MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chair Matthew Dent

FROM: Sara Schmitz
Audit Committee Trustee Member

SUBJECT: Review, discuss and accept the Moss Adams Final Report dated January 14, 2021 regarding the Evaluation of Certain Accounting and Reporting Matters as submitted by Moss Adams LLP Representative Jim Lanzarotta along with observations and supplemental review including 20 additional concerns about the District's accounting and reporting practices.

DATE: February 2, 2021

ATTACHMENTS: Moss Adams final report, 14 Point Email, Director of Finance Navazio's Review of the 14 Points, Moss Adams Engagement Scope of Work, Additional Moss Adams review spreadsheet

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I. RECOMMENDATION

Review, discuss and accept the Moss Adams LLP Final Report dated January 14, 2021 regarding the Evaluation of Certain Accounting and Reporting Matters along with observations and supplemental review of the 20 additional concerns raised by citizens and Trustee(s) related to the District's accounting and reporting practices.

While a draft version of the Report was presented to the Audit Committee at their December 19, 2020 meeting, the Final Report has not yet been provided for review, discussion, and acceptance. Although the final report was presented to the Board of Trustees by Mr. Jim Lanzarotta on January 28, 2021, the Audit Committee Chair was the contract and project sponsor. Therefore, this Committee must determine if the Report, observations and supplemental review is acceptable as the final deliverable of the project scope.

II. BACKROUND

In March 2020, the Board of Trustees authorized the Audit Committee Chair to engage an independent expert for a sum not to exceed $35,000 to give an opinion and/or guidance on the issues raised by the Board of Trustees regarding the District's 2019 CAFR as well as guidance on accounting policies used in the preparation of the District's financial statements.

In April 2020, the Audit Committee received an email communication (*included later in this memorandum*) outlining 14 Points of Error related to the fiscal year ending June 30, 2019 CAFR. These points had been brought to the attention of the prior Audit Committee and were included, in part, in memos submitted by Trustees with the filing of the District's 2019 CAFR. However, they remained unresolved.

At the Audit Committee meeting held on August 19th, 2020, Director of Finance Navazio presented his assessment of the 14 Points of Error (*included later in this memorandum*). The Committee and Management made a decision to explore hiring an independent expert to evaluate and make recommendations on four of the topics contained on the list of 14 points. These included: Enterprise (Proprietary) vs. Special Revenue (Governmental) fund accounting; Central Services Cost Allocations; Capitalization; and Punch Card accounting. Trustee Schmitz was tasked with obtaining bids for the defined scope.

At the September 1st, 2020 Audit Committee meeting, Trustee Schmitz brought forth for discussion and possible approval a proposal for the analysis and recommendations related to Enterprise (proprietary) vs. Special Revenue (governmental) fund accounting, Central Services cost allocations, punch card accounting for the Community Services and Beach Funds, and the capitalization of consulting and repairs for all of the District's Governmental and Proprietary Funds. The approach was intended to resolve outstanding unanswered questions presented by concerned citizens and Trustees. With a new General Manager, Director of Finance and Audit Committee this was an opportunity to bring the questions to closure. It was agreed by the Committee and Management that by hiring an independent accounting firm to analyze the questions and background information and, where appropriate, review our existing policies and practices, the objective recommendations would bring the District together with a common understanding and direction for the future of District financial accounting and reporting. *"This approach is going to be open, transparent and inclusive so everyone will be willing to accept the outcome of this engagement." (September 1, 2020 meeting minutes).*

The Audit Committee began the engagement with Moss Adams (*included in this memorandum*) in September. The process was interactive with the General Manager, Director of Finance, key stakeholders, and the Audit Committee members all being interviewed. Moss Adams conducted extensive research related to the District's accounting practices and policies and reviewed prior year CAFRs and Board Resolutions. Additionally, they consulted with the Nevada Department of Taxation and the Governmental Accounting Standards Board ("GASB").

While the investigation and research was being conducted by Moss Adams, the external auditor was also actively conducting their annual financial audit. The Eide Bailly Partner assigned requested the Moss Adams findings and recommendations for their review as part of conducting their annual audit activities.

At the onset of this project, all stakeholders agreed to accept the results of the Moss Adams findings and recommendations. This was established at the project onset to accomplish the goal of putting these long standing and unresolved questions and concerns behind the District and forge a foundation for future accounting and reporting policies and practices that comply with Generally Accepted Accounting Principles and Best Practices.

A brief summary of the findings includes:

1. The District has a choice to make use of Enterprise (Proprietary) or Special Revenue (Governmental) Fund financial reporting. Their recommendation is to transition to Enterprise Fund accounting to best reflect the financial condition of the various business type activities. ***NOTE: The District has informed the Nevada Department of Taxation of the District's intent to transition to Enterprise Fund accounting starting with the 2021-22 budget.***

    1.1 Additionally, Moss Adams identified the District would need to commit additional resources reported within Community Services and Beach in order to meet the spirit and intent of GAAP to use Special Revenue Funds. **NOTE: While this was a finding and recommendation, Management has opted to produce the CAFR without the recommended changes. According to the Moss Adams findings, there are insufficient funds to meet the spirit and intent of the 'substantial portion' criteria in GAAP to support the use of Special Revenue Funds (page 13 of the report).**

2. While the District's allocation of Central Services Costs is in compliance with GAAP and meets the State budgetary requirements, the current presentation in the financial statements is not in compliance with GAAP. **NOTE: This presentation was modified for the current year CAFR.**

3. Their research and assessment concluded that while punch card (contra revenue) accounting is confusing, complicated, and time consuming, they

concluded it is in compliance with governmental accounting standards. They did recommend the District discontinue the use going forward. **NOTE: District Management has determined the practice will be discontinued in the 2021-22 budget.**

4. The report highlighted the need for the District to develop more robust capitalization policies that provide for the different stages of a capital project, how to handle costs incurred in each stage, clarification on the nature of expenditures that increase the service capacity and therefore appropriate to capitalize, and the nature of expenditures that are repairs and maintenance and therefore should be expensed as incurred. **NOTE: Management and the external auditor reviewed and identified specific costs to be written off in this year's CAFR. However, a more thorough review is needed to ensure all compliance with GAAP.**

In an effort to provide the District with additional value, Moss Adams conducted an analysis and review of remaining outstanding questions pertaining to the 2019 CAFR and the 2020 CAFR. This analysis is provided in the spreadsheet below. This evaluation will be a helpful resource for improving future financial reports (*see included spreadsheet*).

Moss Adams final report

Proprietary & Confidential

FINAL REPORT

Incline Village General Improvement District

EVALUATION OF CERTAIN ACCOUNTING AND REPORTING MATTERS

January 14, 2021

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MOSSADAMS

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I. EXECUTIVE SUMMARY

A. SCOPE AND METHODOLOGY

Moss Adams LLP was contracted by Incline Village General Improvement District (District) to analyze and provide guidance on whether certain of the District's activities should be reported in enterprise funds vs. governmental funds, the allocation of central service costs, punch card accounting, and whether the District's current capitalization policies and actual practices are in agreement with applicable accounting standards.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gained from our interviews, reading policies, budgets, financial statements and other documents, comparisons of the District's practices against Generally Accepted Accounting Standards (GAAP) as provided by the Governmental Accounting Standards Board (GASB) and other recognized best practices. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

B. EXECUTIVE SUMMARY OF FINDINGS AND RECOMMENDATIONS

Based on our analysis, we identified the following observations as opportunities for the District to improve its accounting and reporting practices.

ENTERPRISE FUND ACCOUNTING	
Observation	The District's Community Services and Beach recreational activities are capital asset intensive, primarily financed by user charges, and currently reported within governmental fund-types using the modified accrual basis of accounting. This reporting was found to meet GAAP criteria for governmental fund reporting. Although these activities are better suited to be treated as enterprise funds, the District's circumstances do not meet the GASB criteria *requiring* the use of enterprise fund accounting.
Recommendation	While governmental fund reporting can be supported with the District's current circumstances, the District should report these activities through the use of Enterprise Funds to achieve the benefits of the full accrual basis of accounting. These activities generally meet the GAAP definition of 'business-type' activities and are better suited for reporting within enterprise funds that use the full accrual basis of accounting to provide stakeholders with a better understanding of the sufficiency of the rates charged to users in covering all costs incurred including the use of capital assets and debt service. See additional observations and recommendations in the body of this report.

OVERHEAD COST ALLOCATIONS

Observation	The District allocates certain costs reported in the General Fund to the other funds with the departments and activities that benefit from those costs through an inter-fund charge reported as a negative expense in the General Fund financial statements titled Central Services Cost Allocation Income. The District's allocation of costs is in compliance with GAAP and meets State budgetary requirements, but the current presentation in the financial statements is not in compliance with GAAP.
Recommendation	If the current method of reporting expenditures initially within the General Fund is maintained, the expenditures and reporting of the related income as a negative expenditure should be removed from the General Fund and only reported as expenses or expenditures in the reimbursing funds. See additional observations and recommendations in the body of this report.

PUNCH CARD ACCOUNTING

Observation	Members of the District are provided picture passes or punch cards as part of the benefits received from their payment of Facility Fees. The District currently tracks the utilization of picture passes and punch cards and records a value of the punch cards within the fund and activity for which the punch cards were presented for use through a contra-revenue accounting procedure. The contra-revenue accounting methodology is confusing to stakeholders, complicates the budgeting process, and requires more time and effort than the perceived benefit it provides.
Recommendation	We find the contra revenue accounting associated with the value of punch card usage to be consistent with annual budgets adopted by the Board and approved by the State, and in compliance with governmental accounting standards. That said, we recommend the District discontinue the use of contra-revenue accounting for the utilization of punch cards for the reasons noted above. See additional observations and recommendations in the body of this report.

ACCOUNTING FOR CAPITAL EXPENDITURES

Observation	The District has been capitalizing expenditures incurred in the development of master plans as well as costs incurred that do not relate to specific capital projects or that increase the service capacity of an existing capital asset. This is not in compliance with established governmental accounting practices. In addition, the Board's capitalization policies and practices are not sufficiently detailed to provide guidance on what types of costs should be considered for capitalization.
Recommendation	The District is in need of developing more robust capitalization policies that provide for the different stages of a capital project, how to handle costs incurred in each stage, clarification on the nature of expenditures that increase the service capacity and therefore appropriate to capitalize, and the nature of expenditures that are repairs and maintenance and therefore should be expensed as incurred. See additional observations and recommendations in the body of this report.

Refer to section II below for background, scope and methodology and section III for our detailed observations and recommendations. Moss Adams would like to thank the Board members, Audit Committee members, and District staff for their cooperation and assistance during our engagement.

Moss Adams, LLP

Moss Adams LLP
Eugene, Oregon
November 30, 2020

II. BACKGROUND, SCOPE, AND METHODOLOGY

A. BACKGROUND

The District provides water, sewer and solid waste services, as well as recreational facilities and programs for the benefit of individuals owning property or residing within its geographical boundaries as well as to the general public. The activities of the District are accounted for in a series of individual funds intended to assist in meeting its requirement for demonstrating legal compliance, transparency, prudent financial management, and compliance with applicable governmental accounting and reporting standards.

For the past several years, questions have been raised regarding the appropriate basis of accounting and related fund-type to be used for the District's recreational activities, the methodology used to allocate certain costs that benefit multiple activities, the accounting treatment utilized when punch cards are presented to gain access and other benefits at various recreational venues, and the accounting practices utilized that have resulted in the capitalization of certain types of costs.

B. SCOPE AND METHODOLOGY

The scope of this engagement was to evaluate the District's accounting and reporting in the following areas as compared to generally accepted accounting principles applied to governmental entities and to accepted governmental best practices:

1. Determine whether the District's recreational activities currently accounted for within Community Services and Beach through the use of governmental funds are presented in accordance with GAAP, and specifically whether they should be reported in enterprise funds instead of special revenue, capital projects, and debt service funds.
2. Evaluate whether the District's central service cost allocation practice complies with applicable accounting standards and recognized best practices.
3. Evaluate whether the District's current punch card accounting is in compliance with applicable accounting standards.
4. Determine whether the District's capital asset capitalization practices are in compliance with GAAP and accepted best practices.

This evaluation was conducted in four phases:

1. Startup/management: Conduct planning procedures and hold engagement kickoff meeting with Audit Committee members and District management.
2. Fact Finding: Perform interviews and inquiries with key stakeholders, obtain and review relevant documents.
3. Analysis: Compare existing practices against applicable generally accepted accounting principles as applied to governments and to accepted industry best practices.
4. Reporting: Present findings and observations to the District's Audit Committee and District management to validate facts and confirm the practicality of recommendations.

The primary techniques used to conduct this evaluation included:

- **Review Documents:** We gathered relevant documentation for review. Examples of relevant documentation included the comprehensive annual financial reports (CAFR), Board financial policies, Facility Fee ordinance, capitalization policies and practices, cost allocation policies, budgets, bond agreements, Nevada Revised Statutes, and certain other information provided to us summarizing the issues.
- **Conduct Interviews**: We conducted interviews and inquiries with stakeholders to obtain an understanding of the current accounting and reporting practices and related issues.

