

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra Winqest
District General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: Update to Selected Board Policies and Practices

DATE: January 12, 2022

I. RECOMMENDATION

Staff recommends that the Board of Trustees review, discuss and possibly take action to approve the following updates to selected Board Policies and Practices:

- 1) Approval of Board Policy 7.1.0 - Appropriate Level of Reserves
Replaces existing Board Policy 7.1.0 and Practice 7.2.0
Replaces existing Board Policy 19.1.0 and Practice 19.2.0
- 2) Approval of Board Policy 8.1.0 - Capitalization of Fixed Assets
Replaces existing Board Policy 8.1.0 and
Replaces Board Policy 9.1.0 and Board Practice 2.9.0
- 3) Approval of Board Policy 18.1.0 – Central Services Cost Allocation Plan
Replaced existing Board Policy 18.1.0 and Board Practice 18.2.0

II. BACKGROUND

The Board of Trustees and General Manager have identified the need to update Board policies, procedures and practices as a priority initiative. Specific policies have been identified by the Board of Trustees, third-party review of District policies and practices, management's review of internal controls as well as and during the course of Board budget workshops.

Staff identified the priority areas for review of selected Board Policies and Practices with a focus on those policies/practices with direct implications for Staff's work in the development and implementation of the District's annual budget.

A status report was presented to the Board of Trustees at their meeting of April 29, 2021 which outlined the approach to updating selected Board Policies and Practices. Initial drafts of selected Board policy updates were presented to the Board of Trustees at their meetings of October 13, 2021, and updated draft policies, incorporating Board feedback, were also presented as part of the December 14, 2021 budget workshop.

Policy – Focus Area	Initial Draft	BOT Review	Target Approval Date
Policy 7.1.0 - Appropriate Level of Reserves <i>Replaces: Policy 7.1.0 and Practice 7.2.0 - Fund Balance Policy 19.1.0 and Practice 19.2.0 – Working Capital</i>	Oct. 2021	Dec. 2021	January 2022
Policy 8.1.0, - Capitalization of Fixed Assets <i>Replaces: Board Policy 8.1.0 – Capitalization Thresholds Board Policy 9.1.0 and Board Practice 2.9.0 – Useful Life</i>	Oct. 2021	Dec. 2021	January 2022
Policy 18.1.0 – Central Services Cost Allocation Plan <i>Replaces: Policies 18.1.0 and Practice 18.2.0 – Central Services Cost Allocation Plan</i>		Dec. 2021	January 2022
Policy 6.1.0 Adoption of Financial Practices		Dec. 2021	February 2022
6.1.2.1 - Revenues/Pricing Policies			
Policies 12.1.0 and 13.1.0 – Capital Project Planning and Capital Budgeting		Jan. 2022	February 2022

III. DISCUSSION

This memo provides the Board of Trustees with recommended updates to the following current Board Policies and Practices:

- Policy 7.1.0 / Practice 7.2.0 - Fund Balance
- Policy 19.1.0 / Practice 19.2.0 – Working Capital
- Policies 8.1.0, Capitalization Thresholds
- Policy 9.1.0 / Practice 2.9.0 - Useful Life of Capital Assets
- Policy 18.1.0 / Practice 18.2.0 – Central Services Cost Allocation Plan

The proposed policy updates have been developed based on a review of best practices and feedback from outside consultants.

Additional refinements and edits have been incorporated into the proposed policies based on feedback from the Board of Trustees from the December budget workshop. These revisions are highlighted in RED in the policy documents.

IV. FISCAL ANALYSIS

There is no direct fiscal (budgetary) impact from the recommendations contained in this memorandum; however, each of the proposed policies will inform development of the District's annual budget and long-term financial planning.

Attachments:

- 1) Proposed Update: Board Policy 7.1.0 – Appropriate Level of Reserves
- 2) Proposed Update: Board Policy 8.1.0 – Capitalization of Fixed Assets
- 3) Proposed Update: Board Policy 18.1.0 – Central Services Cost Allocation Plan
- 4) Background – Existing Board Policies and Practices
 - Board Policy 7.1.0 and Practice 7.2.0
 - Board Policy 19.1.0 and Practice 19.2.0
 - Board Policy 8.1.0
 - Board Policy 9.1.0 and Practice 2.9.0
 - Board Policy 18.1.0 and Practice 18.2.0

Budgeting and Fiscal Management
Appropriate Level of Reserves
Policy 7.1.0

(Replaces Policy 7.1.0 and 19.1.0 and Practice 7.2.0 and 19.2.0)

POLICY. This policy establishes the minimum level of reserve funding to be maintained by the District within the fund balance of its governmental funds and net position of its proprietary enterprise funds. The policy further provides for the conditions under which reserve funds may be utilized, and a timeline for replenishment of reserve funds, when utilized

1.0 Purpose. The District desires to maintain prudent reserves for each of its major funds, consistent with best practices, to guard against the financial impacts associated with economic cycles, revenue fluctuation, and unanticipated emergencies and/or mandates. Major funds include the General Fund, Utility Fund, Community Services Fund and Beach Fund.

