enterprise Fund accounting .

From the time the Board approved the accounting change in December of 2014 for the preparation in late 2015 of the preliminary FY 2016 budget, only ONE of the Board members that approved the accounting and reporting change remained on the Board to vote on the approval of the 2016 CAFR. Over the two year period EIGHT different Trustees either ended their term of service, resigned before the completion of their term, were appointed to fill a vacancy or were newly elected. It is quite apparent to us that most Trustees who were familiar with the District's historic Enterprise Fund accounting and reporting for the Community Services and Beach Funds had serious questions about the District's creation of Special Revenue Funds and were skillfully misled into believing that the Guidance Letter 15-002 Nevada General Improvement District Example on pages 7-8 provided the validation to tacitly accept the change and to approve the CAFR.

We believe that in the interest of accuracy and clarity, corrections be made to the Guidance Letter. In the interim, we respectfully request that the Department of Taxation alert the IVGID Board of Trustees that the Guidance Letter is a resource to raise awareness of the difference between Special Revenue Funds and Enterprise Fund accounting and does not provide validation for the propriety of any local government's change in accounting and reporting.

cc: IVGID Trustee Treasurer Matthew Dent

cc: IVGID Trustee Secretary Tim Callicrate

cc: Committee on Local Government Finance

## **EXHIBITS**

- #1 Guidance Letter 6-4-16 Memo to Terry Rubald from Cliff Dobler
- #2 Guidance Letter Follow-Up 7-6-16 Email to Terry Rubald from Cliff Dobler
- #3 Guidance Letter February, 2017 Emails Between Trustee Matthew Dent and Cliff Dobler
- #4 IVGID 2016 CAFR Note 20

## Exhibit #1

Memorandum

Dated: June 4, 2016

To: Terry E. Rubald, Deputy Executive Director, Department of Taxation

From: Clifford F. Dobler

Subject: October 27, 2015 Guidance Letter 15-002 Special Revenue Funds and Enterprise Funds

Sent via e mail

Attached is a copy of the first eight pages of Guidance Letter 15-002.

After a detailed review, I noted six items which may warrant revision.

I have underlined the items in Red for easy identification:

1. Page 2, Second Complete Paragraph: The quote from footnote #5 - the words "but not always" was added. These three words are not found on page 9 of GASB Statement No. 34
2. Page 2, Footnote #1: The reference in Footnote #1 for GASB Statement No. 34 refers to pp25-26. Page 27 relating to pricing policies was omitted although it is part of the text
3. Page 8, Second Complete Paragraph, Line 2: "since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197 an enterprise fund is not required to be used." This statement cannot be found in any part of NRS 318.197 nor does the content of the Statute even imply such a statement.
4. Page 8, Second Complete Paragraph Lines 1-3: "Applying GASB Statement 34 Paragraph 67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. " Taken in context with the misstatements noted above in item 3, neither NRS 318.197 nor GASB 34 Paragraph 67(a-c) substantiates this correlation and conclusion.
5. Page 8, Third Complete Paragraph, First two lines: "If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, Paragraph 67, then standard governmental fund reporting **MUST** be used." This is incorrect. The first sentence of GASB Statement No. 34 Paragraph 67 actually states: "Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services." The balance of this Paragraph 67 establishes the activities required to be reported as enterprise funds if any of the criteria in clauses (a) – (c) are met. This Paragraph 67 also states: "Governments should apply each of these criteria in the context of the activity's principal revenue sources." There is no inference in this Paragraph 67 to suggest that any government that is not "required" to use Enterprise Fund accounting and reporting **MUST** use standard governmental fund reporting. GASB No. 34 Paragraph 67 and its clauses clearly state when Enterprise Funds are mandatory and when their utilization is an option.

6. Page 8, Third Complete Paragraph, Line 3: "If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created." There is no footnote to source this statement.

I respectfully request your review of the above with emphasis on items #3 through #5 as it has a major impact on how Incline Village General Improvement District or any GID may have interpreted the Guidance Letter. It may be apparent from an in-depth analysis, that the provider of these almost breathless paragraphs for the Example of a Nevada GID may not have a complete and accurate understanding of Nevada Revised Statutes and relevant GASB Statements. There appears to be minimal evidence presented by the provider to substantiate that proper criteria has been applied to determine if a Nevada General Improvement District Fund qualifies as a Special Revenue Fund.

Thank you in advance for your consideration.

Clifford F. Dobler

Resident of Incline Village, NV

775-722-4487

A handwritten signature in black ink, appearing to read "C. F. Dobler", with a long horizontal flourish extending to the right.





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DEPARTMENT OF TAXATION

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**Guidance Letter 15-002**

Date: October 27, 2015

To: County Finance Officers

From: Terry E. Rubald, Deputy Executive Director, Department of Taxation

CC: Committee on Local Government Finance, Marvin Leavitt, Chairman  
Deonne Contine, Executive Director, Department of Taxation  
Kelly Langley, Supervisor, Local Government Finance, Division of Local Government Services

Subject: Special Revenue Funds and Enterprise Funds

**SUMMARY:**

This Guidance Letter recognizes Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34, "Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles. In addition, this Guidance Letter discusses the nature and use of special revenue funds and enterprise funds, and provides examples.

*This Guidance Letter does not change any interpretations of any existing general accounting principles followed by a local government. The purpose in issuing this Guidance Letter is to raise awareness about differences between using special revenue fund and enterprise fund accounting, by highlighting and discussing certain GASB statements in relation to Nevada law.*

**AUTHORITY FOR THIS LETTER:**

NRS 354.472(1)(d): One of the purposes of the Local Government Budget and Finance Act is to provide for the control of revenues, expenditures and expenses in order to promote prudence and efficiency in the expenditure of public money. NRS 354.612(2) requires fund financial statements and other schedules to be prepared in accordance with generally accepted accounting principles.

Guidance Letter 15-002 was approved by the Committee on Local Government Finance on October 27, 2015.

**APPLICATION:**

The Department finds that Governmental Accounting Standards Board ("GASB") Statements, including but not limited to, No. 33, "Accounting and Financial Reporting for Nonexchange Transactions;" No. 34,

"Basic Accounting Standards and Management's Discussion and Analysis" and No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles.

Based on the definitions of proprietary fund and special revenue fund found in NRS 354.553 and 354.570, as well as GASB No. 34, a special revenue fund is a type of governmental fund, whereas an enterprise fund is a type of proprietary fund.<sup>1</sup> In either case, the level of financial reporting must be based on a determination of whether the special revenue fund or the enterprise fund is a major or non-major fund.<sup>2</sup> The criteria for designation as a major fund is measured by whether the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type. In addition, the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund must be at least 5 percent of the corresponding total for all governmental and enterprise funds combined.<sup>3</sup>

When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular kind of fund. For example, a governmental fund, such as a special revenue fund, generally has activities which are financed through taxes, intergovernmental revenues, and other non-exchange revenues. In a *nonexchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an *exchange* transaction, in which each party receives and gives up essentially equal values.<sup>4</sup> Business-type activities financed in whole or in part by fees charged to external parties for goods or services are usually, but not always, reported in enterprise funds.<sup>5</sup> An enterprise fund essentially reports exchange transactions.

GASB No. 34, ¶78 outlines the financial statements required for governmental funds, including a balance sheet and statement of revenues, expenditures, and changes in fund balances. GASB No. 34, ¶91 indicates the required financial statements for a proprietary fund include a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows.

### **Enterprise Funds**

NRS 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 the 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; or (2) for which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

Similarly, ¶67 of GASB Statement No. 34 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. In addition:

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*.

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<sup>1</sup> See complete statutory reference for NRS 354.553 and 354.570 at the end of this Guidance Letter. See also, ¶63, ¶64, ¶66, ¶67, GASB Statement No. 34 (June 1999), pp. 25-26.

<sup>2</sup> ¶75, GASB Statement No. 34 (June 1999), p. 28.

<sup>3</sup> ¶76, GASB Statement No. 34 (June, 1999), p. 28.

<sup>4</sup> ¶7, GASB Statement No. 33 (December, 1998), p. 3.

<sup>5</sup> ¶15, GASB Statement No. 34 (June, 1999), p. 9.

- 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.)<sup>6</sup>
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- 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).

Footnote 33 to ¶67 states that:

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.

In explaining enterprise fund reporting requirements, GASB 34, ¶387 states that:

Perhaps most significantly, this Statement makes clear that enterprise fund reporting should be used for any activity that is financed with *debt secured solely by net revenue* from its fees and charges to external users. Enterprise fund reporting is also required for any activity that operates under *laws or regulations* requiring that its costs of providing services, including capital costs (depreciation or debt service), be recovered with fees and charges. The final criterion—requiring enterprise fund reporting for any activity for which management establishes fees and charges, pursuant to its *pricing policies*, designed to recover its costs of providing services, including capital costs—is similar to the existing criterion. However, it adds an element of objectivity by basing the standard on established policies rather than management’s intent. Further, this Statement makes clear that all criteria for required use of enterprise fund reporting should be applied only in the context of an activity’s principal revenue sources. For example, paragraph 67a requires an activity to be reported as an enterprise fund if the activity is financed by debt secured solely by a pledge of the net revenue from fees and charges of the activity. To apply the principal revenue source test in relation to this criterion, a government should compare an activity’s pledged revenues to its total revenues.

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<sup>6</sup> In practice, there are exceptions. For example, sometimes general obligation (GO) backing is needed for enterprise funds in small rural communities so a lower interest rate can be obtained from the state bond bank. Using GO backed revenue bonds does not automatically require a change from an enterprise fund to a special revenue fund.

## **Examples of an Enterprise Fund**

### **Background**

A general power of a county is acquire, improve, equip, operate and maintain a variety of projects, including sewerage and water projects. *NRS 244A.057*. The Board of County Commissioners may issue special obligation bonds to acquire, improve and equip any sewerage or water project. *NRS 244A.0587*. A county may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 244A.063*.<sup>7</sup>

For example, the Douglas County Board of County Commissioners established the Carson Valley Water Utility Fund by resolution adopted May 3, 2012. See *Appendix for Exhibit 1, Resolution No. 2012R-037*. The Board resolved to use the existing working capital from four individual water utility funds to establish a consolidated water utility fund and further resolved to recover the costs of operation of the water system, including overhead, through user charges, without producing any significant amount of profit in the long run. The new Water Utility Fund is designed to account for all revenues and all charges related to the consolidated operations, management and rate setting of four legacy utilities.

### **Analysis**

In this example the Douglas County Board of County Commissioners has the authority to establish an enterprise fund pursuant to *NRS 354.612*. The resolution meets the conditions in *NRS 354.612* for an enterprise fund. For instance, subparagraph 4 requires the local government to furnish working capital for the fund which the resolution addressed by transferring the working capital from four legacy utilities to the current fund. In addition, *NRS 354.612(4)* requires the recovery of the costs of operation, including overhead, without “producing any significant amount of profit in the long run.” This objective was also included in the resolution and specifically referenced “user charges” as the means by which operation costs would be recovered. The resolution was consistent with the authority provided in *NRS Chapter 244A*.

“User charges” take the form of water usage fees and connection charges. Payment by water users of usage fees and connection charges are exchange transactions because each party gives up and receives something of equal value. Rates are typically set to recover costs of operation and maintenance. This meets the definition of *GASB 34 ¶ 67(c)* requiring the use of an enterprise fund when pricing policies for fees and charges are designed to recover costs.

### **Special Revenue Funds**

*GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,”* updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. The nature of a special revenue fund is discussed at Paragraph 30:

30. 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. The term “*proceeds of specific revenue sources*” establishes that one

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<sup>7</sup> Cities have similar authority. A general power of a city is to acquire, improve, equip, operate and maintain a variety of projects including sewerage and water projects. *NRS 268.730*. A city may defray the cost of acquisition, improvement and equipment through general obligation bonds, which may be payable from taxes and further secured by a pledge of other revenues derived from any other income-producing project of the city. *NRS 268.732*. A city may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 268.738*.



or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

GASB Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: non-spendable, restricted, committed, assigned and unassigned. These classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

The terms “restricted” or “committed” are references to constraints placed on the use of the revenue source. For example, a fund balance is “restricted” when the constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.<sup>8</sup> A “committed” fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. “Committed” amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action, such as legislation, resolution, or ordinance, which was employed to previously commit those amounts. A 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.<sup>9</sup>

In the past, special revenue funds were reported in instances where there was a specific spending purpose, but not necessarily a specific revenue source. The new definition of a special revenue fund means that local governments need to evaluate resources *received* to determine if they qualify for reporting in a special revenue fund. An activity may no longer be reported as a special revenue fund based only on management’s desire to account for it separately. For all major special revenue funds reported, local governments will need to disclose the purpose of the fund and the revenues and other resources reported in the funds in the notes to the financial statements.

***Please note that the change in classifications of fund balance and special revenue fund financial statement reporting requirements detailed in Statement No. 54 does not require changes in the way a local government budgets and internally accounts for special revenue funds; and the Department has not changed the budget reporting forms to reflect the new classifications.***

In addition, GASB Statement No. 54 states at Paragraph 31:

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise *a substantial portion* of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Local governments may use the following calculation to determine whether an activity would qualify for reporting as a special revenue fund:

$$\underline{\text{Substantial portion of inflows}} = (\underline{\text{restricted revenues}} + \underline{\text{committed revenues}})$$

<sup>8</sup> ¶34, GASB Statement No. 34 (June 1999), p. 16. See also ¶8, GASB Statement No. 8 (February 2009), p. 4.

<sup>9</sup> ¶10, GASB Statement No. 10 (February 2009), p. 5.



## Total Inflows reported in the fund

In the calculation, restricted revenues are defined as resources externally restricted or having restrictions imposed by internal enabling legislation (same definition as restricted net assets used in government-wide reporting). The committed revenues are resources with constraints imposed by the highest level of the government, where the constraints can be removed only by a similar action of the same governing body. Total Inflows are defined as the inflows of all financial resources. Total inflows will include transfers and other financing sources such as debt issuances.<sup>10</sup>

"Substantial portion" of inflows is not defined in Statement No. 54, however, the Government Finance Officers Association has indicated "around 20 percent" is reasonable for justifying a special revenue fund; and it is a commonly used threshold. Local governments also need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds.<sup>11</sup>

An example of how to analyze or "prove up" whether the total revenue sources are substantially restricted, committed or assigned to the specified purpose of the fund is attached as Exhibit 2 from Churchill County. If the analysis shows that the restricted and committed resources are less than 20%, then the local government can take action to remedy the situation by going through the process of formally committing additional resources so that the inflow of restricted and committed resources represent a substantial component of the total inflow.

### ***Examples of Special Revenue Funds***

Two examples of a special revenue fund may be found in the Appendix of this Guidance Letter. The first example is a special revenue fund for a landscape maintenance district created by resolution adopted by the Douglas County Board of Commissioners. See *Exhibit 3 in the Appendix*. In this case, the initial financing source is a developer funded security deposit and subsequent revenue will be annual assessments levied on benefiting property owners. The revenue will be restricted to expenditures for improvements or maintenance of parcels within the district.

A second example of a special revenue fund is the "Infrastructure Fund" created by resolution adopted by the Carson City Board of Supervisors. See *Exhibit 4 in the Appendix*. The revenue source is a sales tax of one-eighth of one percent (0.125%). The proceeds of the tax may only be used to fund certain public infrastructure projects identified in the Plan of Expenditure adopted by the Board of Supervisors on April 17, 2014.

In both examples, the revenue source meets the definition of a "committed" fund source because the governing board took formal action to restrict the use of the revenue. However, we would need more information to determine whether those committed funds represent a "substantial" portion – at least 20% - of the total revenue inflow.

### ***Example of a Special Revenue Fund – Or is it? – Fire Districts***

#### ***Background***

A fire protection district formed pursuant to NRS Chapter 474 may sue and be sued; arbitrate claims; and contract and be contracted with. *NRS 474.125*. In addition, a fire protection district may impose a property tax rate not to exceed 1 percent of the assessed value within the district, including net proceeds, to cover the costs of establishing, equipping and maintaining the district with fire-fighting facilities. *NRS 474.190*. Under *NRS 474.200(3)*, two separate funds must be created for the district,

<sup>10</sup> Washington State Auditor's Office, "GASB Statement 54 – Focusing on Special Revenue Funds," page 37, accessed 4-17-15 at [http://digitalarchives.wa.gov/WA\\_Media/do/BE1679E72F5484784D2834ACA64AE00E.pdf](http://digitalarchives.wa.gov/WA_Media/do/BE1679E72F5484784D2834ACA64AE00E.pdf)

<sup>11</sup> Ibid, p. 37 and New York Division of Local Government and School Accountability, "Fund Balance Reporting and Governmental Fund Type Definitions," p. 5, accessed 4-17-15 at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

an operating fund and a district emergency fund. The district emergency fund must be used solely for emergencies and must not be used for regular operating expenses. In addition, the district may issue bonds for purchase of equipment and acquisition of property; and may levy a tax sufficient to pay for the bonds. Under NRS 474.300(4), proceeds of the tax levied for debt service must be placed in a special fund to pay the principal and interest on the bonds.

### ***Analysis***

Clearly the property taxes in this example are imposed non-exchange revenues resulting from an assessment on property. This is a characteristic of a governmental fund rather than a business-entity type fund.

Next, the analysis should consider whether the governmental fund is a special purpose fund. As discussed in GASB No. 54, ¶ 30, a special revenue fund is used to account for and report the proceeds of specific revenue sources which are restricted or committed to expenditure for specified purposes other than debt service or capital projects. In this example, the district may levy a tax to pay for bonds for equipment and property, so the revenue received for debt service does not necessarily mean the fund is a special revenue fund.

NRS 474.200(3) requires a portion of the property tax to be deposited in the district emergency fund, and the fund must be used solely for emergencies. In this case, the property tax revenue source appears to be restricted for a specified purpose other than debt service or capital projects. "Money collected to meet unforeseen emergencies" appears to be a restriction.

Further analysis is needed, however, because the emergency fund may still not qualify as a special revenue fund. This is so because the uses which may be made from the emergency fund need to be defined in order to determine whether the fund balance should be reported as restricted or committed.

Some governments formally set aside amounts in governmental funds under formal stabilization-type policies that can be expended only when certain specific non-routine circumstances exist. For example, typical purposes for which stabilization funds are set aside include emergency situations; unanticipated significant revenue shortages or budgetary imbalances; working capital needs; contingencies; and others. The authority for such funds generally is derived from statute, ordinance, resolution, charter, or constitution<sup>12</sup>, as in this example.

For purposes of reporting fund balance, stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in GASB Statement No. 54, as amended, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund.

In this example, the source of the emergency fund is a portion of the property tax rate and is restricted. However, GASB 54 states that "a stabilization amount that can be accessed in an emergency would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed. If the revenue from the property tax is restricted or committed, then the emergency fund qualifies as a special revenue fund. If the source is not restricted or committed, then the stabilization arrangement discussed above applies.

### ***Example of Application of Criteria to determine whether Fund is an Enterprise Fund or a Special Revenue Fund***

#### ***Nevada General Improvement District***

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<sup>12</sup> ¶20, GASB Statement No. 54 (February 2009), p. 9.

NRS 318.197 permits a governing board of a general improvement district to fix 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. NRS 318.197 is permissive rather than mandatory in that the governing board "may" fix rates, tolls or charges to cover the costs of services or facilities furnished.

The board may "pledge the revenue for the payment of any indebtedness or special obligations of the district." Such rates and tolls constitute a perpetual lien on and against the property served, and may be collected on the tax roll together with the county's general taxes (NRS 318.201). In addition, NRS 318.225 grants the governing board the power and authority to levy ad valorem taxes. NRS 318.275 permits the district to borrow money and issue GO bonds, revenue bonds, and special assessment bonds. Revenue bonds issued for the purpose of acquiring or improving facilities appertaining to the basic purpose of the district must be made payable solely out of the net revenues for any and all of the income-producing facilities and services provided by the district (NRS 318.320). General obligation bonds and other general obligation securities payable from general property taxes may be additionally secured by a pledge of and lien on net revenues. (NRS 318.325).

Applying GASB Statement 34, ¶67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. However, if the general improvement district's activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, then it would be required to use the enterprise fund accounting. This would be the case if the district issued revenue bonds pursuant to NRS 318.320. If the district's activity is financed with debt secured by both taxes and user fees, then it is not required to use enterprise fund accounting, as would be the case under NRS 318.325 for GO bonds secured by taxes or a combination of taxes and fees. Finally, under ¶67(c), if the pricing policies of the district for the fees and charges are designed to recover its costs, including capital costs (such as depreciation or debt service), then enterprise fund accounting must be used.

If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, ¶67, then standard governmental fund reporting must be used. If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created. The restricted and committed revenue must be recognized as revenue of the special revenue fund rather than the general fund. Total inflows include restricted revenues, committed revenues, transfers in and any other financing sources.

**If you have any questions about this guidance letter, please call the Local Government Finance Section of the Division of Local Government Services, Department of Taxation at (775) 684-2100.**

**WEBSITE LOCATIONS:**

Nevada Revised Statutes (NRS): <http://www.leg.state.nv.us/NRS/>

Nevada Administrative Code: <http://www.leg.statc.nv.us/NAC/CHAPTERS.html>

Department of Taxation Guidance letters: <http://www.tax.state.nv.us>; then select "Publications;" then select Assessment Standards Publications and "Guidance letters."



**From:** cfdobler <cfdobler@aol.com>  
**To:** trubald <trubald@tax.state.nv.us>  
**Subject:** Fwd: Agenda for CLGF  
**Date:** Wed, Jul 6, 2016 7:34 am  
**Attachments:** Letter to Terry Rubald of DoIT -6-6-2016.pdf (437K)

Terry - It has been almost a month since I provided the attached letter and hand delivered to you on June 6, 2016 the backup pages from Guidance Report 15-002 which support the letter.

I have been waiting for a response and would like to inquire when I might obtain one.

Could you please provide me the name of the person who wrote the Example of Application of Criteria to determine whether Fund is an Enterprise Fund or a Special Revenue Fund for a Nevada General Improvement District on page 7 and 8 of the Guidance Letter 15-002 dated October 27, 2015.

Thanks in advance for your cooperation

Cliff Dobler

—Original Message—

**From:** cfdobler <cfdobler@aol.com>  
**To:** trubald <trubald@tax.state.nv.us>  
**Sent:** Mon, Jun 6, 2016 9:26 pm  
**Subject:** Re: Agenda for CLGF

attached is a memorandum which I prepared regarding some items in the Guidance Letter 15-002 dated October 27, 2015. I was unable to sent the redlined first 8 pages from the Guidance letter, however the items in the memorandum are fully described as to where they are located in the guidance letter..Take a look at it and please provide a response. Thanks

Cliff Dobler

—Original Message—

**From:** Terry Rubald <trubald@tax.state.nv.us>  
**To:** cfdobler <cfdobler@aol.com>  
**Sent:** Thu, Jun 2, 2016 1:37 pm  
**Subject:** Agenda for CLGF

[http://tax.nv.gov/Boards/Committee\\_on\\_Local\\_Govt\\_Finance/CLGF\\_Meeting\\_Documents/](http://tax.nv.gov/Boards/Committee_on_Local_Govt_Finance/CLGF_Meeting_Documents/)

Terry E. Rubald  
Deputy Executive Director  
Department of Taxation  
1550 College Parkway  
Carson City, NV 89701  
(775) 684-2095

This message and attachments are intended only for the addressee(s) and may contain information that is privileged and confidential. If the reader of the message is not the intended recipient or an authorized representative of the intended recipient, I did not intend to waive and do not waive any privileges or the confidentiality of the messages and attachments, and you are hereby notified that any dissemination of this communication is strictly prohibited.

**From:** Matthew Dent <matthew.ivgid@gmail.com>  
**To:** cfdobler <cfdobler@aol.com>  
**Cc:** linda <linda@marknewman.net>  
**Subject:** Re: Guidance Letter - Special Revenue & Enterprise Funds 15-002  
**Date:** Wed, Feb 8, 2017 6:28 am

Cliff,

Thank you for your email, attachments, and the in-depth analysis. I found the timing of GM Pinkerton's email quite troubling. At the time, Trustee Hammerel's ability to vote was in question since he moved to Wyoming with his family a month earlier and this seemed like nothing more than an attempt to persuade me to vote in favor of the 15-16 CAFR.

You have my permission to forward this thread to the Department of Taxation and feel free to CC me on the email to Ms. Langley. As the Board Treasurer and I look forward getting some of these outstanding public questions and concerns resolved. I plan on reaching out to Ms. Langley in coming weeks to get some clarification.

I have a busy next couple days and will review the attachments in more detail later this week and will follow-up. I appreciate your help and commitment to our community. Thank you. Matthew

**Trustee Matthew Dent**

Incline Village GID  
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 893 Southwood Blvd. Incline Village, NV 89451



On Tue, Feb 7, 2017 at 11:39 PM, <cfdobler@aol.com> wrote:

Linda Newman and myself spent considerable time reviewing the Guidance Letter 15-002 which was published by the Department of Taxation on October 27, 2015. We spoke before the Committee on Local Government Finance last spring regarding the improper conversion of the IVGID Community Service Fund and the Beach Fund from reporting under GASB as Proprietary Enterprise Funds to Governmental Special Revenue, Capital Projects, and Debt Service Funds. We wrote a memorandum on March 15, 2016 to the Board of Trustees regarding the unlawful conversion and never heard a word back. Since you were new on the Board you may have assumed the Board Chairman would have forwarded to the Staff for a response. I attach that memorandum.

We discovered later on that the Guidance letter had six items which needed revisions and on June 4, 2016 I wrote a memorandum to Terry E Rubald, Deputy Executive Director of the Department of Taxation (the author of the Guidance Letter) asking her to review the six items and also indicated that we believed that the Example of a GID may have been provided by an outside source rather than her. We saw no basis for the conclusions reached in the example or why she may have drawn such conclusions. I expected some sort of a response however did not receive one. In September I provided another e mail to Ms. Rebold and received no response.

On January 12, 2016 I spoke by telephone conference to the Committee on Local Government Finance about our continuing punch card fictional sales. I learned at that meeting that Ms. Rebold was no longer employed by the Department of Taxation. I did ask if someone would respond to my June 4, 2016 memorandum. Ms. Kelly Langley asked that I forward it to her which I have not yet done.

It is quite clear from your e mail below that IVGID General Manager is using the GID example in the Guidance Letter as justification for their conversion from Proprietary Funds to Government Funds accounting.

I attach my June 4, 2016 memo to Ms. Rebold for your review.

It is also quite clear from Note 20 of the 2015-2016 CAFR that there was no legitimate basis for making the conversion. The Note states two reasons: IVGID "**changed its approach to the pricing of services and recognizes that the use of the facility fee revenue includes providing resources for capital expenditures and debt service that were not being displayed in a readily understandable fashion under enterprise accounting, for its constituents**". We know of no change in approach to pricing and have asked via a public record request for any information which would support this 'approach to pricing' which to our knowledge was never presented and enacted by the Board of Trustees. (you were not on the board at the time the new Funds were established. The second reason has no support under NRS or GASB for making the conversion



There is simply no support under the NRS or GASB for making a change in accounting and creating the new governmental funds.

Our concerns are the same as yours. I assume the false analysis in the Guidance Letter may have been one of the reasons that you properly voted NO when a request for approval of the 2015-2016 CAFR came before the Board of Trustees on December 14, 2016.

With your permission could I forward these e mails to Ms Langley at the Department of Taxation. In addition I would highly recommend that you contact her regarding this matter.

I have copied Linda Newman on this as she and I have worked closely on this inappropriate change in reporting financial information. .