  Our interviews and inquiries including the following departments and positions:

  - Audit Committee
    - Three different current audit committee members
  - Management
    - General Manager
    - Director of Finance
    - Controller
  - Members at large
    - Two community members
  - State of Nevada
    - Department of Taxation
  - Governmental Accounting Standards Board
    - Senior Research Manager
- **Evaluation of District practices against applicable accounting standards**: We compared the District's accounting practices against accounting standards issued by the Governmental Accounting Standards Board (GASB); guidance in the American Institute of CPA's State and Local Government Accounting and Auditing Guide; editorial material included in the Governmental Accounting, Auditing, And Financial Reporting (GAAFR or Blue Book), the Nevada Revised Statutes (NRS) applicable to General Improvement Districts; and Best Practice Advisories, issued by the Government Finance Officers Association (GFOA) representing accepted Best Practices.

III. OBSERVATIONS AND RECOMMENDATIONS

Enterprise vs. Governmental Fund reporting

Based on input gathered from interviews, documents reviewed, and our evaluation of existing practices compared to applicable accounting standards and best practices, we have the following observations and recommendations.

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1	**Observation**	The District's recreational activities included in Community Services and Beach are currently reported within Governmental Funds and follow the related modified accrual basis of accounting. These activities are generally referred to as business-type activities, are capital intensive, and they rely mostly on charges to residents and the public for use of the various recreational venues and activities. While the use of governmental funds and the modified accrual basis of accounting is acceptable given the District's circumstances under GAAP, governmental funds are not designed to report whether the revenues generated from charges for services are sufficient to cover all costs incurred including capital assets and debt service.
	Recommendation	The District should use the full accrual basis of accounting through the use of enterprise funds for the recreational activities reported within Community Services and Beach. The full accrual basis of accounting will allow the District to determine what portion of its operating costs, including the use of capital assets and interest incurred on debt, are recovered from the rates it charges for these activities.

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2	**Observation**	The District has established that Resolutions are the method used by the Board to document commitments placed on resources as defined in GAAP. Further, we found that there is an intent of the Board and management to commit the resources generated from Facility Fees as allocated by the Board to provide additional resources for the related operations, capital projects, and debt service, of the various activities within the Community Services and Beach funds. However, it appears the District is relying on the resolution adopted annually by the Board that authorizes the assessment and collection of these fees by the County Assessor as the resolution that also establishes the commitment as defined in GAAP.
	Recommendation	Should the District decide to continue the use of governmental funds for the reporting its recreational activities within Community Services and Beach, the District should consider adopting a separate resolution with wording that clearly establishes its intent to commit the Factility Fees to the activities within Community Services and Beach as provided by the applicable accounting standards. Further, the District would need to commit additional resources reported within Community Services and Beach in order to meet the spirit and intent of GAAP to use special revenue funds. In the absence of a substantial portion of resources

		either restricted or committed as defined in GAAP, the Community Services and Beach funds would need to be combined with the General Fund for external financial reporting purposes.
3	Observation	One of the reasons provided to us for the switch from Enterprise to Special Revenue funds for Community Services and Beach activities after 2015 was to improve the ability to track and monitor resources dedicated to acquisition of capital assets and repayment of debt supporting the recreational activities within these funds.
	Recommendation	Should the decision be made to report Community Services and Beach as enterprise funds, the District could consider the use of separate budgetary funds for purposes of tracking and monitoring resources designated for specific purposes like acquisition of capital assets or repayment of debt that are combined with the enterprise funds for external financial reporting purposes, or otherwise tracking resources within the enterprise funds with constraints separately through the chart of accounts and related separate line items in the budgetary forms used for State budget compliance purposes.

Observation of current reporting.

From review of prior year CAFR's, summaries of the issues provided to us from various stakeholders, and results of interviews conducted, we learned that the District used enterprise funds to account for its recreational activities within Community Services and Beach prior to 2016. We were told that a change was made to report these activities within governmental funds at the direction of former management staff to address personal preferences as well as feedback from certain District stakeholders that it would be easier to track the spendable resources within a series of governmental funds using the modified accrual basis of accounting. Since 2016, the District has used separate special revenue funds to report the activities of Community Services and Beach, along with separate capital projects funds to account for resources used to finance capital expenditures for Community Services and Beach, and separate debt service funds to account for resources used for the repayment of debt the proceeds from which were used to fund capital assets acquired to provide the services reported within Community Services and Beach.

External financial reporting guidance – Enterprise Funds.

Full accrual basis of accounting through the use of enterprise funds is recognized as appropriate to account for activities that are primarily financed by user fees and charges for services. Enterprise funds *may* be used when fees are charged to external users for goods and services and when management determines that a measurement of the extent to which fees and charges are sufficient to cover the full cost of providing goods or services including capital costs (depreciation, replacements, and debt service) is prudent. Enterprise funds are *required* when outstanding debt is backed solely by user fees and charges; laws or regulations require the establishment of fees and charges at rates sufficient to recover costs including capital costs; and when there is a pricing policy that fees and charges are to be set to recover costs, including capital costs. (GASB Cod 1300.109 a-c, GASB 34 par 67 a-c, AICPA SLG A&A par 2.30)

Enterprise funds are most commonly used for public utilities including water, sewer, solid waste, and power for which charges to consumers of these services are the primary revenue source. Often there are laws and regulations governing these activities and rates charged to consumers, along with requirements that user fees and charges be set at levels necessary to cover all costs including capital costs. Enterprise funds are often voluntarily used for activities primarily financed with fees and charges, or when management determines that it is prudent to measure the results of operations on the economic resources measurement focus that can only be accomplished through the full accrual basis of accounting. Examples include golf courses, parking facilities, pools, raceways or motor sports, health and mental health services, among others.

There is diversity in practice as to whether an entity's pricing policies, in and of themselves, can create a requirement to use enterprise fund accounting for external reporting purposes. Financial statement preparers and auditors have viewed this guidance in the accounting standards as permissive guidance as opposed to a requirement to use of enterprise funds.

External financial reporting guidance – Governmental Funds.

Modified accrual basis of accounting through the use of governmental funds is recognized as appropriate for most general governmental activities that are financed primarily with taxes, grants and entitlements, and other similar non-exchange revenue sources. The nature of these revenues lacks a direct connection between the value of the goods and services provided and the revenues received to finance them. (GASB Cod 1300.102)

The modified accrual basis through the use of governmental fund types allows for the tracking of spendable available resources. The use of special revenue, capital projects, and debt service is beneficial when there are constraints on certain spendable resources that have limits on the nature or type of activity or expenditure for which those resources are to be applied. The modified accrual basis of accounting with its focus on available spendable resources allows for the tracking of resources either externally restricted or internally committed to specific and limited activities and expenditures. (GASB Cod 1300.102a)

There are five governmental fund types that are used for an entity's general government activities, the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. The District has been using special revenue funds for reporting Community Service and Beach resources and expenditures supporting the recreational venue operating costs incurred, separate capital projects funds for resources assigned to capital expenditures related to these recreational activities, and separate debt service funds for resources assigned to the repayment of debt the proceeds of which financed capital projects related to these recreational activities.

GAAP provides for the use of Special Revenue funds only when a *substantial portion* of the proceeds from *specific revenue sources* are *restricted or committed* to expenditure for specific purposes. Further, resources reported in special revenue funds are generally exclusive of resources that are restricted or committed to capital projects or debt service. Restrictions can only be created by laws or regulations and agreements with third parties through grant, contract, and other agreements. Commitments are created through actions taken by the Governing Board through their highest decision-making level of authority usually through ordinances or resolutions. The District has determined that Board approved resolutions represent the documentation of decisions they make at the highest level of decision making authority for purposes of meeting GAAP requirements to create a commitment. (GASB 54, par 30 & 31, 2019 CAFR footnote 1.P)

GAAP provides for the use of Capital Projects funds when financial resources are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and capital assets. The use of Capital Projects funds can be required to meet a legal or contractual requirement, or their use can be based on a decision of management on the prudence of accounting for resources separately designated for capital outlays. (GASB Cod Sec 1300.106)

GAAP provides for the use of Debt Service funds for financial resources that are restricted, committed, or assigned to the expenditure for principal and interest on outstanding debt. The use of Debt Service funds can be required to meet a legal or contractual requirement, or their use can be based on a decision of management on the prudence of accounting for resources separately designated for debt service. (GASB Cod Sec 1300.107)

Governing Boards may create and use separate funds to achieve sound and expeditious financial administration, or to assist with compliance with grant or contractual provisions. When separate funds are used for management or budgetary purposes that don't meet the requirements to be reported as either Special Revenue, Capital Projects, or Debt Service funds, these funds are combined with the General Fund for external financial reporting purposes.

Evaluation of Enterprise Fund reporting guidance applicable to the District.

In our review of the Nevada Revised Statutes, bond agreements, and other relevant documents, we did not find any laws, regulations, or revenue pledges solely backed by user fees and charges that would result in a requirement under GAAP to use enterprise funds for the District's Community Service and Beach activities.

A question has been raised by certain District stakeholders as to whether a third criteria provided in GAAP would require enterprise fund accounting in and of itself. The third criteria provide for the use of enterprise funds when pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. (GASB Cod 1300.109c)

Board Policy 6.1.0.2.2 appeared to be the primary codification of fees and charges policies for the District. The wording of this section was found to be generic and lacked sufficient linkages to the actual methodology to be used to determine the rates for fees and charges, and is insufficient to establish a Board intent for such fees and charges to be set at rates sufficient to recover all costs including capital or debt costs.

Furthermore, we found that the District's budgets have included support of its recreational activities from the General Fund totaling $1,211,000 over the last five years with actual cash transfers totaling $650,000. This level of support demonstrates the District's policies over the rates charged for its various activities are not established to cover all costs incurred within Community Services and Beach. When an activity is supported with resources other than user fees and charges, Enterprise Funds *may* be used for reporting the activity, but *would not be required.* (GASB Comprehensive Implementation Guide Q&A 705-13, AICPA SLG A&A 2.30)

In practice, enterprise funds have been used even in instances fees and charges are set at rates that are insufficient to recover all costs of providing services. An example is transit agencies where user fees and charges often provide less than 20% of the cost of operating the transit system and subsidies from taxpayers, states, and the federal government provide a majority of the revenue necessary to cover operating costs. Another example is government operated medical clinics for low income individuals where fees and charges are set at amounts the users of those services can afford as opposed to the actual cost of providing the service, and, the government determines it prudent to be able to measure the subsidy level required to fund the activity from the entity's other revenue sources.

Therefore, the District has the option to report the recreational activities of Community Services and Beach within either governmental funds or enterprise funds.

Evaluation of Special Revenue Fund reporting guidance applicable to the District.

As noted above, the District has the option to utilize governmental funds for reporting its recreational activities. However, in order to support the use of special revenue funds, the District would need to establish that a substantial portion of the revenue streams of the operations of the recreational activities are either externally restricted, or internally committed by Board action as memorialized in Board resolutions.

In our review of state law, bond agreements, and other documents provided to us, we did not find any externally imposed restrictions on the revenue sources reported within Community Services and Beach as provided in GAAP.

In addition to the revenues generated from charges for services at each of the District's recreational activities, the District has assessed a Recreation Standby and Service Charges Fee (referred to in this report generically as Facility Fees). These fees are established by the Board with separate assessments for the Recreational Facility Fee and the Beach Facility Fee to support the operating, capital, and debt service costs of the activities reported within the Community Services and Beach funds. **(NRS 318.197)**

The Board adopts a resolution annually as required under NRS 318.201 to enable the District to utilize the Washoe County Assessor's Office to assess and collect this fee on behalf of the District. While the main purpose of this resolution is to enable the District to utilize the County for assessment and collection purposes, we believe the wording within the resolution is sufficient to create a commitment as contemplated by GAAP.

In addition to the resolution noted above, the District prepares a memorandum that documents the portion of the Facility Fee that is assessed to fund the activities reported within Community Services and Beach, as well as the portions of these Fees to be committed to support capital projects and debt service.

From review of prior year financial statements, we found that the District has been reporting the Recreation and Beach Facility Fees, including the portions allocated to capital projects and debt service, initially as revenues in the Community Services and Beach special revenue funds. Cash is then transferred for the portions allocated to capital projects and debt service and reported as 'transfers-out' of the special revenue funds and as 'transfers-in' to the respective capital projects and debt service funds.

We find that given the specific intent of the Board to commit portions of the Facility Fees to capital projects and debt service, the portions so committed should be reported as revenues directly within the respective capital projects and debt service funds. Further, we find that the portion of the Facility Fees committed to the operations of the Community Services and Beach funds are insufficient to meet the spirit and intent of the 'substantial portion' criteria in GAAP to support the use of special revenue funds. While GAAP provides no specific benchmarks or percentages necessary to meet the substantial portion criteria, a 20% threshold has evolved in practice as a benchmark that can be defended as meeting the substantial portion criteria. In cases where separate funds are utilized for management reporting, budgetary compliance, or other purposes but fail the substantial portion criteria, the funds are to be combined with the General Fund for external financial reporting purposes. **(GASB Q&A Z.54.39)**

Recommendations.