In addition, this policy will also establish appropriate level of working capital to be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service.

2.0 Target Reserve Levels

2.1 General Fund Reserves. The policy of the District shall be to maintain a target fund balance within the General Fund equal to 15% of annual budgeted expenditures (less transfers and debt), to provide for economic uncertainty, fluctuations in General Fund revenues and unforeseen events that may require of unbudgeted expenditures.

Of this amount, 5% is designated as a reserve for economic uncertainty in the event that general fund revenues received within the fiscal year fall short of the amounts assumed in the approved budget.

An additional 10% is to be designated as an emergency reserve to cover unanticipated expenditures resulting from emergencies or unanticipated mandates.

In no case shall the fund balance for the District's General Fund fall below the 4% of expenditures required under Nevada Administrative Code Section 354.

The target reserve level established for the District's General Fund shall

be reviewed annually.

2.2 Enterprise Fund Reserves. The policy of the District shall be to maintain target levels of reserves within the Unrestricted Net Position of each of its enterprise funds (excluding Internal Service Funds), as follows:

2.2.1 Target Reserve Levels

Operating Reserve Target: 25% of annual budgeted operating expenses (*excluding depreciation and debt*).

Capital Reserve Target: 1 year of 3-year average annual budgeted depreciation.

Debt Reserve Target – The District’s approved annual budget will maintain required debt coverage ratios for all existing debt. In addition, should the District issue any variable-rate debt obligations, an additional debt reserve shall be established at a level equal to one year's interest expenses related to variable-rate debt.

The target reserve levels established for each of the District’s enterprise funds shall be reviewed annually.

2.2.2 Internal Services Funds.

Internal Service Funds (Engineering, Buildings, Fleet) are intended to be self-funding business-type activities supporting internal customers. At year-end, adjustments are made to user charges to ensure fund revenues and expenditures are balanced. As such, operating reserves are not required to be maintained.

2.3 Other Designations. The Board of Trustees may designate additional fund balances for specific purposes, which are to be considered *in addition to the reserve levels established under this policy.*

3.0 Working Capital. The District will establish target levels of working capital that should be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service.

3.1. Target Level of Working Capital:

Working Capital Target = 90-days operating expenses (*inclusive of depreciation and interest expense*).

Working Capital serves primarily as a measure of fund liquidity and, as such, should be viewed as a component of, and not incremental to, the target reserves levels otherwise established by this policy.

4.0 Appropriate Use of Reserves

The targeted level of reserves established by Board policy serve to address significant short-term issues, including unexpected revenue shortfalls, higher than anticipated expenditures, or unforeseen emergencies.

It is the intent of the Board of Trustees to limit the use of reserves to address unanticipated, non-recurring needs. Fund balances should not be applied to recurring annual operating expenditures. Fund balances may, however, be applied buffer the impacts of a loss or reduction in revenues to allow time for the District to restructure its operations, but such use will only take place in the context of a Board-approved long-term financial plan.

5.0 Excess Unrestricted Fund Balance or Net Position

At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. Should actual revenues exceed expenditures, including contractual obligations and carryforward items, a year-end surplus shall be reported

Any year-end operating surplus which results in unrestricted fund balances or unrestricted net position in excess of the targeted reserve levels established by the policy, shall be deemed available for allocation to specific needs, subject to Board action.

Priorities for possible allocation of available funds in excess of established target reserve levels include:

- 1) Payments toward unfunded liabilities, deferred maintenance and asset replacement.
- 2) Transfer to other funds, as deemed appropriate, to offset year-end deficits within those funds.
- 3) Allocation to capital projects with shortfalls in funding sources and/or to provide matching funds for awarded grants.
- 4) Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

6.0 Replenishment of Reserves

If the any of the District's reserve balances are required to be drawn-down below

the minimum level established by this policy, a plan will be developed and implemented to replenish reserves. Replenishing reserves will be a priority use of one-time resources, and minimum reserve balances will be restored within a maximum of two fiscal years.