Clifford F. Dabler

—Original Message—

From: Matthew Dent <[matthew.ivgid@gmail.com](mailto:matthew.ivgid@gmail.com)>

To: [cfdobler@aol.com](mailto:cfdobler@aol.com)

Sent: Mon, Feb 6, 2017 1:33 pm

Subject: Guidance Letter - Special Revenue & Enterprise Funds 15-002

Cliff,

Your concerns regarding Enterprise Fund or a Special Revenue Fund have been noted and I appreciate the time you are putting into the IVGID financials. I am not sure if you have seen the attached Guidance Letter 15-002. General Manager Pinkerton emailed me this letter from the State Department of Taxation a couple days before we voted on the CAFR. He referenced the bottom of page 7 as justification for the District's authority to choose Special Revenue Funds for our Community Services and Beach Fund. I had hoped this letter would be "very enlightening" as the GM stated in his email, however, it raises more questions.

Please see the excerpt examples below from an email I received from GM Pinkerton:

"This section specifically address our situation and points out that NRS 318.197 is permissive rather than mandatory in that the governing board "may" fix rates, tolls or charges to cover the costs of services of facilities furnished."

"Applying GASB Statement 34, Sec 67 (a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used."

"The entire letter is very enlightening and I believe clearly gives us the ability to choose to use Special Revenue Funds for our Community Services and Beach Funds."

The representation seems to promote the change and implementation by management as proper. I am not sure I agree. I do not see how NRS 318.197 has anything to do with GASB. It appears the statute was taken out of context. What are your thoughts?

I appreciate your input and I look forward to hearing from you. Thank you. Matthew

**Trustee Matthew Dent**

Incline Village GID

(775) 530-1345 | [www.vourtahoeplace.com/ivgid](http://www.vourtahoeplace.com/ivgid)

893 Southwood Blvd. Incline Village, NV 89451



# INGID 2016 CAFR - Note 20

## Exhibit #4

### Community Services Fund:

As of June 30, 2016 there is \$2,248,500 of identified projects in the carryover. The most significant portion is \$248,564 for the Incline Creek Culvert Rehabilitation and \$395,858 for the Diamond Peak Master Plan Implementation and \$250,000 for the Community Services Master Plan.

### Beach Fund:

As of June 30, 2016 there is \$155,000 of identified projects in the carryover.

As a part of the budgeting for the fiscal year ending June 30, 2017, the District reported \$751,000 of capital expenditures for the Community Services Fund and \$343,000 of capital expenditures for Beach Fund as coming from operating transfers from those Funds to the Capital Projects Fund. The source of those transfers is presumably fund balance which is reported as Unrestricted Net Position.

The District has committed to these capital improvement projects through contractual arrangements:

	Contract Award	Completed at June 30, 2016	Remaining Commitment
Utility Fund			
Water Disinfection Plant CH2M Hill	\$124,853	\$ 59,533	\$ 65,320
Wastewater Treatment Plant FARR Construction Corp	111,155	11,235	99,920
Community Services Fund			
Incline Creek Culvert Restoration CH2M Hill	259,278	1,327	257,951
Creek Restoration Cardo, Inc.	442,727	338,075	104,652
Ski Rental Shop Equipment Amer. Sports Winter & Outdoor	187,000	-	187,000
Incline Beach Facility Bull Stockwell Allen	222,000	14,261	207,739

### 19. EXTRAORDINARY EXPENSE FOR UTILITY FUND

In April 2014, a leak occurred in the District's effluent pipeline that results in damage to an area highway. Leaks of this magnitude and consequence are not expected in the normal course of operations and thus the repairs costs have been reported as an extraordinary expense. In July 2014 the District incurred repair costs to complete paving of the State highway affected by the leak. In September 2015 the final paving repairs were made for \$47,600.



### 20. CHANGE IN FUND TYPE AND APPLICATION OF ACCOUNTING PRINCIPLES

Effective July 1, 2015, with a new fiscal and budget year, the District began utilizing Special Revenue, Capital Project and Debt Service governmental fund accounting for the Community Services Fund and the Beach Fund. Through June 30, 2015, they were accounted for as enterprise funds. The District changed its approach to the pricing of services and in particular the change recognizes that the use of the facility fee revenue includes providing resources for capital expenditure and debt service, that were not being displayed in a readily understandable fashion under enterprise accounting, for its constituents.

The Board of Trustees approved a 2015-2016 budget, which was filed with the State of Nevada Department of Taxation, reflecting this change. The State required the Board of Trustees to authorize the new funds and to approve the transfer of the Fund Balance of the Community Services Fund and the Beach Fund as of July 1, 2015. The amounts were authorized based upon the prior year audit and the acceptance of that report. The budget document filed with the State estimated Fund Balance to be \$5,294,138 for the Community Services Fund, and \$1,302,486, for the Beach Fund. No Net Position was considered directly related to either the capital projects funds or debt service funds at July 1, 2015.

Reconciliation of Net Position of Enterprise Funds as of June 30, 2015 to Special Revenue Funds, versus amounts estimated for the State of Nevada (under their definition of Residual Fund Equity Transfer) as of July 1, 2015:

	Community Services Fund	Beach Fund
As previously reported at June 30, 2015: Net Invested in Capital Assets, to be reported as reconciling items for District-wide Statement of Net Position	<u>\$39,404,756</u>	<u>\$4,593,502</u>
Restricted by Third Party	\$ 86,421	\$ -
Unrestricted Net Position	<u>5,271,334</u>	<u>1,107,786</u>
Fund Balance, July 1 (Special Revenue)	5,357,755	1,107,786
Other reconciling items:		
Grants receivable collected after 60 day modified accrual period	(203,764)	-
Retirement sick leave accrual which is not a liability expected to be paid from current resources	<u>52,500</u>	<u>2,500</u>
District approved Residual Equity Transfer	<u>\$5,206,491</u>	<u>\$1,110,286</u>
Budgeted Residual Equity Transfer	<u>\$5,294,138</u>	<u>\$1,302,486</u>

MEMORANDUM

TO: Audit Committee Chair Dent  
CC: Board Clerk Herron  
FROM: Audit Committee Member Clifford F. Dobler  
DATED: August 4, 2020  
Re: Historical Memorandums/Letters from citizens on Punch Card Accounting

Please include in the next Audit Committee Board Packet and distribute to each Audit Committee member the 9 attached memorandums and/or letters sent to the IVGID Board of Trustees, IVGID Audit Committee and IVGID auditor during the years 2015 to 2017. These documents are all in reference to the accounting for Punch Cards.

It is appropriate that the newly formed Audit Committee have a comprehensive history of concerns by citizens regarding this matter.

Sincerely,

Clifford F. Dobler

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 1**



To: Board of Trustees - Audit Committee(Wong, Hammerel & Callicrate)

September 30, 2015

From: Clifford F. Dobler

Re: **Misallocation of Parcel Owner Discounts at the Community Services Fund and the Beach Fund**

Dear Audit Committee,

In my recent review of the Beach Fund within the comprehensive annual financial reports for the past six years I discovered some disclosure deficiencies and a major violation of operational expectations. I am requesting that the audit committee instruct the auditor to investigate and remedy these problems, to include a required restatement of financial statements and reallocation of IVGID funds as necessary.

The disclosure problems are caused by an unexplained change in the accounting and reporting of parcel owner discounts (also known as punch card allowances) at beach and community services venues. Thus:

- There was a major (material) change to the methodology
- There was no disclosure and explanation of the change
- There was no reporting as to the effect of the change
- There is no (possible) logical explanation for the change as implemented

The operational problem caused by the change is worse: **parcel owners without beach access are secretly (and illegally) being made to pay into the Beach Fund.**

In other words, for the last several years, Community Services Fund dollars have been reallocated into the Beach Fund without the public knowing, especially the parcel owners without beach access. Now on to the details.

#### BACKGROUND AND INVESTIGATION

As way of background I am retired as a CPA. I have over 30 years of experience reviewing financial statements, both as an auditor and advisor to financial institutions and as a successful investor in distressed debt situations. My attention to tiny details and discrepancies have unearthed big problems or opportunities. I have lived in Incline Village for 20 years but only recently turned my attention to the IVGID financials.

I was looking through past audited financial reports to understand historical beach performance and usage. I started by assembling the historical parcel owners discounts in the Beach Fund into a table, using the data IVGID began reporting in 2010.

*NOTE: The data below is sourced from page 26 of the comprehensive financial report for fiscal years ended June 30, 2010, 2011, 2012, 2013 and 2014. For 2015 the data is from the unaudited operating income statement and for 2016 from the adopted annual budget.*

Year Ending (June 30)	Beach Fund Parcel Owner Discounts
2010 and prior	Not Available
2011	319,888
2012	448,003
2013	77,888
2014	71,625
2015	62,978
2016 (budget)	71,000

I noticed a gigantic drop off in the discounts for the beach usage from 2012 to 2013. Wow, did beach usage really plummet that much?

I gathered the historical Community Services Fund data also, to see if maybe the discounts there also dropped over that time period.

Year Ending (June 30)	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owner Discounts
2010 and prior	Not Available	Not Available
2011	319,888	0
2012	448,003	108,379
2013	77,888	564,550
2014	71,625	529,896
2015	62,978	470,402
2016 (budget)	71,000	519,000

Clearly not. In fact the numbers suggested that people had dramatically shifted discount usage away from the beaches to the other recreational facilities.

But the beaches and other facilities were open as usual during those years, so why would that happen? I looked at the total discounts next.

Year Ending (June 30)	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owner Discounts	Total
2010 and prior	Not Available	Not Available	Not Available
2011	319,888	0	319,888
2012	448,003	108,379	556,382
2013	77,888	564,550	642,438
2014	71,625	529,896	601,521
2015	62,978	470,402	533,380
2016 (budget)	71,000	519,000	590,000

So other than a failure to report discounts for 2011 in the Community Services Fund (that the auditor missed at that time and for which there was no footnote), the TOTAL parcel owner discounts looked to be in a consistent range before and after 2013.

This suggested some kind of major accounting change after 2012, so I dove into the text of the comprehensive financial reports and the notes to financial statements - summary of accounting policies parcel owners discounts.

In 2011 there was no explanatory text for the parcel owner discounts and then in 2012 this text was added in Note 1-Q:

“Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and a resident rate for certain types of recreational fees.”

This was brief but sufficient. Discounts are always allocated as a reduction in the revenues booked in the associated sale (by definition) so no need to elaborate on that. The Beach resident rate is "free" or zero dollars so the discount ("buy down") value for the guest rate would be the entire rate. Accounting for the use of a punch card for a typical adult guest transaction at the beach should look like this for the Beach Fund:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Allowance for Punch Card (Discount Amount)	-\$12.00
Net Sale at the Beach (Net Revenue Amount)	\$0.00

Community Services Fund facility discounts (golf, rec center, skiing, etc.) are much less than 100% of the full price, but each discount should still be recorded as the difference between the regular rate and the resident rate. This seems to be how all the discounts were recorded and reported in 2012.

But then something strange happened. Beginning in 2013 and subsequent years, in the same notes to the financial statements - summary of accounting policies (Note 1-R), two new sentences were inexplicably added:

“Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and a resident rate for certain types of recreational fees. *These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.*” (emphasis added)

What? The first new sentence restated the obvious - of course discounts are contra revenue, they have to be. But then the following sentence conflicts with basic rules of discount and fund accounting. How can discounts from gross revenue be reported in a different and arbitrary way from how they were actually recorded? How could a beach discount be allocated to community services and vice versa?

If the discounts from the gross revenues for the Beach Fund or Community Services Fund were allocated differently from how they actually happened, there would no longer be accurate reporting of the net

revenue activity and discounts in either fund, which might explain the weird numbers I'd found. I did calculations of the reported Beach Fund discounts and Community Services Fund discounts as a percentage of the total discounts:

Year Ending	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owners Discounts	Total	Beach/CSD Discount Split
2010 and prior	Not Available	Not Available	Not Available	
2011	319,888	0	319,888	100.0/0.0
2012	448,003	108,379	556,382	80.5/19.5
2013	77,888	564,550	642,438	12.1/87.9
2014	71,625	529,896	601,521	13.5/86.5
2015	62,978	470,402	533,380	11.8/88.2
2016 (budget)	71,000	519,000	590,000	12.0/88.0

The reported discount split did change to something approximating the arbitrary 88%/12% split referred to in the financial statement notes, beginning in 2013. So even though the numbers did not match precisely as alleged, this had to be the explanation.

#### DISCLOSURE IMPLICATIONS

The first observation from a disclosure perspective is that there has definitely been a change in accounting in 2013 and thus a failure to adequately explain and disclose this change as required by accounting standards. Accounting guidelines state that for any material change in accounting methodology, there must be a clear disclosure and explanation of the change. This was not done.

The guidelines also imply that there must be a logical and justified explanation for the change as implemented. That doesn't appear possible in this case. The change creates a significant misrepresentation that fails basic accounting logic the way it was implemented. Actual discounts at point-of-sale must be reported as they are recorded, not as they are massaged after the fact into some arbitrary restatement. Revenues for one proprietary fund cannot be reported as revenues for another.

Disclosure guidelines aside, it is also clear that since 2013, records for "Parcel Owner discounts on entry fees" are no longer reporting the actual amount of Parcel Owner discounts on entry fees at the various venues. The accounting is not telling the public what is actually happening.

According to IVGID Staff, the vast majority of parcel owner discounts continue to be recorded at the beaches such that the annual beach discounts still amount to around \$450,000. This means that the fictional allocations of parcel owner discounts since 2013 (12% to the Beach Fund and 88% to the Community Services Fund) remain the opposite of the real ratios (about 80% to the Beach Fund).

This also means that the net revenues at the Community Service Fund are understated by about \$375,000 and the net revenues at the Beach Fund are overstated by the same amount. This overstatement is about 40% for the Beach Fund, which is obviously material by accounting standards.



## OPERATIONAL ANALYSIS

While we cannot ascertain any justification for these accounting changes, we can explain their financial effects. A major operational problem emerges given the required separation of the Beach Fund Recreational Standby Fee payments from the Community Services Fund Recreational Standby Fee payments. IVGID's particular situation is that some parcel owners have beach access and pay beach facilities fees and some parcel owners do not have access and (by strict legal requirements) do not pay for beach operations. This accounting change has caused payments to the Community Services Fund to be redirected into the Beach Fund.

As explained above, an adult guest transaction at the beach happens like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Allowance for Punch Card (Discount Amount)	-\$12.00
Net Cash Sale at the Beach (Net Revenue Amount)	\$0.00

But since 2013, an adult guest transaction at the beach has apparently been recorded and reported like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Beach Fund Allowance for Punch Card (12% of Discount)	-\$1.44
Community Services Fund Allowance for Punch Card (88% of Discount)	-\$10.56
Net Cash Sale (Net Revenue Amount)	\$0.00

While this gives the illusion of balancing, the accounting now has most of the Allowance for Punch Card (parcel owner discount) being booked into a different fund, so **from the Beach Fund perspective** the transaction looks like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Beach Fund Allowance for Punch Card (12% of Discount)	-\$1.44
Net Sale at the Beach (Net Revenue Amount)	\$10.56

The Beach Fund now has significant net revenues which were not previously recorded, because each time a guest obtains access to the beach by use of a punch card, 88% of that sale's discount is recorded in the Community Services Fund.



For each adult beach guest we now have \$10.56 in net Beach Fund revenue that is being reported for each sale but without any cash being paid at the time of sale. If the Beach Fund is booking \$10.56 in revenue and receiving \$0.00, the \$10.56 value per sale has to be coming from somewhere else in the financials and operations.

In other words, since the Beach Fund does not receive any cash from these guest sales as they take place at the beach, it must be receiving cash from some backchannel. Working from this deduction, I wanted to find out where the missing revenue or cash might be coming from.

After further investigation that included several discussions with IVGID staff, an answer has emerged. Through a series of convoluted journal entries and the use of a "cash pool" that has not been disclosed to the public, **actual cash is being transferred from the Community Services Fund to the Beach Fund** through the "cash pool" to make up for the discount reallocation.

Specifically, during the three year period ending June 30, 2015 a **total of \$1,128,820 of cash was transferred through the cash pool from the Community Services Fund to the Beach Fund**. This corresponds to the missing amount of money needed to cover all of the revenue booked but not received into the Beach Fund due to the reallocation of parcel owner discounts. These transfers are continuing today.

#### OPERATIONAL IMPLICATIONS

The existence of this cash transfer means that the subset of parcel owners that pay into the Community Services Fund and do not have beach access - and therefore are **not supposed to be paying anything** into the Beach Fund – have had a portion of their \$730 Community Services Fund Recreational Standby Fee payments reallocated into the Beach Fund without their knowledge or permission.

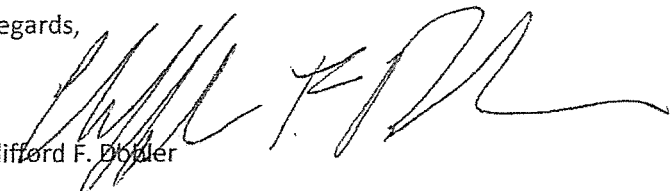
This is obviously an operational violation that needs to be stopped immediately and then fully reversed for previous years. In fact, anything short of a complete public acknowledgement, report and full remedy for all affected citizens will raise suspicions of bad intent.

I hope and trust that with the findings reported in this letter, the Audit Committee will now direct IVGID (and their Auditor) to acknowledge this mistake, undo it, investigate why it happened and report on the findings and the processes put in place to ensure that it never happens again.

Also please keep in mind that in light of the disclosures herein, any failure by the Audit Committee members to expedite an investigation and remediation of this problem would easily be considered aiding and abetting this malfeasance.

Thank you all for your prompt attention to this serious matter. If this letter raises any additional questions, I may be contacted by phone(775-722-4487) or email (cfdobler@aol.com).

Regards,

  
Clifford F. Dobler

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 2**

November 25, 2015

To: Board of Trustees

From: Clifford F. Dobler

Re: Beach Analysis

As a result of the misallocation of the Parcel Owner Discounts between the Community Service Fund and the Beach Fund for the past three years and the current year, I decided to study the Beach activity for the past 7 years and the budget for the current year.

The study consist of a two page summary of the Revenue, Expenses, Adjustments, Debt payments, Capital projects and various data compiled from the audited financial statements and budgets and the study is attached hereto.

In looking at sales and fees (line 9) you can see beginning in year 2011 a large jump in amounts received without any real increase in visits (line 46). This was the year, the Staff decided to start grossing up the revenues to account for usage of the punch cards for resident's guests. Further increases in sales and fees then a leveling off occurred in years 2012 to 2015 which must have been a combination of a rate increase (line 42) and increase in visits (line 46). At the same time note the dramatic drop off of the Parcel Owner Discounts (line 13), which is further detailed in my letter to the BofT audit committee on September 30, 2015.

As a result of adjusting and faking the Parcel Owner Discounts (line 13) total revenues (line 18) exploded upwards beginning in years 2013 through 2015.

As this new found source of journal entry funding materialized notice the large increases in expenses (line 29) beginning in 2014, 2015 and the budget for 2016.

By adjusting the Parcel Owner discounts from what was reported to what actually occurred it is easy to see the yearly nosedive in Operating Income (line 33) beginning in 2013.

On page 2 of the analysis which includes the operations, required debt service and capital projects and adjusting for the parcel owner discounts to the proper amounts, the beaches have been operating in the RED (line 60) since the bogus accounting for punch card usage was concocted.

### **What are the ramifications:**

1) The Staff and Board of Trustees in order to "smooth out" the annual Recreational Facility Fee and the Beach Fee has deceived the citizens on exactly how much of a citizen "subsidy" is actually required to support all of the costs and expenses of operating, maintaining and debt service for the beaches. The BofT would have to be honest and explain to the public that the Beach Facility Fee should have been \$150.00 per year rather than the \$100.00 since 2013. Of course, there would also be a corresponding reduction in the Community Service Recreational Facility Fee from \$730.00 down to \$680.00. This explanation would also require courage and admitting a mistake.

2) The estimated Beach Fund "reserves" AKA unrestricted assets of \$1,192,021 as of June 30, 2015 would be ZERO or negative if the \$1,200,000 of punch card usage not recorded at the beaches was recorded properly and the cash funds returned to the Community Service Fund.

3) The published five year capital project report would be incorrect as there would be no funds to accomplish any new capital projects. The existing five year capital project report indicates capital projects would be "Paid from Beach Fund Balance, as available" Since there is truly no reserves available nothing could be constructed. As a result, In order to fund planned capital projects the Beach Fee most probably would have to be increased above the \$150 per year mark or borrowings would be required.

4) There are different parcel owners who are charged different fees depending on which parcels have beach access rights. Again an admission of a mistake would be required.

I would suggest that this fiasco be corrected and above all reported and managed properly.

Clifford F. Dobler

A handwritten signature in black ink, appearing to read "C. Dobler". The signature is written in a cursive, somewhat stylized font.

	A	B	C	D	E	F	G	H	I	J	K	L
1	<b>Incline Village General Improvement District</b>											
2	Analysis of Actual Revenues and Expenses 2009 to 2015 and budget for 2016											
3	data obtained from audited financial statements and budgets											
4												
5	<b>BEACHES</b>											
6	<b>ACTUALS</b>											<b>BUDGET</b>
7		2009	2010	2011	2012	2013	2014	2015	2016			
8	<b>Operating Revenues</b>											
9	Sales and Fees	533,603	501,128	672,581	838,017	866,215	871,540	871,379	855,200			
10	Food and Beverage	128,022	99,152	61,227	-	-						
11	Concessions			26,810	69,974	63,915	70,839	62,500	62,500			
12	Rents	88,451	110,536	4,573	108,288	127,999	161,867	118,700	120,000			
13	Parcel Owners Discounts	-		(319,888)	(448,003)	(77,888)	(71,625)	(62,978)	(70,500)			
14	Other Revenues	16,466	13,698		(6,000)	6,160	2,988		9,000			
15	<b>User Fees and Other Revenues</b>	<b>766,542</b>	<b>724,514</b>	<b>445,303</b>	<b>562,276</b>	<b>986,401</b>	<b>1,035,609</b>	<b>989,601</b>	<b>976,200</b>			
16												
17	Recreational Standby Fee	1,210,476	865,540	783,028	899,565	775,102	780,716	778,149	774,300			
18	<b>Total Revenues</b>	<b>1,977,018</b>	<b>1,590,054</b>	<b>1,228,331</b>	<b>1,461,841</b>	<b>1,761,503</b>	<b>1,816,325</b>	<b>1,767,750</b>	<b>1,750,500</b>			
19												
20	<b>Operating Expenses (no depreciation)</b>											
21	Wages and Benefits	640,061	592,445	627,406	528,625	554,750	690,594	771,640	909,410			
22	Cost of Goods Sold	34,628	30,038	13,030	-							
23	Services & Supplies	329,719	322,697	368,704	344,221	325,734	374,682	547,567	422,545			
24	Central Service cost				69,600	63,600	72,000	in service & supp	90,500			
25	Insurance	10,343	17,159	16,427				18,944	19,900			
26	Utilities	81,503	81,839	76,596	78,318	77,989	85,763	102,082	91,140			
27	Legal and Audit	15,918	7,634	4,798	7,369	4,683	3,246	2,746	15,000			
28												
29		1,112,172	1,051,812	1,106,961	1,028,133	1,026,756	1,226,285	1,442,979	1,548,495			
30												
31	<b>Operating Income as Reported</b>	864,846	538,242	121,370	433,708	734,747	590,040	324,771	202,005			
32	Adjust for Parcel Owner Discount (per EICK)					(371,956)	(380,073)	(376,792)	(375,000)			
33	<b>Operating Income adjusted</b>	864,846	538,242	121,370	433,708	362,791	209,967	(52,021)	(172,995)			
34												
35												
36	<b>Sales and Fees to Users only</b>	533,603	501,128	672,581	838,017	866,215	871,540	871,379	855,200			
37	Parcel Owners Discounts - as Reported			(319,088)	(448,003)	(77,888)	(71,625)	(62,978)	(70,500)			
38	Parcel Owners Discounts - Adjustments					(371,956)	(380,073)	(376,792)	(375,000)			
39	<b>Adjusted Sales and Fees</b>	533,603	501,128	353,493	390,014	416,371	419,842	431,609	409,700			
40	<b>Percentage of Discounts to Sales not recorded</b>					-43%	-44%	-43%	-44%			
41												
42	Rate Increase				\$10 to \$12							
43	FTE Personnel (Budget)	16.9	18.1	17.8	14.9	15.3	17.1	20.2	22.0			
44	Incremental Personnel Expense						135,844	81,046	137,770			
45	Personel Expense per each FTE increase						\$ 75,469	\$ 26,144	\$ 76,539			
46	Visits	159,827	152,624	155,671	165,387	165,089	173,963	153,841	165,000			
47												



	A	B	C	D	E	F	G	H	I	J	K	L
49	<b>BEACHES</b>											
50	<b>ACTUALS</b>											<b>BUDGET</b>
51					<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
52	Operating Income as Reported				864,846	538,242	121,370	433,708	734,747	590,040	324,771	202,005
53												
54	Interest on Debt				(51,008)	(32,663)	(27,759)	(23,318)	(19,234)	(11,811)	(5,000)	(934)
55	Principal on Debt				(233,144)	(240,362)	(217,040)	(58,757)	(168,648)	(263,218)	(270,602)	(5,216)
56	Capital Projects				(80,587)	(122,173)	(138,173)	(17,544)	(550,397)	(127,176)	(695,822)	(203,000)
57												
58	Net Resources				500,107	143,044	(261,602)	334,089	(3,532)	187,835	(646,653)	(7,145)
59	Adjustment for Parcel owners discounts								(371,956)	(380,073)	(376,792)	(375,000)
60					500,107	143,044	(261,602)	334,089	(375,488)	(192,238)	(1,023,445)	(382,145)
61												
62	Combined Losses				<b>\$ (1,257,678)</b>							

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 3**

To: IVGID Audit Committee: Trustees Hammerel, Wong and Callicrate

To: Dan Carter, Partner at Eide Bailly

From: Dick Warren

Dated: November 19, 2015

As most of you know, I am a CPA and a part-time Incline Village resident for almost 25 years. For the past year or so I have reviewed IVGID financial statements and have stated on the record, both in correspondence with the Board and the General Manager, as well as publicly, that IVGID accounting practices and financial statements are clearly lacking in clarity and substance. They are not only misleading and highly manipulative, but are probably fraudulent. An alarming example is the Beach Fund whereby IVGID deliberately inflated Beach Fund Revenues and Net Income by falsifying the actual usage of the Punch Cards. That, ladies and gentlemen, is fraud!

And who has been at the center of all these financial transactions? None other than your very own Director of Finance, Gerald W. Eick. Mr. Eick has been employed by IVGID since 2007 as Comptroller and was promoted to his current position in October of 2011. Through the years, Mr. Eick seems to be able to operate without proper supervision or oversight by the General Manager, the Board of Trustees and the independent auditor. How else does one explain the Beach Fund fiasco? In addition to violating Generally Accepted Accounting Principles and Nevada Revised Statutes by failing to disclose the accounting change in the footnotes to the financial statements, Mr. Eick recorded fictitious revenues at the Beach Fund to materially overstate net income and created a "cash pool" to funnel unlawful cash transfers from the Community Services Fund to the Beach Fund to facilitate his deception. As a result, the financial statements for both the Beach Fund and Community Services Fund are materially inaccurate. Even the independent auditor did not pick up on these deliberate improprieties, by either failing to exercise proper due diligence or relying upon the information provided by Senior Management and the IVGID audit committee.

Judging from the multi-year Beach Fund deception, one could challenge the veracity of all IVGID audited and unaudited financial statements for all the District's recreational venues.

The absence of internal controls allows Mr. Eick to do as he pleases. His latest scheme is to replace Enterprise Fund Accounting with Special Revenue Fund Accounting for the Community Services Fund and the Beach Fund. Although Mr. Eick's memorandums to the Board and the Community assert that this new format will promote greater financial transparency and comply with all regulatory guidelines, the reverse is true. A close examination of the Department of Taxation Guidance Letter clearly demonstrates that both of these funds are in fact Enterprise Funds and do not conform to the definition of Special Revenue Funds. As for ease of understanding and financial transparency, perhaps the Trustees that approved this change could validate Mr. Eick's claims. As a CPA with many years of experience, I cannot.