We recommend the District report its recreational activities for Community Services and Beach in respective enterprise funds. While the decision on the use of governmental or enterprise funds is optional given the District's specific circumstances, the determination of whether the financial condition of capital intensive activities funded primarily with fees and user charges is significantly enhanced through the use of the full accrual basis of accounting and the related use of Enterprise Funds. The full accrual basis of accounting through the use of Enterprise funds is necessary when it is important to know the extent to which fees and user charges are sufficient to cover all the costs incurred for a particular activity including capital costs. In addition, the determination of whether the financial condition of such activities is improving or declining over time requires a measurement of the wear and tear from the use of capital assets through the recording of depreciation among the operating expenses that is accomplished through the bases of accounting used by Enterprise Funds. Capital assets, long-term debt, and depreciation are not financial elements reported within Governmental fund financial statements that use the modified accrual basis of accounting.

Should the District want to improve the transparency of tracking and reporting resources designated for specific purposes like capital asset acquisition or construction or debt service separately from resources used in operations, we recommend the use of separate sub funds within Community Service and Beach that roll up into the Community Services and Beach Enterprise funds for external financial reporting purposes, but enable separate reporting for Board and management oversight purposes. In essence, the sub-fund financial statements can be used to demonstrate compliance with either external restrictions or Board created designations on resources and their uses, and the external Enterprise Fund financial statements can be used to determine whether the financial policies and actual practices of the District result in improvements or declines in the financial condition of these activities over time.

If the District decides to continue reporting its recreational activities within governmental funds, and if the District intends to continue to place constraints on the Facility Fees, we suggest that the District adopt a separate resolution addressed specifically to documenting the constraint it intends to place on the Fees by fund and purpose. This will improve the transparency about the Board's intent to constrain the Facility Fees. The separate resolution should contain language that makes it clear as to the Board's intent to create a commitment as contemplated by GAAP. Further, should the District desire to continue the use of special revenue funds to report the activities within Community Services and Beach, additional resources reported within these respective funds would need to be committed by the Board and memorialized in resolutions sufficient to meet the substantial portion criteria in

GAAP. Absent meeting the substantial portion criteria, the activities of Community Services and Beach would need to be combined with the General Fund for external financial reporting purposes.

Central Services Cost Allocations

Based on input gathered from interviews, documents reviewed, and our evaluation of existing practices compared to applicable accounting standards and best practices, we have the following observations and recommendations.

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1	**Observation**	The District accounts for certain central service costs in the General Fund that benefit or are otherwise necessary to support the activities and services reported in its other funds. These costs are combined with and reported among the expenditures by function in the General Fund, as expenditures by function or activity by the reimbursing fund, and as a 'negative expenditure' reported separately in the General Fund in the amount of the total reimbursements made during the year.
	Recommendation	Costs initially incurred and paid by the General Fund that ultimately benefit activities reported within, and reimbursed by, the other District funds, should not be reported in the General Fund's financial statements. They should be reported as transactions within the fund benefitting from the services provided.
2	**Observation**	The District's current practice is to initially record allocated costs within the General Fund.
	Recommendation	While the allocation of costs incurred by the General Fund and charged to other funds is in conformance with GAAP, it is more common to report costs that benefit multiple funds within Internal Service Funds similar to how the District accounts for and reports for its fleet, engineering, and building maintenance services. The District should consider the accounting for administrative costs that benefit multiple activities and funds within Internal Service Funds and charge the activities and funds that benefit from the underlying services.
3	**Observation**	The District's central service cost allocations lack full transparency in the budget document. A schedule is included in the document that provides support for the allocation percentages to the District's various activities but lacks the detail of which specific budgeted expenditure line items makes up the central service cost total to be allocated.
	Recommendation	The District could improve the transparency of its central service cost allocations by providing the detail of line items included in the budget that make up the total central service costs that ultimately are allocated to the District's various activities.

4	**Observation**	The calculation of each activity's share of central service costs is based on averaging each activity's share of estimated full-time equivalents, budgeted wages, employee benefits, and services and supplies. This method is simplistic and does not allow for different bases for the unique nature of the different kinds of central service costs incurred. Related Board Policies and Practices identify the nature of central service costs eligible for allocation, but do not provide for the methodology to be used to allocate them.
	Recommendation	The District should consider revising Policies and Practices to include the methodology to be used to allocate central service costs. The methodology should allow for different bases for different types of costs incurred to better match amounts allocated with the drivers of those costs to the activities responsible for paying for them.

5	**Observation**	Central service costs allocated to the various activities of the District are based on budgeted amounts.
	Recommendation	The District should consider adjusting amounts charged to the various activities at year-end to match actual costs incurred, or alternatively, revise ensuing year allocations by prior year over or under charges compared to actual costs incurred so that reimbursements over time approximate the actual costs incurred.

Observations of current Central Services Cost Allocation.

The District incurs costs that benefit multiple activities reported within the various funds. Management uses two methodologies to account for, and allocate, those costs to the benefitting activities. One is the use of an Internal Service Fund (ISF), and the other is the initial accounting and reporting of certain 'central service costs' as expenditures within the General Fund. Activities accounted for in the ISF are charged to the activities benefiting from the services provided through an interfund charge. Central services costs initially recorded in the General Fund are allocated to the various activities/funds that benefit and reported separately by a negative expenditure in total in the General Fund financial statements along with expenditures/expense in the benefitting activity/fund for amounts allocated in their fund financial statements.

The District has Policy 18.1.0 and Practice 18.2.0 that provide for the allocation of central service costs that benefit or otherwise support the various activities of the District.

The District's Director of Finance performs an annual calculation, as part of the budget process, of central service costs to be allocated, along with the percentages to apply to the District's various activities, based on budgeted amounts for the ensuing year. The calculation of each activity's share of central service costs is based on averaging each activity's share of estimated full-time equivalents, and budgeted wages, employee benefits, and services and supplies. It was not clear how the total central service costs to be allocated is calculated as no detail was provided connecting the total to specific expenditure line items in the budget document.

As noted above, the central services costs allocation is part of the annual budget process, is included as a separate and distinct schedule in the budget document, and is available to the public for comment through the public process for budget adoption required by the State of Nevada.

GAAP and NRS Reporting Guidance for Cost Allocations

Governments often provide services internally under shared service arrangements to promote the efficiency and effectiveness of the shared service. In addition, it is common for governments to incur costs that benefit or support activities reported within the various funds of the government. GAAP provides guidance to account for interfund activity within and among the three fund categories of governmental, proprietary, and fiduciary in two classifications – reciprocal and non-reciprocal.

Reciprocal interfund activity is used to describe situations involving the exchange of equal or almost equal value between funds. This is the equivalent of exchange or exchange-like transactions. Common types of transactions within this classification include loans between funds, and interfund services provided and used. The District's motor pool, engineering, and building maintenance are examples currently reported as interfund services provided and used. **(GASB Cod Sec 1800.102a)**

Non-reciprocal interfund activity is used to describe situations that do not involve the exchange of equal or almost equal value between funds, or the equivalent of non-exchange transactions. Common types of transactions within this classification include transfers of resources between funds, and reimbursement of costs from a fund responsible for the expenditures to the fund that initially paid for them. The District's interfund transfers and central service costs are examples of these classification of transactions. **(GASB Cod Sec 1800.102b)**

GAAP provides for different alternatives for the accounting of costs that benefit multiple activities. The most common methodology is to accumulate costs within an Internal Service Fund (ISF). ISF's are used to report any activity that provides goods or services to other funds, departments, or agencies of the entity on a cost-reimbursement basis. Rates are determined and charged to the benefitting activities at a level, that over time, approximate the costs incurred to allow the ISF to operate on a 'break-even' basis. **(GASB Cod Sec 1300.110)**

Another alternative is for the activity benefitting from an expenditure and ultimately responsible for covering the cost to reimburse the fund initially paying for the cost. Entries are made removing the cost from the fund that initially paid for it and recording that cost in the fund benefitting from the expenditure. An example of this sort of transaction is the allocation of overhead. Allocations of overhead costs are to be reported as expenditures/expense of the benefitting activity/fund, and a reimbursement to the fund that initially paid for the cost. The result is the reimbursed cost is not reported in the financial statements as a transaction of the fund initially paying for the cost, but rather as a reduction of net position/fund balance and an expenditure/expense of the fund that ultimately is responsible for the cost. **(GASB Cod Sec 1800.102 b (2), GAAFR 4-17)**

Further, Nevada state law and budget preparation guidance provides, in general, for budgets based on GAAP, and specifically for interfund activity including quasi-external transactions, operating transfers, residual equity transfers, and the use of Internal Service Funds. **(Nevada Form 4404LGF, NRS 354.543)**

Evaluation of the District's Central Services Costs Allocations

We find that the District Board has provided authority for the allocation of costs that benefit its various activities through adoption of Policies and Practices, and management is meeting state requirements through the budget process. We also find that the District is reporting in compliance with GAAP, with the exception of the issue noted in the following paragraph, for its central service costs and activities currently reported within the General Fund.

The external financial statements could be improved by revising how the allocated costs are reported in the General Fund financial statements. As noted above, GAAP provides for costs initially paid for by one fund and reimbursed by another are to be excluded from the financial statements of the fund initially paying for the cost and as a reduction in net position/fund balance and an expenditure or expense in the financial statements of the funds ultimately benefitting from the service.

Improvements could be made in the allocation methodology. Best practices include evaluating six factors including the goals to be achieved, development of the allocation strategy, defining the level of cost detail, determining the actual cost of service, deciding on the bases of allocation, and considering potential drawbacks. The determination of the bases of allocation should take into consideration cause and effect relationships, the value of the benefits received, fairness, and a connection between an activity's desire to utilize the service and the cost to be incurred by that activity as a result. As examples, allocation based on cause and effect could include number of employee full-time equivalents, budgeted labor hours, building space occupied, number of PO's processed, number of checks issued, number of invoices processed, number of computers used and connected to the network, etc. Different bases could be used for separate types of costs. **(GFOA Best Practices for Pricing Internal Services)**

Another consideration that could simplify the ability of the District to determine the total and actual costs incurred as well as the sufficiency of the rates charged to the benefitting activities, would be to account for central service costs in an Internal Service Fund.

Recommendations.

Should the District stick with its current practice of initially accounting for central service costs that benefit its various activities within the General Fund, the costs accumulated and allocated to other activities/funds should not be reported within the General Fund's external financial statements. They should be reported as costs within the activities/funds that receive the allocations.

The District should consider accounting for central services within an Internal Services Fund instead of through reimbursements to the General Fund. ISF's provide a mechanism to accumulate costs that benefit multiple activities/funds, allow for the capturing of all costs on a full accrual basis, and ISFs are specifically provided for in GAAP and the NRS. The use of ISF's require the setting of rates for interfund charges, over time, on a cost-reimbursement basis. Therefore, actual charges to benefitting activities will, over time, equal the actual costs incurred. The current practice of allocations based on initial budgets could result in over or under charging for the services provided.

To improve the transparency of the internal service costs allocated, we recommend a detailed schedule of the individual expenditure line items in the budget that make up the total to be allocated be included in the budget document along with the support for the allocation bases.

To better match the costs of services used by each activity, we recommend identifying the different types of costs to be allocated and using a basis for allocation for each type that better aligns with the drivers of that cost to the benefitting activities. The current allocation of cost is based on an averaging of four different elements that is heavily weighted toward the direct budgeted costs of each activity which may not be the best reflection of the level of central services needed by a particular activity.

Whether the District sticks to its existing practice of initially accumulating joint costs in the General Fund, or switches to the use of an Internal Services Fund, we recommend that interfund charges eventually become based on actual costs incurred. This can be done through a 'true-up' process and related accounting entries at year-end after all costs have been determined, or by adjusting rates to be charged in the ensuing year by the amount of cumulative over or under charges from prior periods. The correct use of an internal services fund will require reimbursement of actual costs incurred. Initial allocations based on budgeted expenditures/expenses is a common and efficient practice during the year.

Punch Card Accounting

Based on input gathered from interviews, documents reviewed, and our evaluation of existing practices compared to applicable accounting standards and best practices, we have the following observations and recommendations.

1	**Observation**	The District's current punch card accounting methodology attempts to recognize the value associated with the benefits of the Facility Fees within the activities by fund where the picture passes and punch cards are presented for use. Further, we found that the District estimates the usage of picture passes and punch cards and the budgeted revenues by fund are consistent with that estimate.
	Recommendation	While we find there is a reasonable purpose behind the contra revenue methodology that is not inconsistent with GAAP and the budget requirements of the State, we recommend ceasing the use of the current accounting methodology. This methodology complicates revenue estimates to use for budget purposes, is confusing to stakeholders, and requires a significant amount of staff time during the year to administer. The time, cost, and complexity involved appears to outweigh the benefits perceived to be achieved.

2	**Observation**	The Board has the authority to, or not to, assess Facility Fees in support of Beach and Community Service venues, as well as to determine the allocation of the Facility Fees to fund operations, capital asset acquisitions, and/or debt service of both Community Servies and Beach. The allocation in any particular year can address the immediate needs of the District as determined by the Board.
	Recommendation	The District should record revenues from charges for services and Facility Fees within the different activities and funds according to the net cash collected from rates charged and the allocaiton of Facility Fees determined by the Board at the time of the budget adoption.

3	**Observation**	Management has been classifying Facility Fees as a non-program related general revenue and therefore resulting from a non-exchange transactions since 2015 but has not specifically disclosed its policy on its revenue classification in the notes to the financial statements.
	Recommendation	Whether the District continues to report its recreational activities within governmental funds or switches to enterprise funds, its policy on the

classification of the Facility Fee revenue should be disclosed in the notes to the financial statements. We recommend the District stick to the non-exchange classification of the Facility fees, and if the decision is to switch to enterprise fund reporting, to report the fees within the non-operating section in the statement of revenues and expenses and the non-capital related financing activities section in the statement of cash flows.