7.0 Utility Rate Stabilization Fund

The District may establish a Utility Rate Stabilization reserve intended to mitigate potential future year’s water and sewer rate adjustments necessary to meet operating, capital and debt obligations of the District’s Utility Fund.

Consideration for establishing an appropriate Utility Rate Stabilization Fund should be made in conjunction with development of a periodic multi-year Utility Rate Study as well as annual utility rate adjustments.

Factors in determining whether, and to what extent, a Utility Rate Stabilization fund is warranted should include:

- Managing long-term utility rates to avoid excessive rate increases in any single year (example = in excess of 2.5-times CPI)
- Mitigating the rate impacts associated with financing significant one-time capital projects
- Mitigating the potential impacts associated with significant fluctuations in charges for service revenues, beyond those associated with normal business cycles (example – mandated water conservation protocols).

8.0 Other Classifications

The District will apply other classifications and accounting standards under GASB 54 including the use of Non-spendable, Restricted, Committed, Assigned, Unassigned and Unrestricted when presenting either a Statement of Net Assets or other forms of fund balance in its financial reports.

<u>Governmental Funds</u>	<u>Proprietary (Enterprise) Funds</u>
Non-Spendable	Net Investment in Capital Assets
Restricted	Restricted
Committed	Unrestricted
Unassigned	Designated
Unreserved Fund Balance	Operating Reserve
Reserve (per Policy)	Capital Reserve
	Debt Reserve
	Other
	Undesignated

Accounting, Auditing and Financial Reporting
Capitalization of Fixed Assets
Policy 8.1.0
(Replaces Policy 8.1.0, 9.1.0 and Practice 2.9.0)

Policy. Capital assets include land, improvements to land, water rights, easements, buildings, building improvements, vehicles, machinery, equipment, right to use, infrastructure, construction in process (CIP), and all other tangible or intangible assets that are used in District operations that have initial useful lives of **three years or more** and meet defined capitalization thresholds.

1.0 Classification of Capital Assets. The District classifies capital assets in the following groups for financial reporting:

- Land
- Buildings and structures
- Venue Improvements
- Service Infrastructure
- Equipment and Vehicles
- Right to Use
- Construction in progress

2.0 Capitalization Thresholds. The District's capitalization threshold shall be as follows:

<u>ASSET CLASS</u>	<u>CAPITALIZATION THRESHOLD</u>
Land	All
Right to Use	All
Building and Structures	\$ 25,000
Venue Improvements.....	\$ 10,000
Service Infrastructure.....	\$ 25,000
Equipment and Vehicles	\$ 10,000

- 2.1** Capitalization thresholds are typically to be applied to individual items. Thresholds may be applied to a network or group of items when:
- 1) Similar types of assets are grouped together as a class (example: golf carts when they are components of a fleet; banquet facility furnishing)
 - 2) The items represent components of a system or network (components of a computer/ telephone network; snow-making system)

In cases where any asset is established to be a group of items, rather than being capitalized individually, the District will document justification to support the grouping of the assets.

3.0 Cost Basis. Capital assets purchased by the District are recorded at cost, and shall include purchase price, constructions cost, value of donated goods and/or services, and ancillary charges.

- 3.1 Ancillary charges mean incidental costs necessary to place a capital asset into its intended location, condition, or use. Examples include title fees, attorney or architect fees, freight charges, taxes, and site preparation costs. Ancillary charges are capitalized in addition to the purchase price and/or construction cost of capital assets.
- 3.2 Capital assets donated to the District are recorded at fair value on the date accepted.

4.0 Useful Life of Capital Assets. Assets should only be capitalized if they have an estimated useful life of three years or more.

- 4.1 Capital assets are depreciated using the straight-line method over the following estimated useful life:

Asset Class	Years
Building and Structures	10-40
Venue Improvements	10-25
Service Infrastructure	5-40
Equipment and Vehicles	3-20

Note: The Accounting Division will maintain Schedule of Useful Life for specific assets.