It is pretty clear that Mr. Eick is running amuck with no adult supervision. Through the deliberate misrepresentation, misstatements or omissions in the District's financial statements, newspaper articles and memorandums to the Board and the Community, Mr. Eick and the General

Manager have created a false impression of the District's financial strength. With each passing day, this house of cards comes closer to falling apart pretty quickly.

IVGID is a governmental entity that is losing money at all its community service venues and the deficit is being subsidized with the Recreation Facility Fee. Even with the mandatory Rec Fee it is barely breaking even. None of the Venues price their products to cover their costs, so the Rec Fee is needed to bolster the revenues. Also, note that the District continuously underperforms its own budgeted revenue projections and there is inadequate cash flow to meet its operating expenses. Yet, IVGID expends hundreds of thousands of dollars in IT and software upgrades that staff has been unable to implement, hires more consultants, increases its marketing and advertising, and adds services like publishing and transportation shuttles, which further increases operating expenditures. Capital Projects to maintain existing structures have been delayed or postponed to make way for the new projects that IVGID would love to do like the Diamond Peak Master Plan. To meet all these commitments IVGID will require the issuance of multi-millions of dollars of General Obligation Bonds and significantly increase the Recreation Facility Fees to service the debt and repay these bonds. Sooner or later even those who support or are indifferent to IVGID's operations will start to challenge its management.

So, I am wondering what your end game is going to be... You cannot plead ignorance because many people have already pointed out significant financial irregularities, half-truths and misstatements - from the former Chairman's concern about the District's collecting \$170 of the Rec Fee to service General Obligation Bonds that have sunset and the General Manager raiding the cash reserves to cover the District's overspending - to the report from a private citizen and CPA raising a red flag to Mr. Eick, Mr. Pinkerton and the IVGID audit committee on the Beach Fund accounting.

I have heard that the Board and the members of the Audit Committee have no personal liability. However, when you exhibit gross negligence in your fiduciary responsibilities or abet the malfeasance of those under your supervision, I think the attorneys will think otherwise. Taxpayers and investors will demand that all wrong-doers be held accountable. Certainly Dan Carter and his firm Eide Bailly will be held professionally accountable because they audit IVGID, but I think they will also focus on the Audit Committee and the Board for not demonstrating any kind of fiduciary oversight of the General Manager and his staff, particularly Mr. Eick. So, what will your defense be? We thought they were all good people doing the best they could? If I were on the Board or the Audit Committee I would be one concerned individual about my personal and professional integrity and my personal liability.

I am just one of many concerned and qualified individuals raising these issues, and so far I have seen no responses or actions taken by the Board or the Audit Committee to protect the taxpayers and the general public.

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 4**



February 19, 2016

TO: Audit Committee - Trustees Callicrate, Wong and Hammerel

RE: Questions asked of Dan Carter of EideBailly at Audit Committee Meeting on 12/16/2015 regarding the accounting for punch cards.

Transcript of Question and Answer and my observations and comments

### **Question by Kendra Wong**

First Sentence - "Something that's come up with a lot of different community members is how we account for our punch card usage and the fact that if we use a punch card at the beach that it stays within the beach fund essentially to make sure people who don't have beach access aren't necessarily paying for things related to the beaches."

Comments: If a punch card is used at the beach for admission of a guest then the fee collected must remain at the beach. So any discount obtained by the use of the punch card (which is 100% of the fee charged) should also remain at the beach. So are we accounting for that discount appropriately? As a matter of FACT 88% of the punch card discounts used at the beach is being reported as a discount in the Community Services Fund wherein no sale at all has taken place. The cash amount of the discounts is then transferred from the Community Services Fund to the Beach Fund. There are approximately 400 parcel owners who pay the Community Services Fund Recreation Facility Fees and don't have beach access but are required to fund their share of the punch card discounts transferred to the Beaches. These owners represent approximately 5% of the total parcel owners. As such, these owners from 2013 through 2016, have had to pay 5% of the \$1,500,000 transferred from the Community Services Fund to the Beach Fund. Please see calculation below.

So the simple answer to the question is: NO. The use of the punch card transaction is not staying at the beach and YES, people who don't have beach access are paying for things related to the beaches. The answer to the question by Dan Carter which is cited below can only be described as inept.

Second Sentence – "So can you talk about the audit procedures that you do over that process and how comfortable you are that our community services funds and our beach funds are separate?"

Comments: The questions which would be appropriate: Have you reviewed all of the punch card discounts used at the beach? Have you evaluated the process for allocating the discounts between two separate funds? Is the allocation process correct? Are all discounts recorded at the beach by use of the punch card (the process) been reviewed by you and found correct and in accordance with generally accepted accounting principles?

### **Answer by Dan Carter**

First sentence - "It is our understanding that IVGID has a POLICY to account for basically the contra revenue of those beach cards against the people who are actually paying for them."

Comments: Is there a policy to account for basically the contra revenue for "those beach cards"? Since we have no idea what a "beach card" is or knowledge of its existence, how can anyone be paying for something that does not exist. As for a Board approved policy please be kind enough to present it to me for my examination.

**Second sentence** - "They are associated with fees or the taxes associated on a parcel by parcel basis."

Comments: I assume the "They" must mean those mysterious "beach cards." So Mr. Carter's second sentence has no meaning.

**Third sentence** - "So the policy of IVGID, as approved by the Board of Directors, is to offset those punch cards against the property holders versus the actual users."

Comments: There is no policy approved by the Board of Directors to "offset those punch cards." So this third sentence is untrue. If there were a Board approved policy, please explain what exactly is being "offset".

**Fourth sentence** - "And so we have, you know, our basic audit procedures covered that area."

Comments: What "area"? Are we to surmise the audit procedures were covering those "beach cards"? Or the "two IVGID policies"? Or the unknown "offsets"? Or the punch card? Please provide a detailed explanation.

**Fifth sentence** - "We were comfortable that we had done enough work over that and found basically the ratio of those contra revenues to be in line with the property taxes themselves, so yeah, we were able to gain comfort with that specifically, yeah."

Comments: "The contra revenues to be in line with the property taxes themselves." What does that even mean? We pay a Recreation Facility Fee and a Beach Facility Fee. Are these property taxes? Please clarify whether the Recreation Facility Fee and the Beach Facility Fee are property taxes or fees? And explain the ratio Mr. Carter has constructed.

### Summary

Did Mr. Carter's answer to Trustee Wong's question resolve whether or not "IF WE USE A PUNCH CARD AT THE BEACH THAT IT STAYS WITHIN THE BEACH FUND?" As previously stated in my memorandum of September 30, 2015 and confirmed by Mr. Eick, there is approximately \$450,000 per year of **free** guest entry at the beach by using the punch card. The stated beach guest entry fee is recorded as gross revenues in the Beach Fund and the 100% contra revenue or discount by use of the punch card is **recorded as only 12% in the Beach Fund**. The remaining punch card discount of 88% is recorded as a contra revenue (parcel owner discount) in the **Community Services Fund**. There is no actual sale recorded in the Community Services Fund yet a discount of 88% of the stated beach entry fee is recorded in the Community Services Fund. According to Mr. Carter this bookkeeping activity is actually a policy adopted by the Board of Trustees. We all know this accounting does not conform to accounting standards and is factually incorrect. What we know to be factually accurate is the net

revenues for the past three years have been vastly overstated at the Beach Fund and understated at the Community Services Fund by over \$1,125,000 directly as a result of this fraudulent accounting scheme.

I am formally requesting this Audit Committee produce for my examination the Board approved policy that defines and permits the accounting for punch card discounts to be recorded at the Community Services Fund and the Beach Fund regarding the free entry of guests at the beaches. This is a Public Records Request.

**This is Serious. Now is the time for you to take corrective action.**

**Below are some of my observations:**

Beginning in 2011 it became obvious that the actual cash revenues collected at the beaches would not be adequate to cover the required expenses and costs. To cover these escalating costs the Beach Facility Fee would have to be increased beyond the \$100 per year assessed. Staff was also proposing beach facility expansions which would also require raising the Beach Facility Fee. Borrowings would be out of the question as most residents want the beaches to be left alone and not to be tinkered with.

So it was up to the Director of Finance to come up with a creative solution to cover these rising costs and expenses without raising the Beach Facility Fee. And the solution was implemented through the budgeting process. Actual historical data existed which indicated that punch card discounts were predominately used at the beach so there was only small cash revenues. Since the beaches are restricted to homeowners, residents and their guests the ability to find new revenue sources would be minimal. So Staff needed to develop an accounting process to transfer money from the other recreational venues to the beaches.

So here comes the accounting theory. Our combined Recreation Facility Fee and Beach Facility Fee works out that 88% is required for the Community Services Fund and 12% is required for the Beach Fund. So let's forget about where the punch card discounts have historically been used and simply allocate the punch card discount 88% and 12% to the respective funds no matter where the punch cards are actually used. Ignore the actual fact that most of the punch cards are used at the beaches. Thus, one part of the various undocumented and unapproved smoothing policy had been established. The District had found a way to get more net revenues in the Beach Fund by reporting the full entry fees but only reporting 12% of the actual 100% discount from using the punch cards. The remaining 88% discount provided at the beaches but recorded in the Community Services Fund could easily be disguised since the Fund's revenues are 10 times larger than the Beach Fund and the discounts could be absorbed without much notice.

Was this discussed with the Board and a policy approved? I think not. The Board of Trustees as 'rubber stamp actors' simply approved the budget and I guess would not question that the Budget did not have the punch card discounts allocated properly.

Mr. Eick was faced with the dilemma of how he would record the remaining 88% of the punch card discount from the beaches onto the Community Services Fund. There were no sales made wherein an

88% discount could be assessed. As a result all punch card discounts were hidden in the administration department of the Community Services Fund. All Beach Fund discounts absorbed by the Community Services Fund were paid in cash to the Beach Fund.

Now, the simple and proper thing to do would be to budget the necessary Beach Facility Fee for the Beach Fund at a higher amount and lower the Recreation Facility Fee for the Community Services Fund by the corresponding amount. Easy? Yes. But then the District would have to face the community and explain why they are raising the Beach Facility Fee. As for reducing the Community Services Fee, also known as the Recreation Facility Fee, the community would applaud. But the District's Staff does not like deviating from their unapproved and amorphous "smoothing" policy.

As shown below, Beach Fund expenses and costs (debt service and capital projects) less ACTUAL revenues collected (excluding the revenues which are 100% FREE by use of the punch card discounts) far exceed the Beach Facility Fee charged to beach access parcel owners. As a result, a huge shortfall began in 2013. In the prior four years from 2009 to 2012 the District was able to keep operating expenses at approximately \$1,100,000 per year. The budget for 2016 lists expenses at \$1,548,408. An explosion of over 40% within four years!

Year	Expenses & Costs	Actual Revenue	Required Beach Fee	Actual Beach Fee	Short Fall
2013	1,765,035	(614,445)	1,150,590	775,102	375,488
2014	1,628,490	(655,536)	972,954	780,716	192,238
2015	2,414,403	(612,809)	1,801,594	778,149	1,023,445
2016	1,757,645	(601,200)	1,156,445	774,300	382,145

The SHORTFALL noted above for the past three years together with the 2016 budgeted is almost \$2,000,000. Approximately \$375,000 per year since 2013 has been transferred to the Beach Fund from the Community Services Fund with another \$375,000 expected this current year. The total is \$1,500,000.

In conclusion, if the Board of Trustees wants to continue this nonexistent approved POLICY of punch card discount allocations then go right ahead with the knowledge that you are not in compliance with Nevada Revised Statutes and you are not allocating punch card discounts in conformity with generally accepted accounting principles.

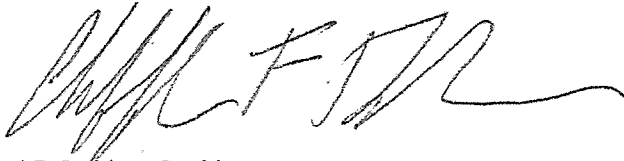
Rest assured that I personally will continue to press upon all of the Trustees to stop this charade and act prudently, correct the mistake and move forward.

If any of you have any logical concept, justification or POLICY which would deem the Punch Card Discounts as reported in the last three years of audited financial statements as being in accordance with any generally accepted accounting principles, then please provide them to me.

If any Audit Committee member actually believes that the answers to the questions asked of Dan Carter was sufficient and as a result the matter was resolved, then I expect a letter signed by each of you attesting to that fact.

To proceed forward with approving the financial statements for the 2014-2015 fiscal year is beyond my understanding. It did, however, demonstrate your failure to exercise your fiduciary duty to Incline Village/Crystal Bay parcel owners.

It is apparent you need my help as you are being taken advantage of by IVGID Staff and the District's counsel. I plead that you do not abuse the public trust and sacrifice your professional integrity by surrendering to the will of senior management.

A handwritten signature in black ink, appearing to read 'Clifford F. Doblér', with a long horizontal flourish extending to the right.

Clifford F. Doblér - Resident

cc: Eide Bailly

cc: Trustee Dent

cc: Trustee Horan



**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 5**

February 19, 2016

To: Jeff Strand  
Eide Bailly

From: Clifford F. Dobler

Re: Incline Village General Improvement District (IVGID) 2015 CAFR

Last quarter, I sent to you and you acknowledged receipt of two memorandums regarding the misallocation of punch cards and the transition from Enterprise Fund Accounting and Reporting to Special Revenue Fund Accounting and Reporting for the District's Community Services Fund and Beach Fund. My two memorandums were also submitted to Mr. Dan Carter, the audit engagement partner on the account.

These two accounting treatments required the diligent attention of Eide Bailly's independent auditing team and needed to be corrected before the 2015 Certified Audited Financial Report was issued for the Incline Village General Improvement District (IVGID). An IVGID Audit Committee meeting was held on 12/16/15 wherein Dan Carter, the audit engagement partner on the account, was asked questions regarding the two accounting treatments.

A transcript of these questions and Mr. Carter's responses, are attached. You can view the December 16, 2015 meeting at: [livestream.com/IVGID/events/4152386](http://livestream.com/IVGID/events/4152386)

I am attaching two additional memorandums with my comments regarding Mr. Carter's answers. It is quite apparent that Mr. Carter did little if any professional research on the subjects. So be it.

I expect Eide Bailly to implement the following remedial action:

- 1) Notice to IVGID that the accounting and reporting for punch cards (parcel owner discounts) are not in conformity with generally accepted accounting principles and the financial statements for the past three years will require restatement. This accounting is a material misstatement, violates Nevada Revised Statutes and is an affront to the public's trust. Although it was brought to your firm's attention, it was glossed over. Anything less than a notice will result in complaints filed with the Nevada State Board of Accountancy and the American

Institute of CPAs (AICPA). I will also consider litigation against IVGID and Eide Bailly. Your firm was afforded the opportunity to explain the mistake to the Board of Trustees and request a restatement of the financials. Instead, Mr. Carter contrived a story about a non-existent Board policy and told the Trustees that the Policy was acceptable and issued a "clean" audit opinion.

2) Notice to IVGID that the transition from Enterprise Fund Accounting and Reporting to Special Revenue Fund Accounting and Reporting should not occur as the activities and exchange transactions which take place conflict with the Department of Taxation Guidance Letter, GASB Statements, and Nevada Revised Statutes which dictate that the Community Services and Beach Funds remain Enterprise Funds.

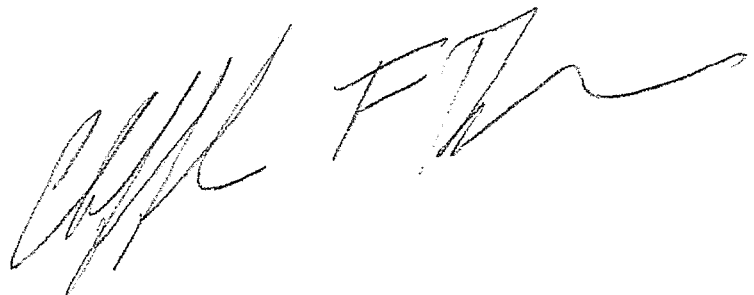
I would think the appropriate time period would be within 90 days which would allow adequate time to effectuate these remedial actions.

If you need any assistance in further understanding these two important issues, you are welcome to discuss them with me.

I can be reached by email at: [cfdobler@aol.com](mailto:cfdobler@aol.com) or by letter: P.O. Box 3130, Incline Village, NV or by phone: 775-722-4487.

I will expect your professional attention and response to this letter.

I would hope you will comply with my request as it is the right thing to do.

A handwritten signature in black ink, appearing to read "Charles F. Dobler". The signature is written in a cursive, flowing style with some loops and flourishes.

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 6**

**March 3, 2016**

**IVGID - Board Retreat Discussion  
2016-2017 Operating Budget  
March 3, 2016  
Punch Cards - Pages 21 to 26**

**Comments on each page by Clifford F. Dobler  
To be included in next Board Packet**

### **Page 21 - PUNCH CARD ADMINISTRATION**

Using the need to change Ordinance 7 to reflect proper accounting of punch card discounts is utter nonsense and an improper statement. Ordinance 7 does not permit the 100% punch card discount used for free guest beach entry to be accounted for with 88% of the 100% discount allocated to the Community Services Fund and 12% of the 100% discount allocated to the Beach Fund.

In order to comply with Nevada Revised Statutes and Generally Accepted Accounting Principles the 100% punch card discount for free guest beach entry must be allocated to the Beach Fund. The Budget should accurately reflect the "actual" historical usage of punch card discounts at the Beaches and the Community Services venues to prepare the upcoming 2016/17 Budget.

### **Page 22 - PUNCH CARD CONTEXT THEN & NOW**

This page has interesting facts but does not provide any context on Punch Cards.

### **Page 23 - PUNCH CARD ACCOUNTING EFFECTS**

As the District has a system to track every punch card discount transaction, why is the District misrepresenting the venues where the punch card discounts are actually utilized? The discounts reported in the Community Services Fund and Beach Fund financial statements are most certainly an allocation that has not been properly applied against the actual revenue source.

### **Page 24 - PUNCH CARD BUDGETING**

I would expect each venue to receive the actual revenue it receives from user fees regardless of payment types. I would expect that budget projections are based upon accurate historical data and that financial reporting of actual revenues are accurately reported. Apparently, the District has carved out a special exception for Punch Cards. When this "payment type" for free guest entry is used at the Beaches, the actual 100% discount and net revenue of ZERO is not properly reported in the Beach Fund.



**ON WHAT BASIS SHOULD THE MAJORITY OF PUNCH CARD DISCOUNTS BE DUMPED INTO THE COMMUNITY SERVICES ADMINISTRATION WHEN THE MAJORITY OF THE PUNCH CARD DISCOUNTS ARE USED AT THE BEACH?** There is no rational justification for this, only faulty logic. Apparently, the beaches needed more money to cover rising expenditures and Senior Management did not want to increase the Beach Facility Fee. The District's undefined and unapproved **SMOOTHING** policy was called into service to create an arbitrary allocation of punch card discounts to the Community Services Fund which capped the amount of punch card discounts that would be applied to the Beach Fund. The outcome of this sleight of hand would improve the appearance of Beach Fund net revenues to cover its expenditures and everyone paying the Recreation Facility Fee would in fact be paying for Beach Fund expenses! This is the "art of deception" in accounting. It inflates the budgeting demands of one Fund, the Community Services Fund which collects the Recreation Facility Fee to unlawfully provide and transfer the resources to the Beach Fund to meet its expenditures.

### **Page 25 - PUNCH CARD VALUES**

Good information.

### **Page 26 - PUNCH CARD UTILIZATION**

There is no historical summary of actual punch card usage at the District's recreational venues. Because Mr. Eick was kind enough to provide this information at my request, we can see that **THE MAJOR PORTION OF PUNCH CARD DISCOUNTS ARE UTILIZED AT THE BEACHES AND THIS AMOUNTS TO APPROXIMATELY \$450,000 ANNUALLY.** The District's Accounting Reports do not reflect this! Ask Mr. Eick to provide the very information I requested on the actual utilization of the punch card discounts and ask why they are reported in any other fashion. He will hide behind Ordinance 7 and have no plausible explanation.

### **MY CLOSING REMARKS:**

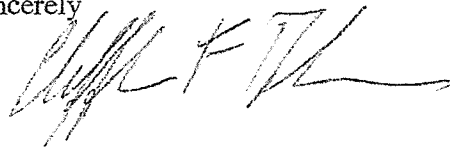
The change in the accounting for punch card discounts which occurred at the beginning of the 2012/13 fiscal year and continues today has created a massive fraudulent accounting scheme. Approximately \$1,500,000 will have been transferred from the Community Services Fund to the Beach Fund by the end of this fiscal year. Over 8,180 parcel owners, of which over 400 do not have beach access, have had to chip in to pay for this transfer.

This is an issue ripe for litigation. If Senior Staff and Trustees cannot correct this material misstatement and ensure proper financial accounting and reporting, this will be the most viable option for the community to pursue.

Mr. Eick's presentation is another snowball to confuse you and avoid the real problem.

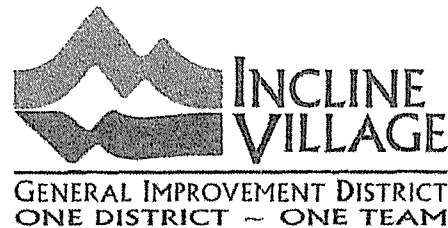
6 pages of attachments included  
cc: Eide Bailly

Sincerely



# Board Retreat Discussion 2016-2017 Operating Budget March 3, 2016

Gerald W Eick, CPA CGMA Director of  
Finance, Accounting, Risk Management  
and Information Technology



# Punch Card Administration

- Punch Cards, as a form of payment, is the single largest exception to our ease of use of off the shelf point of sales systems
- Until Ordinance 7 is changed, staff sees no other alternative to the present accounting
- Staff will work to make the message cleared about Punch Card accounting in the budget



# Punch Card Context Then & Now

## Budgeted 1998-1999

- Recreation & Beach Total Sources - \$12,130,257
- Facility Fee \$2,208,400
- Total Operating Uses \$9,174,285
- Capital Expenditures \$3,220,393
- Debt Service \$1,854,257
- Total Expend. \$14,248,935
- Facility Fees \$275/\$200

## Budgeted 2015-2016

- Recreation & Beach Total Sources \$19,363,462
- Facility Fee \$6,746,430
- Total Operating Uses \$15,366,065
- Capital Expenditures \$2,802,296
- Debt Service \$1,289,196
- Total Expend. \$19,457,557
- Facility Fees \$830/\$730



# Punch Card Accounting Affects

- Ordinance 7 establishes the privilege to obtain a “Punch Card” to buy down user fees to resident rates
- District has a system to track punch card use based on each transaction to measure the value allowed under Ordinance 7
- Punch Cards are not an allocation, they are entirely based on which individual privileges and cards a parcel holds and uses





# Punch Card Budgeting

- Each venue budgets for and receives the revenue for user fees, regardless of payment type
- Since the Ordinance allows the use of the value of the punch cards to buy down user fees, there is an amount under Recreation Administration and in the Beach Fund to cover the use of the cards



# Punch Card Values

- Cards are worth one fifth of the Facility Fee paid by the parcel for its privileges:
  - Parcel With Beach privileges, punch card value
    - $\$830 / 5 = \$166$
  - Parcel Without Beach privileges, punch card value
    - $\$730 / 5 = \$146$
- Punch Cards are an alternative to picture pass, decided upon by the parcel owner



# Punch Card Utilization

- The three year average use through June 30, 2015 was \$605,000 and has been declining.
- Budget for 2015-2016 was set at \$588,000
- Current fiscal year is fairly close to budget even with increased use at the ski resort
- Currently plan to budget a similar amount for 2016-2017, approximately 20% of the Facility Fee for the operating components



**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 7**

**Memorandum Presented at the 10-11-16 Board of Trustees Special Meeting: To be included in the next Board Packet**

To: IVGID Board of Trustees Wong, Horan, Hammerel, Callicrate and Dent

From: Clifford F. Dobler

Re: An array of names with different meanings for a single Revenue Line Item in the Budgets for 2015-2016 and 2016-2017. These are "contra revenue" line items referred to as Sales Allowance; PPH Allowance, Punch Card Allowance and Punch Cards Utilized.

Exhibit A is a spreadsheet comparing contra revenue line items in the Annual Budget and Open Gov Budget for 2015-2016, and the Open Gov Budget for 2016-2017

**This Discussion is limited to the Community Services Special Revenue Fund ONLY**

**2015-2016 BUDGET**

The Annual Budget report for 2015-2016 in the Community Services Summary records a single Revenue line item called **Sales Allowances** in the amount of \$932,873.

The detail of each recreational venue which creates the summary records **Sales Allowances** of \$415,373 for 6 venues and **Punch Card Allowances** of \$517,500 for one department. Thus different names between the summary and the detail.

The Open Gov Budget for 2015-2016 in the Community Services summary and the detail of each recreational venue reports a different single Revenue line item called **PPH Allowances** amounting to \$1,242,073. This is significantly different from the \$932,873 reported in the Annual Budget Summary. The major difference was an increase in the Ski venue for PPH Allowances of \$300,000. **WHY?**

Last but not least, the monthly statement of operating sources and uses for the year ended June 30, 2016 refers to a line item as "Punch Cards Utilized" with a different number of \$517,500.

**We have One Revenue Line Item with Four Different Descriptions and Three Different Amounts for the Same Budget in three different reports.**

**Not one of the descriptions is defined in the 5 page glossary of terms included in the annual budget.**

**2016-2017 BUDGET**

The Open Gov Budget for the 2016- 2017 Community Services summary and the details of each recreational venue reports a single Revenue Line Item called PPH Allowances totaling \$739,100.

The new year's budget of \$739,100 is much lower than the average budget of \$1,087,000 for 2015-16.



The detail of PPH Allowances in the Ski venue is forecasting \$2,800 as compared to the 2015-2016 budget of \$460,000. This is a staggering decline. So what does the District expect to occur at the Ski venue to warrant such a large drop in PPH Allowances?

## DEFINITIONS

Having one revenue line item reported with three different names: "Sales Allowance", "Punch Card Allowance", "PPH Allowance" or "Punch Cards Utilized" all of which have different meanings would suggest that any form of transparency does not exist and there is no consistency or accuracy in the descriptions or amounts presented.

To add to the confusion is the absence of any definition of these descriptions in the five-page Glossary of Terms included in the Annual Budget. A reader would have no idea what these Revenue Line Items represent.

I have compiled a few definitions left out of the Glossary:

The definition of a Sales Allowance: *Sales allowances are reductions in sales prices for merchandise with minor defects, the allowance agreed upon after the customer has purchased the merchandise.*

The definition of a Punch Card Allowance would have the same meaning as a Parcel Owner Discount described in the 2015 Comprehensive Annual Financial Report under Summary of Significant Accounting Policies Note S. " *Under District Ordinance 7 parcel owners may use punch cards to buy down the difference between a regular rate and the resident rate for certain types of recreational services.*"

However, this Parcel Owner Discount is not actually a discount but a straight buy down from prepaid Punch Cards. Therefore, using the term "Punch Card Allowance" summarized together with "Sales Allowance" and "PPH Allowance" would be inappropriate.

The identification of a PPH Allowance would suggest that the PPH might be "Picture Pass Holder". This term is not defined in Ordinance 7 but may be another name for a Recreation Pass as described on page 6 paragraph 24 of the Ordinance. To my knowledge, IVGID does not record any allowances or discounts relating to transactions created by the use of a Recreation Pass. As such, converting Sales Allowances and Punch Card Allowances into PPH Allowances is convoluted at best.

As documented in this memo, it is clear that any reader of any IVGID report cannot determine the true and correct nature of what is described on any line item presented. As such, the reports could not be considered transparent, accurate or consistent in any fashion whatsoever and are vastly misleading to all readers.

The names used in the various reports should be scrutinized and corrected to achieve consistency among the Budget Report to the State of Nevada, the Budget Report submitted to the citizens, the Comprehensive Annual Financial Reports and the Monthly Operating Reports. I would suggest that a Committee of two Board Members and two local CPAs be assembled to review the various reports, make the required changes and compel Director of Finance Eick to adopt the changes.