Observation of current punch card accounting.

Board Policy 2.1.0.2.4 provides for the reporting of the annual recreation and beach Facility Fees and the allocation of these fees to the District's various recreational activities, capital projects, and debt service. The policy provides that the Board will authorize the assessment and allocation through the budget process.

Policy 16.1.1 provides the authority for charging the Facility Fees and the basis for which it will be assessed, the method and manner of the assessment and collection of the fees, and the benefits the fees provide residents through certain uses and rates at the District's various recreational facilities. The Board approved Ordinance 7 provides for the establishment of the uses and rates, rules and regulations for recreation passes and punch cards which are presented by residents at the recreational facilities to obtain the benefits and privileges provided to them in exchange for payment of the fees.

By Resolution and through the budget adoption process, the Board determines the assessment of the Facility Fees among the different recreational activities reported in Community Services and Beach funds, as well as amounts allocated for capital asset acquisitions and debt service benefitting the activities within these two funds.

To take advantage of the privileges provided by Ordinance 7, members have the option of receiving a picture pass or punch cards to present when utilizing the various recreational activities and facilities that, among other benefits, allow for reduced pricing compared to rates charged the general public.

We found that the District has been utilizing a contra-revenue accounting methodology that tracks the location where picture passes and punch cards are presented for use at the various recreational venues, as well as to recognize the value of the punch cards between the Community Services and Beach venues. From inquiries of management, we learned that the budgeted revenues by fund as adopted contains an estimate of the relative values of the benefits members obtain from usage of the punch cards at venues within Community Services and Beach.

In our interviews with various stakeholders, we heard that the initial purpose of the contra-revenue accounting methodology was developed in an effort to better align the values associated with the punch cards with the venues where presented for use. However, we heard from many stakeholders the current revenue recognition practice is complicated, confusing, requires significant staff time, and seems inconsistent with the authority of the Board to assess the Facility Fees to fund the various recreational activities and related capital acquisitions and debt service pursuant to their discretion.

We understand that some District stakeholders have raised the question as to whether the contra-revenue accounting methodology ends up with a reallocation of the Recreation Facility Fee revenues paid by certain residents that don't have beach privileges away from the Community Services Fund and records them as revenues within the Beach Fund. From inquiries of management and the observations of documents provided to us, we did not find that resources from the Fees paid by members without beach privileges were reallocated and transferred out of the Community Services Fund. Nor did we find actual revenues reported for a year to be inconsistent with the intent of the adopted budget.

From review of past comprehensive annual financial reports, we find that management has been inconsistent in the classification of the Facility Fees revenue within the financial statements, and not currently following GAAP. Prior to 2016 when the District was reporting its recreational activities within enterprise funds, the Facility Fees were classified as 'operating revenue' consistent with exchange or exchange-like accounting guidance. After 2016 the District classified the fees as 'general revenues' which is consistent with the non-exchange transaction accounting guidance, and only appropriate when the fees are unrelated to funding specific programs or activities of the District.

Applicable revenue recognition guidance applicable to the Facility Fees.

A governmental accounting system must make it possible to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and to determine and demonstrate compliance with finance related legal and contractual provisions. Governing bodies, by definition, exercise the "power of the purse" by their responsibility to authorize the entity to raise and spend public money. This authorization in Nevada comes through the adoption of the annual budget. (GASB Cod Sec 1100.101, GAAFR 4-2, NRS 354.596-598)

The use of funds is the established mechanism to meet the objective noted above. A fund reports financial resources which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions, or limitations. The particular use of a fund can be dictated by laws, regulations, or often as determined at the discretion of the governing board. (GAAFR 4-1&2)

GAAP provides for revenue recognition based on the classification of the underlying transactions which generally falls into two classifications of exchange or exchange-like, and non-exchange. Exchange transactions generally result from fees charged to users for goods or services where the fee is commensurate with the value received by the user. Greens fees at a golf course or the day-use fee at a gym are examples. Non-exchange transactions result when the provider of the resources does not necessarily receive something of equal value in return. Examples include the payment of taxes to fund general government services like community planning and public safety. The classification of the underlying revenue has significant implications on the timing of recognition of a resource (an asset or reduction of a liability) and revenue. It also has implications on the fund-type to be used for the underlying activity. (GAAFR 8-1&2)

There are instances the parties to the services may be willing to receive or pay amounts that are similar, but may not be same, as the value of the underlying goods and services. These transactions are classified as exchange-like transactions. The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics are strong enough to justify treating the transaction as exchange for accounting purposes. (GASB Cod Sec N50.503)

Exchange and exchange-like transactions are to be recognized as, or over the period when, the underlying service is provided. Non-exchange transaction accounting guidance is provided by GASB Statement No. 33 which generally provides for asset recognition when a resources are received or at the time a legal right to resources exist, and revenues recognized when all eligibility criteria are met securing the entity's right to the resources.

There is diversity in practice in the application of existing guidance with transactions that are not pure exchange or non-exchange. As a result, GAAP requires management to set a policy to be consistently applied as to the nature of transactions considered program revenues for its governmental activities, and operating revenues for its business-type activities and to disclose the policy in the footnotes to the financial statements. From review of past CAFR's, we did not find a disclosure specific to the revenue classification of the District's Facility Fees. (GASB Cod Sec 2300.106)

In the government-wide statement of activities, revenues are to be classified as either program or general. Program revenues are defined as those directly associated with the function or program and would disappear if the function or program were eliminated. Examples include fees and charges paid by those who purchase, use, or otherwise directly benefit from the service, program-specific grants and contributions restricted to financing the underlying function or activity, and interest earnings on investments restricted to use by a specific function or activity. General revenues are defined as those not directly related to financing a specific function or activity. Examples are taxes, grants and contributions that are not restricted to a specific function or activity, and interest on invested resources not restricted to specific functions or activities. (GASB Cod Sec 2200.136-140)

Evaluation of the District's current Punch Card accounting methodology

We find that the District's Board has the authority to assess the Facility Fees in support of activities and venues reported within the Beach and Community Services as provided in the Board Policies and Ordinances as well as NRS 318.197. Further, the Board has the authority to determine the allocation of the fees in support of operations, capital expenditures and debt service which is memorialized in Board Resolutions and the District's adopted budget. As noted above, the budgeted revenues by fund have included revisions for the District's estimated usage of punch cards among the various recreational activities prior to adoption by the District's Board.

In addition, we find that the District's current contra-revenue accounting methodology results in revenues recognized by the various activities and funds in accordance with the intent of the approved budget, as well as the accounting literature for reporting revenue within the various funds of an entity at the discretion of the governing board.

Further, based on existing guidance available today and on the diversity in practice in the application of revenue classification criteria for certain transactions, we can understand why management has not been able to come to a definitive conclusion on the classification of the District's Facility Fees presumably resulting in the switch in classification after 2015. While the fee is not 'pure' in the same sense as the payment of greens fees for a round of golf, the fee does provide specific rights and privileges to residents to the District's recreational activities along with the District's policy of using the fee, in addition to user charges, to directly finance recreational activity operations, capital needs, and debt service.

One factor that would seem to support management's current classification as 'non-exchange' is the fact that the assessment and payment of the fee lacks the mutual assent of the parties. Residents do not have a choice on the payment of the fee unlike the decision to play golf and incur greens fees. GASB's new revenue and expense recognition project currently under deliberation provides for four criteria to be met for a transaction to be considered exchange or exchange-like including the concept of 'mutual assent' of the parties. This concept is not included in current accounting standards and is being discussed, in part, to provide clearer guidance on what constitutes an exchange transaction. (GASB Revenue and Expense Recognition Preliminary Views Ch 3, par 3)

We find that the classification of the Facility Fees in the government-wide statement of activities since 2015 as a general revenue is inconsistent with GAAP in that the fees are assessed specifically to finance the District's recreational activities. As such, it meets the criteria to be reported as a program revenue in the statement of activities. Further, the fees meet the criteria to be included in the charges for services column in the statement. (GASB Cod Sec 2200.137)

Recommendations.

We recommend ceasing the use of contra-revenue accounting currently applied to the value received for the payment of Facility Fees attributed to the use of picture passes and punch cards. We question the benefits derived compared to cost incurred by the District to administer this approach especially given the Board's authority to allocate the resources they deem appropriate to best meet the needs for the ensuing year through the adopted budget. In addition, eliminating the use of contra revenue accounting will eliminate the variability that results when picture passes and punch cards are utilized differently from preliminary estimates included in the budget thereby providing management more certainty as to actual resources available to finance each activity during the year, and should significantly reduce staff time and effort required to perform the daily and monthly accounting.

We recommend the charges for services revenues be reported within the activities and funds at the net rates collected at each venue, and Facility Fees reported within each fund be consistent with the assessment and allocation initially set by the Board during the budget adoption process.

We recommend the District include its policy on the classification of Facility Fees as either program or general revenue, or, either operating or non-operating, in the footnotes to the financial statements. If the District continues to report its recreational activities within governmental funds, we recommend the fees be classified as program revenues and reported in the charges for services column and on the appropriate lines for the portions related to Community Services and Beach activities. If the District reports the recreational activities in enterprise funds, we recommend the fee be reported as non-operating revenue.

Capital Asset Accounting

Based on input gathered from interviews, documents reviewed, and our evaluation of existing practices compared to applicable accounting standards and best practices, we have the following observations and recommendations.

1	**Observation**	The District's current accounting practice includes posting certain costs incurred to its construction-in-progress account based on the nature of an expenditure, or services provided to the District by certain employees, without requiring a clear connection of the cost incurred to the increased service capacity of a specific capital asset. The costs posted to construction-in-progress are later transferred and included in the capitalied cost of existing and new capital assets. Further, we found that costs are capitalized without an evaluation of what stage a particular project is in whether a preliminary or feasibility stage, actual construction stage, or post-construction stage. As a result, expenditures incurred in preliminary stages have been capitalized by the District that don't meet current accounting guidance for capitalization.
	Recommendation	The District's practices and policies should be revised to acknowledge different stages to a project, definition of costs incurred in each stage, and how to account for the expenditures incurred in each stage, consistent with established and accepted governmental accounting practices.

2	**Observation**	The District's past history of capitalizing costs incurred for feasibility studies and master plans is not consistent with with current recognized governmental accounting practice.
	Recommendation	In most cases, the District should expense expenditures for feasibility studies and master plans. Policies should be revised to address the few circumstances where preliminary engineering, architectural, or design costs are actually utilized in a capital project and eligible for capitalization.

3		
	Observation	**The District has historically capitalized repair projects without a complete evaluation of whether the repair truly increased the capacity of the asset to provide service. Board policies currently do not provide sufficient guidance on what constitutes an increase in service capacity for its various types of capital assets.**
	Recommendation	**Board policies and practices should be revised to provide for capitalization of expenditures that truly increase service capacity, and further, that provide the criteria to be followed in making the increased service capacity decision on expenditures by nature or function of the different asset types versus expenditures that should be expensed.**

Observation of current capitalization practices.

From our interviews of various stakeholders, we learned that the District has routinely treated a number of different types of expenditures initially as capital outlays and included in the capital asset account titled 'construction-in-progress'. These costs are allocated to and included with the costs incurred to actually construct a project and reclassified to other capital asset classifications once projects are completed.

Costs initially included in construction in progress include master plans, feasibility studies, and payroll costs for certain District employees like engineers involved in the District's capital asset planning processes. Decisions on whether to include a cost in construction in progress appear to be more from established practice based on the nature of a type of expenditure like engineering staff payroll costs, instead of based on an evaluation of whether the costs were incurred to actually construct a specific asset and without consideration of what stage a project is in.

Board policy 8.1.0 and 9.1.0 establish some of the elements of a framework with which to establish whether an expenditure should be capitalized including the useful life for a particular capital asset. 9.1.0.1.0 provides that an asset must provide utility for two years or more to be eligible for capitalization. 9.1.0.3.0 provides that only expenditures in excess of $5,000 will be eligible for capitalization.

Board practice 2.9.0.1.2.1 provides that an asset must have a useful life of at least three years to be eligible for capitalization which is inconsistent with the guidance in policy 9.1.0.

Board practice 2.9.0.1.2.4 provides guidance for when repair project expenditures would be eligible for capitalization including the concept of increases to 'productivity' that are necessary in addition to the concept of increasing the useful life.

Applicable capital expenditure and best practice accounting guidance.

