

MEMORANDUM

TO: Board of Trustees

THROUGH: Paul Navazio
Director of Finance

FROM: Martin Williams
Controller

SUBJECT: FY202/21 Annual Audit Committee Report – Request by
Trustee Dent for reconciliation to FY20/21 ACFR

DATE: December 14, 2022

I. RECOMMENDATION

This is an information report and as such no action is required by the Board of Trustees.

II. BACKGROUND

At the Board of Trustees meeting of July 27, 2022 the Audit Committee Chairman presented to the Trustees its FY2020-21 Annual Report, pursuant to Policy 15.1.0. (Item G.3.).

Website reference link to Policy 15.1.0:
https://www.yourtahoeplace.com/uploads/pdf-ivqid/15_1_0_Audit_Committee_Charter_Eff_06-29-2022.pdf

Among the items noted in the Audit Committee report, was the following comment:

A copy of the annual CIP Activity by Project report for fiscal year 20-21 was received via a Public Records request on June 21, 2022. From analysis of this report it would appear that in fact there was an additional \$654,750 of such items written off on 20-21. These were primarily items that had been identified by the audit Committee in our ACFR report. However, although these costs had been recorded in prior years, it appears they were in fact considered as write offs against current year (20-21) CIP expense rather than being recorded as prior period adjustments. This appears to be a rather unusual accounting treatment under GASB. It was also not possible for the Committee to identify these items until the CIP activity report was received and as such it has not been discussed by the Audit Committee.

As a result, this is included here for Information Only. It does appear however that this may have rectified several of the disputed capitalization items previously identified in our ACFR report

Following the presentation of the Audit Committee's annual report and discussion by the Board of Trustees, it was requested that Staff bring back to the Board of Trustees a report clarifying the adjustments that were recorded as current period adjustments in the District's ACFR for the fiscal year ended June 30, 2021. A report was then prepared for presentation at the Board meeting of September 28, 2022 that presented the list of write-offs included in the District's FY2020/21 ACFR, including explanations of why these were treated as "current period" adjustments rather than "prior period adjustments."

Below is an excerpt from the September 28th Board memorandum:

As noted in the Audit Committee's Annual Report, an additional adjustment totaling \$696,495 (sic) was recorded to reflect re-classification of items that were previously reported as Construction-In-Process. This adjustment was reflected as a current period adjustment rather than a prior period adjustment. The list of the items included in this adjustment are shown in Attachment A.

Explanation of Accounting Treatment for Referenced Adjustments -

Current Period Adjustment. The list of items reflected in the Construction-In-Process accounts are not considered capital assets. The District's practice has been to examine costs at project completion to determine what should be capitalized and what should be expensed, due to the fact that projects quite often change from the original planned project. The total amount that was included in construction in process for FY2020/21 that was determined to be expense was \$696,495 for the entire District, which as a whole, and per fund, fell well-below the materiality threshold, which is why no prior period adjustment was required. We reviewed this issue with our independent auditor who did not raise a concern with this adjustment being recorded as a current period adjustment.

III. DISCUSSION

When this information was presented to the Board of Trustees on September 28th, Trustee Dent noted that the report was not entirely responsive to his earlier request and that additional information was needed to "reconcile" the specific write-offs made in the FY2020/21 ACFR.

Following the September 28th meeting, Staff met with Trustees Dent and Schmitz to discuss and clarify what information was needed in order to satisfy Trustee Dent's request. Following a productive discussion, it was agreed that supplemental information should be provided to the Board of Trustees to include a) clarification of the items include as current period (FY2020/21) write-off that were identified by the Audit Committee and included the Committee's recommendation(s) contained in their Annual Report, and b) an explanation of why certain items were determined

to be appropriate for write-off, while other items identified by the Audit Committee were not.

This report has been prepared to provide additional information to the Board of Trustees related to the questions and concerns raised by Trustee Dent related to staff's initial response to the Audit Committee recommendations presented to the Board last July.