Approximately one year ago, I brought numerous reporting inconsistencies to the attention of General Manager Pinkerton, Trustee Wong, Director of Finance Eick and District Counsel Guinasso. I was told at that meeting that attention would be directed to report more accurately and consistently. Apparently nothing has happened.

MAYBE SOMETHING SHOULD HAPPEN

## EXHIBIT "A"

### Contra Revenue Line Items

Annual Budget for 2015-2016 and 2016-2017

	Annual Budget 2015-2016		Open Gov Budget 2015-2016		Open Gov Budget 2016-2017	
	Description	Amount	Description	Amount	Description	Amount
<b>District Wide</b>	Sales Allowance	(1,003,873)	PPH Allowance	(1,316,373)	PPH Allowance	(811,900)
<b>Community Service Fund</b>						
Championship Golf	Sales Allowance	(22,300)		-		-
Mountain Golf	Sales Allowance	(3,400)		-		-
Facilities	Sales Allowance	(50,340)	PPH Allowance	(50,340)		-
Ski	Sales Allowance	(116,000)	PPH Allowance	(460,000)	PPH Allowance	(2,800)
Parks and Recreation				-	PPH Allowance	(2,900)
Recreation Programs	Sales Allowance	(203,233)	PPH Allowance	(195,633)	PPH Allowance	(197,300)
Tennis	Sales Allowance	(20,100)	PPH Allowance	(18,600)	PPH Allowance	(18,600)
CS Administration	Punch Card Allowance	(517,500)	PPH Allowance	(517,500)	PPH Allowance	(517,500)
Other Recreation						
Total	Sales Allowance	(932,873)	PPH Allowance	(1,242,073)	PPH Allowance	(739,100)
<b>Beach Fund</b>	Punch Card Allowance	(70,500)	PPH Allowance	(74,300)	PPH Allowance	(72,800)
<b>District Wide Total</b>		(1,003,373)		(1,316,373)		(811,900)

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 8**

Memorandum

To: IVGID Audit Committee: Trustee Chair Phil Horan, Trustees Wong and Hammerel

cc: IVGID Trustees Dent and Callicrate

From: Cliff Dobler and Linda Newman

Dated: December 7, 2016

To be included in the next Board packet

Subject: Sounding Another Alarm on IVGID's Deceptive and Fraudulent Accounting Practices:

- Re:
1. Fictional Parcel Owner Discounts on Entry Fees Reported in the 2011, 2012, 2013, 2014, and 2015 Comprehensive Annual Financial Reports (CAFRs) as stated in the Basic Financials for Proprietary Funds Statement of Revenues and Expenditures and Changes in Net Position and the Notes to Financial Statements 1(Q) for 2012; 1(R) for 2013; 1(S) for 2014; and 1(S) for 2015
  2. Contrived Misallocation of the Fictional Parcel Owner Discounts to Inflate Beach Fund Operating Revenues and Distort Community Services Fund Operating Revenues
  3. Unlawful Cash Transfers from the Community Services Fund to the Beach Fund totaling approximately \$1.5 Million through June 30, 2016
  4. Defrauding an entire community through the Improper Financial Mismanagement of the Community Services Fund and the Beach Fund

## **BACKGROUND OF PREVIOUS MEMORANDUMS**

Over the past fourteen months we have provided four memorandums to the IVGID Board of Trustees documenting the District's improper accounting and reporting of parcel owner discounts on entry fees through the use of Recreation Punch Cards as reported in the above referenced CAFRs which resulted in the following:

- 1) Unlawful and Undisclosed cash transfers between two major funds;
- 2) Theft of a portion of parcel owner Community Services Fund Standby and Service Charges (Rec Fee) used to pay Beach Fund operating and capital expenditures;
- 3) Theft of a portion of Rec Fees paid by parcel owners legally denied access to the beaches;
- 4) Material overstatement of Beach Fund Operating Revenues;
- 5) Material understatement of Community Services Fund Operating Revenues;



All of the above has translated into defrauding an entire community through the financial mismanagement of the Community Services and Beach Funds. As a further consequence, this erroneous accounting has materially distorted the District's Annual Budget and the audited and unaudited financial statements to deliberately mislead taxpayers, investors, creditors and Federal, State and Local Regulatory Agencies on the District's operating performance, financial health and fiscal integrity.

On September 30, 2015, an extensive memorandum titled "Misallocation of Parcel Owner Discounts at the Community Services Fund and the Beach Fund" was submitted to the IVGID Trustee Audit Committee. This memo documented five years of major changes in reporting Parcel Owner Discounts ("Discounts") through the use of punch cards and an arbitrary allocation of 88% of these "Discounts" to the Community Services Fund and 12% of these "Discounts" to the Beach Fund. In addition to inaccurately reporting Community Services and Beach Fund revenues, this scheme involved unlawful and undisclosed cash transfers from the Community Services Fund to the Beach Fund. In stark defiance of Nevada law and the public trust, the District "repurposed" to the Beach Fund a portion of the Community Services Reg Fee paid by 8181 parcel owners, including approximately 438 parcel owners legally precluded from accessing IVGID beaches. At the end of June 30, 2015 the misallocation of these Discounts amounted to \$1,128,820 and is now estimated to be \$1,500,000 as of June 30, 2016. (Exhibit "A")

On November 25, 2015 we prepared a follow-up memorandum titled "Beach Analysis" which reported the effect of the misallocation of the "Parcel Owner Discounts" and the profound negative impact on Beach Fund operations. In addition to providing all the details, we requested that this fiasco be corrected with the required repayments made to the Community Services Fund. Above all, we requested these Funds be reported and managed properly. (Exhibit "B")

At the December 16, 2015 IVGID Trustee Audit Committee meeting convened to approve the District's 2015 CAFR, Board Chair Kendra Wong posed the following question to Mr. Dan Carter, Eide Bailly audit engagement partner: *"Something that's come up with a lot of different community members is how we account for our punch card usage and the fact that if we use a punch card at the beach that it stays within the beach fund essentially to make sure people who don't have beach access aren't necessarily paying for things related to the beaches. So can you talk about the audit procedures that you do over that process and how comfortable you are that our community services funds and our beach funds stay separate?"*

Mr. Carter answered: *"It is our understanding that IVGID has a policy to account for basically the contra revenue of those beach cards against the people who are actually paying for them. They are associated with fees or the taxes associated on a parcel by parcel basis. So the policy of IVGID, as approved by the Board of Directors, is to offset those punch cards against the property holders versus the actual users. And so we have, you know, our basic audit procedures covered that area. We were comfortable that we had done enough work over that and found basically the ratio of those contra revenues to be in line with the property taxes themselves, so yeah, we were able to gain comfort with that specifically, yeah."* (Exhibit "C")

Chair Wong's question and Mr. Carter's response did not address our concerns about the improper accounting and reporting. This interchange raised serious doubts about whether Trustee Chair Wong, a licensed California CPA, had reviewed the serious allegations cited in the memorandums and understood the gravity of unlawful and unreported cash transfers between Enterprise Funds. Mr. Carter's response added to our discomfort as it was apparent that he had not read the memorandums and had referenced non-existent "beach cards" and "policies" as well as rendering other statements that we found incomprehensible.

Despite this, two of the three Trustee Audit Committee members recommended approval of the 2015 CAFR. At the Board of Trustee meeting that followed, the CAFR was approved on a 4 to 1 vote without any changes to the improper accounting and reporting documented in our memorandums.

Shocked as we were, on February 19, 2016 we prepared another memorandum with commentary and analysis of Chair Wong's question and Mr. Carter's response of December 16, 2015 alerting the Board to the fact that they did not address, rebut or provide a remedy for our concerns (Exhibit "D").

As we were unaware of any "policy" approved by the Board of Trustees which would clarify Mr. Carter's remarks, we generated a Public Records Request on March 1, 2016. We were provided IVGID Ordinance No. 7 and IVGID Board Policy 16.1.1. Neither provided clarification nor support for Mr. Carter's statements on the accounting policies for contra revenues for "Parcel Owner Discounts". With this in mind, we have no understanding of exactly what constituted Eide Bailly's basic audit procedures.

On March 3, 2016 IVGID Board of Trustees held a Board Retreat to discuss the 2016-2017 Operating Budget as presented by Director of Finance Eick. Pages 21-26 of the power point presentation was dedicated to Recreation Punch Cards. On that day, Mr. Dobler presented a memo annotating each of the Punch Card pages to highlight the fallacies Mr. Eick stated on each page. (Exhibit E)

**TO DATE, WE HAVE NOT RECEIVED ANY RESPONSE TO OUR PUBLIC COMMENTS, MEMORANDUMS AND FOLLOW-UP CORRESPONDENCE. WE HAVE NEVER RECEIVED ANY REPORTS EVIDENCING ANY INVESTIGATIONS INTO OUR ALLEGATIONS.**

**THE PROLIFERATION OF IMPROPER ACCOUNTING AND REPORTING IS UNACCEPTABLE AND BEYOND CONTEMPT FOR THE LAW. IT IS A BETRAYAL OF THE PUBLIC INTEREST YOU ARE ELECTED TO SERVE.**

It is important to understand that "Parcel Owner Discounts on Entry Fees" created through the use of Prepaid Punch Cards are FICTIONAL. After reviewing IVGID Ordinance No. 7, the District's website on Recreation Privileges and five years of the District's CAFRs and the related Footnotes, we recently discovered that there are ACTUALLY no "parcel owner discounts on entry fees" using prepaid punch cards. These "discounts" as reported, were payments of the difference between the resident rate and the retail, non-resident or guest rate using the value of the prepaid punch cards to pay the full cost. No discounts were ever intended or provided.

In accordance with the District's chronic fabrications and unchecked misrepresentations, the District created FICTIONAL Parcel Owner Discounts as the foundation for an elaborate accounting scheme to record additional operating revenues from the use of Recreation Punch Cards. As the punch cards had already been paid for by the annual Rec and Beach Fees and recorded as revenues in the Community Services and Beach Funds when originally issued, the District double booked these revenues when these punch cards were utilized at the District's recreational venues. In order to balance the books on these prepaid punch card transactions, the District established a fallacious 88%/12% allocation of these "contra revenues of Parcel Owner Discounts." This formula enabled the District to record manufactured Beach Fund Revenues to pay for a portion of budgeted Beach Fund Expenditures. It also enabled the District to create unlawful and unreported cash transfers from the Community Services Fund to the Beach Fund to provide these manufactured revenues. In addition, the District devised different accounting procedures to record the use of prepaid punch cards at the Beaches and the Community Services recreational venues. At the Beaches, sales are recorded with corresponding contra revenue discounts; at the Community Services venues sales are recorded at each venue and the contra revenue discount is recorded in the Administration Sub-Account, rather than at each venue. These inventions have circumvented generally accepted accounting principles and Nevada law to manipulate the proper accounting and reporting for the Community Services and Beach Funds.

At the time our original memorandums were written, we had not questioned the District's characterization of parcel owner discounts utilizing punch cards as actual "discounts". Our concentration was on the misallocation of the discounts between two funds and the lack of proper disclosure. These additional layers of deception cause us deep concern and complete distrust of the District's entire financial accounting and reporting practices.

**The Evidence Follows:**

## **PUNCH CARD OVERVIEW**

The nature of what IVGID characterizes as "parcel owner discounts" derives from the District's assessment of the annual Recreation and Beach Standby and Service Charges. The payment of these Charges, known as the Rec and Beach Fees entitle parcel owners to specific recreation privileges as defined in District Ordinance No. 7. This Ordinance **last amended on March 25, 1998 establishes rates, rules, and regulations for Recreation Passes and Recreation Punch Cards by the Incline Village General Improvement District.**

In exchange for the payment of these Rec and Beach Fees, each parcel owner has the right to obtain any combination of five Recreation Passes or prepaid Recreation Punch Cards. (Ordinance No. 7, page 6, paragraph 30).

The Recreation Pass, often referred to as a Picture Pass, is a non-transferable photo identification pass. For holders with Beach access it provides FREE access to the Beaches and resident rates for hourly, daily and seasonal use of District owned recreational facilities. For holders without Beach access, with the exception of Beach access, the privileges are the same. (Ordinance No. 7, page 6, paragraph 24). The



Recreation Pass, whether it is used once or a thousand times retains its intrinsic value as essentially "identification" for the holder to pay the established resident rate and receive all resident recreation privileges. The Recreation Pass can only be issued to certain family members and can also be assigned by a parcel owner to another person such as a renter.

The Recreation Punch Card ("Punch Card") is transferrable and can be used to PAY THE DIFFERENCE between the resident rate and the guest rate, retail or non-resident rate for access to various District recreation facilities. The Punch Card bears a face value established by the Board. (Ordinance No. 7, page 6, paragraph 22).

As the current Rec Fee is \$730 and the Beach Fee is \$100, and payers of these "Fees" are entitled to any combination of five Recreation Passes or Punch Cards, the Board has determined that for holders with beach access the Punch Card has a stated value of \$166 per card. This is one-fifth of the combined Rec and Beach fees totaling \$830. Punch Cards for holders without Beach access are valued at \$146. This is one-fifth of the \$730 Rec Fee. Additional Punch Cards for parcels with beach access can be purchased for \$166. Additional Punch Cards for parcels without beach access can be purchased for \$146.

**Article VII** of Ordinance No. 7 titled Recreation Punch Card states:

A Recreation Punch Card provides the cardholder with a face value of recreation privileges, determined by the Board, which may be applied toward:

- a) the difference between the resident rate and the guest rate for daily beach access, daily boat and jet ski launching; and
- b) the difference between the resident rate and the retail or non-resident rate for daily access to the District-owned golf, ski, recreation center and tennis facilities; and
- c) the difference between the resident rate and the retail or non-resident rate for any other recreation use fee or rental fee as may be determined by the Board.

It is quite clear that Punch Cards are prepaid with the payment of the Rec and Beach Fees and can only be used to PAY THE DIFFERENCE between the resident rate and the guest, retail or non-resident rate depending upon the venue. As a discount is defined as "a reduction from the full or standard amount of a price" the amount of a prepaid punch card used to pay the full value for recreation venues, would not qualify as a discount. It is also clear that only the Picture Pass enables the holder to pay the "discounted" resident rate.

Further validation of our assessment can be found on the IVGID website at:

[www.yourtahoepace.com/parks-recreation/about-recreation/ivgid-passholder-information](http://www.yourtahoepace.com/parks-recreation/about-recreation/ivgid-passholder-information)

"The Recreation Punch Card can be used to pay for any of the following privileges:

- For beach access parcels only - the **full cost** of guest access to the beaches, pool and daily boat launching fees.

For all parcels - the difference between the regular rate and the IVGID Pass daily or hourly rates at the Recreation Center, Tennis Center, golf courses and Diamond Peak. The discounted rate must still be paid.

The card may be used at both golf facilities, but the difference between the standard and IVGID Pass rate will consume either most or all of the value of the card.”

According to the March 3, 2016 power point presentation by Director of Finance Eick at the Board of Trustees Retreat, the value of the prepaid Punch Cards WHICH WERE USED to pay the difference between resident rates and guest, retail, or non-resident rates have averaged approximately \$600,000 for each of the fiscal years 2013-2016. Of this amount, approximately \$450,000 is used annually at the Beaches. These punch card transactions are what IVGID considers to be a Parcel Owner Discount.

In addition to the District’s opaque and improper accounting, we have no way to validate this amount as our Public Records Requests for the number of punch cards issued in previous years have been denied.

## **FALSE REPORTING IN THE COMPREHENSIVE ANNUAL FINANCIAL REPORTS**

"Parcel Owner Discounts on entry fees" reported as contra revenues in the 2011 through 2015 CAFRs are **NOT DISCOUNTS AT ALL** and have been erroneously reported as “discounts” without any basis in fact or accounting theory. The District’s explanation of the transactions creating these "discounts" is contained in the Financial Statement Footnotes (the “Notes”).

Financial Statement Footnotes, required under GASB 34, are an integral part of the financial statements. They are extremely valuable in discerning how various accounting policies, including revenue recognition and significant transactions, are impacting the government’s reported results and financial condition. They provide information that is essential to a user’s understanding of the basic financial statements. In accordance with Government Auditing Standards issued by the Comptroller General of the United States the Auditor’s Responsibility to obtain reasonable assurances about whether the financial statements are free from material misstatement includes a review of the Financial Statement Footnotes.

Parcel Owner Discounts on entry fees were first reported in the 2011 CAFR Basic Financials for Proprietary Funds Statement of Revenues and Expenditures and Changes in Net Position without any disclosure in the Notes.

2011 marks the first year of IVGID double booking a portion of Beach Fund Standby and Service Charges (Beach Fee) revenues and creating corresponding contra revenues through the accounting and reporting of fictional parcel owner discounts on entry fees through prepaid punch card transactions at the Beach Fund’s recreational venues. This fraudulent accounting which violates generally accepted accounting principles and Nevada law inflated the Beach Fund’s total Sales and Fees by 47%. This new accounting policy and the nature and justification for this change were not disclosed in the Footnotes.



For the years 2012 through 2015, the CAFR Notes titled **Parcel Owner Discounts** reference and misquote Ordinance 7, contain four differently worded disclosures and multiple inaccuracies.

These Notes are presented below with our analysis as well as attached to this memo without commentary as Exhibit F.

## **COMPREHENSIVE ANNUAL FINANCIAL REPORTS – Summary of Significant Accounting Policies - Footnotes on Parcel Owner Discounts**

### **Year ending June 30, 2012 - page 33:**

#### **1Q. Parcel Owner Discount**

Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of fees.

**Analysis:** This Note referencing Ordinance 7 is false and misleading. It introduces the new term “buy down” which does not appear in Ordinance 7; confuses Recreation Passes with Recreation Punch Cards as defined under Ordinance 7; and fails to specify that the only types of fees under Ordinance 7 are “recreational”.

According to Wikipedia, the standardized definition of a BUY DOWN *"is a mortgage financing technique where the buyer of a property attempts to obtain a lower interest rate for at least the first years of the mortgage. The seller of the property usually provides payments to the mortgage lending institution, which, in turn lowers the buyers monthly interest rate and therefore monthly payments."*

Apparently, a “buy down” is an inappropriate term and has no meaning in the context of Ordinance 7. In addition, paying the difference between a resident rate and a guest, retail or non-resident rate at the recreational venues does not create or result in a discount. If there is NO DISCOUNT, there are no Parcel Owner Discounts on entry fees to present as Contra Revenue in the Community Services and Beach Fund Financial Statements.

If you review the definitions of Recreation Passes and Recreation Punch Cards under Ordinance 7, it is clear that the Note mischaracterizes Recreation Passes with the characteristics of Punch Cards.

Recreation Passes as defined in Ordinance 7 have no actual value assigned and are used only as photo identification to obtain resident rates and privileges. To our knowledge no discounts have ever been recorded by using a portion of a value that does not exist to “buy down” anything. To state this simply, the use of Recreation Passes are non-monetary transactions.

Recreation Punch Cards as defined in Ordinance 7 may be used to pay the difference between the resident rate and the guest, retail or non-resident rate at the District’s recreational venues. As annual Parcel Owner Rec and Beach Fees are recorded as Revenues in the Community Services and Beach Funds and Recreation Punch Cards are prepaid with the payment of the Rec and/or Beach Fee –there

are no additional revenues generated at the recreational venues when these punch cards are used to pay entry fees.

Despite this, \$448,000 of Parcel Owner Discounts through the use of prepaid punch cards are reported at the Beach Fund artificially increasing the sales and fees by more than 50%. At Community Services, this improper accounting was also implemented. It increased the sales and fees by a nominal \$108,370. At both the Community Services and Beach Funds, these sales and fees were offset by a corresponding "discount". Director of Finance Eick has represented that the utilization of punch cards to pay the difference between resident rates and guest or non-resident rates constitutes a "discount".

### **Year ending June 30, 2013 - page 35:**

#### **1R. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of recreational fees. These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.

**Analysis:** This Note maintains the false and misleading references to Ordinance 7 but clarifies the fees only pertain to "recreational." It erroneously states that the "buy down" are discounts which are presented as "contra revenue" in the Proprietary Fund statements. It also adds: "Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees." As Ordinance 7 does not provide a definition of "facility fees" the Notes do not provide the necessary clarity to determine what the allocations actually mean. An external user of the District's financial statements would have to be familiar with the District's operations to know that the Note reference to an 88%/12% allocation of the "contra revenue" is based on the ratio of the District's Rec Fee of \$730 and Beach Fees of \$100 to their total of \$830.

As written, the District is stating that irrespective of the recreational venue where punch cards are actually utilized, the District will apply 88% of the fictional discounts as Contra Revenue to the Community Services venues and 12% to the Beach venues. The Community Services and Beach Funds are separate Funds. The Standby Service Charges (the Rec and Beach Fee) assessed for the availability of use for the facilities and services of each Fund must, by law, be collected for the express use of each Fund. As the punch cards are prepaid with the payment of the Rec Fee and Beach Fee and these Fees are already recorded as revenues in the respective funds, they cannot be properly recorded as additional revenues or contra revenues when the punch cards are utilized at recreational venues irrespective of any new ratio the District devises.

To distill this down to its essence, as prepaid punch card transactions do not generate actual gross revenues at the recreational venues there are no contra revenues to deduct or net revenues to record at the Community Services or Beach Funds. This did not deter the District from contriving a new device for the creation of fictional revenues to derive corresponding non-existent contra revenues which can then be allocated and manipulated between two separate and distinct funds. This 88%/12% ratio signals the

beginning of unlawful and undisclosed cash transfers from the Community Services Fund to the Beach Fund.

This is best illustrated by historic information provided by Director of Finance Eick. Beginning on July 1, 2011, almost \$320,000 in full price entry fees at the Beaches were paid by the use of prepaid punch cards. The full sales price was recorded as Sales and Fees revenues at the Beaches. Since no actual cash was exchanged, a credit for the same amount was recorded as "contra revenue" in a revenue sub-account titled **PARCEL OWNER DISCOUNTS**. For fiscal year ended 2012, \$448,000 of full price entry fees at the Beaches paid by the use of prepaid punch cards received the same accounting treatment. Then, as stated in the referenced Notes for 2013, 2014 and 2015 CAFRs, 88% of the fictitious Parcel Owner Discounts were recorded in the Community Services Fund, not in the Beach Fund. The resulting \$375,000 per year (88% of \$450,000) for each of the following years required CASH TRANSFERS from the Community Services Fund to the Beach Fund in order to reflect that only 12% of the 100% Parcel Owner Discount was for beach entries. As a result, Revenues at the Beach Fund have been overstated by approximately \$375,000 per year.

Keep in mind that there were never any discounts ever provided by using a prepaid Punch Card to pay the difference between a resident rate and the guest, retail or non-resident rate.

#### **Year ending June 30, 2014 - page 36:**

##### **1S. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of recreational fees. These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.

**Analysis:** This Note replicates 2013 without any corrections or additions.

#### **Year ending June 30, 2015 - page 36:**

##### **1S. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use punch cards to buy down the difference between a regular rate and the resident rate for certain types of recreational services. The punch card utilization is presented as contra revenue in the Proprietary Fund statements. Utilization is allocated based on the card value relationship to one fifth of the per parcel total facility fee. Typically for a full privilege parcel this is 88% to Community Services Fund and 12% to the Beach Fund.

**Analysis:** The Note reflects the use of punch cards to generate so called "buy downs" rather than recreation passes. The inaccurate references to recreation passes in previous years are not acknowledged. The buy down of the difference between a regular rate and the resident rate is changed from certain types of "recreational fees" to certain types of "recreational services". It eliminates the characterization of a "buy down" as a "discount" and states that "punch card utilization is presented as contra revenue in the Proprietary Fund statements." New information is added: "Utilization is allocated

based on the card value relationship to one fifth of the per parcel total facility fee. Typically for a full privilege parcel this is 88% to Community Services Fund and 12% to the Beach Fund.”

As written, this statement does not define “utilization” and is subject to multiple interpretations. It does not disclose any useful or understandable information to provide clarity nor justification for the presentation of contra revenue in the Proprietary Fund statements for transactions involving prepaid punch cards. The new language is another fabricated construct to validate unlawful accounting practices and a contrived 88%/12% ratio to create and conceal illegal cash transfers between two major funds.

This collection of Notes and their respective errors, omissions and false statements appear to have been overlooked by the IVGID Audit Committee, the Board of Trustees approving the Audits and the Independent Auditor responsible for auditing the District’s annual financials.

## **CONCLUSION**

Over five years, the invention of Fictional Parcel Owner Discounts and the 88%/12% Fictional contra revenue allocation has manipulated and distorted the Beach Fund and Community Services Fund financial statements. It has created a device to unlawfully transfer and conceal \$1.5 million over four years from the Community Services Fund to the Beach Fund. This scheme has materially corrupted a fair representation of the District’s overall operational and financial management. It has become the foundation for inflating the Community Services Fund Rec Fee, what Director of Finance Eick and General Manager Pinkerton refer to as “smoothing” to provide the cash the District is unlawfully transferring to the Beach Fund to provide the necessary revenues to support the Beach Fund’s Operating and Capital Expenditures. This improper accounting and reporting materially misstates the District’s Comprehensive Annual Financial Reports for the past 5 years through the creation of non-existent DISCOUNTS.

Due to the format of state and local government financial statements under GAAP, the AICPA Audit Guide for State and Local Governments requires auditors to consider MATERIALITY by "opinion unit" rather than for the financial statements taken as a whole. A major fund is an opinion unit. The IVGID Beach Fund is a major fund.

Major misstatements which have a material effect on the presentation of financial information require a restatement of prior year financial statements. During the past years the overstatement of Revenues from Sales and Fees at the Beach Fund has averaged 47% which would be considered a material misstatement.

Deceptive accounting practices defraud parcel owners. They also deliberately mislead all users of the District’s financial statements on the District’s operating performance, financial health and fiscal integrity. Those who rely upon the District’s financial reporting include taxpayers, investors, current and future creditors of the District’s General Obligation and Revenue Bonds, Federal, State and Local Regulatory agencies.

Your responsibility as Chairman of the IVGID Board of Trustee Audit Committee, and as a fiduciary, is to put an end to this false accounting, notify the auditors, require the past 5 years of CAFR Financial Reports be restated and ensure that the inappropriate cash transfers be returned to the Community Services Fund from the Beach Fund.

cc: Jeff Strand, Eide Bailly Risk Management

cc: Dan Carter, Eide Bailly Audit Engagement Partner

cc: Kelly Langley, Supervisor, Local Government and Finance, DOT

cc: Committee on Local Government Finance (CLGF)

Attachments:

Exhibit A: Misallocation of Parcel Owner Discounts at the Community Services Fund and the Beach Fund Memorandum

Exhibit B: Beach Analysis Memorandum

Exhibit C: 12-16-15 Audit Committee Transcript

Exhibit D: 2/19/16 Memorandum on comments by Dan Carter at the 12/16/2015 Trustee Audit Committee meeting

Exhibit E: 3/3/16 Memorandum on Recreation Punch Cards

Exhibit F: Comprehensive Annual Financial Report Footnotes on Parcel Owner Discounts for years 2012 to 2015



Exhibit A

To: Board of Trustees - Audit Committee(Wong, Hammerel & Callicrate)

September 30, 2015

From: Clifford F. Dobler

Re: **Misallocation of Parcel Owner Discounts at the Community Services Fund and the Beach Fund**

Dear Audit Committee,

In my recent review of the Beach Fund within the comprehensive annual financial reports for the past six years I discovered some disclosure deficiencies and a major violation of operational expectations. I am requesting that the audit committee instruct the auditor to investigate and remedy these problems, to include a required restatement of financial statements and reallocation of IVGID funds as necessary.

The disclosure problems are caused by an unexplained change in the accounting and reporting of parcel owner discounts (also known as punch card allowances) at beach and community services venues. Thus:

- There was a major (material) change to the methodology
- There was no disclosure and explanation of the change
- There was no reporting as to the effect of the change
- There is no (possible) logical explanation for the change as implemented

The operational problem caused by the change is worse: **parcel owners without beach access are secretly (and illegally) being made to pay into the Beach Fund.**

In other words, for the last several years, Community Services Fund dollars have been reallocated into the Beach Fund without the public knowing, especially the parcel owners without beach access. Now on to the details.