There is relatively little material in the accounting standards to provide specific guidance on when it is appropriate to treat an expenditure as a capital. Rather, most of the guidance is based on GASB Concepts Statement No. 4 which provides general concepts only; anecdotal guidance from other standards like the accounting for intangible assets, asset impairments, elimination of the capitalization of interest costs, among others; and what has evolved in practice. Existing guidance defines capital assets as land, improvement to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets including roads, bridges, tunnels, drainage water and sewer systems. **(GASB Cod Sec 1400.103)**

Accepted practice includes recognition of the different stages of a project including preliminary, construction, and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Construction stage includes the engineering and design work on the chosen alternative, actual construction costs, direct payroll of employees working on the project along with certain overhead, and ancillary charges necessary to get the asset in working condition. Post construction stage includes, among other costs, training of employees on use of a particular asset. **(GASB Cod Sec 1400.143-149)**

Costs incurred in the preliminary and post-construction stages are typically expensed as they are not directly connected with creating service capacity of a particular asset. A project is not considered to enter the construction stage until an actual project alternative has been selected, it is determined the selected alternative will meet the intended needs and objectives, financing for the project has been identified, and the entity establishes in some meaningful way it is committed to proceed with the project such as, for example, including the financing sources and necessary expenditures in the budget. **(GAAFR 23-7 to 9)**

Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility and are expensed as routine repairs and maintenance. Any outlay that does no more than return a capital asset to its original condition, regardless of the amount expended, should be classified as maintenance and repairs. Since maintenance and repairs provide no additional value, their cost should be recognized as expense when incurred. **(GAAFR 23-10)**

Best practices to consider for inclusion in policies and practices include:

- The different stages of a project and the types of costs incurred in the different stages.
- The accounting treatment of costs incurred in the different stages.
- What elements or criteria need to be met for expenditures associated with a repair project to be eligible for capitalization based on the concept of service capacity in addition to the extension of useful life of an asset.
- Provide for a different dollar threshold for the different classifications of capital assets. **(GFOA best practices)**

Evaluation of the District's current capitalization practices.

We find that the District's practice of capitalizing expenditures incurred in what would meet the definition of the preliminary stage of a project as noted above is inconsistent with the accepted practice. Examples include payments to external consultants and internal staff payroll costs to develop master plans, feasibility studies, and related engineering and overall system planning. Current established practice includes the capitalization of certain costs incurred in a preliminary stage such as engineering, architectural, and design for projects that are actually constructed to the extent those costs would have been necessary for the project in any event.

In addition, we find that the District has capitalized expenditures incurred for repair projects without a careful consideration of portions of the costs incurred that bring the asset back to its previous service capacity and therefore should be expensed, versus the portion of costs that actually increased the service capacity and or significantly increased the asset's useful life. When a particular project has elements of both repairs and improvements, an appropriate portion of the cost should be allocated to repairs and therefore expensed, and a portion to the improvement and capitalized. **(GAAFR 27-10)**

Further, we found the District's Board policies and practices lacked a framework for recognition and nature of costs incurred in the various stages of a project along with the accounting treatment to be applied with each stage.

Recommendations.

The District's policies and practices should be expanded to provide additional guidance. One area to consider is revisions to recognize, provide descriptions of the types and nature of expenditures incurred in, and provide guidance on how to account for, the various stages of a capital project. The stages should include, at a minimum, preliminary, development or construction, and post-development or construction. Policies should provide guidance for the capitalization of certain engineering, architectural, and design costs incurred in the preliminary stage for projects actually constructed in addition to the costs incurred in the construction stage. Another area to consider is a revision of the dollar thresholds to apply to the different classes of capital assets.

Generally, costs incurred for master plans, feasibility studies, exploration of various project financing alternatives; and all internal payroll costs for engineering, planning, and administrative efforts incurred in what would fall into the preliminary project stage should be expensed when incurred. Only costs incurred in the preliminary stage for projects actually constructed that are necessary project costs and related to adding to service capacity should be eligible for capitalization.

Each project related to an existing capital asset should be carefully evaluated with respect to the objective of the project. For example, determine if the project is part of the ongoing and necessary maintenance to keep the asset in good working order without increasing service capacity and therefore not eligible for capitalization, a repair that was not anticipated but necessary to keep the asset in good working order without increasing the service capacity and therefore not eligible for capitalization, or was the project previously identified as part of an overall plan to increase the service capacity or the overall remaining useful life of the asset and therefore is eligible for capitalization. The policy could provide the criteria to be applied unique to the different classes of capital assets necessary to make the determination on whether a significant increase in service capacity or useful life will result. As an example, policies for road resurfacing might include that laying more than a certain number of inches of new asphalt on an existing road is required to support the service capacity has been increased and the resurfacing project costs are eligible for capitalization. Application of sealants or laying new asphalt of less than a certain depth is considered repairs and maintenance and expensed when incurred.

MOSSADAMS

14 Point Email

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 <u>substantially prolong the life</u> 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 page21), 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	133,759.86	Speculation
	$658,736.25	

Enterprise Fund

Cost sharing with Tahoe Transportation District - Environmental Assessment Effluent Pipeline Co-Location in Bike Path	$300,000.00	Speculation - Probably of abandonment

These studies should be expensed and removed from construction in progress

Number 4

Improper recording of revenues described in Note 1T as a significant Accounting Policy called "Punch Cards Utilized" and in Note 18 as a Segment Information and failure to disclose the resulting cash interfund transfers in Note 7 and required payments to parcel owners that have no Beach access.

This accounting scheme was initiated in fiscal year 2013 to increase noncash charges for services (revenues) in the Beach Fund (through 6/30/2014) and the Beach Special Revenue Fund (effective 7/1/2016 ("BSRF") and subsequently offset 100 % of those revenues by a contra revenue charge in the Community Service Fund (through 6/30/2014) and the Community Services Special Revenue Fund (effective 7/1/2016 ("CSSRF"), resulting in a cash transfers of approximately $2,230,000 since 2013. In fiscal year 2019 $468,000 was transferred from the CSSRF to the BSRF.

As a result for fiscal year 2019 revenue from charges for services of the BSRF have been overstated by 43% and correspondingly revenues from charges for services of the CSSRF has been understated by 3.7%.

In addition, based on the May 22, 2019 board resolution 1871, a total of 455 parcel owners have been charged a facility fee which allows the use of only Community Services venues but their share of those facility fees have been transferred to the Beach venues in which they do not participate. These parcel owners represent 5.55% of all parcel owners and their share of the facility fee paid or $26,000 ($468,000 X 5.55%) has been transferred to the Beaches. Since 2013 $124,000 of revenues from parcel owners not participating in the Beach venues have been transferred to the Beach Fund.

No revenues should have been recognized as the value of each punch card had been paid and recorded as revenues when the Recreation Facility Fee and Beach Fee was paid. No revenues were created by subsequently using a punch card to obtain a lower charge for services (user fees) at the recreational venues. This accounting scheme is a double booking of revenues with unrelated contra revenue offsets.

At the December 16, 2015 IVGID Audit Committee meeting, Mr. Dan Carter, provided answers to the Committee members questions, which indicate he did not have an understanding of what false accounting was transpiring and stated that IVGID had a policy for the accounting. There is no policy.

According to GASB #34 paragraph 122 Segment Information in Financial Statement Notes should be used only for enterprise funds. The CCRS and BSRF are not enterprise funds.

EideBailly must provide an opinion on the validity of the accounting and reporting complying with Nevada law, GAAP and GASB for "Punch Cards Utilized" transactions.

Number 5

Unallowable transfer of Funds for Central Services Cost Allocations. (Note 15) (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 EXPLAINATION FOR NO LONGER DEFFERING BASE RATES BILLED IN ADVANCE

Apparently during the course of the audit performed by Eide Bailly L.P. (Auditor) this change in accounting was discovered by the Auditor and considered the change to be a misstatement. Rather than correct the misstatement, Mr. Eick and Lori Pommerenck, Controller, provided the following statement in the Management Representation Letter to Auditor dated November 18, 2019:

"The effects of the uncorrected misstatement below aggregated by you during the current engagement is immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole:

Revenues	417,402	
Net Position		417,402

To pass on recording the prior year impact to revenue for nonexchange fees billed in advance

It is quite apparent, the decision NOT to correct the misstatement was by IVGID management and the Auditor may be seeking legal protection through reliance on Managements representatons.

Also note the amounts used in the Memorandum to the Audit Committee and the Representation Letter to the Auditor do not agree and are different by $16,578. How is it possible that the Memorandum to the Audit Committee dated November 27, 2019 would have different amounts than the CAFR and Representation Letter delivered on November 18, 2019?

Materiality is not the issue as Utility Fund revenues have been overstated by only 3.4%. The false assertion created by Mr. EICK was delineated in the Memorandum to the Audit Committee involving EideBailly which stated:"However further discussions with the Auditors found a more compelling factor is that they are a non exchange transaction because the billing components are not tied to the receipt of any quantity of water or sewer services."

Question for EideBailly - Are advanced billings for basic water and sewer services considered a non exchange transaction and if so why would that matter on not deferring advanced billing?

Number 7

Incorrect statements and failure to report all commitments in Note 19 - Commitments Affecting Future Periods (CAFR pages 54-55), and failure to report contractual arrangements as committed fund balance on the Balance Sheet of Governmental Funds.

- Capital Improvement Project Budget Carryover -

The following projects had committed Budgets outstanding but were not included

Incline Park Facility Renovation - $1,174,741 affecting Community Service

Purchase of Vactor Truck - $416,564 affecting Utility Fund

Incline Creek Park Restoration - Amount of the carryover should be $303,895 which is the unspent amount of two contracts. Only $214,000 was included in the project carryover thus understating the carry over amount by $89,895.

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

Failure to report a roofing contract with Kodiak Roofing & Waterproofing dated 9/13/2017 for $77,535. Work on the contract did not start until September 2019. The contract amount was included as a Capital Improvement Project budget carryover.

NOTE: The contracts reported in this section plus the contract above relating to governmental funds should be reported as a committed fund balance on the Balance Sheet (CAFR page 23) Total amount $1,685,966

GASB Statement #54 paragraph 10 provides the requirements for Committed Fund Balance

"Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance"

> The specific purpose would be the future contract costs. There is no longer intent to be an "Assigned" fund balance as an obligation was created.
>
> The constraints imposed would be approval of the contracts by IVGID Board of Trustees (they being the highest level of decision-making authority)

- Budgeting for Fiscal Year Ending June 30, 2020

The General Fund 2019/2020 Budget provided for a TRANSFER of fund to the Community Services Special Revenue Fund for only $561,800 and DID NOT include a transfer of $145,000 in contingency. These transfers violate NRS 354.6117, as the funds were specified for the Mountain Golf Course Clubhouse Renovation. The $788,870 transfer exceeds the limitation imposed in NRS 354.6117 which is 10% of the total amount of the budgeted expenditures of the general fund.

The narrative fails to address the actual Fund name.

According to the narrative a total of $4,037,091 of accumulated resources in the Community Services Special Revenue Fund and $625,729 in the Beach Special Revenue fund will be used for capital projects in direct violation of GASB Statement #54 paragraph 30

As Stated: "*Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects*".

Note: Separate capital project and debt service funds for the Community Services venues and the Beach venues were established by Resolution by the Board of Trustees effective July 1, 2015 and were discontinued as stated in the Letter of Transmittal (page 4) of the CAFR. Disclosure in the Notes to the Financial Statements would be required.

EdieBailly 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 aove.

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 thought 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.

Director of Finance Navazio's Review of the 14 Points

MEMORANDUM

TO: Audit Committee

THROUGH: Matthew Dent
Audit Committee Chairman

FROM: Paul Navazio
Director of Finance

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

DATE: July 22, 2020

I. RECOMMENDATION

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

II. BACKGROUND

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

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

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

At the outset, it is important to note that several of the issues raised related to the District's FY2018/19 CAFR are claimed, by the author(s), as rising to the level of requiring the District to re-state its audited financial statements. These claims are based on an assertion that certain accounting practices are illegal, or represent gross errors and omissions that impact the materiality of the District's financial statements. It is also worth noting that many, if not all, of the questions and issues have been responded to by Staff previously, and have also been raised with the District's independent auditor as well as the State of Nevada Department of Taxation, with whom the District is required to file its annual financial audit in compliance with NRS 354.624.

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

Summary of Staff Findings & Recommendations

1) While selected questions may warrant additional consideration and remain under review, **Staff does not believe that any of the issues raised relative to the District's FY2019/20 audited financial statements rise to the level warranting a re-statement (re-publication) of the District's CAFR for the year ending June 30, 2019.**

2) Several items identified in the constituent questions assert that District accounting and financial reporting practices are illegal, in violation of applicable Nevada Revised Statutes. **Staff does not agree with any of these assertions and, to the contrary, finds that the District's financial statements conform to applicable laws and regulations.**
Provided via attachment to this report is a copy of the Compliance Letter from the State of Nevada Department of Taxation that states, in part, that :

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

3) Several issues raised also assert that the District's accounting practices or financial reporting for specific transactions or activities are inconsistent with Generally-accepted Accounting Principles (GAAP). Many of these assertions are based on interpretations of applicability of GAAP to the District's accounting practices or to individual transactions. While Staff acknowledges that inherent subjectivity involved in interpreting GAAP as promulgated through GASB pronouncements, a difference of opinion between and amongst members of the public, management and/or the independent auditor, while noteworthy, again, do not rise to the level of requiring restatement of past audited financial statements.

4) Acknowledging that many of the issues raised are valid questions and worthy of discussion, should past District accounting practices or interpretations warrant re-consideration, these are best addressed or clarified in the context of preparation and audit of future financial statements.

5) A subset of issues raised by constituents are best addressed through a review of existing Board policies and practices and, where appropriate, revisions to District

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

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

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

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

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

> 67. *Enterprise funds* may be used to report any activity for which a fee is charged to external users for goods or services. Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's *principal revenue sources*.[33]
>
> a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
> b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.[34]
>
> c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

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

Application to IVGID - in the context of the District's debt issued is 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.