- Attachment A provides a listing of the adjustments to Construction-In-Process Items that were "expensed" as current period adjustments in the District's FY2020/21 financial statements. This includes 16 projects, totaling \$696,494.72.
- Among the items included in Attachment A are 7 projects (highlighted), totaling \$458,969.06 that were included in the Audit Committee's recommendations from the March 9th report on the FY2020/21 ACFR.
- Included as Attachment B are exhibits (Appendix D and E) from the March 9, 2022 Audit Committee Report to the Board of Trustees listing potential write-offs. (Highlights have been added to reflect items that were written-off).
- Items that were expensed as "current period adjustments" in FY20/21 were identified by the District's Controller as having either a) not met criteria for capitalization (ex. routine repair and maintenance that did not extend useful life or service capacity), or b) had a change in project status where the determination was made that a project previously recorded as construction-in process was no longer likely to result in a new (or improved) capital asset being placed in service.

IV. CONCLUSION

Based on the "reconciliation" information provided in this report, and in recognition of the Audit Committee's ongoing role in providing oversight to the District's internal controls, financial reporting and audit, staff acknowledges that – in hindsight - the initial response to the Audit Committee's recommendations should have acknowledged that several of the items identified by the Audit Committee were, in fact, addressed.

Determination of proper accounting treatment of transactions involving capital assets is now greatly facilitated by the adoption of an updated Capitalization Policy (Policy 8.1.0). This is reinforced by the current supplemental engagement being performed by the District's Independent Auditor related to capitalization of fixed assets for the 2021/22 fiscal year (report pending).

While it is not practical for the Audit Committee (or Board) to be informed of every determination made by the Accounting Staff in their review of capital assets, and potential future adjustments, staff will work to ensure sufficient communication with the Audit Committee to avoid reoccurrence of instances where there is a disconnect between issues raised, recommendations and resolution.

Website reference link to Policy 8.1.0:

https://www.yourtahoeplace.com/uploads/pdf-ivgid/8_1_0_Capitalization_of_Fixed_Assets_Eff_01-12-2022.pdf

V. ATTACHMENTS

A - Schedule of Construction-In-Process items adjustments via Current Period Adjustment

B - Excerpts from March 9, 2022 Audit Committee Report to the Board of Trustees, related to the FY2020/21 ACFR:

Appendix D

Appendix E

Summary of Adjustment to Construction-In-Process Projects for the Fiscal Year Ending 6/30/2021

Project Description	CIP #	Object 8120 & 8105		Asset in Service	6/30/2021 CIP Balance
		6/30/2020 Balance	Additions		
Utilities					
Public Works					
Adjust Utility Facilities in NDOT/Washoe County Right of Way	2097DI1401	21,860.81	(21,860.81)	-	0.00
Leak Study R2-1 14inch Steel	2299WS1801	78,505.88	(78,505.88)	-	-
	UTILITIES SUBTOTALS:	100,366.69	(100,366.69)	-	0.00
Mountain Golf					
Mountain Golf Course Cart Path Retaining Walls	3241LI1704	9,650.00	(9,650.00)	-	-
		9,650.00	(9,650.00)	-	-
Facilities					
Chateau - Replace Carpet	3350BD1103	41,745.00	(41,745.00)	-	-
Catering Kitchen Equipment	3350FF1204	24,438.84	(4,349.96)	20,088.88	-
		66,183.84	(46,094.96)	20,088.88	-
Ski					
Ski Area Master Plan Update and Summer Activities Assessment	3499BD1399	156,029.78	(156,029.78)	-	-
Ski Area Master Plan Implementation - Phase 1	3653BD1501	95,622.73	(95,622.73)	-	-
		251,652.51	(251,652.51)	-	-
Parks					
Resurface and Coat Incline Park Bathroom Floors	4378BD1603	-	-	-	-
Village Green Restroom drainage improvements	4378BD1901	5,886.28	(5,886.28)	-	-
Pavement Maintenance, East & West End Parks	4378LI1207	1,100.00	(1,100.00)	-	-
Pavement Maintenance, Village Green Parking	4378LI1303	1,910.10	(1,910.10)	-	-
Pavement Maintenance, Preston Field	4378LI1403	1,910.10	(1,910.10)	-	-
		10,806.48	(10,806.48)	-	-
Tennis					
Resurface Tennis Courts 1 and 2	4588RS1501	15,650.00	(15,650.00)	-	-
Tennis Facility Study	4588RS1605	40,142.24	(40,142.24)	-	-
		55,792.24	(55,792.24)	-	-
	COMMUNITY SERVICES SUBTOTALS:	# 394,085.07	(373,996.19)	20,088.88	# -
Beaches					
Incline Beach Facility Study	3973LI1302	216,131.84	(216,131.84)	-	-
Incline Beach Shade Structure - Unbudgeted Project from FY 15/16	3999BD1507	6,000.00	(6,000.00)	-	-
		222,131.84	(222,131.84)	-	-
	Grand Total	# 716,583.60	(696,494.72)	20,088.88	# 0.00