#### BACKGROUND AND INVESTIGATION

As way of background I am retired as a CPA. I have over 30 years of experience reviewing financial statements, both as an auditor and advisor to financial institutions and as a successful investor in distressed debt situations. My attention to tiny details and discrepancies have unearthed big problems or opportunities. I have lived in Incline Village for 20 years but only recently turned my attention to the IVGID financials.

I was looking through past audited financial reports to understand historical beach performance and usage. I started by assembling the historical parcel owners discounts in the Beach Fund into a table, using the data IVGID began reporting in 2010.

*NOTE: The data below is sourced from page 26 of the comprehensive financial report for fiscal years ended June 30, 2010, 2011, 2012, 2013 and 2014. For 2015 the data is from the unaudited operating income statement and for 2016 from the adopted annual budget.*

Year Ending (June 30)	Beach Fund Parcel Owner Discounts
2010 and prior	Not Available
2011	319,888
2012	448,003
2013	77,888
2014	71,625
2015	62,978
2016 (budget)	71,000

I noticed a gigantic drop off in the discounts for the beach usage from 2012 to 2013. Wow, did beach usage really plummet that much?

I gathered the historical Community Services Fund data also, to see if maybe the discounts there also dropped over that time period.

Year Ending (June 30)	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owner Discounts
2010 and prior	Not Available	Not Available
2011	319,888	0
2012	448,003	108,379
2013	77,888	564,550
2014	71,625	529,896
2015	62,978	470,402
2016 (budget)	71,000	519,000

Clearly not. In fact the numbers suggested that people had dramatically shifted discount usage away from the beaches to the other recreational facilities.

But the beaches and other facilities were open as usual during those years, so why would that happen? I looked at the total discounts next.

Year Ending (June 30)	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owner Discounts	Total
2010 and prior	Not Available	Not Available	Not Available
2011	319,888	0	319,888
2012	448,003	108,379	556,382
2013	77,888	564,550	642,438
2014	71,625	529,896	601,521
2015	62,978	470,402	533,380
2016 (budget)	71,000	519,000	590,000

So other than a failure to report discounts for 2011 in the Community Services Fund (that the auditor missed at that time and for which there was no footnote), the TOTAL parcel owner discounts looked to be in a consistent range before and after 2013.

This suggested some kind of major accounting change after 2012, so I dove into the text of the comprehensive financial reports and the notes to financial statements - summary of accounting policies parcel owners discounts.

In 2011 there was no explanatory text for the parcel owner discounts and then in 2012 this text was added in Note 1-Q:

“Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and a resident rate for certain types of recreational fees.”

This was brief but sufficient. Discounts are always allocated as a reduction in the revenues booked in the associated sale (by definition) so no need to elaborate on that. The Beach resident rate is "free" or zero dollars so the discount ("buy down") value for the guest rate would be the entire rate. Accounting for the use of a punch card for a typical adult guest transaction at the beach should look like this for the Beach Fund:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Allowance for Punch Card (Discount Amount)	-\$12.00
Net Sale at the Beach (Net Revenue Amount)	\$0.00

Community Services Fund facility discounts (golf, rec center, skiing, etc.) are much less than 100% of the full price, but each discount should still be recorded as the difference between the regular rate and the resident rate. This seems to be how all the discounts were recorded and reported in 2012.

But then something strange happened. Beginning in 2013 and subsequent years, in the same notes to the financial statements - summary of accounting policies (Note 1-R), two new sentences were inexplicably added:

“Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and a resident rate for certain types of recreational fees. *These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.*”  
(emphasis added)

What? The first new sentence restated the obvious - of course discounts are contra revenue, they have to be. But then the following sentence conflicts with basic rules of discount and fund accounting. How can discounts from gross revenue be reported in a different and arbitrary way from how they were actually recorded? How could a beach discount be allocated to community services and vice versa?

If the discounts from the gross revenues for the Beach Fund or Community Services Fund were allocated differently from how they actually happened, there would no longer be accurate reporting of the net

revenue activity and discounts in either fund, which might explain the weird numbers I'd found. I did calculations of the reported Beach Fund discounts and Community Services Fund discounts as a percentage of the total discounts:

Year Ending	Beach Fund Parcel Owner Discounts	Community Services Fund Parcel Owners Discounts	Total	Beach/CSD Discount Split
2010 and prior	Not Available	Not Available	Not Available	
2011	319,888	0	319,888	100.0/0.0
2012	448,003	108,379	556,382	80.5/19.5
2013	77,888	564,550	642,438	12.1/87.9
2014	71,625	529,896	601,521	13.5/86.5
2015	62,978	470,402	533,380	11.8/88.2
2016 (budget)	71,000	519,000	590,000	12.0/88.0

The reported discount split did change to something approximating the arbitrary 88%/12% split referred to in the financial statement notes, beginning in 2013. So even though the numbers did not match precisely as alleged, this had to be the explanation.

#### DISCLOSURE IMPLICATIONS

The first observation from a disclosure perspective is that there has definitely been a change in accounting in 2013 and thus a failure to adequately explain and disclose this change as required by accounting standards. Accounting guidelines state that for any material change in accounting methodology, there must be a clear disclosure and explanation of the change. This was not done.

The guidelines also imply that there must be a logical and justified explanation for the change as implemented. That doesn't appear possible in this case. The change creates a significant misrepresentation that fails basic accounting logic the way it was implemented. Actual discounts at point-of-sale must be reported as they are recorded, not as they are massaged after the fact into some arbitrary restatement. Revenues for one proprietary fund cannot be reported as revenues for another.

Disclosure guidelines aside, it is also clear that since 2013, records for "Parcel Owner discounts on entry fees" are no longer reporting the actual amount of Parcel Owner discounts on entry fees at the various venues. The accounting is not telling the public what is actually happening.

According to IVGID Staff, the vast majority of parcel owner discounts continue to be recorded at the beaches such that the annual beach discounts still amount to around \$450,000. This means that the fictional allocations of parcel owner discounts since 2013 (12% to the Beach Fund and 88% to the Community Services Fund) remain the opposite of the real ratios (about 80% to the Beach Fund).

This also means that the net revenues at the Community Service Fund are understated by about \$375,000 and the net revenues at the Beach Fund are overstated by the same amount. This overstatement is about 40% for the Beach Fund, which is obviously material by accounting standards.



## OPERATIONAL ANALYSIS

While we cannot ascertain any justification for these accounting changes, we can explain their financial effects. A major operational problem emerges given the required separation of the Beach Fund Recreational Standby Fee payments from the Community Services Fund Recreational Standby Fee payments. IVGID's particular situation is that some parcel owners have beach access and pay beach facilities fees and some parcel owners do not have access and (by strict legal requirements) do not pay for beach operations. This accounting change has caused payments to the Community Services Fund to be redirected into the Beach Fund.

As explained above, an adult guest transaction at the beach happens like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Allowance for Punch Card (Discount Amount)	-\$12.00
Net Cash Sale at the Beach (Net Revenue Amount)	\$0.00

But since 2013, an adult guest transaction at the beach has apparently been recorded and reported like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Beach Fund Allowance for Punch Card (12% of Discount)	-\$1.44
Community Services Fund Allowance for Punch Card (88% of Discount)	-\$10.56
Net Cash Sale (Net Revenue Amount)	\$0.00

While this gives the illusion of balancing, the accounting now has most of the Allowance for Punch Card (parcel owner discount) being booked into a different fund, so **from the Beach Fund perspective** the transaction looks like this:

Sale of visit to a Resident Guest (Gross Revenue Amount)	\$12.00
Beach Fund Allowance for Punch Card (12% of Discount)	-\$1.44
Net Sale at the Beach (Net Revenue Amount)	\$10.56

The Beach Fund now has significant net revenues which were not previously recorded, because each time a guest obtains access to the beach by use of a punch card, 88% of that sale's discount is recorded in the Community Services Fund.



For each adult beach guest we now have \$10.56 in net Beach Fund revenue that is being reported for each sale but without any cash being paid at the time of sale. If the Beach Fund is booking \$10.56 in revenue and receiving \$0.00, the \$10.56 value per sale has to be coming from somewhere else in the financials and operations.

In other words, since the Beach Fund does not receive any cash from these guest sales as they take place at the beach, it must be receiving cash from some backchannel. Working from this deduction, I wanted to find out where the missing revenue or cash might be coming from.

After further investigation that included several discussions with IVGID staff, an answer has emerged. Through a series of convoluted journal entries and the use of a "cash pool" that has not been disclosed to the public, **actual cash is being transferred from the Community Services Fund to the Beach Fund** through the "cash pool" to make up for the discount reallocation.

Specifically, during the three year period ending June 30, 2015 a **total of \$1,128,820 of cash was transferred through the cash pool from the Community Services Fund to the Beach Fund**. This corresponds to the missing amount of money needed to cover all of the revenue booked but not received into the Beach Fund due to the reallocation of parcel owner discounts. These transfers are continuing today.

#### OPERATIONAL IMPLICATIONS

The existence of this cash transfer means that the subset of parcel owners that pay into the Community Services Fund and do not have beach access - and therefore are **not supposed to be paying anything** into the Beach Fund – have had a portion of their \$730 Community Services Fund Recreational Standby Fee payments reallocated into the Beach Fund without their knowledge or permission.

This is obviously an operational violation that needs to be stopped immediately and then fully reversed for previous years. In fact, anything short of a complete public acknowledgement, report and full remedy for all affected citizens will raise suspicions of bad intent.

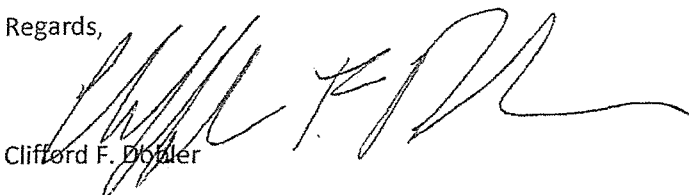
I hope and trust that with the findings reported in this letter, the Audit Committee will now direct IVGID (and their Auditor) to acknowledge this mistake, undo it, investigate why it happened and report on the findings and the processes put in place to ensure that it never happens again.

Also please keep in mind that in light of the disclosures herein, any failure by the Audit Committee members to expedite an investigation and remediation of this problem would easily be considered aiding and abetting this malfeasance.

Thank you all for your prompt attention to this serious matter. If this letter raises any additional questions, I may be contacted by phone(775-722-4487) or email (cfdobler@aol.com).

Regards,

Clifford F. Dobler



## EXHIBIT B

November 25, 2015

To: Board of Trustees

From: Clifford F. Dobler

Re: Beach Analysis

As a result of the misallocation of the Parcel Owner Discounts between the Community Service Fund and the Beach Fund for the past three years and the current year, I decided to study the Beach activity for the past 7 years and the budget for the current year.

The study consist of a two page summary of the Revenue, Expenses, Adjustments, Debt payments, Capital projects and various data compiled from the audited financial statements and budgets and the study is attached hereto.

In looking at sales and fees (line 9) you can see beginning in year 2011 a large jump in amounts received without any real increase in visits (line 46). This was the year, the Staff decided to start grossing up the revenues to account for usage of the punch cards for resident's guests. Further increases in sales and fees then a leveling off occurred in years 2012 to 2015 which must have been a combination of a rate increase (line 42) and increase in visits (line 46). At the same time note the dramatic drop off of the Parcel Owner Discounts (line 13), which is further detailed in my letter to the BofT audit committee on September 30, 2015.

As a result of adjusting and faking the Parcel Owner Discounts (line 13) total revenues (line 18) exploded upwards beginning in years 2013 through 2015.

As this new found source of journal entry funding materialized notice the large increases in expenses (line 29) beginning in 2014, 2015 and the budget for 2016.

By adjusting the Parcel Owner discounts from what was reported to what actually occurred it is easy to see the yearly nosedive in Operating Income (line 33) beginning in 2013.

On page 2 of the analysis which includes the operations, required debt service and capital projects and adjusting for the parcel owner discounts to the proper amounts, the beaches have been operating in the RED (line 60) since the bogus accounting for punch card usage was concocted.

### **What are the ramifications:**

1) The Staff and Board of Trustees in order to "smooth out" the annual Recreational Facility Fee and the Beach Fee has deceived the citizens on exactly how much of a citizen "subsidy" is actually required to support all of the costs and expenses of operating, maintaining and debt service for the beaches. The BofT would have to be honest and explain to the public that the Beach Facility Fee should have been \$150.00 per year rather than the \$100.00 since 2013. Of course, there would also be a corresponding reduction in the Community Service Recreational Facility Fee from \$730.00 down to \$680.00. This explanation would also require courage and admitting a mistake.

2) The estimated Beach Fund "reserves" AKA unrestricted assets of \$1,192,021 as of June 30, 2015 would be ZERO or negative if the \$1,200,000 of punch card usage not recorded at the beaches was recorded properly and the cash funds returned to the Community Service Fund.

3) The published five year capital project report would be incorrect as there would be no funds to accomplish any new capital projects. The existing five year capital project report indicates capital projects would be "Paid from Beach Fund Balance, as available" Since there is truly no reserves available nothing could be constructed. As a result, in order to fund planned capital projects the Beach Fee most probably would have to be increased above the \$150 per year mark or borrowings would be required.

4) There are different parcel owners who are charged different fees depending on which parcels have beach access rights. Again an admission of a mistake would be required.

I would suggest that this fiasco be corrected and above all reported and managed properly.

Clifford F. Dobler

A handwritten signature in black ink, appearing to read "C. DOBLER". The signature is written in a cursive, somewhat stylized font.

	A	B	C	D	E	F	G	H	I	J	K	L
1	<b>Incline Village General Improvement District</b>											
2	Analysis of Actual Revenues and Expenses 2009 to 2015 and budget for 2016											
3	data obtained from audited financial statements and budgets											
4												
5	<b>BEACHES</b>											
6	<b>ACTUALS</b>										<b>BUDGET</b>	
7			2009	2010	2011	2012	2013	2014	2015	2016		
8	<b>Operating Revenues</b>											
9		Sales and Fees	533,603	501,128	672,581	838,017	866,215	871,540	871,379	855,200		
10		Food and Beverage	128,022	99,152	61,227	-	-	-	-	-		
11		Concessions			26,810	69,974	63,915	70,839	62,500	62,500		
12		Rents	88,451	110,536	4,573	108,288	127,999	161,867	118,700	120,000		
13		Parcel Owners Discounts	-	-	(319,888)	(448,003)	(77,888)	(71,625)	(62,978)	(70,500)		
14		Other Revenues	16,466	13,698		(6,000)	6,160	2,988		9,000		
15		<b>User Fees and Other Revenues</b>	<b>766,542</b>	<b>724,514</b>	<b>445,303</b>	<b>562,276</b>	<b>936,404</b>	<b>1,035,609</b>	<b>989,601</b>	<b>976,200</b>		
16												
17		Recreational Standby Fee	1,210,476	865,540	783,028	899,565	775,102	780,716	778,149	774,300		
18		<b>Total Revenues</b>	<b>1,977,018</b>	<b>1,590,054</b>	<b>1,228,331</b>	<b>1,461,841</b>	<b>1,761,503</b>	<b>1,816,325</b>	<b>1,767,750</b>	<b>1,750,500</b>		
19												
20	<b>Operating Expenses (no depreciation)</b>											
21		Wages and Benefits	640,061	592,445	627,406	528,625	554,750	690,594	771,640	909,410		
22		Cost of Goods Sold	34,628	30,038	13,030	-	-	-	-	-		
23		Services & Supplies	329,719	322,697	368,704	344,221	325,734	374,682	547,567	422,545		
24		Central Service cost				69,600	63,600	72,000	in service & supp	90,500		
25		Insurance	10,343	17,159	16,427				18,944	19,900		
26		Utilities	81,503	81,839	76,596	78,318	77,989	85,763	102,082	91,140		
27		Legal and Audit	15,918	7,634	4,798	7,369	4,683	3,246	2,746	15,000		
28												
29			1,112,172	1,051,812	1,106,961	1,028,133	1,026,756	1,226,285	1,442,979	1,548,495		
30												
31		<b>Operating Income as Reported</b>	<b>864,846</b>	<b>538,242</b>	<b>121,370</b>	<b>433,708</b>	<b>734,747</b>	<b>590,040</b>	<b>324,771</b>	<b>202,005</b>		
32		Adjust for Parcel Owner Discount (per EICK)					(371,956)	(380,073)	(376,792)	(375,000)		
33		<b>Operating Income adjusted</b>	<b>864,846</b>	<b>538,242</b>	<b>121,370</b>	<b>433,708</b>	<b>362,791</b>	<b>209,967</b>	<b>(52,021)</b>	<b>(172,995)</b>		
34												
35												
36		<b>Sales and Fees to Users only</b>	<b>533,603</b>	<b>501,128</b>	<b>672,581</b>	<b>838,017</b>	<b>866,215</b>	<b>871,540</b>	<b>871,379</b>	<b>855,200</b>		
37		Parcel Owners Discounts - as Reported			(319,088)	(448,003)	(77,888)	(71,625)	(62,978)	(70,500)		
38		Parcel Owners Discounts - Adjustments					(371,956)	(380,073)	(376,792)	(375,000)		
39		<b>Adjusted Sales and Fees</b>	<b>533,603</b>	<b>501,128</b>	<b>353,493</b>	<b>390,014</b>	<b>416,371</b>	<b>419,842</b>	<b>431,609</b>	<b>409,700</b>		
40		<b>Percentage of Discounts to Sales not recorded</b>					<b>-43%</b>	<b>-44%</b>	<b>-43%</b>	<b>-44%</b>		
41												
42		Rate Increase					\$10 to \$12					
43		FTE Personnel (Budget)	16.9	18.1	17.8	14.9	15.3	17.1	20.2	22.0		
44		Incremental Personnel Expense						135,844	81,046	137,770		
45		Personel Expense per each FTE increase						\$ 75,469	\$ 26,144	\$ 76,539		
46		Visits	159,827	152,624	155,671	165,387	165,089	173,963	153,841	165,000		
47												

	A	B	C	D	E	F	G	H	I	J	K	L
49	<b>BEACHES</b>											
50					<b>ACTUALS</b>							<b>BUDGET</b>
51					<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
52	Operating Income as Reported				864,846	538,242	121,370	433,708	734,747	590,040	324,771	202,005
53												
54	Interest on Debt				(51,008)	(32,663)	(27,759)	(23,318)	(19,234)	(11,811)	(5,000)	(934)
55	Principal on Debt				(233,144)	(240,362)	(217,040)	(58,757)	(168,648)	(263,218)	(270,602)	(5,216)
56	Capital Projects				(80,587)	(122,173)	(138,173)	(17,544)	(550,397)	(127,176)	(695,822)	(203,000)
57												
58	Net Resources				500,107	143,044	(261,602)	334,089	(3,532)	187,835	(646,653)	(7,145)
59	Adjustment for Parcel owners discounts								(371,956)	(380,073)	(376,292)	(375,000)
60					500,107	143,044	(261,602)	334,089	(375,488)	(192,238)	(1,023,445)	(382,145)
61												
62	Combined Losses				\$ (1,257,678)							



## Exhibit C

Transcription of Relevant Comments – Verbatim in “quotes”:  
of Dan Carter of EideBailly to the IVGID Audit Committee  
On 12/16/15 – as viewed on Livestream (starting at about 9 minutes into the session)  
by Linda Newman  
Subject: IVGID 2015 CAFR

Present: Audit Committee Trustees Callicrate, Wong and Hammerel  
Dan Carter, EideBailly - Audit Partner that led engagement  
GM Pinkerton  
Director of Finance Eick  
IVGID Counsel Jason Guinasso  
IVGID Executive Ass't Susan Herron

Community members –including Trustee Phil Horan

Question by Chairperson Kendra Wong:

“Something that’s come up with a lot of different community members is how we account for our punch card usage and the fact that if we use a punch card at the beach that it stays within the beach fund essentially to make sure people who don’t have beach access aren’t necessarily paying for things related to the beaches. So can you talk about the audit procedures that you do over that process and how comfortable you are that our communityservices funds and our beach funds stay separate?”

Answer by Dan Carter:

“It is our understanding that IVGID has a policy to account for basically the contra revenue of those beach cards against the people who are actually paying for them. They are associated with fees or the taxes associated on a parcel by parcel basis. So the policy of IVGID, as approved by the Board of Directors, is to offset those punch cards against the property holders versus the actual users. And so we have, you know, our basic audit procedures covered that area. We were comfortable that we had done enough work over that and found basically the ratio of those contra revenues to be in line with the property taxes themselves, so yeah, we were able to gain comfort with that specifically, yeah.”

Chairperson Wong:

“Thank you.”

Dan Carter:

“Of course.”

Trustee Callicrate:

Presents an apology to the other trustees and the accounting firm explaining that he had a series of work emergencies -- and as he could not thoroughly review this matter, he could not move forward. He also complimented and thanked Mr. Carter for his firm's services.

Trustee Hammerel:

Noted that Mr. Carter would be leaving after the Audit Committee Meeting and that Mr. Carter would not be present at the regular Board of Trustees meeting. Stated that questions from other community members as well as Trustees not on the audit committee might come up relative to the review and approval of the District's transition to Enterprise Fund Accounting from Special Revenue Fund Accounting and whether it was appropriate or not appropriate. Asked Mr. Carter to comment on the District's transition to Enterprise Fund Accounting.

Dan Carter:

Corrected Trustee Hammerel politely noting that it was the reverse transition -- from Enterprise to Special Revenue Fund Accounting.

Then answered Trustee Hammerel's Question:

"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 seen as approving those functions because we have to keep our independence with management what goes on up here. We really will come in on the back end and audit those funds to make sure they are being used properly and all the accounting with the transfers and the transitions all happened properly. So, I certainly can't guarantee that we won't have issues on the back end. And you know if there's adjustments that need to be made for us to be able to issue our opinion on them we will definitely present those to this group. So, I would say we had specific conversations with the Department of Taxation but it was more about the use of Special Revenue Funds. There are specific guidance in GASB about what can and can't be accounted for with a Special Revenue Fund and it kind of came out of -- it's not really an issue up here but we have a lot of governments with just dozens and dozens of Special Revenue Funds. Any time something new came up they would just create a new fund to account for it. So GASB was trying to clean that up. And put in some pretty strict guidance as far as what when a Special Revenue Fund can be used. It is unusual up here when we use the word *fee* like the Community Services *fee* or the Beach *fee because it's actually technically a tax*. It's collected by the Washoe County Assessor's Office and remitted to you guys along with regular property taxes so the fact that there's a restriction on the use of that tax money is exactly what a special revenue fund is used for. You know, it's a change in the funds, but I think it's the utilities funds being enterprise funds makes sense to me and not that using enterprise fund accounting for the beach and community services hasn't been okay in the past but if you really think of it more like a parks and rec type function within the government and splitting those up to be able to show funds that need to be accumulated for you know future capital improvements and maintenance, you know the debt associated with each of those separate functions and then obviously the special revenue fund to account for the receipt of taxes and the operations of them. It seems like it will be a benefit to the organization to be able to break those out and show them separately. But again, you know, I can't guarantee that there won't be issues,

you know, in the accounting for it. It is a complicated process and it seems like there's been a lot of due diligence going into it. It is disclosed as a subsequent event in the current year CAFR. But I think on a go forward basis once we can get through the transitional period I would hope that it would be, you know, a clear way to report the activities of everything that runs through those two funds. You know, right now, you know if you want to save up money for a capital project it's just building a fund balance which isn't necessarily what you should be doing in an enterprise fund. Getting that out and doing it in a capital projects fund is typically what we see. So, does that answer your question?"

Trustee Hammerel:

"Yeah, it does. Thank you very much."

Trustee Hammerel then addressed Trustee Horan, who was seated with the community, and gave him the opportunity to pose a question as Mr. Carter would not be available to speak at the Board Meeting.

Trustee Horan declined.

Audit Committee Trustees Wong and Hammerel then approved the 2015 CAFR. Audit Committee Trustee Callicrate voted against approving the 2015 CAFR.



## Exhibit D

February 19, 2016

TO: Audit Committee - Trustees Callicrate, Wong and Hammerel

RE: Questions asked of Dan Carter of EideBailly at Audit Committee Meeting on 12/16/2015 regarding the accounting for punch cards.

Transcript of Question and Answer and my observations and comments

### **Question by Kendra Wong**

First Sentence - "Something that's come up with a lot of different community members is how we account for our punch card usage and the fact that if we use a punch card at the beach that it stays within the beach fund essentially to make sure people who don't have beach access aren't necessarily paying for things related to the beaches."

Comments: If a punch card is used at the beach for admission of a guest then the fee collected must remain at the beach. So any discount obtained by the use of the punch card (which is 100% of the fee charged) should also remain at the beach. So are we accounting for that discount appropriately? As a matter of FACT 88% of the punch card discounts used at the beach is being reported as a discount in the Community Services Fund wherein no sale at all has taken place. The cash amount of the discounts is then transferred from the Community Services Fund to the Beach Fund. There are approximately 400 parcel owners who pay the Community Services Fund Recreation Facility Fees and don't have beach access but are required to fund their share of the punch card discounts transferred to the Beaches. These owners represent approximately 5% of the total parcel owners. As such, these owners from 2013 through 2016, have had to pay 5% of the \$1,500,000 transferred from the Community Services Fund to the Beach Fund. Please see calculation below.

So the simple answer to the question is: NO. The use of the punch card transaction is not staying at the beach and YES, people who don't have beach access are paying for things related to the beaches. The answer to the question by Dan Carter which is cited below can only be described as inept.

Second Sentence – "So can you talk about the audit procedures that you do over that process and how comfortable you are that our community services funds and our beach funds are separate?"

Comments: The questions which would be appropriate: Have you reviewed all of the punch card discounts used at the beach? Have you evaluated the process for allocating the discounts between two separate funds? Is the allocation process correct? Are all discounts recorded at the beach by use of the punch card (the process) been reviewed by you and found correct and in accordance with generally accepted accounting principles?

### **Answer by Dan Carter**

First sentence - "It is our understanding that IVGID has a POLICY to account for basically the contra revenue of those beach cards against the people who are actually paying for them."

Comments: Is there a policy to account for basically the contra revenue for "those beach cards"? Since we have no idea what a "beach card" is or knowledge of its existence, how can anyone be paying for something that does not exist. As for a Board approved policy please be kind enough to present it to me for my examination.

**Second sentence** - "They are associated with fees or the taxes associated on a parcel by parcel basis."

Comments: I assume the "They" must mean those mysterious "beach cards." So Mr. Carter's second sentence has no meaning.

**Third sentence** - "So the policy of IVGID, as approved by the Board of Directors, is to offset those punch cards against the property holders versus the actual users."

Comments: There is no policy approved by the Board of Directors to "offset those punch cards." So this third sentence is untrue. If there were a Board approved policy, please explain what exactly is being "offset".

**Fourth sentence** - "And so we have, you know, our basic audit procedures covered that area."

Comments: What "area"? Are we to surmise the audit procedures were covering those "beach cards"? Or the "two IVGID policies"? Or the unknown "offsets"? Or the punch card? Please provide a detailed explanation.

**Fifth sentence** - "We were comfortable that we had done enough work over that and found basically the ratio of those contra revenues to be in line with the property taxes themselves, so yeah, we were able to gain comfort with that specifically, yeah."

Comments: "The contra revenues to be in line with the property taxes themselves." What does that even mean? We pay a Recreation Facility Fee and a Beach Facility Fee. Are these property taxes? Please clarify whether the Recreation Facility Fee and the Beach Facility Fee are property taxes or fees? And explain the ratio Mr. Carter has constructed.