INCLINE VILLAGE

Resolution No. 1812

Page 13 of 66

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

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

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

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

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

Moreover, consistently, guidance provided for application of GAAP/GASB requirements cite as state laws that require that unemployment compensation funds and public entity risk pools as examples of application of this criteria (see below excerpt from *2020 Governmental GAAP Guide for State and Local Governments).*

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

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

OBSERVATION: GASB Cod. Sec. 1300 fn. 7 specifically requires state unemployment compensation funds to be reported in enterprise funds due to this criterion. Public entity risk pools are also *required* to be reported in enterprise funds in accordance with GASB Cod. Sec. Po20.115. Administrative costs of the funds should be included in the general fund unless legal requirements exist that require the accounting and financial reporting of the resources in another fund. If the administrative activity *is not* required to be accounted for in an unemployment compensation enterprise fund, GASB Cod. Sec. 1300.705-8 surmises that such a requirement would invalidate the reasoning than 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 where accounted for under Enterprise Fund accounting (Community Services, Beach, Utilities and Internal Services). This policy was not updated when the District transitioned to Special Revenues funds for Community Services and Beach activities for the 2015/16 fiscal year. Nonetheless, the District's budget continued to assess overhead charges to Community Services and Beach funds and thus did not conform to the letter of Policy 18.1. The policy has since been amended (May 2020) to conform to the ongoing practice of allocating overhead costs borne by the General Fund to non-general fund supported activities based on generally-accepted best practices to full-cost accounting.

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

Attachment 1

QUESTIONS RELATED TO FY2019-20 CAFR

	ISSUE / CONCERN / COMPLAINT	CATEGORIZATION: Error Omission	Accounting Practice	Interpretation / Opinion	IVGID Policy	STATUS / Next Steps	DISPOSITION: [illegible]	Prior Year Adj 2019/20 CAFR	Clarify / Note In 2019/20 CAFR	No Specific Action Required	COMMENT
1	**Improper change in Accounting and Reporting from Business Activities (Enterprise) to Governmental Activities** Cites NRS 354.17 and GASB #34 re requirements for use of Enterprise Fund accounting Costs recovered primarily through fees Pricing policies designed to recover costs (incl capital) Exchange vs non-exchange transactions - "fee" vs. "tax."		X	X		IVGID does not meet the referenced GASB requirements related to use of Enterprise Funds Current pricing policy / practice do not meet threshold requirement for use of Enterprise Funds While this argument may have been used at the time to "justify" transition to Special Revenue Funds, even if viewed as an exchange transaction, this does not trigger requirement for use of Enterprise Funds					Recommend BOT review of and establishment of formal pricing policy At meeting of May 27, 2020 the BOT approved a resolution of intent to transition back to Enterprise Funds for fiscal year 2021/22
2	**Error in Capitalizing conditions assessments and temporary repair work on the Effluent Pipeline which must be expensed** $1.4 million over 3 years for Condition Assessment $1.2 million (2017/18) to repair 1,080 lf Add'l. $546 ,000 Internal Engineering Charges By capitalizing and depreciating these costs, the financial statements are distorted...(hides expense aspect of assessment and temp repairs). Charges have a material impact on statement of Net Position *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.*			X	X BOT Policy 9.1 Practice 2.9.0	Accounting for repair work is consistent with current Board Policy (xx.x) related to capitalization of assets. Policy is grounded in consideration of "useful life." Routine maintenance and repairs help ensure an asset reaches its useful life. Repair work that is deemed to extend the useful life of an asset are appropriately capitalized.					
3	**Feasibility and Master Plan Studies should be reclassified from Construction in Progress to expenses of Special Revenue Funds and Utility Fund** 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. Governmental Funds - $658,736 Enterprise Funds $300,000 - (TTD "cost-sharing" for environmental assessment) *Statement of Net Position - (CAFR page21), 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)*	X	X		X BOT Policy 9.1 Practice 2.9.0 Practice 13.2.0	Will review how BOT action to deleted Master Plan may impact FY2019/20 Financial Statements In genereal, 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 Ski 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.					
4	**Improper recording of revenues described in Note 1f 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. 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.			X		No basis for statement of "intent." Rather, it is more appropriate to view the District's Puch Card Accounting practice as a means to address issue related to punch card utilization. More specifically, current punch card utilization results in residents/guests utilizing value of punch cards at various District venues without regard to funding used to purchase punch cards. Fasle assertion. Punch cards used by parcel owners with no beach access are accounted for differently than those with beach access.					
5	**Unallowable transfer of Funds for Central Services Cost Allocations. (Note 15) (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 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." 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. A written opinion from EideBailly must be obtained.			X	BOT Policy 18.1.0 Practice 18.2.0	Fasle claim. Central Services Overhead allocations are considered generall-accepted accounting practice and consistent with full cost--recovery principles. 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 proportionately.					

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION: Error Ommission	CATEGORIZATION: Accounting Practice	CATEGORIZATION: Interpretation / Opinion	CATEGORIZATION: IVGID Policy	STATUS / Next Steps	DISPOSITION: [illegible]	DISPOSITION: Prior Year Adj 2019/20 CAFR	DISPOSITION: Clarify / Note in 2019/20 CAFR	DISPOSITION: No Specific Action Required	COMMENT
6	Use of false assertion to record Utility Fund deferred revenues (unearned) of $433,980 as current revenues in the Proprietary Funds - Statement or Revenues, Expenditures and 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" 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 during the course of the audit performed by Eide Bailly L.P. (Auditor) this change in accounting was discovered by the Auditor and considered the change to be a misstatement. Rather than correct the misstatement, Mr. Eick and Lori Pommerenck, Controller, provided the following statement in the Management Representation to the effect the correction would have an "immaterial" effect on financial statements. 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? 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?			X		Accounting practice for Utility revenues are under review.. This concern is based on whether the base (flat) monthly rate is to be recorded as revenue when billed, or deferred until water usage for a given month is "consumed." There is also a question of whether the "base rate" constitutes an "echange" or "non-exchange" transaction. NOTE - In my experience with other municpal utilities revenues are recorded in the period in which the services are either used or billed, and both base rate and volumetric rate is recorded in the same period. The base (fixed) rate is not considered billed in "advance", it merely reflects the rate charged to recover the FIXED costs of running the utility rather than the variable cost. The base rate is usually charged even when there is NO USAGE, as the rate-payer is still responsible for their property's share of fixed cost of the utility.					
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. 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 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.			X		Per Governmental GAAP Guide for State and Local Government - Assigned Fund balances consists of amounts contained by government's intent to be used for specific purposes, but are neither restricted or committed. Examples of "assigned" fund abalances 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	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 aove. The Facilities Fees are authorized to be collected by NRS 354.197 as fees (charges for services) for specific purposes.			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 transgers are recorded (Transfer To = expense / Transfer FROM = Revenue). That said, many public agencies duly note Central Services Cost allocations as a component of "dual appropriations" (as are transfers and internal Service FUnds) in recognition that costs are ultimately reflected in both the "source" budget as well as the "receiving" budget. -					

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION: Error Ommission	Accounting Practice	Interpretation / Opinion	IVGID Policy	STATUS / Next Steps	DISPOSITION: [illegible]	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	COMMENT
	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.										
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 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 thought expenditures have not occurred Eidebaily should provide an opinion on compliance with GASB #34 regarding accounting treatment for this grant.		X	X		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). Balance Sheet will reflect grant revenues received in the current fiscal year.					
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.			X	X						
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 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.			X		Pending review of the distinction between "Leases" and "use permits"					Consider including Use Permits in future disclosures of lease obligations.
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. There is no Board Policy or practice which would support the statement made in Note 1P and it should be removed.			X		Per Governmental GAAP Guide for State and Local Government - Assigned Fund balances consists of amounts contained by government's intent to be used for specific purposes, but are neither restricted or committed. Intent should be expressed by either: 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					
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 $72,535 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			X		Review of accounting/reporting for contractual encumbrances are under review In general, when a contract is executed budgeted funds are encumbered so as to idenfity 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 relaxed (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. Complicating this issue is the fact that the District's financial system, while reflecting an encumbrance for executed contract, does NOT reserve funding and thus reflects funds as "available" until actually expended. This issue is being reviewed in the context of the district's monthly financial reports, in addition to treatment in context of year-end financial statements.					Also, see #7, above

QUESTIONS RELATED TO FY2019-20 CAFR

ISSUE	CONCERN / COMPLAINT	CATEGORIZATION: Error Ommission	Accounting Practice	Interpretation / Opinion	IVGID Policy	STATUS / Next Steps	DISPOSITION: [illegible]	Prior Year Adj 2019/20 CAFR	Clarify / Note in 2019/20 CAFR	No Specific Action Required	COMMENT
	"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" *"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."*										
14 Improper reporting of Notes to Financial Statements	The Notes to Financial Statements - Index (page 34) lists Note 3E 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.					Will review and make any clarifying edits to the FY2019/20 CAFR.					

Moss Adams Engagement Scope of Work

MASTER SERVICES AGREEMENT STATEMENT OF WORK
CONSULTING SERVICES – ACCOUNTING SERVICES NONATTEST
INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
SEPTEMBER 14, 2020

This Statement of Work ("SOW") is issued pursuant to the Master Services Agreement (the "MSA" or "Agreement") between Moss Adams and Incline Village General Improvement District (District). This SOW incorporates all terms and conditions of the Agreement as if fully set forth herein. Any term not otherwise defined shall have the meaning specified in the Agreement. While this agreement is with the District, we understand the service is being requested by, and under the direction of, the District's Audit Committee. Reporting during and at the end of the engagement will be to individuals as designated by Mathew Dent in his role as Audit Committee Chair.

Scope of Services:

In this engagement, we will perform the following accounting and reporting services for the District. We will provide you with a written report that summarizes the analysis performed, alternatives in reporting that may exist along with pros and cons of the alternatives, opportunities for improvement to accounting and reporting as well as related financial policies and practices, and related recommendations. Our services will focus on the following:

- Determination of whether the Community and Beach Services would be required to be reported in enterprise funds in compliance with Generally Accepted Accounting Principles instead of governmental funds as currently reported, or if preferable to do so.
- Determination of whether the District's Centeral Services Cost Allocations for central services costs to the funds reporting Community Services and Beach Activities, are in compliance with Nevada Revised Statutes (NRS) 354.613(c) or other applicable laws, as well as other recognized best practices and District policies.
- A review of whether the District's Punch Card accounting and the related recording of revenue and transfer of resources amongst the District's Funds as reported in the CAFR are in compliance with GAAP.
- A review of the District's Capitalization practices to determine if they are consistent with GAAP, District Practices, District Policies, and/or best practices.

We will perform the services in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we will provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. The procedures we will be performing will not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards.

The overall definition and scope of the work to be performed is the District's responsibility. We will report to and take direction directly from individuals as designated by the Audit Committee. The District is responsible for the implementation of actions identified in the course of this engagement and the results achieved from using any services or deliverables. We have not been engaged to and will not perform management functions, make management decisions, act, or appear to act in a capacity equivalent to that of an employee. The District remains responsible for the proper implementation and operation of an adequate internal control system.

Limitations:

Due to inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If during the assessment we become aware of reportable conditions that are significant deficiencies in the design or operation of the internal control structure, we will communicate them to you immediately.

Responsibility for Financial Statements

You are fully responsible for your financial statements, including the establishment and maintenance of adequate records and effective internal controls over financial reporting. Since we are only evaluating the accounting and reporting for certain of the District's activities, Moss Adams assumes no responsibility to provide you with assurance about the accuracy of financial statements overall or in areas not subject to our review, or whether such financial statements are free of misstatements due to fraud or in compliance with applicable laws or regulations.

Management Responsibilites:

Our professional standards require that we remain independent with respect to our attest clients, including those situations where we also provide nonattest services such as those identified in the preceding paragraphs. As a result, District management must accept the responsibilities set forth below related to this engagement:

- Assume all management responsibilities.
- Oversee the service by designating an individual, preferably within the Audit Committee and senior management, who possesses skill, knowledge, and/or experience to oversee our nonattest services. The individuals designated are not required to possess the expertise to perform or reperform the services.
- Evaluate the adequacy and results of the nonattest services performed.
- Accept responsibility for the results of the nonattest services performed.

It is our understanding that Mathew Dent and Sara Schmitz from the Audit Committee have been designated by the District to oversee the nonattest services and that in the opinion of the District is qualified to oversee our nonattest services as outlined above. If there are any changes made to the accounting and reporting of the District, those changes will be implemented under the direction of Paul Navazio, Director of Finance. If any issues or concerns in this area arise during the course of our engagement, we will discuss them with the Audit Committee prior to continuing with the engagement.

Charges for Services:

Our fees for the accounting and reporting assistance will not exceed $28,410. A breakdown of fees is listed in table below. Expenses will be billed separately.