Appendix D

Background

2020 CAFR - Prior Period Adjustments for Capital Assets and Construction in Progress ONLY

- Community Services and Beaches - \$803,514 consisting of:
 - Carpeting and Painting - 8 "projects" - \$78,582
 - Paving - 38 "projects" - \$435,672
 - Pre development - High School Ball field - \$77,216
 - Pre development - Community Services Master Plan - \$212,044

2021 Concepts and Assessments (Pre development) and abandonments which were **NOT** considered for charge off to expense. Amounts should have been expensed based on Moss Adams report 1/14/2021 and accepted by Board of Trustees on 2/10/2021 - Cliff Dobler memo dated 5-31-2021. More detail on Appendix E

- Burnt Cedar Pool - \$219,802 (includes \$119,498 of repairs completed in 2019 and abandoned in June 2021)
- Incline Beach Bldg - \$216,131
- Mountain Golf Course Club House - \$328,954 (includes \$150,751 for repair costs to open prior to major rehab)
- Tennis Center - \$68,621
- Incline Baseball Field - \$120,268
- Diamond Peak Master Plan - \$217,830
- **Total - \$1,171,606**

2021 CAFR - Initial Charge off (per Davis Farr) of \$866,504 in second draft and amounts removed in third draft (throw back)

	<u>Initial</u>	<u>Throw Back</u>	
• General Fund -	\$28,691	\$ 8,800	
• Utility Fund -	389,080	316,885	Wetland repairs \$1743K
• Community Services -	369,194	314,106	Parking and Cart Path repairs \$211K
• Beaches -	66,266	37,640	100% Parking and Boat Ramp repairs
• Internal Services -	13,273	ZERO	
total	\$866,504	\$677,431	
		DIFFERENCE \$189,073	
		MEMO \$167,751 WHY?	

2021 CAFR - Additional Charge Off for Pipeline - \$3,179,000 DID NOT INCLUDE 2020 AND 2021 EXPENSES OF \$182,023. Costs included the Granite assessment report ,the Jacobs report on the Pond., and an unknown amount of Staff time.

Other Charge offs not considered - ACQUIRED UNDER NEW BOARD POLICY AND PRACTICE

- Staff Uniforms at DP 2016-2017 \$115,739
- Rental Skis at DP 2016-2017 \$466,104
- Undepreciated amount - To be determined

Appendix E

Incline Village General Improvement District Capitalized concept and assessments for potential charge offs

Burnt Cedar Pool

Repairs to circulation system -in 2019	119,498
Conceptual Design - TSK 2020	32,200
Schematic Design - TSK 2020	68,104
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	219,802
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Incline Beach Building

concept design and cost estimates - Bull Stockwell - 2016	216,131
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Total Beaches

\$ 435,933

Mountain Golf Course

Global Golf and BRG Architecture - New Clubhouse 2012/2014	132,203
Temporary Repair Costs for 2019 season before new rehab	150,751
Schematic Design Cart Paths - Lumos and Staff Time - 2020	46,000

Tennis Center

Lloyd Design - evaluation 2015/2016	42,120
Concept Design - BJG Architecture 2018	26,501

Incline Ball Fields

LPA - Concept Design - 2017	41,000
Schematic Design - Lloyd Consulting Group - 2017	73,930
Other unknow costs for concepts put in unbudgeted project	5,338

Diamond Peak

Concept Master Plan SEC Group 2014	156,030
Permit Submittals to Forest Service SEC Group 2015	29,000
Biological surveys - Hauge Brueck Associates 2019	32,800

Total Community Services

\$ 735,673

\$ 1,171,606