### Summary

Did Mr. Carter's answer to Trustee Wong's question resolve whether or not "IF WE USE A PUNCH CARD AT THE BEACH THAT IT STAYS WITHIN THE BEACH FUND?" As previously stated in my memorandum of September 30, 2015 and confirmed by Mr. Eick, there is approximately \$450,000 per year of **free** guest entry at the beach by using the punch card. The stated beach guest entry fee is recorded as gross revenues in the Beach Fund and the 100% contra revenue or discount by use of the punch card is **recorded as only 12% in the Beach Fund**. The remaining punch card discount of 88% is recorded as a contra revenue (parcel owner discount) in the **Community Services Fund**. There is no actual sale recorded in the Community Services Fund yet a discount of 88% of the stated beach entry fee is recorded in the Community Services Fund. According to Mr. Carter this bookkeeping activity is actually a policy adopted by the Board of Trustees. We all know this accounting does not conform to accounting standards and is factually incorrect. What we know to be factually accurate is the net

revenues for the past three years have been vastly overstated at the Beach Fund and understated at the Community Services Fund by over \$1,125,000 directly as a result of this fraudulent accounting scheme.

I am formally requesting this Audit Committee produce for my examination the Board approved policy that defines and permits the accounting for punch card discounts to be recorded at the Community Services Fund and the Beach Fund regarding the free entry of guests at the beaches. This is a Public Records Request.

**This is Serious. Now is the time for you to take corrective action.**

**Below are some of my observations:**

Beginning in 2011 it became obvious that the actual cash revenues collected at the beaches would not be adequate to cover the required expenses and costs. To cover these escalating costs the Beach Facility Fee would have to be increased beyond the \$100 per year assessed. Staff was also proposing beach facility expansions which would also require raising the Beach Facility Fee. Borrowings would be out of the question as most residents want the beaches to be left alone and not to be tinkered with.

So it was up to the Director of Finance to come up with a creative solution to cover these rising costs and expenses without raising the Beach Facility Fee. And the solution was implemented through the budgeting process. Actual historical data existed which indicated that punch card discounts were predominately used at the beach so there was only small cash revenues. Since the beaches are restricted to homeowners, residents and their guests the ability to find new revenue sources would be minimal. So Staff needed to develop an accounting process to transfer money from the other recreational venues to the beaches.

So here comes the accounting theory. Our combined Recreation Facility Fee and Beach Facility Fee works out that 88% is required for the Community Services Fund and 12% is required for the Beach Fund. So let's forget about where the punch card discounts have historically been used and simply allocate the punch card discount 88% and 12% to the respective funds no matter where the punch cards are actually used. Ignore the actual fact that most of the punch cards are used at the beaches. Thus, one part of the various undocumented and unapproved smoothing policy had been established. The District had found a way to get more net revenues in the Beach Fund by reporting the full entry fees but only reporting 12% of the actual 100% discount from using the punch cards. The remaining 88% discount provided at the beaches but recorded in the Community Services Fund could easily be disguised since the Fund's revenues are 10 times larger than the Beach Fund and the discounts could be absorbed without much notice.

Was this discussed with the Board and a policy approved? I think not. The Board of Trustees as 'rubber stamp actors' simply approved the budget and I guess would not question that the Budget did not have the punch card discounts allocated properly.

Mr. Eick was faced with the dilemma of how he would record the remaining 88% of the punch card discount from the beaches onto the Community Services Fund. There were no sales made wherein an



88% discount could be assessed. As a result all punch card discounts were hidden in the administration department of the Community Services Fund. All Beach Fund discounts absorbed by the Community Services Fund were paid in cash to the Beach Fund.

Now, the simple and proper thing to do would be to budget the necessary Beach Facility Fee for the Beach Fund at a higher amount and lower the Recreation Facility Fee for the Community Services Fund by the corresponding amount. Easy? Yes. But then the District would have to face the community and explain why they are raising the Beach Facility Fee. As for reducing the Community Services Fee, also known as the Recreation Facility Fee, the community would applaud. But the District's Staff does not like deviating from their unapproved and amorphous "smoothing" policy.

As shown below, Beach Fund expenses and costs (debt service and capital projects) less ACTUAL revenues collected (excluding the revenues which are 100% FREE by use of the punch card discounts) far exceed the Beach Facility Fee charged to beach access parcel owners. As a result, a huge shortfall began in 2013. In the prior four years from 2009 to 2012 the District was able to keep operating expenses at approximately \$1,100,000 per year. The budget for 2016 lists expenses at \$1,548,408. An explosion of over 40% within four years!

Year	Expenses & Costs	Actual Revenue	Required Beach Fee	Actual Beach Fee	Short Fall
2013	1,765,035	(614,445)	1,150,590	775,102	375,488
2014	1,628,490	(655,536)	972,954	780,716	192,238
2015	2,414,403	(612,809)	1,801,594	778,149	1,023,445
2016	1,757,645	(601,200)	1,156,445	774,300	382,145

The SHORTFALL noted above for the past three years together with the 2016 budgeted is almost \$2,000,000. Approximately \$375,000 per year since 2013 has been transferred to the Beach Fund from the Community Services Fund with another \$375,000 expected this current year. The total is \$1,500,000.

In conclusion, if the Board of Trustees wants to continue this nonexistent approved POLICY of punch card discount allocations then go right ahead with the knowledge that you are not in compliance with Nevada Revised Statutes and you are not allocating punch card discounts in conformity with generally accepted accounting principles.

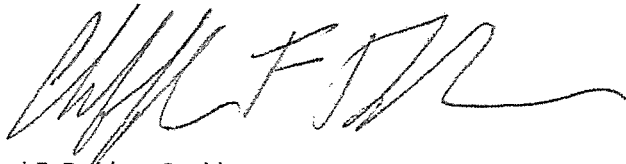
Rest assured that I personally will continue to press upon all of the Trustees to stop this charade and act prudently, correct the mistake and move forward.

If any of you have any logical concept, justification or POLICY which would deem the Punch Card Discounts as reported in the last three years of audited financial statements as being in accordance with any generally accepted accounting principles, then please provide them to me.

If any Audit Committee member actually believes that the answers to the questions asked of Dan Carter was sufficient and as a result the matter was resolved, then I expect a letter signed by each of you attesting to that fact.

To proceed forward with approving the financial statements for the 2014-2015 fiscal year is beyond my understanding. It did, however, demonstrate your failure to exercise your fiduciary duty to Incline Village/Crystal Bay parcel owners.

It is apparent you need my help as you are being taken advantage of by IVGID Staff and the District's counsel. I plead that you do not abuse the public trust and sacrifice your professional integrity by surrendering to the will of senior management.

A handwritten signature in black ink, appearing to read 'Clifford F. Dobler', written in a cursive style.

Clifford F. Dobler - Resident

cc: Eide Bailly

cc: Trustee Dent

cc: Trustee Horan

## **Exhibit E**

**March 3, 2016**

**IVGID - Board Retreat Discussion  
2016-2017 Operating Budget  
March 3, 2016  
Punch Cards - Pages 21 to 26**

**Comments on each page by Clifford F. Dobler  
To be included in next Board Packet**

### **Page 21 - PUNCH CARD ADMINISTRATION**

Using the need to change Ordinance 7 to reflect proper accounting of punch card discounts is utter nonsense and an improper statement. Ordinance 7 does not permit the 100% punch card discount used for free guest beach entry to be accounted for with 88% of the 100% discount allocated to the Community Services Fund and 12% of the 100% discount allocated to the Beach Fund.

In order to comply with Nevada Revised Statutes and Generally Accepted Accounting Principles the 100% punch card discount for free guest beach entry must be allocated to the Beach Fund. The Budget should accurately reflect the "actual" historical usage of punch card discounts at the Beaches and the Community Services venues to prepare the upcoming 2016/17 Budget.

### **Page 22 - PUNCH CARD CONTEXT THEN & NOW**

This page has interesting facts but does not provide any context on Punch Cards.

### **Page 23 - PUNCH CARD ACCOUNTING EFFECTS**

As the District has a system to track every punch card discount transaction, why is the District misrepresenting the venues where the punch card discounts are actually utilized? The discounts reported in the Community Services Fund and Beach Fund financial statements are most certainly an allocation that has not been properly applied against the actual revenue source.

### **Page 24 - PUNCH CARD BUDGETING**

I would expect each venue to receive the actual revenue it receives from user fees regardless of payment types. I would expect that budget projections are based upon accurate historical data and that financial reporting of actual revenues are accurately reported. Apparently, the District has carved out a special exception for Punch Cards. When this "payment type" for free guest entry is used at the Beaches, the actual 100% discount and net revenue of ZERO is not properly reported in the Beach Fund.

**ON WHAT BASIS SHOULD THE MAJORITY OF PUNCH CARD DISCOUNTS BE DUMPED INTO THE COMMUNITY SERVICES ADMINISTRATION WHEN THE MAJORITY OF THE PUNCH CARD DISCOUNTS ARE USED AT THE BEACH?** There is no rational justification for this, only faulty logic. Apparently, the beaches needed more money to cover rising expenditures and Senior Management did not want to increase the Beach Facility Fee. The District's undefined and unapproved **SMOOTHING** policy was called into service to create an arbitrary allocation of punch card discounts to the Community Services Fund which capped the amount of punch card discounts that would be applied to the Beach Fund. The outcome of this sleight of hand would improve the appearance of Beach Fund net revenues to cover its expenditures and everyone paying the Recreation Facility Fee would in fact be paying for Beach Fund expenses! This is the "art of deception" in accounting. It inflates the budgeting demands of one Fund, the Community Services Fund which collects the Recreation Facility Fee to unlawfully provide and transfer the resources to the Beach Fund to meet its expenditures.

### **Page 25 - PUNCH CARD VALUES**

Good information.

### **Page 26 - PUNCH CARD UTILIZATION**

There is no historical summary of actual punch card usage at the District's recreational venues. Because Mr. Eick was kind enough to provide this information at my request, we can see that **THE MAJOR PORTION OF PUNCH CARD DISCOUNTS ARE UTILIZED AT THE BEACHES AND THIS AMOUNTS TO APPROXIMATELY \$450,000 ANNUALLY.** The District's Accounting Reports do not reflect this! Ask Mr. Eick to provide the very information I requested on the actual utilization of the punch card discounts and ask why they are reported in any other fashion. He will hide behind Ordinance 7 and have no plausible explanation.

### **MY CLOSING REMARKS:**

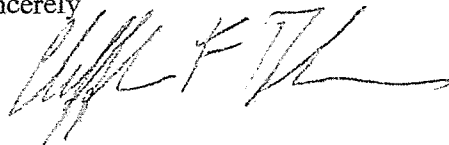
The change in the accounting for punch card discounts which occurred at the beginning of the 2012/13 fiscal year and continues today has created a massive fraudulent accounting scheme. Approximately \$1,500,000 will have been transferred from the Community Services Fund to the Beach Fund by the end of this fiscal year. Over 8,180 parcel owners, of which over 400 do not have beach access, have had to chip in to pay for this transfer.

This is an issue ripe for litigation. If Senior Staff and Trustees cannot correct this material misstatement and ensure proper financial accounting and reporting, this will be the most viable option for the community to pursue.

Mr. Eick's presentation is another snowball to confuse you and avoid the real problem.

6 pages of attachments included  
cc: Eide Bailly

Sincerely



# Board Retreat Discussion 2016-2017 Operating Budget March 3, 2016

Gerald W Eick, CPA CGMA Director of  
Finance, Accounting, Risk Management  
and Information Technology



# Punch Card Administration

- Punch Cards, as a form of payment, is the single largest exception to our ease of use of off the shelf point of sales systems
- Until Ordinance 7 is changed, staff sees no other alternative to the present accounting
- Staff will work to make the message cleared about Punch Card accounting in the budget



# Punch Card Context Then & Now

## Budgeted 1998-1999

- Recreation & Beach Total Sources - \$12,130,257
- Facility Fee \$2,208,400
- Total Operating Uses \$9,174,285
- Capital Expenditures \$3,220,393
- Debt Service \$1,854,257
- Total Expend. \$14,248,935
- Facility Fees \$275/\$200

## Budgeted 2015-2016

- Recreation & Beach Total Sources \$19,363,462
- Facility Fee \$6,746,430
- Total Operating Uses \$15,366,065
- Capital Expenditures \$2,802,296
- Debt Service \$1,289,196
- Total Expend. \$19,457,557
- Facility Fees \$830/\$730



# Punch Card Accounting Affects

- Ordinance 7 establishes the privilege to obtain a “Punch Card” to buy down user fees to resident rates
- District has a system to track punch card use based on each transaction to measure the value allowed under Ordinance 7
- Punch Cards are not an allocation, they are entirely based on which individual privileges and cards a parcel holds and uses



# Punch Card Budgeting

- Each venue budgets for and receives the revenue for user fees, regardless of payment type
- Since the Ordinance allows the use of the value of the punch cards to buy down user fees, there is an amount under Recreation Administration and in the Beach Fund to cover the use of the cards



# Punch Card Values

- Cards are worth one fifth of the Facility Fee paid by the parcel for its privileges:
  - Parcel With Beach privileges, punch card value
    - $\$830 / 5 = \$166$
  - Parcel Without Beach privileges, punch card value
    - $\$730 / 5 = \$146$
- Punch Cards are an alternative to picture pass, decided upon by the parcel owner



# Punch Card Utilization

- The three year average use through June 30, 2015 was \$605,000 and has been declining.
- Budget for 2015-2016 was set at \$588,000
- Current fiscal year is fairly close to budget even with increased use at the ski resort
- Currently plan to budget a similar amount for 2016-2017, approximately 20% of the Facility Fee for the operating components





## Exhibit F

### Comprehensive Annual Financial Report Footnotes for Parcel Owner Discounts

#### Year ending June 30, 2012 - page 33:

##### **Q. Parcel Owner Discount**

Under Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of fees.

#### Year ending June 30, 2013 - page 35:

##### **R. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of recreational fees. These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.

#### Year ending June 30, 2014 - page 36:

##### **S. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use a portion of the value of the recreation passes to buy down the difference between a regular rate and the resident rate for certain types of recreational fees. These discounts are presented as contra revenue in the Proprietary Fund statements. Discounts are allocated 88% to Community Services and 12% to the Beach Fund based on their relationship to total facility fees.

#### Year ending June 30, 2015 - page 36:

##### **S. Parcel Owner Discount**

Under District Ordinance 7 parcel owners may use punch cards to buy down the difference between a regular rate and the resident rate for certain types of recreational services. The punch card utilization is presented as contra revenue in the Proprietary Fund statements. **Utilization is allocated based on the card value relationship to one fifth of the per parcel total facility fee.** Typically for a full privilege parcel this is 88% to Community Services Fund and 12% to the Beach Fund.

**PUNCH CARD ACCOUNTING**  
**ATTACHMENT 9**

## MEMORANDUM

Dated: January 27, 2017

To: IVGID Trustee Audit Committee Chair Horan, IVGID Trustee Chair Wong and Trustees Callicrate, Dent and Morris

cc: Susan Herron for Distribution and Inclusion in the Next Board of Trustee Meeting Packet and the next Audit Committee Meeting Packet

From: Clifford F. Dobler and Linda S. Newman

Subject: Financial Statement Fraud and the Misappropriation of Parcel Owner Community Services Standby and Service Charges ("Recreation Facility Fees")

Re: The Continuation of Deceptive and Fraudulent Accounting and Reporting of Recreation Punch Card Transactions for the Community Services and Beach Funds in the IVGID 2016 Certified Audited Financial Report ("CAFR")

Our December 7<sup>th</sup>, 2016 Memorandum entitled "Sounding the Alarm on IVGID's Deceptive and Fraudulent Accounting Practices" was submitted to the IVGID Trustee Audit Committee and the IVGID Board of Trustees, the Independent Auditor, Eide Bailly, the Department of Taxation and the Committee on Local Government Finance.

The Memorandum consisted of 11 pages of explanation and substantive documentation highlighting:

\*Fictional Parcel Owner Discounts on Entry Fees Reported for Fiscal Years 2011 through 2015 and the false and misleading statements in the corresponding Footnotes to the Financial Statements;

\*The Contrived Misallocation of the Fictional Parcel Owner Discounts to inflate Beach Fund operating revenues and distort Community Services Fund operating

revenues –all of which translates into materially impacting the fair presentation of the District’s overall financial statements;

\*The Unlawful and Unreported Cash Transfers from the Community Services Fund to the Beach Fund approximating \$1.355 million through June 30, 2016. This misappropriation of Community Services Fund assets, also known as theft of property from 8181 parcel owners assessed the Community Services Recreation Facility Fee repurposed to pay a portion of Beach Fund expenditures includes more than 400 parcel owners legally precluded from accessing the beaches.

\*Defrauding an entire Community through the improper financial and operational mismanagement of the Community Services and Beach Funds.

To date we have not received a response from any of the recipients of our Memorandum. This creates great concern as these abusive activities and practices continue unabated in the District’s 2016 CAFR along with the District’s attempt to disguise this Fraudulent Scheme by omitting any mention of “Parcel Owner Discounts” and substituting the new term “Punch Cards Utilized”. **Headings, text and explanations have changed from previous years documented in our 12-7-16 Memorandum, but the Fraudulent Misappropriation of Assets and the Fraudulent Financial Statement Reporting Game remains the same.**

To place this in concrete terms with two blatant examples of the District’s intentional errors and misstatements, we draw your attention to the 2016 CAFR Financial Footnote 1.T titled “Punch Cards Utilized” on page 43 and Note 17 “Segment Information for Community Services and Beach Special Revenue Funds” on page 54.

### **1T. Punch Cards Utilized**

**Analysis: The new heading “Punch Cards Utilized” replaces five years of Footnotes titled “Parcel Owner Discount” and the explanatory text that follows omits any mention of “Punch Cards”.**

*Under District Ordinance 7, parcel owners may use a portion of the value of their recreation passes to pay down the difference between a regular rate and the resident rate for certain types of recreational fees.*



Analysis: This explanation is factually incorrect. Recreation Passes as defined under Ordinance 7 have no actual value assigned and are used only as photo identification for the holder to obtain resident rates and privileges. As Recreation Passes have no monetary value, their use does not provide any “pay downs” of the difference between a regular rate and the resident rate for certain types of recreational fees.

*These forms of payment are presented as contra revenue in the Fund statements.*

Analysis: Not only are there no “payments” derived from the use of Recreation Passes, there are no “contra revenue” line items “presented” in the Basic Financial Statements or Supplemental Financial Statements. We are referencing:

Page 26: Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance

Page 29: Community Services Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

Page 30: Beach Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

Pages 64/65: Community Services Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

Page 66: Beach Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

*Utilization is recognized based on the relationship of privileges used to total facility fee paid by the parcel. Under the current fee structure, this is generally 88% to Community Services Special Revenue Fund and 12% to the Beach Special Revenue Fund.*

Analysis: These two sentences are devoid of meaning. Rather than provide clarity they exemplify deliberate obfuscation. Since the Note states that Recreation Passes are the source of these transactions and Recreation Passes are simply photo identification what “utilization” is being accounted, recorded and recognized? This undefined “utilization” we are told is based on the “relationship of privileges used to total facility fee paid by the parcel.” What is the relationship of Recreation Pass privileges used to total facility fees paid? And how is this formula derived and fractionalized to a general 88% to



Community Services Special Revenue Fund and 12% to the Beach Special Revenue Fund?

**Note 17. SEGMENT INFORMATION FOR COMMUNITY SERVICES AND BEACH SPECIAL REVENUE FUNDS**

*The District provides recreation functions through two individual special revenue funds. Each serves a different set of venues and customer base. A significant source of revenue for these functions for operations, capital expenditures and debt service comes directly from a facility fee assessed by parcel for each function and expenditure type.*

*Analysis: This is stated accurately with the exception that the District does not assess a singular facility fee for both special revenue funds. The District annually and uniformly assesses 8181 parcels a Community Services Standby and Service Charge which the District characterizes as a Rec Facility Fee. Of these 8181 parcels, 7,743 are also assessed a Beach Standby and Service Charge for the Beach Fund which the District characterizes as a Beach Facility Fee.*

*Facility Fees have been listed separately by fund and function. The operating portion of the facility fee is combined with charges for services to provide the resources for providing services. Charges for services are aggregated, while expenditures are provided by function.*

*Analysis: This is subject to interpretation as the District's presentation of facility fees is inconsistent and the accuracy of this explanation depends upon which page of the CAFR Financial Statements one is viewing. The final sentence is confusing as it also fails to clarify the definition of function. It is unclear whether these "expenditures" are categorized by the individual venues and/or by operations, capital projects and debt service.*

*As stated in Note 1. T, part of the facility fee can be used to pay for charges for services in lieu of other forms of privileges. These are referred to as Punch Cards.*

*Analysis: This is patently false. Note 1. T makes no such statement and aside from the footnote heading there is no explanation of Punch Cards. Note 17 also fails to mention that payment of the Recreation Facility Fee and/or the Beach*



Facility Fee entitles each parcel owner any combination of five Picture Passes and/or Punch Cards. The Punch Cards are prepaid by the Facility Fees. The Facility Fees are recorded as Revenues in the Community Services and Beach Funds. When a prepaid Punch Card is utilized at a recreational venue and its value is reduced to pay the difference between the resident rate and the general public rate, the transaction DOES NOT generate any additional revenues to the recreational venue.

The following are major functions included in Charges for Services and the approximate amounts of punch cards activity that is included:

		<u>Amounts included in Charges for Services</u>	
	<i>Charges for Services</i>	<i>Paid with Punch Cards</i>	<i>Punch Cards Value Utilized</i>
Golf	\$ 4,133,355	\$ 47,000	\$ -
Facilities	275,156	-	-
Ski	10,202,972	114,000	-
Community Programming	1,264,177	149,000	-
Parks	59,421	-	-
Tennis	166,533	-	-
Recreation Administration	<u>(521,179)</u>	-	<u>(540,000)</u>
Total	<u>\$15,580,435</u>	<u>\$310,000</u>	<u>\$(540,000)</u>
Beach	<u>\$ 1,002,518</u>	<u>\$303,000</u>	<u>\$ (73,000)</u>
District Total		<u>\$613,000</u>	<u>\$(613,000)</u>

Analysis: First, in the Chart above, please take notice that contrary to what the Note states, the portion of the Facility Fees allocated for operations are not included in the Charges for Services. More importantly, be extremely alarmed that the District is recognizing and recording \$613,000 of Punch Card Charges for Services revenues when in fact No Revenues were actually received at the venues. As No Cash was exchanged and fictitious Charges for Services were recorded, a contra revenue amount of \$613,000 was required to balance the books. To compound this fraud, the District decided not to apply 100% of the contra revenue to the venues where the fictitious punch card transactions were actually recorded. They devised a fractionalized formula to accomplish their objectives.

According to the Chart, for the Community Services venues the contra revenue Punch Cards Value Utilized recorded in Recreation Administration was \$540,000 but the reported Paid with Punch Cards Charges for Services was only \$310,000. The difference between these two entries is \$230,000. WHY? For the Beach venues the contra revenue recorded was \$73,000 yet, the Charges for Services Paid with Punch Cards amounts to \$303,000. The difference is \$230,000. WHY?

The simple explanation has remained the same for the past four years. This accounting and recording of non-existent revenues generated by the use of Punch Cards and the invention of an 88% allocation of the contra revenues to the Community Services Fund and 12% to the Beach Fund is the District's mechanism to unlawfully transfer \$230,000 from the Community Services Fund to the Beach Fund for 2016 alone. Over the past four fiscal years more than \$1,355,000 has been misappropriated from 8181 Parcel Owners paying the Community Services Recreation Facility Fee and unlawfully transferred to the Beach Fund. Of the 8181 more than 400 parcel owners are legally precluded from beach access, yet, they are in fact paying for beach fund expenditures.

This Chart is your Road Map to the Fourth Year of the District's Fraudulent double booking of Revenues in Community Services and Beach Venues along with the path of unlawful transfers through the invention of fictitious Paid with Punch Cards Charges for Services and the invented formula for allocating Punch Cards Value Utilized.

Trustee Audit Committee Chair Horan and Board of Trustee Chair Wong, a licensed California CPA continue to ignore this fraudulent accounting and the unlawful cash transfers and at the same time refuse to provide any explanation of why they believe these transactions are in accordance with generally accepted accounting principles and in compliance with Nevada Law.

Trustee failure to investigate and remedy these abuses does not dismiss their fiduciary responsibility for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles and compliance with Nevada Law. Nor does the Independent Audit of the financial statements relieve Management and those charged with governance of their responsibilities. These responsibilities include the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. These Responsibilities are made clear in the Independent Auditor Engagement Letter and the Independent Auditor Report in the 2016 CAFR.

It should be apparent that the District's Fraudulent Punch Card Transaction Scheme commands the intentional corruption of the District's Financial Reporting across all reporting platforms. In order to conceal or disguise this Fraud, the District improperly prepares and reports the District's Annual Budget and loads the Certified Audited Reports with intentional errors and material misstatements impacting the basic and supplemental financial statements and footnote disclosures. These reports have a corrosive effect on the District's credibility as well as public confidence because they are designed to deceive all those who rely upon IVGID financial statements.

We request you review our December 7, 2016 Memorandum together with this Memorandum and the 2016 CAFR and take the appropriate action to end this Fraudulent Accounting and Reporting.

cc: Jeff Strand, Eide Bailly Risk Management  
cc: Dan Carter, Eide Bailly Audit Engagement Partner  
cc: Kelly Langley, Supervisor, Local Government and Finance, DOT  
cc: Committee on Local Government Finance (CLGF)

Attachments:

- 2016 CAFR Page 43 – Footnote 1.T Punch Cards Utilized
- 2016 CAFR Page 54 - Footnote 17 Segment Information for Community Services and Beach Special Revenue Funds
- 2016 CAFR Page 26 - Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
- 2016 CAFR Page 29 - Community Services Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
- 2016 CAFR Page 30 - Beach Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
- 2016 CAFR Pages 64/65 – Community Services Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
- 2016 CAFR Page 66 – Beach Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual



of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**S. Central Services Cost Allocation**

The District allocates the shared costs of Accounting and Human Resources based under a plan which considers wages, benefits, full time equivalents and certain services and supplies as a basis for determining charges. The charges are based on budgeted expenses. The revenue generated by the allocation is recorded as a separate line item with the expense category to reflect District-wide expenses at net.

**T. Punch Cards Utilized**

Under District Ordinance 7, parcel owners may use a portion of the value of their recreation passes to pay down the difference between a regular rate and the resident rate for certain types of recreational fees. These forms of payment are presented as contra revenue in the Fund statements. Utilization is recognized based on the relationship of privileges used to total facility fee paid by the parcel. Under the current fee structure, this is generally 88% to Community Services Special Revenue Fund and 12% to the Beach Special Revenue Fund.

**U. Implementation of GASB Statement No. 72**

As of July 1, 2015, the District adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The implementation of this standard requires governments to measure investments at fair value. The additional disclosures required by this statement are included in Note 2.

**DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

At year end the carrying amount of the District's checking deposits was \$5,132,526, while the bank balance was \$5,445,892. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Coverage and the balance was covered by pledged collateral under an arrangement with the State of Nevada on behalf of all local units of government.

Cash and Cash Equivalents at June 30, 2016 consist of:

Operating Checking Accounts	\$5,132,526
Petty cash and change funds	66,407
US Government Money Market	<u>449,012</u>
Total	<u>\$5,647,945</u>

A portion of the District's investments are placed with Wells Fargo Bank as custodian in the US Government Money Market, where fair value is determined by multiplying the number of trading units held, by the quoted market value on that date.

The District categorizes its fair value measurements for investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs.

The District is a voluntary participant in the State of Nevada Local Government Investment Pool (LGIP), which has regulatory oversight from the Board of Finance of the State of Nevada. The District's investment in the LGIP is equal to its original investment plus monthly allocation of interest income, and realized and unrealized gains and losses, which is the same as the value of the pool shares. The District's investment in the LGIP is reported at fair value. Fair value is determined on a daily basis.



necessary, to recover the costs. The District's Construction in Progress for the Community Services Fund carried \$236,616 as the cost of this claim. The claim was settled October 22, 2015 in an amount to cover those costs. This recovery of capital costs is part of the increase to unrestricted fund balance in the Community Services Special Revenue Fund.