Phase I	Jim	Kevin	Harvey	Tech Fee	Total
Kick off meeting	2	2	2		
Engagement monitoring	2	2	-		
Quality review	2	2	-		
	6	6	2		
Rate	$460	$380	$235		
	$2,760	$2,280	$470	$275	$5,785

Phase II	Jim	Kevin	Harvey	Tech Fee	Total
Review documents	2	2	2		
Interviews	2	2	2		
Preliminary analysis	2	2	2		
Present preliminary observations	2	2	-		
	8	8	6		
Rate	$460	$380	$235		
	$3,680	$3,040	$1,410	$410	$8,540

Phase III	Jim	Kevin	Harvey	Tech Fee	Total
Analysis	5	5	5		
Prepare draft reports	2	2	2		
Present draft reports	2	2	-		
	9	9	7		
Rate	$460	$380	$235		
	$4,140	$3,420	$1,645	$460	$9,665

Phase IV	Jim	Kevin	Harvey	Tech Fee	Total
Provide draft report	1	1	1		
Provide final report	1	2	1		
Present final report	2	2	-		
	4	5	2		
Rate	$460	$380	$235		
	$1,840	$1,900	$470	$210	$4,420

	Amount
Phase I	$5,785
Phase II	$8,540
Phase III	$9,665
Phase IV	$4,420
	$28,410

Invoices will be presented monthly as work progresses. The fee estimate and accomplishment of the project work plan is based on anticipated cooperation from your personnel, the expectation your records will be in good order, and the assumption that unexpected circumstances will not be encountered. If we find that significant additional time is likely to be necessary, we will attempt to discuss it with you and arrive at a new fee estimate and mutually agree upon a new maximum fee and expense amount before we incur significant additional fees or expenses.

ACCEPTED AND AGREED:

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT

Signature: Matthew Dent

Print Name: Matthew Dent

Title: Audit Committee Chair & Vice Chair

Date: 9/21/2020

MOSS ADAMS LLP

Signature: James C. Lanzarotta

Print Name: James C. Lanzarotta

Title: Partner

v. 09/14/2020

Chairman Callicrate called for a brief recess.

F.4. Review, discuss, and possibly authorize the Audit Committee Chair to engage an independent expert for a sum not to exceed $35,000 to give an opinion and/or guidance on the issues raised by the Board of Trustees regarding the District's 2019 CAFR as well as guidance on accounting policies used in the preparation of the District's financial statements. (Requesting Trustee: Audit Committee Chairman Matthew Dent)

Trustee Dent stated he provided an overview earlier in the meeting and will answer any questions.

Trustee Morris said he feels that this motion is premature because we don't have a Finance Director on staff yet, there wasn't a defined scope of work, asked where did the $35,000 come from and asked if anyone has spoken to any consultants yet. Trustee Morris continued and said that the Trustees on the Audit Committee said they would work offline on the scope of work but that would have been an open meeting law violation and it's an unbudgeted item. For the past ten years, we were criticized for unbudgeted items. He said we should wait for the new Finance Director. He said he has concerns with the way the motion is written as it's ill defined.

Chairman Callicrate asked District General Counsel Velto if two members of the Audit Committee are allowed to discuss. General Counsel Velto said if the Board has three members, and two convene to create a quorum, it's a difficult situation. District General Counsel Velto said he would like to look into subcommittees. Trustee Dent said he wouldn't be able to speak to Trustee Schmitz if that is the case. District General Counsel Velto said not about particular topics. Chairman Callicrate said we need to review the Nevada Revised Statutes regarding if a standalone body can decide how that money is spent on this particular item. District General Counsel Velto said as the agenda is written, the phrase "engage" is used therefore it's fair to interpret it to include all solicitation of approval and execution given authority to Audit Committee to allocate money used and executed. Chairman Callicrate asked if District General Counsel has reviewed this item. Trustee Dent said in the past, the General Manager and Committee Chair worked together on agenda items. Trustee Wong said she would like to know if Board members have submitted comments to Staff prior to CAFR. Trustee Dent said he didn't get his information that he requested for a month.

Chairman Callicrate said he didn't have meetings but has brought up his concerns over the years. Trustee Wong and Trustee Morris said they submitted their comments and had no issues. Trustee Wong asked where the proposed expense will come from; Trustee Dent said it will come from the General Fund.

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

Alexandra Profant said she endorse this item and said if something is important that needs to be discussed, there needs to be a witness there.

Margaret Martini said after years of allegation and unlawful accounting, she recommends approval of this item to hire an independent expert for the District 2019 CAFR as well as guidance on account policy on financial statements and compliance with all laws and general account principles.

Joe Schultz said it's appropriate for the committee to make this decision along with the next item. Giving authority to one person is more than one should bear.

Hearing no further public comment, Chairman Callicrate brought the matter back to the Board.

Trustee Schmitz said she discussed, with Trustee Dent, the specific scope of questions so we are being fiscally responsible. Questions need to be answered. The CAFR had facility fees for special revenue funds that were changed. She said the actuals were changed without Board approval. They need to be reviewed and restated. She said we need to be specific on what we want reviewed.

Trustee Morris asked how they arrived at thirty five thousand dollars. Trustee Dent said he has spoken with firms and it sounded like a fair number as a starting point. Trustee Dent said he didn't want to have to come back to the Board for more money. He said we will try go about this as precise as we can and make sure we aren't wasting public funds. Trustee Dent said we need to get answers and move forward.

Trustee Morris asked what agencies Trustee Dent has spoken with. Trustee Dent said they are firms that have worked with neighboring municipalities. He said he has reached out to members of the League of Cities board and discussed with colleagues there for recommendations on firms. Trustee Morris said it's clear there is an ill-defined scope of work. Trustee Morris asked how can you come up with number when there are new items coming up today. Trustee Morris questioned if Trustee Schmitz was able to speak with Trustee Dent prior to the meeting. Chairman Callicrate said we discussed this in an open meeting about the need to hire independent firm. It was brought up over the past years prior to Trustee Schmitz being on the Board. It is public information of what was discussed and backroom discussions is not the case; it's all been discussed in the open. Chairman Callicrate said the Board Treasurer needs to have this information at their disposal to find out unanswered questions.

Trustee Schmitz said she understands there are many questions that have been brought up by the Board and community. The community deserves clarity and answers, in writing, with tangible information. The same questions come up time and time again and we need answers so we can move forward. The scope needs to be defined clearly so we can accomplish the goal in the most fiscally responsible manner. She said she will take responsibility to oversee this. Trustee Dent said the intention of this agenda item was to earmark these funds, the fiscal year is coming to an end, and that he met with Interim District General Manager Winquest and we feel we need $35,000.

Trustee Wong said the difficult part to reconcile is that any questions she has had, she would speak with Staff and the General Manager to get answers. She said she feels this comes down to mistrust in our former General Manager and former Director of Finance. She said we have an opportunity with the new General Manager and new Director of Finance to start fresh and anew. She said take responsibility as a Board member and use Staff as resources.

Trustee Morris asked Trustee Schmitz if the item she referenced was discussed with Staff. Trustee Schmitz said she discussed it with the District's Controller, it is information brought forth from public questions, and that she investigates and digs to see if there is an issue and that what was done will require the CAFR to be restated. Trustee Morris thanked Trustee Schmitz and said that it underscores his concern, he is in favor of understanding controls and understanding if we need consultants to come in. He said we cannot keep putting things on the Interim District General Manager. He said some Board members want to spend on an undefined scope. He said Trustee Dent had discussions with firms, and Trustee Schmitz brings up new items she wants addressed. Trustee Morris said his point is to get the Director of Finance on board and provide direction. Trustee Schmitz said she agrees; however, what Trustee Dent proposed addresses both concerns and it should be open and transparent. She said we can earmark it but then bring the scope of work back before anything is transacted. Trustee Morris asked what if it comes back for a different price. Trustee Schmitz said we need to bring clarity and get answers to constituents' questions.

Chairman Callicrate asked District General Counsel Velto how to set aside $35,000 with the agenda item standing as written. District General Counsel Velto said his concern is to keep it clear and complete. He said what you are asking is to earmark for a future action item. He recommended not changing the item. The Board can amend it to earmark it for potential action item in the future.

Trustee Dent said we can do it tonight even if it will challenge the Open Meeting Law and noted that previous General Managers made variations of the motions. District General Counsel Velto said he is being cautious but it's the Board's choice.

Trustee Morris asked how much hardship would there be if we bring this back with more clarification and could we delay this agenda item. Chairman Callicrate said he doesn't have an issue with it and can come back with scope of work. He said at that point, we will have a placeholder, but no money is expended until the scope of work is presented.

> Trustee Schmitz made a motion to authorize the Audit Committee Chair to engage an independent expert for a sum not to exceed $35,000 to give an opinion and/or guidance on the issues raised by the Board of Trustees regarding the District's 2019 CAFR as well as guidance on accounting policies used in the preparation of the District's financial statements. Trustee Dent seconded the motion. Chairman Callicrate asked if there were any further Board comments.

Trustee Morris said he will not support the motion as stated because it doesn't include the new items raised by Trustee Schmitz. Chairman Callicrate said its addressed "as guidance on accounting policies." Trustee Morris said we definitely need scope of work and that this opens us to an Open Meeting Law violation. Trustee Wong said she will be opposing this motion.

Hearing no further Board comments, Chairman Callicrate called the question – Trustees Callicrate, Dent and Schmitz voted in favor of the motion and Trustees Morris and Wong voted opposed; the motion passed.

F.5. Review, discuss, and possibly authorize the Audit Committee Chair to engage an independent expert for a sum not to exceed $45,000 to facilitate internal controls assessment including but not limited to recommend internal controls, policies and procedures for District businesses and functions, including auditing the accounting and reporting of the punch card utilization for the last 4 to 7 years. (Requesting Trustee: Audit Committee Chairman Matthew Dent)

Trustee Dent stated we will hold off on accounting punch card utilization and that this would be removed from this item. Chairman Callicrate asked District General Counsel Velto about that extraction. General Counsel Velto said that would be fine.

Trustee Morris said the Audit Committee was discussing putting this on the previous item and asked what has been allocated for Staff and budgeted for this item. Interim District General Manager Winquest said zero. Trustee Morris asked how can we have a consultant come in and work with Staff if it wasn't budgeted, how did we arrive at $45,000, who are the firms, and that money spent on consultant is a good idea when we know what it will be for. This is premature as the Director of Finance isn't on board yet and that he is suggesting that the review the Audit Committee meeting as it was scattered. Trustee Morris continued that we have to be careful that the Board would give authority to the Audit Committee without oversight on the firm being engaged. Trustee Morris said the report said there isn't a financial impact but we haven't had that analyzed yet. He said we don't have anything for a consultant to look at yet. It's an ill-timed, ill-determined, and there is no scope. We need to have a better-defined scope before we allocate money.

Trustee Dent said concerns about punch card utilization issues has been raised over the years and internal controls aren't there. He said Trustee Schmitz requested public records and got nothing. He said Interim District General Winquest is putting controls to paper and we are using state forms. We will see if there are things that aren't in writing and we can implement it across the board. He said as far as a scope of work, there isn't much to development. He said we are relying on experts on internal controls, policy and procedures. He said he looks forward to discussions with the Director of Finance as he will have valuable input. Trustee Dent said he doesn't know how the scope can be more clear as we are working on getting best practices with internal controls.

Trustee Wong said she wanted to clarify something - we don't not have internal controls; we do have internal controls. They might not be in statements that can be handed over to someone but we always have had them. It's the same processes the new Director of Finance will have to do to understand and identify any gaps in financial framework.

Interim District General Manager Winquest said we are trying to hit the reset button and that he spoke with Trustee Dent about waiting for the new Director of Finance to look at internal controls and that he echoes what Trustee Wong said. We don't have a formal document as a public record and we are all in favor of hiring a third party to look at internal controls. It's not like no one oversees the transactions. We are hoping someone can show where we can improve and implement industry best practices and that he wants this to happen as he wants clarity too. He is tired of being beat up and if there is nothing wrong, he wants to hear it. He said senior management get disgusting emails from the public, and it's not fair to Staff. Yes, we need to move forward to hire to review internal controls. He fully understands he may get backlash regarding his decisions however he is hopeful that in six months, we can hit the reset button, and that the community and Staff can move forward.

Trustee Morris said Staff time is needed to help the external consultant review internal controls and that this hasn't been budgeted.

Trustee Dent said that this is formalizing a foundation for Staff and moving forward with recommendations to facilitate internal controls assessment and policy and procedures.

Trustee Morris asked if Interim District General Manager Winquest will alone work with the consultant. Interim District General Manager Winquest said he isn't clear of the Staff needed for project and that Staff is busy. We need to be realistic about what we are doing here as it will take time and it must be methodical. He said there have been critical community members who think things happen overnight. He spends between three and four hours with the Board Chair to strategize and build trust as no District General Manager can be successful without trust. Let's set aside ego for the betterment of our community and move forward.

Chairman Callicrate said he appreciates Trustee Morris' comments and that it is critical to give direction. The external consultants can find deficiencies or not and vindicate and validate what we have been doing. They can identify areas where we messed up, fix it, and move on. There are some frustrations that we couldn't get it done already; it's the right intent and the Audit Committee independently oversees District assets. The appropriate charter will be adopted later and these are hypotheticals at this point. We are working to the same result and this is a critically important aspect to finalize internal controls that are deficient. Eide Bailly mentioned deficiencies in the past and we need to tighten it up.

Trustee Wong said she would authorize this if the Audit Committee would work with the Interim District General Manager and Director of Finance to develop of scope of work and participate in the process. Interim District General Manager Winquest said that was recommended in the beginning. Trustee Wong said she wants that language in the motion if she is going to support this motion.

Chairman Callicrate opened the matter to public comment.

Margaret Martini said although management has represented financial statements have been prepared with a framework of internal controls, no one has produced policy or practices. Apparently, they don't exist. She said taxpayers have no confidence in the District's financial statements. This is a good step forward in ensuring our financials are free of fraud and material errors. There cannot be enough said about punch card utilization and punch card scheme. For the last seven years, there have been unlawful transfers of the Recreation Fee to beaches. More than 765 Crystal Bay residents are paying for beach expenses they cannot use; it's criminal. It's double booking revenues and distorting the financial statements. Please approve budget to engage independent audit and take immediate action.

Jim Lyons said he said he came out of government and then the contractors' industry and that we did ISOs. In addition to having an auditor come in, Staff needs to be documenting for every single process. The supervisor could do documentation with guidance and controls.

Alexandra Profant said when she was a kid going to the beaches, there were no computers, it was simply a pass. She didn't believe there were punch cards. She said she cannot overstate that the beaches need to be preserved for the residents. She spoke about interfacing with assessor's office with these controls. She said she would be willing to participate in writing down better controls and better outreach to community to become part of it. Volunteer efforts could become a component of this.

Frank Wright said for $35,000, we have three pages from Mr. Severance that he plagiarized from the Internet. We lost a ton of money with the pond liner and Trustee Morris wasn't concerned. If you go another week without putting this in force, it's insane. This will put community at rest. Trustee Morris is trying to trick you. It should be chilling that he is preventing anyone from looking at the books. Follow through and do it. He said he asked Trustee Morris about internal controls and framework during his time on the Audit Committee. The Board is supposed to provide oversight. That works with legal fees and anything that goes on here. He said he sees a hold over to screw with new Board to make you look bad.

Mark Alexander said he started attending Board meetings about fifteen years ago which was several Boards ago and in the Horn era. He asked for a forensic audit then and it fell on deaf ears. During the Pinkerton era, it didn't get done. We need someone to review processes, procedures and compliance; they need to do a forensic look. He applauds the Trustees for pushing this as we have asked for this for years. He said he got tired of asking and stayed away. He attends now and applauds action. Persevere and get to the bottom of this. There is lack of confidence on where is the money going and the pond lining is a great example.

Michaela Tonking agreed about internal control audit. She said she has worked as auditor and that it's important to work with Director of Finance and identify areas that are deemed at risk and areas to help support Staff in doing their jobs better.

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

Trustee Schmitz said that she agreed with Trustee Wong's statement and said that the intent is to work with the Interim District General Manager and the new Director of Finance to find gaps and make things clearer. Trustee Schmitz then asked District General Counsel if the Board has the ability to add language to this motion. District General Counsel Velto said yes. Chairman Callicrate said we will work together but maintain independence of Audit Committee per Nevada Revised Statutes and stated that he is concerned if we add people, does it skew the independence of Audit Committee.

Trustee Dent made a motion that failed due to lack of a second to his motion.

Trustee Schmitz made a motion that the Board of Trustees authorize the Audit Committee Chair to engage an independent expert for a sum not to exceed $45,000 to facilitate with coordination with the Interim District General Manager and Director of Finance for internal controls assessment including but not limited to recommend internal controls, policies, and procedures for District businesses and functions. Trustee Dent seconded the motion.

Chairman Callicrate asked if there was any further Board discussion. Trustee Wong said she objects to spending money but supports the Interim District General Manager working in coordination. Trustee Morris said he will support this motion because Interim District General Manager Winquest needs the best help he can get and that he appreciates him. Trustee Morris then said, addressing the public comment from Mr. Wright, that it is the typical attack and that he isn't against spending money on what it is for, and it is for good, but rather his objection was that this Board didn't know the scope of work. Trustee Dent said he looks forward to future Boards having internal controls which are lacking.

Hearing no further Board comment, Chairman Callicrate called the question – the motion was unanimously passed.

The Board took a ten minute recess.

F.6. Overview of the District's DRAFT Operating Budget – Fiscal Year 2020/2021 (Requesting Staff Member: Interim District General Manager Indra Winquest).

Interim District General Manager Winquest noted that the sheet labeled TWSA should instead read Solid Waste.

Additional Moss Adams review spreadsheet

Incline Village General Improvement District

Classification of accounting/reporting issues raised

		Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report	Comments
1	Improper switch from enterprise funds to use of special revenue funds for Community Services and Beach				X	Our recommendation is to switch back to enterprise fund reporting, and we understand the District is planning to make this change.
2	Improper capitalization of effluent pipe repairs and condition assessments		X			We understand the projects in question have some elements of extension of useful life and likely some elements that would not meet capitalization criteria. We understand management already has plans to perform a more detailed analysis, and we believe the project will require more evaluation and judgement. Further, the evaluation necessary will be enhanced by development of more robust capitalization policies yet to be developed as we recommended in our report. We believe this to be better addressed in the District's work with its external auditor and once the dollar amount of any necessary adjustments is determined the reporting implications can be determined at that time.
3	Improper capitalization of feasibility studies and master plans				X	We understand management has already identified amounts capitalized incorrectly and has made adjustments to the 19/20 financial statements.
4	Improper use of punch card contra-revenue accounting				X	This issue was addressed in our report with a recommendation to cease the use of punch card accounting. We understand management is already making plans to cease use of this methodology.
5	Improper allocation of administrative and overhead costs from the GF		X		X	This issue was addressed in our report. Changes were noted as necessary in the financial statement for both reimbursements between funds and how internal service fund activity is reported in the government-wide financial statements that can be revised in future CAFRs since neither issue has a bearing on total net position or fund balance of any individual fund.
6	Incorrect revenue recognition for utility base rate charges in periods prior to delivery of service		X	X		The amount in question is immaterial to the utility fund financial statements. This issue would best be discussed with the District's external audit firm with any revisions made in future CAFRs.

Incline Village General Improvement District

Classification of accounting/reporting issues raised

		Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report	Comments
7	Indadequate disclosure of construction commitments and lack of classifying related amounts of fund balance as committed for capital projects		X			There is adequate accounting guidance for disclosure requirements of construction and other commitments as well as classifying fund balance among the different levels of constraints. This can be worked out with the District's external audit firm with any revisions made in future CAFRs.
8	Improper classification/reporting of Facility Fees and GF admin and overhead charges in the Statement of Activities		X			This has to do with the placement of Facility Fee revenues in the Statement of Activities, and the 'netting' vs. 'gross' reporting of expenditures and reimbursement revenues within the Statement of Revenues and Expenditures for the General Fund, and does not impact net position or fund balances of individual funds. Therefore, this can best be addressed in future CAFRs.
9	Potential for error in the period of recognition of a grant obtained for the Incline Park ball fields		X			We understand a grant was obtained and as of 6/30/20, was completely or nearly completely received and expended. We understand the budget contained estimated resources and expenditures in the year(s) cash was expected to be received and expenditures made. If the grant is an 'expenditure-driven' grant, it is likely the timing of revenue recognition in past CAFRs have been correct. If the grant is not an expenditure-driven grant - there is a chance revenue should have been recognized sooner and in the year all eligibility requirements were met securing the District's right to the grant resources. Given this is a timing issue in the year(s) grant revenues are to be recognized, we would not recommend restating prior year financial statements for this item absent a request by the grantor, federal or state regulator, or some other reason for which the District would deem the benefit of the restatement effort to be greater than people and financial resources required.
10	Improper capitalization of $150,751 of repairs to Mountain Golf Course Clubhouse addressing fire damage		X	X		An evaluation of all costs incurred in the year of the fire and in future years, incurred specifically to address the fire damage and bring the facility back to its condition prior to the fire, should have been compared to any insurance proceeds received with a resulting gain or loss recognized in the year of the fire. The amount noted is immaterial to the Community Service financial statements and any expenditures incurred for the renovation of the Clubhouse can best be evaluated annually as they occur and discussed with the District's external auditor.

Incline Village General Improvement District						
Classification of accounting/reporting issues raised						
		Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report	Comments
11	Indadequate disclosure of lease commitments with US Dept of Agriculture and Parasol Foundation		X			Current accounting standards issued require footnote disclosure of signifcant lease commitments, and GASB 87 which can be implemented by the District at any time now and no later than its fiscal year beginning July 1, 2021 will significantly change how leases are reported within the financial statements. We suggest the evaluation of the signifcance of these leases and related disclosures and the implementation of GASB 87 be discussed with the District's external audit firm and any revisions to the accounting and disclosures be made in future CAFRs.
12	Inaccurate disclosure of who has authority to create assigned fund balance		X			Any remaining positive fund balance amounts in governmental funds outside of the General Fund are appropriately reported as 'assigned' as specified in GASB 54. In essence, the fact the Board is accounting for certain resources in governmental funds, GASB deems the resource to be 'assigned' if it is not otherwise non-spendable, restricted, or committed - by definition. Local governments can establish who has the authority to establish assigned resources in the General Fund and it is common for that authority to be given to certain members of management. It is a best practice to memorialize who has the authority and what action and documentation is required to establish an assignment. This is something that can be addressed in a review and enhancements to Board policies in the future to memorialize the Board's decision on who can create an assignment and how, and the reporting in the financial statements can be discussed with the District's external auditor and any revisions made to future CAFRs.
13	Lack of classification of certain amounts as 'fund balance committed for capital projects' for commitments on executed construction contracts		X			The mere fact the Board and management have remaining commitments for capital projects at any year-end does not result in a requirement for a portion of fund balance in governmental funds to be reported as 'restricted' or 'committed', or net position in any enterprise fund to be reported as 'restricted'. Such a classification would only be required for an externally created restriction on a resource for any fund or an interally created commitment by the Board for governmental funds related to unspent resources at year-end. We suggest this issue is best addressed with the District's external auditor and if any revisions are found to be necessary, that they are made to future CAFRs.

Incline Village General Improvement District							
Classification of accounting/reporting issues raised							
		Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report		Comments
14	Inconsistent references to note titles		X				We find it to be a best practice to use consistent titles throughout the financial statements. This is something best addressed in future CAFRs.
15	Incorrect reporting in the notes of 'segment information' for Community Services and Beach funds that is not applicable only to enterprise funds		X				Segment information is only required in certain circumstances for enterprise funds that include multiple activities. It is not appropriate for governmental funds. This is something that can be revised in future CAFRs.
16	FYE 6/30/19 CAFR under-reporting of Facility Fees and Beach Fees the Board intended for capital projects and debt service		X				To the extent the Board is in agreement with the findings in our report that Facility Fees in general and portions assessed for capital projects and debt service specifically meet the criteria for 'commited' resources, to the extent any Facility Fees committed to capital projects or debt services remain unspent at the end of the year, the calculated amount should be reported as 'committed for capital projects' or 'committed for debt service' within the governmental funds to which they relate. In discussing this with management and review of prior CAFRs, it appeared greater amounts have been spent on capital projects than the allocation of the Facility Fees to capital projects. So it is not clear if any change would need to be made to the classifications of ending fund balance at this time. Since this relates to a reclassification of existing fund balance amounts, if a revision is necessary, this could be addressed in future CAFRs.
17	Improper reporting of fund balance classifications in Community Services and Beach funds between committed, assigned, and unassigned		X				This appears to be the same issue noted in #12 and #16 above which we suggest can be addressed in future CAFRs.
18	Inadequate capital asset policy disclosure in the notes to the financial statements		X				This is a disclosure issue we believe can be addressed with the District's external auditor and any revisions made in future CAFRs.
19	Lack of disclosure of minimum fund balance policies		X				This is a disclosure issue we believe can be addressed with the District's external auditor and any revisions made in future CAFRs.

	Incline Village General Improvement District Classification of accounting/reporting issues raised					
		Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report	Comments
20	$198,135 of proceeds from land sales between 2016 to 2019 were innappropriately recorded in Community Services special revenue fund instead of the related capital project fund.			X		The amount involved is immaterial to the financial statements.
21	Missallocation of Facilities Fees the Board allocated to Capital Projects and Debt Service of Community Services and Beach to the CS and Beach special revenue funds.		X			This appears to be the same issue noted in #16 above.
22	Innappropriate classification of effluent pipe special assessments in the Statement of Revenues and Expenses as operating revenues		X			The issue noted here addresses the location/classification of the special assessment amounts for the effluent pipe replacement project within the Statement of Revenues and Expenses for the Utility fund. The proper classification is dependent on how the special assessment is calculated, how it is assessed, and how it relates to what was represented to the community at the time of its assessment. Given it does not impact the total net position of the Utility fund, we suggest this can be addressed with the District's external auditor in future CAFRs.
23	Interest earned on unspent effluent pipe replacement special assessments should be limited in use to the effluent pipe replacement project to comply with Board Policy 13.1.0 and Board Practice 13.2.0		X	X		The amount involved is immaterial to the Utility fund. That said, the amount could be significant and involves the application of a written Board practice. We believe a calculation can easily be performed of interest deemed to be associated with average actual unspent special assessments annually and cumulatively and a balance of unspent special assessment amounts plus unspent interest earnings can be disclosed in the footnotes for Board designations in future CAFRs.
24	$119,497 of costs incurred to assess underground piping, potential leaks, and other pool related issues were capitalized that should have been expensed			X		Amounts are immaterial fo the financial statements.