### 17. SEGMENT INFORMATION FOR COMMUNITY SERVICES AND BEACH SPECIAL REVENUE FUNDS

The District provides recreation functions through two individual special revenue funds. Each serves a different set of venues and customer base. A significant source of revenue for these functions for operations, capital expenditure and debt service comes directly from a facility fee assessed by parcel for each function and expenditure type. Facility Fees have been listed separately by fund and function. The operating portion of the facility fee is combined with charges for services to provide the resources for providing services. Charges for services are aggregated, while expenditures are provided by function. As stated in Note 1 T, part of the facility fee can be used to pay for charges for services in lieu of other forms of privileges. These are referred to as Punch Cards. The following are major functions included in Charges for Services and the approximate amounts of punch cards activity that is included:

	Charges for Services	Amounts included in Charges for Services	
		Paid with Punch Cards	Punch Cards Value Utilized
Golf	\$ 4,133,355	\$ 47,000	\$ -
Facilities	275,156	-	-
Ski	10,202,972	114,000	-
Community Programming	1,264,177	149,000	-
Parks	59,421	-	-
Tennis	166,533	-	-
Recreation Administration	(521,179)	-	(540,000)
Total	<u>\$ 15,580,435</u>	<u>\$310,000</u>	<u>\$(540,000)</u>
Beach	<u>\$ 1,002,518</u>	<u>\$303,000</u>	<u>\$(73,000)</u>
District Total		<u>\$613,000</u>	<u>\$(613,000)</u>

### 18. COMMITMENTS

#### General Fund:

The District entered into an unemployment insurance contract with First Nonprofit Companies for total premiums of \$200,000 for calendar year 2016 services. As of June 30, 2016 \$100,000 in quarterly deposits are remaining to be paid as a part of the subsequent year's budget.

#### Capital Project Carryover:

The District budgets for capital projects one year at a time for capital improvement project spending authority. However, the actual execution of construction or acquisition can span one or more fiscal years. The District has identified carryover and unspent budget authority for those projects. The amounts for governmental fund types are re-budgeted for the subsequent fiscal year. The unused resources become part of Unrestricted Net Position in its Enterprise Funds.

#### Utility Fund:

As of June 30, 2016 there is \$10,967,144 of identified projects included in the carryover. The most significant portion is \$7,942,937 for the Effluent Export Line and \$1,119,693 for the Public Works Equipment Storage Building.

On March 30, 2016, the Board of Trustees authorized the purchase for \$185,000 of a 2.08 acres parcel of land adjacent to the District Waste Water Treatment Plant. On September 1, 2016 the transaction reached a point where a definitive purchase agreement could be executed, pending further action to complete a land boundary adjustment. Closing is expected prior to June 30, 2017.

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2016**

	GENERAL	COMMUNITY SERVICES SPECIAL REV.	BEACH SPECIAL REVENUE	COMMUNITY SERVICES CAP. PROJECTS	BEACH CAPITAL PROJECTS	COMMUNITY SERVICES DEBT SERV.	BEACH DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>								
Ad valorem taxes	\$ 1,497,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,497,006
Intergovernmental:								
Consolidated and other taxes	1,487,986	-	-	-	-	-	-	1,487,986
Services	-	15,787	-	-	-	-	-	15,787
Charges for Services	-	15,580,435	1,002,518	-	-	-	-	16,582,953
Facility Fees - Operations	-	2,180,524	582,058	-	-	-	-	2,762,582
Facility Fees - Capital Expenditure	-	2,524,818	186,259	-	-	-	-	2,711,077
Facility Fees - Debt Service	-	1,278,804	7,761	-	-	-	-	1,286,565
Operating Grants	1,140	18,440	-	-	-	-	-	19,880
Capital Grants	-	-	-	586,361	-	-	-	586,361
Investment Income	45,989	58,438	11,263	-	-	-	-	115,690
Sale of Capital Assets	-	34,409	-	38,793	2,607	-	-	75,719
Miscellaneous	2,863	474,853	344	-	-	-	-	478,060
Total revenues	<u>3,035,284</u>	<u>22,166,508</u>	<u>1,790,203</u>	<u>625,064</u>	<u>2,607</u>	<u>-</u>	<u>-</u>	<u>27,619,666</u>
<b>EXPENDITURES</b>								
<b>GENERAL GOVERNMENT</b>								
Current:								
Manager	322,337	-	-	-	-	-	-	322,337
Treasurer	173,671	-	-	-	-	-	-	173,671
Accounting	915,338	-	-	-	-	-	-	915,338
Information Services	700,124	-	-	-	-	-	-	700,124
Risk Management	127,565	-	-	-	-	-	-	127,565
Human Resources	513,369	-	-	-	-	-	-	513,369
Health & Wellness	23,125	-	-	-	-	-	-	23,125
Community & Employee Relations	159,260	-	-	-	-	-	-	159,260
Administration	575,458	-	-	-	-	-	-	575,458
Central Services Cost Allocation Income	(1,123,000)	-	-	-	-	-	-	(1,123,000)
Capital Outlay	79,331	-	-	-	-	-	-	79,331
<b>RECREATION</b>								
Championship Golf	-	3,526,103	-	-	-	-	-	3,526,103
Mountain Golf	-	937,694	-	-	-	-	-	937,694
Facilities	-	432,187	-	-	-	-	-	432,187
Ski	-	6,441,024	-	-	-	-	-	6,441,024
Community Programming and Recreation Center	-	2,228,727	-	-	-	-	-	2,228,727
Parts	-	715,538	-	-	-	-	-	715,538
Tennis	-	256,359	-	-	-	-	-	256,359
Recreation Administration	-	315,943	-	-	-	-	-	315,943
Beach	-	-	1,493,554	-	-	-	-	1,493,554
Capital Outlay	-	-	-	2,344,198	319,152	-	-	2,663,350
Debt Service:								
Principal	-	-	-	-	-	1,078,781	3,216	1,084,600
Interest	-	-	-	-	-	204,299	973	205,263
Total expenditures	<u>2,466,578</u>	<u>14,853,575</u>	<u>1,493,554</u>	<u>2,344,198</u>	<u>319,152</u>	<u>1,283,074</u>	<u>6,189</u>	<u>22,766,320</u>
Excess of revenues over expenditures	<u>568,706</u>	<u>7,312,933</u>	<u>296,649</u>	<u>(1,719,134)</u>	<u>(316,545)</u>	<u>(1,283,074)</u>	<u>(6,189)</u>	<u>-853,346</u>
<b>OTHER FINANCING SOURCES:</b>								
Transfers In (Out) - Facility Fees for Capital Expenditure	-	(2,524,818)	(186,259)	2,524,818	186,259	-	-	-
Transfers In (Out) - Facility Fees for Debt Service	-	(1,278,804)	(7,761)	-	-	1,278,804	7,761	-
Transfer In (Out) - From Other Sources	(250,000)	(1,012,238)	(150,665)	1,255,857	150,665	6,381	-	-
Net change in fund balance	318,706	2,497,073	(46,016)	2,061,541	20,379	2,111	1,572	4,853,346
Fund balance, July 1	<u>1,501,287</u>	<u>5,357,755</u>	<u>1,107,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,966,828</u>
Fund balance, June 30	<u>\$ 1,819,993</u>	<u>\$ 7,854,828</u>	<u>\$ 1,059,750</u>	<u>\$ 2,061,541</u>	<u>\$ 20,379</u>	<u>\$ 2,111</u>	<u>\$ 1,572</u>	<u>\$ 12,820,174</u>

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Championship Golf	\$ 3,014,400	\$ 3,014,400	\$ 3,488,229	\$ 473,829
Mountain Golf	654,450	654,450	645,126	(9,324)
Facilities	301,280	301,280	275,156	(26,124)
Ski	6,498,000	9,898,000	10,202,972	304,972
Community Programming and Recreation Center	1,206,502	1,206,502	1,264,177	57,675
Parks	55,900	55,900	59,421	3,521
Tennis	177,300	177,300	166,533	(10,767)
Recreation Administration	(517,500)	(517,500)	(521,179)	(3,679)
Subtotal Charges for Services	11,390,332	14,790,332	15,580,435	790,103
Facility Fees - Operations	2,176,146	2,176,146	2,180,524	4,378
Facility Fees - Capital Projects	2,519,748	2,519,748	2,524,818	5,070
Facility Fees - Debt service	1,276,236	1,276,236	1,278,804	2,568
Intergovernmental Services	19,400	19,400	15,787	(3,613)
Operating Grants	17,000	17,000	18,440	1,440
Investment income	30,000	30,000	58,438	28,438
Sale of assets	-	-	34,409	34,409
Miscellaneous - recovery of capital costs	-	-	236,615	236,615
Miscellaneous - other	184,100	184,100	238,238	54,138
Total revenues	<u>17,612,962</u>	<u>21,012,962</u>	<u>22,166,508</u>	<u>1,153,546</u>
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
<b>COMMUNITY SERVICES RECREATION:</b>				
Championship Golf	3,214,726	3,214,726	3,526,103	(311,377)
Mountain Golf	966,386	966,386	937,694	28,692
Facilities	435,308	435,308	432,187	3,121
Ski	5,602,106	6,652,106	6,441,024	211,082
Community Programming and Recreation Center	2,227,819	2,227,819	2,228,727	(908)
Parks	772,894	772,894	715,538	57,356
Tennis	273,055	273,055	256,359	16,696
Recreation Administration	325,226	325,226	315,943	9,283
Total expenditures	<u>13,817,520</u>	<u>14,867,520</u>	<u>14,853,575</u>	<u>13,945</u>
Excess (deficiency) of revenues over expenditures	<u>3,795,442</u>	<u>6,145,442</u>	<u>7,312,933</u>	<u>1,167,491</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(200,000)	(200,000)	-	200,000
Operating Transfers (Out) - Capital Projects	(3,433,212)	(3,433,212)	(3,530,675)	(97,463)
Operating Transfers (Out) - Debt Service	(1,284,091)	(1,284,091)	(1,285,185)	(1,094)
Total other financing sources (uses)	<u>(4,917,303)</u>	<u>(4,917,303)</u>	<u>(4,815,860)</u>	<u>101,443</u>
Net changes in fund balance	(1,121,861)	1,228,139	2,497,073	1,268,934
Fund Balance, July 1	<u>5,294,138</u>	<u>5,294,138</u>	<u>5,357,755</u>	<u>63,617</u>
Fund balance, June 30	<u>\$ 4,172,277</u>	<u>\$ 6,522,277</u>	<u>\$ 7,854,828</u>	<u>\$ 1,332,551</u>

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 BEACH SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Beach	\$ 967,200	\$ 988,000	\$ 1,002,518	\$ 14,518
Facility Fees - Operations	580,725	580,725	582,058	1,333
Facility Fees - Capital Projects	185,832	185,832	186,259	427
Facility Fees - Debt service	7,743	7,743	7,761	18
Investment earnings	9,000	9,000	11,263	2,263
Miscellaneous	-	-	344	344
Total revenues	<u>1,750,500</u>	<u>1,771,300</u>	<u>1,790,203</u>	<u>18,903</u>
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
<b>BEACH RECREATION:</b>				
Beach	<u>1,548,495</u>	<u>1,548,495</u>	<u>1,493,554</u>	<u>54,941</u>
Excess (deficiency) of revenues over expenditures	<u>202,005</u>	<u>222,805</u>	<u>296,649</u>	<u>73,844</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(45,000)	-	-	-
Operating Transfers (Out) - Capital Projects	(234,660)	(291,660)	(336,924)	(45,264)
Operating Transfers (Out) - Debt Service	(6,200)	(6,200)	(7,761)	(1,561)
Total other financing sources (uses)	<u>(285,860)</u>	<u>(297,860)</u>	<u>(344,685)</u>	<u>(46,825)</u>
Net changes in fund balance	(83,855)	(75,055)	(48,036)	27,019
Fund Balance, July 1	<u>1,302,486</u>	<u>1,302,486</u>	<u>1,107,786</u>	<u>(194,700)</u>
Fund balance, June 30	<u>\$ 1,218,631</u>	<u>\$ 1,227,431</u>	<u>\$ 1,059,750</u>	<u>\$ (167,681)</u>

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

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016**

	(Form 4404LGF) Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Culture and Recreation:				
Championship Golf	\$ 4,045,206	\$ 4,045,206	\$ 4,521,108	\$ 475,902
Mountain Golf	1,250,139	1,250,139	1,210,751	(39,388)
Facilities	685,787	685,787	660,437	(25,350)
Ski	7,579,263	10,979,263	11,212,699	233,436
Community Programming	2,303,394	2,303,394	2,363,242	59,848
Parks	946,757	946,757	870,362	(76,395)
Tennis	308,196	308,196	297,693	(10,503)
Recreation Administration	464,220	464,220	462,516	(1,704)
Investment Earnings	30,000	30,000	58,438	28,438
Sale of Assets	-	-	34,409	34,409
Miscellaneous	-	-	474,853	474,853
Total revenues - (Form 9)	<u>17,612,962</u>	<u>21,012,962</u>	<u>22,166,508</u>	<u>1,153,546</u>
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation - All Functions:				
Function Summary - (Form 11)	13,817,520	14,867,520	14,853,575	13,945
Total expenditures	<u>13,817,520</u>	<u>14,867,520</u>	<u>14,853,575</u>	<u>13,945</u>
Excess (deficiency) of revenues over expenditures	<u>3,795,442</u>	<u>6,145,442</u>	<u>7,312,933</u>	<u>1,167,491</u>
Other Financing Sources (Uses)				
Contingency	(200,000)	(200,000)	-	200,000
Operating Transfers Out - Capital Projects	(3,433,212)	(3,433,212)	(3,530,675)	(97,463)
Operating Transfers Out - Debt Service	(1,284,091)	(1,284,091)	(1,285,185)	(1,094)
Net changes in fund balance	<u>(1,121,861)</u>	<u>1,228,139</u>	<u>2,497,073</u>	<u>1,268,934</u>
Fund balance, July 1	<u>5,294,138</u>	<u>5,294,138</u>	<u>5,357,755</u>	<u>63,617</u>
Fund balance, June 30 - (Form 11)	<u>\$ 4,172,277</u>	<u>\$ 6,522,277</u>	<u>\$ 7,854,828</u>	<u>\$ 1,332,551</u>



INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016

	(Form 4404LGF)			
	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>EXPENDITURES</b>				
Current:				
Community Services:				
Championship Golf				
Salaries and Wages	\$ 1,061,511	\$ 1,061,511	\$ 1,201,286	\$ (139,775)
Employee Benefits	330,954	330,954	327,158	3,796
Services and Supplies	1,822,261	1,822,261	1,997,659	(175,398)
Subtotal Championship Golf	<u>3,214,726</u>	<u>3,214,726</u>	<u>3,526,103</u>	<u>(311,377)</u>
Mountain Golf				
Salaries and Wages	346,395	346,395	330,347	16,048
Employee Benefits	103,303	103,303	87,943	15,360
Services and Supplies	516,688	516,688	519,404	(2,716)
Subtotal Mountain Golf	<u>966,386</u>	<u>966,386</u>	<u>937,694</u>	<u>28,692</u>
Facilities				
Salaries and Wages	103,082	103,082	83,752	19,330
Employee Benefits	65,159	65,159	40,672	24,487
Services and Supplies	267,067	267,067	307,763	(40,696)
Subtotal Facilities	<u>435,308</u>	<u>435,308</u>	<u>432,187</u>	<u>3,121</u>
Ski				
Salaries and Wages	2,077,530	2,602,530	2,484,346	118,184
Employee Benefits	780,556	780,556	784,639	(4,083)
Services and Supplies	2,744,020	3,269,020	3,172,039	96,981
Subtotal Ski	<u>5,602,106</u>	<u>6,652,106</u>	<u>6,441,024</u>	<u>211,082</u>
Community Programming				
Salaries and Wages	982,948	982,948	1,041,817	(58,869)
Employee Benefits	360,995	360,995	303,739	57,256
Services and Supplies	883,876	883,876	883,171	705
Subtotal Community Programming	<u>2,227,819</u>	<u>2,227,819</u>	<u>2,228,727</u>	<u>(908)</u>
Parks				
Salaries and Wages	284,328	284,328	289,079	(4,751)
Employee Benefits	73,125	73,125	75,242	(2,117)
Services and Supplies	415,441	415,441	351,217	64,224
Subtotal Parks	<u>772,894</u>	<u>772,894</u>	<u>715,538</u>	<u>57,356</u>
Tennis				
Salaries and Wages	147,427	147,427	135,631	11,796
Employee Benefits	30,241	30,241	26,030	4,211
Services and Supplies	95,387	95,387	94,698	689
Subtotal Tennis	<u>273,055</u>	<u>273,055</u>	<u>256,359</u>	<u>16,696</u>
Recreation Administration				
Salaries and Wages	109,729	109,729	146,947	(37,218)
Employee Benefits	46,597	46,597	50,267	(3,670)
Services and Supplies	168,900	168,900	118,729	50,171
Subtotal Recreation Administration	<u>325,226</u>	<u>325,226</u>	<u>315,943</u>	<u>9,283</u>
Function Subtotal - (Form 10)	<u>\$ 13,817,520</u>	<u>\$ 14,867,520</u>	<u>\$ 14,853,575</u>	<u>\$ 13,945</u>

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
 BEACH SPECIAL REVENUE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2016

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	(Form 4404LGF) Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Charges for Services				
Culture and Recreation:				
Beach	\$ 1,741,500	\$ 1,762,300	\$ 1,778,596	\$ 16,296
Investment Earnings	9,000	9,000	11,263	2,263
Fund liabilities paid by other funds	-	-	344	344
Total revenues - (Form 9)	<u>1,750,500</u>	<u>1,771,300</u>	<u>1,790,203</u>	<u>18,903</u>
<b>EXPENDITURES</b>				
Current:				
Beach:				
Salaries and Wages	701,430	701,430	680,845	20,585
Employee Benefits	207,980	207,980	182,539	25,441
Services and Supplies	639,085	639,085	630,170	8,915
Total expenditures - (Form 10)	<u>1,548,495</u>	<u>1,548,495</u>	<u>1,493,554</u>	<u>54,941</u>
Excess (deficiency) of revenues over expenditures	202,005	222,805	296,649	73,844
Other Financing Sources (Uses)				
Contingency	(45,000)	-	-	-
Operating Transfers Out - Capital Projects	(234,660)	(291,660)	(336,924)	(45,264)
Operating Transfers Out - Debt Service	(6,200)	(6,200)	(7,761)	(1,561)
Net changes in fund balance	<u>(83,855)</u>	<u>(75,055)</u>	<u>(48,036)</u>	<u>27,019</u>
Fund balance, July 1	<u>1,302,486</u>	<u>1,302,486</u>	<u>1,107,786</u>	<u>(194,700)</u>
Fund balance, June 30 - (Form 11)	<u>\$ 1,218,631</u>	<u>\$ 1,227,431</u>	<u>\$ 1,059,750</u>	<u>\$ (167,681)</u>

MEMORANDUM

TO: Audit Committee Chair Dent  
CC: Board Clerk Herron  
FROM: Audit Committee Member Clifford F. Dobler  
DATED: August 4, 2020  
RE: Central Services Cost Allocations Plan

Please include in the next Audit Committee Board Packet and distribute to each Audit Committee member, Director of Finance Navazio and GM Winquest the attached memo written on September 23, 2019 regarding the above reference matter.

This memo was never responded to by the former Audit Committee and since the new Audit Committee has just been formed the memo supplements one of the 14 points.

Sincerely,

Clifford F. Dobler

## Memorandum

TO: IVGID Audit Committee Chair Trustee Phil Horan

CC: IVGID Board Chair and Member of the Audit Committee Kendra Wong  
IVGID Board Treasurer and Member of the Audit Committee Peter Morris  
IVGID Board Secretary Tim Callicrate  
IVGID Trustee Matthew Dent  
IVGID Interim General Manager Indra Winquist  
Eide Bailly Audit Engagement Partner Dan Carter  
Deputy Director Jeffrey Mitchell, Nevada Department of Taxation

FROM: Clifford F. Dobler and Linda Newman

DATED: September 23, 2019

SUBJECT: Unlawful Central Services Cost Allocation Transfers from two Special Revenue Funds to the General Fund resulting in improper accounting and reporting in the Fiscal Year 2016, 2017 and 2018 Comprehensive Annual Financial Reports as well as the FY 2019 and FY 2020 Budgets

Since July 1, 2015, funds from the Community Services Special Revenue Fund and the Beach Special Revenue Fund have been unlawfully transferred annually to the General Fund as Central Services Cost Allocations ("CSCA") under NRS 354.613 Subsection C and IVGID Board Policy 18.1.0. Both the Statute and the Policy relate solely to Enterprise Funds. (Exhibit A and Exhibit B) Unfortunately, neither the Community Services Special Revenue Fund nor the Beach Special Revenue Fund are Enterprise Funds.

Director of Finance Eick has stated and validated with his signature that these CSCA transfers have been prepared and calculated in accordance with NRS 354.013 Subsection C and IVGID Board Policy 18.1.0 and a majority of the Board of Trustees has approved these transfers in the annual budgets submitted to the State.

As a consequence, the District-wide as well as the individual fund financial statements for all three governmental funds has been materially misstated in the 2016, 2017 and 2018 Comprehensive Annual Financial Reports ("CAFRs"). Additionally, Budget Forms 4404LGF submitted to the State for fiscal years 2019 and 2020 have been improperly prepared and are factually incorrect.

We have provided a spreadsheet detailing the five year history of these improper transfers. (Exhibit C) For the period covering FY 2016 through the approved Budget for FY 2020, the Community Services Fund and the Beach Special Revenue Fund will have improperly transferred a staggering \$3,874,900 and \$463,500 respectively. These transfers have not only understated the actual fund balance for these two Special Revenue Funds, they have also materially overstated the available resources for the General

Fund and its actual annual opening and ending fund balances. A grand total of \$4,338,400 must be transferred out of the General Fund and restored to the Community Services and Beach Special Revenue Funds.

According to the current fiscal year 2020 budget, the General Fund will only have an estimated fund balance at June 30, 2020 of \$2,304,242. This is more than \$2,000,000 less than what is required to be returned to the Community Services and Beach Special Revenue Funds. This deficit may require the District to reduce the General Fund's fiscal year 2020 expenditures and submit a new budget to the Board and the State.

These impermissible transfers provide another example of the District's lack of internal controls and the consequences of placing severe limitations on the scope of an independent audit on our Auditors by the Audit Committee. The Auditor in each of the audit engagement letters for the CAFRs clearly state that there would be no opinion on internal controls and no responsibility for compliance with Laws and Regulations. The responsibility for both, according to the Auditor, rests with Management. Judging by the District's improper accounting and reporting in the District's CAFRs and Budgets, Management has failed. Along with the absence of a competent lawyer able to understand and comply with Nevada Revised Statutes and Generally Accepted Accounting Principles, it is obvious that no professional legal reviews or Audit Committee oversight was conducted.

It is remarkable that the IVGID Director of Finance would issue an annual representation letter to the Auditors attesting that all laws and regulations are being adhered to. It is even more remarkable that the members of the Audit Committee who also hold the title of Board Chair, Board Vice Chair and Treasurer have failed to take corrective action despite multiple memorandums and public comments by our citizens reporting serious violations of Nevada Law, Board Policies and Practices and non-compliance with Generally Accepted Accounting Principles.

It is incumbent upon you as Audit Committee Chair to follow the proper procedures to restate the 2016, 2017 and 2018 CAFRs and correct the FY 2019 and 2020 Budgets.

We once again request acknowledgement of receipt of this Memorandum and the actions you will take to provide all users of our financial statements with complete and accurate financial information and disclosures.

Sincerely,

Clifford F. Dobler  
[cfdobler@aol.com](mailto:cfdobler@aol.com)  
775-722-4487

Linda Newman  
[linda@marknewman.net](mailto:linda@marknewman.net)  
775-225-1836

Exhibits:

Exhibit A – NRS 354.613 Subsection C

Exhibit B – IVGID Board Policy 18.1.0

Exhibit C – Summary of Historical CSCA Transfers from the Community Services Special Revenue Fund and the Beach Special Revenue Fund to the General Fund for fiscal years 2016 through 2020



**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. [Effective through June 30, 2021.]

1. Except as otherwise provided in this section and NRS 354.6135, 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 until July 1, 2021, 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 or before July 1, 2012, a local government to which the provisions of subsection 9 apply shall adopt a plan to eliminate, on or before the fiscal year beginning on July 1, 2021, all transfers from any enterprise funds to subsidize the general fund that are not made in compliance with subsection 1. A copy of the plan must be filed with the Department of Taxation on or before July 15, 2012.

11. On and after July 1, 2012, the provisions of subsection 9 do not apply to a local government that fails to comply with the provisions of subsection 10.

(Added to NRS by 2011, 1686; A 2013, 2712)

**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. [Effective July 1, 2021.]**

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.

(Added to NRS by 2011, 1686; A 2011, 1692; 2013, 2712, effective July 1, 2021)

**NRS 354.6135 Governing body authorized to loan or transfer money from enterprise fund; authorized use of money received; reporting requirements; regulations; applicability. [Effective through June 30, 2017.]**

1. Except as otherwise provided in this section and notwithstanding any provision of NRS 354.613 to the contrary, if the ending fund balance of the general fund of a local government at the end of a fiscal year is less than 9 percent of the total expenditures of the local government from the general fund during that fiscal year, as reflected in the report of the annual audit prepared for the local government pursuant to NRS 354.624, the governing body of the local government may, during the following fiscal year, by resolution and with the prior approval of the Committee on Local Government Finance, 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.

2. Any money loaned or transferred by the governing body of a local government pursuant to subsection 1 may be used only for the purposes listed in this subsection, in the following order of priority:

(a) To restore police and fire services;

(b) To restore the operation of libraries, parks and other recreational services; and

(c) To settle any legal claim outstanding on the date on which the loan or transfer authorized by subsection 1 is made.

3. The governing body of a local government that loans or transfers any money pursuant to subsection 1 shall submit a quarterly report to the Committee on Local Government Finance which includes all of the information required pursuant to subsections 4 and 5.

4. Each report submitted by the governing body of a local government pursuant to subsection 3 must include, without limitation:

- (a) Information about any increase in a fee described in subsection 1 imposed by the local government;
- (b) Any change to salaries or benefits paid to employees of the local government;
- (c) Any change to a collective bargaining agreement negotiated pursuant to chapter 288 of NRS to which the local government is a party; and
- (d) Any information prescribed by regulation of the Committee on Local Government Finance pursuant to subsection 6.

5. In addition to the requirements set forth in subsection 4, if, for any fiscal year, the difference between budgeted and actual general fund revenues or expenditures for the local government is more than 5 percent for any category of revenues or expenditures, as provided in the report of the annual audit prepared for the local government pursuant to NRS 354.624, in addition to the requirements set forth in subsection 4, the first quarterly report submitted to the Committee on Local Government Finance after the audit report is submitted to the local government must include an explanation of the difference.

6. The Committee on Local Government Finance:

- (a) Shall adopt regulations specifying the procedure for obtaining the approval of the Committee required by subsection 1; and
- (b) May prescribe by regulation any additional information which must be included in the reports submitted by the governing body of a local government pursuant to subsection 3.

7. The provisions of this section:

- (a) Apply only to a local government which has, during each of the 5 fiscal years immediately preceding June 10, 2013, loaned or transferred:
  - (1) Money from an enterprise fund;
  - (2) Money collected from fees imposed for the purpose for which an enterprise fund was created; or
  - (3) Any income or interest earned on money in an enterprise fund.
- (b) Do not apply to an enterprise fund created for an airport owned and operated by a local government.  
(Added to NRS by 2013, 2710)





**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 Enterprise 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's Enterprise 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

Effective for the year ended June 30, 2012 upon acceptance by the Board of Trustees  
Adopted February 29, 2012

**Incline Village General Improvement District**

Summary of Transfers to General Fund

Based on NRS 354.613 .1(c) for Enterprise Funds only

**EXHIBIT "C"**

Fiscal Year	Community Services Special Revenue Fund									Beach Special Revenue Fund	Grand Total
	Championship Golf	Mountain Golf	Facilities	Ski	Recreation Center	Parks	Tennis	Comm Services Admin	Total Community Services		
2016	\$ 168,000	\$ 54,000	\$ 27,600	\$ 289,500	\$ 116,600	\$ 48,000	\$ 12,400	\$ 12,000	\$ 728,100	\$ 90,500	\$ 818,600
2017	\$ 174,400	\$ 55,300	\$ 29,200	\$ 309,500	\$ 113,600	\$ 49,400	\$ 12,300	\$ 12,300	\$ 743,700	\$ 92,800	\$ 836,500
2018	\$ 177,600	\$ 47,300	\$ 21,300	\$ 304,300	\$ 101,000	\$ 38,600	\$ 10,500	\$ 18,800	\$ 719,400	\$ 77,100	\$ 796,500
2019	\$ 188,900	\$ 47,800	\$ 23,000	\$ 335,500	\$ 105,700	\$ 39,500	\$ 10,800	\$ 17,000	\$ 768,200	\$ 92,600	\$ 860,800
2020	\$ 236,800	\$ 54,000	\$ 25,500	\$ 388,100	\$ 124,000	\$ 42,300	\$ 12,700	\$ 19,800	\$ 903,200	\$ 110,500	\$ 1,013,700
	<u>\$ 945,700</u>	<u>\$ 258,400</u>	<u>\$ 126,600</u>	<u>\$ 1,626,900</u>	<u>\$ 560,900</u>	<u>\$ 217,800</u>	<u>\$ 58,700</u>	<u>\$ 79,900</u>	<u>\$ 3,874,900</u>	<u>\$ 463,500</u>	<u>\$ 4,338,400</u>



## MINUTES

### **AUDIT COMMITTEE MEETING OF JULY 29, 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 Wednesday, July 29, 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 Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), and Raymond Tulloch (At-Large Member). Derrek Aaron (At-Large Member) was absent from roll call but joined the meeting at 4:30 p.m.

Also present was Staff member Director of Finance Paul Navazio.

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

#### **B. PUBLIC COMMENTS\***

Dick Warren said Business Item D.3 – System of Internal Controls, Staff has failed miserably in presenting a framework for Internal Controls. Once again, Staff pontificates with an abundance of words which contain not a practical thread of sensibility. For simplicity sake, start with your Balance Sheet, take the asset Cash. Tell him the District's policies and procedures surrounding Cash, then tell him the written existing controls currently in operation to ensure that Cash is adequately controlled. Then show him the Internal Control Audit Reports that delineate that Staff has reviewed (audited) the current system of internal controls around Cash, and deemed them to be adequate and/or inadequate. And then take the next asset, Accounts Receivable, and do the same thing. Go through all of the District's assets and liabilities in this fashion. But there's one problem here; the District doesn't have any policies and procedures for anything, they don't have written existing controls currently in operation for anything, and they certainly do not have any written audit reports concerning reviews of internal controls. Let Moss Adams or someone else from the outside do this; otherwise, Staff will be stringing this B.S. out over the next few years. Business Item D.4 – Audit Committee Referrals - he did not even get through all of this, Staff's comments on why we really don't need Enterprise Fund Accounting are simply worthless. Staff is in way over your head and they do not have a clue. His suggestion to the Audit Committee is to, once again, bring in an outside reputable outfit like Moss Adams to do this review. If they tell me there is no reason to restate, he will accept it, but he will not accept it based on the meanderings of Staff. Thank you.

## Minutes

Audit Committee Meeting of July 29, 2020

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Linda Newman said that she greatly appreciates all the efforts of Chair Dent and Treasurer Schmitz for assuring we have a qualified team and an effective Audit Committee Charter. She would also like to thank Derrek Aaron, Cliff Dobler and Ray Tulloch for generously volunteering their time and expertise to improve the Board's oversight and restore the public's trust. As this committee packet will attest, you have a Herculean task ahead of you. As our 2020 fiscal year end audit is underway, you can see that Staff information provided has omitted the District's actual accounting and reporting policies used to prepare the financial statements. There are also no written internal controls. You have not been given a baseline instead you have been provided with a table of contents without the contents; that is both figuratively and literally true. The thickness of the packet is only exceeded by the abundance irrelevancy of a summary of ordinances, resolutions, policies, and practices. As Trustee Dent said "the policies are a wreck and should be shredded." Whether they are viable or in compliance with State laws and regulations or are actually being followed is a mystery. No public or private entity can responsibly operate without internal controls and financial statements cannot be properly prepared without an effective framework. The Board has appropriated funds for an independent consultant to assist. She highly recommends that this resource be engaged immediately. As for the 14 points of contention in last year's CAFR and the calls for restatement, she also recommends that an independent and qualified accounting firm review these issues to determine whether or not Staff has prepared last year's financial statements in accordance with generally accepted accounting principles. Subjective opinions by unnamed Staff on whether or not they complied with Nevada law and District policies does not provide a solid foundation to render objective judgment on what should or shouldn't be corrected nor does it provide an objective foundation to determine whether the 2019 and previous CAFRs should be restated. Please schedule a meeting that will afford you the time to review all of these issues in depth. Friday evening packets for Wednesday afternoon meetings denies you adequate time for independent research. Limiting the meeting to two hours also limits your ability to comprehensively discuss these extremely important and timely matters. Thank you.

Margaret Martini said accounting is not her forte. But understanding how much of my tax and fee money is being collected and how it is actually being spent is important to her. It is her understanding that our State and County governments and agencies, as well as our bondholders and citizens rely upon the District's audited reports determine how well our District is being managed operationally and financially. If there are no effective internal controls to prepare the financial statements and there is no Board oversight to ensure that the District's accounting and reporting policies comply with Generally Accepted Accounting Principles, our budgets and our audited reports are, well, worthless. Our Trustees and each and every one of our citizens are denied accurate and important information to determine the District's financial condition and performance. Financial

transparency and accounting are just words without the proof to back them up. After years of an absentee Audit Committee comprised of Trustees Wong and Morris headed by former Trustee Horan along with a former Director of Finance that showed no respect for compliance with Nevada Laws or District policies, she recognizes that this Committee isn't starting off with a clean slate. The fact that our new Director of Finance is not a licensed CPA and is not knowledgeable about our District's governmental, recreational or utility operations, and is trying to learn about our historical accounting and significant lack of internal controls while trying to understand State law and GASB statements and so much more-doesn't provide this Committee with the District staff resources necessary to help you succeed in fulfilling your audit committee responsibilities. As we also have a new and inexperienced General Manager, your combined decades of experience and knowledge and independent research will be put to the test. She trusts that you will immediately request the outside resources you need to establish effective internal controls and accounting and reporting policies that comply with General Accepted Accounting Principles. Please thoroughly review Staff's explanation for why Enterprise Funds are not required. The narrative is completely implausible. It fails to include the collection of the Recreation and Beach facility fees and the allocation of those fees to cover the shortfalls in operations, capital projects and debt service. Citing dynamic pricing and yield management for the pricing of entry fees is irrelevant-when ALL user fees and charges for services and standby service fees are used to cover the costs of providing the services. These, by the way, are all exchange revenues. These are the principle revenue sources that cover all the costs and as such, require the District to account and report the Community Services and Beach Funds as Enterprise funds.

Frank Wright said that he is a candidate for the Board. What has he been doing – trying to understand the transfer of public land by former Director of Finance. It is sick and there was no oversight. The District sold land given to us by Washoe County which was public land. We sold land to individuals on a secret list without anyone who knew. No one is paying attention. There were no internal controls. Nothing happened to the employee as he was not fired. Now we have lawsuit in the United States Supreme Court that the Trustees don't know anything about. How much is it costing the District? To his knowledge, the attorney hasn't turned in a statement so we are going to get hit with another big bill. Again, no internal controls. How can you continue on without someone overseeing? His suggestion is start with a clean plate, we look at everything, and bring in outside people to look at it so people who live here feel comfortable. If you don't fix what is wrong, same will continue. Start over, clean this place over, and have a nice happy place to live. It is not worth the trouble you are going through. Audit committee will find things and fix things.

Diane Becker said regarding General Business Item D.3. – her suggestion is to consider engaging Moss Adams earlier than reported so they are consulted in how

the review and audit is undertaken. They can provide valuable input so we don't have the District spending employee time. Don't believe they would spend much time, maybe 1 day or a ½ day, and then they would be available to consult with. When she read the memo on page 27, particularly where it said that "*This report is intended to inform "next step" in the District's assessment of its existing internal controls and highlights selected areas where policies, 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.*" she didn't see any discussion about anything done and what the intent is to look at the forms. She is looking forward to the presentation. The problem, when reviewing, is that the forms have very little detail, a little tiny section for comments, don't see each person's risk assessment, who the project team is, what departments, or responsibilities. It would be useful for Moss Adams to come in first and then have the internal audit done.

**C. APPROVAL OF AGENDA (for possible action)**

Audit Committee Chairman Dent asked for any other changes. Mr. Dobler said, regarding General Business Item D. 4., that it doesn't say what we are doing and that the law says that an agenda should be clear and complete and that the public has not been told what we are doing so he would like to have some clarification on that item. District General Counsel Velto said that the only way it is clear and complete is if it is a referral so he tends to agree with Mr. Dobler that it doesn't give much insight on what it is doing thus he is hesitant on having a discussion. Director of Finance Navazio said that the intent was that this item was referred to Staff back at the end of April/early May and that a report was prepared and that it was not intended to be an action but rather we can discuss how it got onto this agenda and how it should come back. District General Counsel Velto said that makes sense however he doesn't see that with this item and therefore any discussion would be grounds for an open meeting law complaint. Mr. Dobler said that he agrees with District General Counsel and that he wouldn't know that there was going to be a presentation. He thinks that the 14 points were tossed in there and that this agenda item does not indicate what we are doing. Mr. Tulloch said that he agrees and that it comes across as a point of information so he has a concern about that. Trustee Schmitz said that she would heed the advice of District General Counsel. Audit Committee Chairman Dent asked if we need a motion to change the agenda. District General Counsel Velto said yes. District General Manager Winquest said he understand and that we should follow District General Counsel's advice. Staff needs to be given proper direction on how to put them on the agenda to ensure that we understand. Audit Committee Chairman Dent asked if legal counsel reviewed the agenda before us receiving it? District General Manager Winquest said that he believed so; District Clerk Herron said she believed so as well. District General Manager Winquest said that the review was not done by District General

Counsel Velto. Audit Committee Chairman Dent said he is open to discussion and that he appreciates the input.

Trustee Schmitz made a motion to remove General Business Item D.4. from the agenda. Audit Committee At-Large Member Dobler seconded the motion. Audit Committee Chairman Dent asked for any further comments, receiving none, called the question – the motion was unanimously passed.

Audit Committee At-Large Member Dobler asked if on General Business Item D.1. if it is intended to review and discuss each item independently? Audit Committee Chairman Dent said it is a high level overview and yes, that is the action item to look at them differently.

**D. GENERAL BUSINESS ITEM (for possible action)**

**D.1. Audit Committee Re-organization (Requesting Trustee: Audit Committee Chairman Matthew Dent)**

**D.1.a. Acknowledgement of three (3) Board appointed At-Large Audit Committee Members (appointment date June 23, 2020)**

Audit Committee Chairman Dent said that Mr. Tulloch, Mr. Aaron, and Mr. Dobler were appointed by the Board of Trustees on June 23, 2020 as Audit Committee At-Large members. Training is in process and that there was discussion, by the Board of Trustees, about the reorganization of the Audit Committee. On July 22, 2020, he received a resignation letter from the Audit Committee by Trustee Callicrate which he sent to Staff. This resignation triggered the reorganization and that we didn't need a meeting to see who were the last two Trustees standing. Audit Committee Chairman Dent then thanked Trustee Callicrate for his service and noted that the three At-Large Members become Audit Committee Members and then welcomed the three At-Large Audit Committee Members. Audit Committee At-Large Member Dobler said that the appointed date was June 23, 2020 and each of us has either a one-year to a two-year term; where do we decide to have our term start as none of the members were invited to the June 30 meeting. Trustee Schmitz said it may make sense to clarify that their term begins with the new fiscal year. Audit Committee Chair Dent asked for Trustee Schmitz to say that again. Trustee Schmitz said to be clear and complete, their new term begins July 1 and that needs to come from the Board as a whole and that we need to look into that policy so it is clear on how we want to handle this and



then revise the policy. Trustee Schmitz then added that she would make a notation and track this as a minor revision, along with those mentioned at our training, and bring it back to the Board. Audit Committee At-Large Member Tulloch said that he doesn't think we can make it July 1 or June 23 as they were only appointed when Trustee Callicrate resigned so the earliest date is July 23. We can discuss this with District General Counsel and get their recommendation on how to revise the policy. Audit Committee At-Large Member Dobler said that he agrees with Audit Committee At-Large Member Tulloch and, if true, they should have been invited to the July 23 meeting so the start date has to be different than July 23. Audit Committee Chairman Dent said that he will work it out with District General Counsel and how we want to handle that with the Board of Trustees.

**D.1.b. Review of Board Policy 15.1.0, Accounting, Auditing, and Financial Reporting, Audit Committee**

**D.1.c. Review of Audit Committee Member Roles and Responsibilities as outlined in Policy 15.1.0**

Audit Committee Chairman Dent said that this is a high level review of this policy and that he is combining D.1.b and D.1.c. together. Audit Committee Chairman Dent then gave an overview of the responsibilities of the Audit Committee and Policy 15.1.0 and noted that Mr. Tulloch and Mr. Dobler are each serving a two-year term and that Mr. Aaron is serving a one-year term. Audit Committee At-Large Member Derrek Aaron joined the meeting at 4:30 p.m. Audit Committee At-Large Member Dobler said that the agenda item says roles and responsibilities and that he only sees authority and responsibilities and that he doesn't see the roles and that they don't tie to the policy. Audit Committee Chairman Dent said noted. Audit Committee At-Large Member Tulloch said, referencing 2.6.3 of Policy 15.1.0, which reads "*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 he is uncomfortable with it and that he is not sure that any of us can ensure setting the tone at the top because if management doesn't set that tone then the Audit Committee is to blame thus there needs to be some revision in that language. Audit Committee Chairman Dent asked Trustee Schmitz to please take a note of this comment and revisit that item with District General Counsel. Director of Finance Navazio said, since we are in the details of the policy, that he appreciates the question on clarification of roles and responsibilities, and by way of an example

that as you are going through the items on agenda packet page 9, in 2.2 and 2.4, given the focus and attention of the committee members, that the wording is important. Audit Committee Chairman Dent said thank you for bringing that forward and that is another note. Also, something else that he ran across was the amount of times that the Audit Committee meets and that it is really focused around the CAFR and that it is quarterly or more often as needed. The main focus here is on the CAFR however there are a lot of areas, due to previous years of neglect, that need to be looked into. Director of Finance Navazio said that it is also intentional that there is also a strong focus on internal controls as the CAFR is one aspect and that the other equally important item is the oversight to the implementation of management to the internal controls and he doesn't want to lose sight of that item. Audit Committee Chairman Dent said, referencing agenda packet page 9, that he agrees with that remark. Audit Committee At-Large Member Dobler said that it is interesting that Audit Committee At-Large Member Tulloch brought up that sub-section in 2.6 and then asked how do we do that? How do we ensure that they would implement what they are supposed to do? Trustee Schmitz said they would do that by having it as an agenda item and giving clear direction to Staff that this is an expectation of their responsibilities which is to develop, maintain and enhance our internal controls. So as a committee, it is one of the things that she thinks that we need to make sure that we have on agendas on a periodic basis to review those and make sure they are being effectively managed. Audit Committee At-Large Member Dobler said if they say they are doing something how would you ensure that other than going in and sitting on their lap? They tell you a lot of things but do they actually do it? Director of Finance Navazio said that is a really good question and something that the Audit Committee needs to discuss how they do it. This is fairly standard language that have these scopes and it is not unique to this organization or body. That said, you can discuss it as you wish and when you get to the item on internal controls and look at that, ensure internal controls are being met is typically done. If the committee is not comfortable with checks and balances or they are not satisfactory to the Audit Committee or the Board of Trustees, then they can be looked at. It is a series of checks and balances between the Audit Committee, Auditor, Staff and the Board of Trustees and that all of these things come together because no one piece gives you the assurance. Audit Committee At-Large Member Aaron asked how are we going to assure ourselves that 2.6 is actually being enforced – familiarize yourself with that framework and he noted that he had already requested the policies and procedures. We can also hire an accountant to teach us about accounting and then use that person to

do some spot checking on the control. We would go through the framework and see if there are areas to be addressed and they say "Okay Mr. Financial Advisor, go check it out". That is one way to do it. Another way is to sit down one-on-one with Staff and have them tell you how do you match up a purchase order, etc. thus there are a couple of ways to do this task. Trustee Schmitz said that one of the other things that we have discussed is potentially hiring an internal auditor to review these things as well. Audit Committee At-Large Member Aaron said that is what he was referring to and that a number of titles have been thrown around. The financial advisor would be an internal auditor and utilized for the Audit Committee's benefit so he thinks we are talking about the same thing. Audit Committee At-Large Member Tulloch said that his concern is the language is absolutely sure and that we may need to amend it. Trustee Schmitz said that she will take the action item to have the language reviewed by District General Counsel. Audit Committee At-Large Member Aaron said, under the same section, 2.6.2., has this been accomplished/completed? When has this been done for prior year CAFRs? Audit Committee Chairman Dent said he is not aware of that being done. Audit Committee At-Large Member Aaron said he is interested in this completion. Audit Committee Chairman Dent said that the policy got approved late June so we can review, make corrections and set that up as a future item.

#### **D.1.d.Election of an Audit Committee Chair (Policy 15.1.0, Organization)**

Audit Committee At-Large Member Dobler asked about effective date and tenure of the Audit Committee Chair. Audit Committee Chairman Dent said that the memo is written through the end of the year and that it was set that way because we will have three newly elected Trustees seated in January 2021.

District Clerk Herron opened the nominations for Audit Committee Chair.

Trustee Schmitz nominated Matthew Dent with an effective date of immediately. Audit Committee At-Large Member Tulloch seconded the motion. Audit Committee At-Large Member said he supports the nomination of Matthew Dent. Hearing no further nominations, nominations were closed and District Clerk Herron congratulated Trustee Dent on becoming the Audit Committee Chairman effectively immediately.

**D.1.e. Review, Discussion and Possible setting of Audit Committee Meeting Schedule(s) and Agenda Items**

Audit Committee Chairman Dent said that the Audit Committee meetings have been following the Board meetings which makes it easier for Staff but that it doesn't have to be that way. District General Manager Winquest said that when you are looking to schedule your meetings, please note that we have placeholders for a closed session with the Board of Trustees regarding union negotiations and that typically that will be at the start of the meeting and we need about an hour for that meeting so please take that into consideration. Trustee Schmitz said, as a point of clarification, that the closed sessions are not on our Board long range calendar. Audit Committee At-Large Member Dobler asked if the Audit Committee members will be participating in the closed session. District General Manager Winquest said no, they will not be participating rather Staff is just reserving that hour prior to a Board meeting. Trustee Schmitz said for upcoming agenda items that we have not brought policies forward relative to Dillon's Rule, the Board of Trustees was given the reconciliation spreadsheet approved budget to the 4404LGF form to the State and she feels that some revisions are yet to be made and thus she would like those revisions made and then brought back to the Audit Committee so we can understand the purpose of that reconciliation and making use of that document going forward. Audit Committee At-Large Member Aaron said for the frequency of the meetings that the guidelines are a minimum of quarterly and that since there is a learning curve to ramping up, he would like to suggest that the Audit Committee meet at least monthly, as a minimum. Audit Committee Chairman Dent said that the prior committee met once and we have already met seven or eight times so meeting once a month is fine. He is much open as to the day and his preference would be later in the afternoon. Audit Committee At-Large Member Tulloch said that we had to previously defer General Business Item D.4. as it was inconsistent and that he didn't want to drop those 14 points of error. Audit Committee Chairman Dent said that we will definitely have that on the next meeting as well as Dillon's Rule as we haven't closed the loop on that item. Audit Committee At-Large Member Dobler asked how long into the future do you want to go as he has about 15 things he wants to have on the agenda and that most of them relate to the current CAFR which needs a tremendous amount of clarification? Audit Committee Chairman Dent said that for the August meeting he would like to request that the agenda items and materials would be in to Staff and the Chair by this Friday. When the materials don't get in

that is when we see the packets come out late on a Thursday or Friday and that we should be pre-planning. While nothing is perfect, it would be good to know what the item is, get legal to review, and the supporting material submitted. Part of that process is actually filling out the memorandum and that if we have a meeting on August 12 then everything would have to be in by July 31. Audit Committee At-Large Member Tulloch suggested that the materials be in by the start of the day on Monday because from a Staff perspective it makes no difference if it is Friday versus Monday. Audit Committee Chairman Dent said as long as he knows what the agenda items are, yes, you can have your supporting materials in by Monday. District General Manager Winquest said that if the Audit Committee is meeting with a significant amount of frequency and as we are preparing for regular Board of Trustees meetings, Staff has gotten the packets out late. If the Audit Committee is going to be a week from that Wednesday, we need a final draft by Monday so Staff can start putting that packet together as we have to get that over to Chair Dent for review. Staff always wants to get the agenda out on the Wednesday before the meeting and then the packet the day after. Trustee Schmitz said that, as Chair, one of your responsibilities is to prepare and manage the agenda. Any of the members that have items can bring them to you for you to prioritize and that August 12 is too aggressive. Audit Committee At-Large Member Aaron agreed that August 12 is too aggressive and that he would want to tag these onto the Board meetings for efficiency, etc. Audit Committee Chairman Dent explained the closed session. Audit Committee At-Large Member Aaron said that the month of August is canned. Audit Committee Chairman Dent said that we can do it on any day as there are no constraints. District General Manager Winquest suggested August 19. Audit Committee Chairman Dent asked if that worked for everyone; no objectives. Audit Committee At-Large Member Dobler said that we have a whole pile of stuff to get done and that he would like to keep these meetings separate as he doesn't like to be against time constraints. Trustee Schmitz said that she is completely flexible. Audit Committee At-Large Member Aaron said he is flexible as well and would like to be respectful of IVGID's Staff time and attention span by doing one major topic per meeting. We must be respectful of other people's time and schedules and noted that he is stickler for time and schedule. Audit Committee Chairman Dent said that he understands and noted that two hours can be tight and that three hours would be better to give us the time to discuss things. Audit Committee At-Large Member Tulloch said that he agrees with that as we have the unknowns of public comments, have a number of major contentious items that are critical to the overall financial management, so let's not



short change them by going to once a month. In the short term, a three-hour meeting makes much more sense. Trustee Schmitz said so what time. Audit Committee Chairman said how about August 19 from 3 p.m. to 6 p.m. Audit Committee At-Large Member Dobler said that he thinks that Audit Committee At-Large Member Aaron would like us to pick one subject matter and really focus on that. We all are independent and there is a lot of theory involved in accounting as well as rules and regulations that have to be explored. We are lucky to have two ex-CPAs and one person who does utility audit. The 14 points could take two meetings because it is now up to 20 points. Audit Committee Chairman Dent said it is more like 22 points. Trustee Schmitz said let's schedule this meeting and then give us a deadline for our all wanted agenda items to be into the Chair and then we can share them and schedule meetings from there. Audit Committee Chairman Dent said have everything to him by August 7 and he will plug them in. Trustee Schmitz said a list of agenda items by Monday morning so that we have the week of August 3 to get our information and then turn it in by Monday, August 10. Audit Committee At-Large Member Tulloch asked the Chair to provide us with the details of supporting information. Audit Committee Chairman Dent said that the District Clerk will email you the standard memorandum template and then we can talk, in detail, about what we should include, etc. as we get closer. District General Manager Winqest said that all members should feel free to reach out to the District Clerk or himself and we will help guide you. Audit Committee At-Large Member Aaron asked for a summary of this conversation and of the deadlines, etc. Audit Committee Chairman Dent said that the next meeting is August 19, it will start at 3 p.m. and conclude by 6 p.m., all members of the Audit Committee are asked to have a list of agenda items to him by the morning of August 3. By August 7, your agenda items with the memorandum completed and backup material is due for the August 19 meeting. Director of Finance Navazio said that the 14 points will be brought back at the next Audit Committee meeting so we will have a General Business item for that agenda. Audit Committee Chairman Dent said yes, that is coming back as the first item but please give the Audit Committee until August 3 as it could change as could possibly the Dillon's Rule item because we haven't completed that as of yet. Director of Finance Navazio said he would like to provide updates on the current audit and Moss Adams and that he will feed that to the Chair and then develop an agenda item from there.

**D.2. Update on the District's Independent Audit for Fiscal Year 2019/2020**

- D.2.a. Review of executed Engagement Letter with Eide Bailly**
- D.2.b. Review current audit schedule and work plan of Eide Bailly**
- D.2.c. Review, discuss and possibly select an Audit Committee member to act as a liaison to Eide Bailly**

Director of Finance Navazio gave an overview of the audit for the upcoming fiscal year. Trustee Schmitz said, in the engagement letter on agenda packet pages 19 and 20, it talks about them evaluating accounting policies (agenda packet page 19) and evaluating other records and documents (agenda packet page 20) provided to Eide Bailly and could that be shared with the Audit Committee? Director of Finance Navazio said yes, Staff can provide any information they wish and if the question is what information has been requested and provided, all that we have done so far, and he doesn't think that they have requested or received, but Staff can provide what information and what we have provided and then continue to keep the Audit Committee apprised. There is still a lot of work to be done and the target date is mid-October to have a draft and then finalize by the end of October. Audit Committee At-Large Member Dobler said that the biggest problem with the engagement letter is that there is no opinion given that the financial statements of IVGID are in compliance with the laws and regulations and management is supposed to comply with all laws and regulations. Last year's letter said to the best of their knowledge. Normally, one would get a letter from our legal counsel that we are in compliance and that is one of our big weaknesses.

- D.3. Presentation and Discussion Item Only – IVGID System of Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio *DEFERRED TO THE NEXT AUDIT COMMITTEE MEETING*)**

- D.4. Audit Committee Referral(s) *REMOVED FROM THE AGENDA IN ITS ENTIRETY***

- D.4.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)**

- E. APPROVAL OF MEETING MINUTES (for possible action)**

- E.1. Audit Committee Meeting Minutes of June 30, 2020**

Audit Committee Chairman Dent asked for changes, none were received so the minutes of June 30, 2020 were approved as submitted.

**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 she would like to commend the Committee Chair and all of the members for an excellent meeting. Everyone was prepared, participated and she greatly appreciates that. She would like to make a suggestion to the General Manager. It appears that the Board Clerk who is also the Public Records Officer and the District Clerk has a great deal to do and that it really would be important instead of having to press Committee members to meet these extreme deadlines, to have someone work part-time to help the Public Records Officer and Board Clerk with the preparation of these Board packets and these minutes and the backup material that the Audit Committee and the Board needs so that we do not have to be placed in a situation where Staff is completely overwhelmed and has to put Board packets and Audit Committee packets out on Friday evening. So she hopes that this will be considered. She knows that there are a lot of people that work part-time at the District that might want an opportunity to pitch in and it certainly would be an incredibly valuable resource and she thanks you again for a very well prepared and presented meeting.

Margaret Martini passed on her opportunity to speak.

Frank Wright said he is a candidate for the Board and that he commends the Audit Committee for their efforts today. These are people who show up and know what they are talking about, understand the issues, and are prepared for a meeting. It was outstanding and refreshing. This will be a long process and he thinks we will get financials straightened around. He likes the positive nature as we have intelligent people that understand financials which has been a long time coming. He hopes that transparency gets better and records become more available as he doesn't want any more problems. When someone does something they shouldn't do, they should be held accountable. He thinks this group understands money and the need to follow through with internal controls. Go after it, get it done and then we will have total transparency and see everything that is going on in this District.

Audit Committee Chairman Dent congratulated Mike Gove on being selected as the Director of Information Technology.

**G. ADJOURNMENT (for possible action)**

The meeting was adjourned at 5:36 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.