5.0 Criteria for Capitalization of Fixed Assets

- 5.1. Capital projects will be capitalized if they meet one of the following criteria:
 - o The project is creating a new asset for the District
 - o The project extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset, and/or
 - o Significantly increases the service capacity of the asset
- 5.2 Right to Use assets represent leased equipment and will be capitalized using the current value of all future lease payments per GASB 87. If the lease does not have a stated interest rate to determine current value with, an imputed rate will be determined by other similar leases.
- 5.3 Expenditures that simply maintain a given level of service or **repair an item to its intended function** should be expensed.
- 5.4. Three major categories of costs subsequent to original construction or acquisition are incurred relative to capital assets:

- Capital Improvements - an improvement is the substitution of a better component for which possesses superior performance capabilities, whereas a replacement is the substitution of a similar component.
- Capital Replacement - a replacement, which is a substitution of a component of the asset with one of similar quality is to be expensed. On rare occasions, a replacement can be considered improvements and be capitalized **if it meets criteria for capitalization (5.1)**.
- Capital Maintenance - activities budgeted as capital projects will be expensed as repair and maintenance expenses if they meet one of the following criteria:
 - The activity is performed on a regular and recurring basis to keep the District's assets in their normal operating condition over the course of the originally established useful life.
 - The project represents a repair activity that restores an asset to its original **function**.

6.0 Capital Project Phases. Major capital projects, as defined in Board Policy 12.1.0, will be managed through defined project phases. These may include:

- Feasibility
- Planning
- Design
- Construction

6.1. Costs incurred in pre-planning phases, including Master Plans and Project Feasibility Studies, which explore potential capital projects are to be expensed. Once a master-planning or feasibility study results in a defined project, with a specific scope and cost estimate, and the Board determines that a funding plan is to be developed for inclusion in the District's Capital Improvement Budget, costs associated with advancing the capital project are to be capitalized.

6.2 To facilitate the tracking of capital project costs to be expensed versus capitalized, the District will establish separate capital project codes to distinguish between phases where costs will be expensed and those capital project phases where costs are to be capitalized.

6.3 Capital project costs to be capitalized will be reported as Construction-In-Progress until the capital project is completed and the capital asset is placed into service.

7.0 Responsibility and Roles

- 7.1 The Board of Trustees approves District policy governing capital classes, thresholds, and useful lives.
- 7.2 The Senior Accountant will capitalize assets, process monthly depreciation, and perform year-end reconciliation of capital assets.
- 7.3 The Controller is responsible for approving items to be capitalized, modified, or disposed.

Note: The disposal of capital assets are to be accounted for consistent with the procedures detailed in the District's Policy and Procedures Manual for Accounting and Financial Control (Section IX.5.0)



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

POLICY. The District will maintain practices in conformity with the Nevada Revised Statute Section 354.107 (Regulations) and 354.613(c) (Enterprise Funds Cost Allocation), including:

- 0.1 Central Service Cost Allocation Plan for accumulating, allocating and developing billing rates on allowable costs of services provided by the District's General Fund to departments, divisions and Enterprise Funds.
- 0.2 This Policy and related Practice can only be modified by a non-consent agenda item during a regular meeting of the Board of Trustees.

The District's adopted other Financial Policies (6.1.0) that should be used to frame major practice initiatives and be summarized in the budget document. This Policy is specific to the equitable distribution of general, overhead, administrative and similar costs incurred by the District's General Fund in the process of supporting the operation of the District's Enterprise Funds.

The underlying practice, along with any others that may be adopted for other financial purposes, will be reviewed during the budget process. The Finance and Accounting staff should review the practices to ensure continued relevance and to identify any gaps that should be addressed with new practices. The results of the review should be shared with the Board of Trustees during the review of the proposed budget. Each budget year, the current Central Service Cost Allocation Plan will be filed with the Nevada Department of Taxation as required.

Practice categories that should be considered for development, adoption and regular review are as follows:

- 1.0 Costs Allowed
- 2.0 Allocation Method
- 3.0 Billing rates for services provided

Effective for the year ended June 30, 2021 upon acceptance by the Board of Trustees



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

1.0 COSTS ALLOWED

- 1.0.1 Costs will be determined in accordance with generally accepted accounting principles and approved by the Board of Trustees as part of the annual budget process, including any budget augmentation.
- 1.0.2 Costs incurred by a department, division or Fund specifically associated with their activities and operation will be Direct Costs to those departments, divisions or Funds.
- 1.0.3 Costs incurred for a common or joint purpose, benefitting more than one objective, will be considered Indirect Costs. These Indirect Costs must be necessary and reasonable for proper and efficient performance and administration.
- 1.0.4 Costs incurred may include, without limitation:
 - 1.0.4.1 Legislative costs for the Board of Trustees
 - 1.0.4.2 Legal Costs
 - 1.0.4.3 General Administration
 - 1.0.4.4 Emergency Services
 - 1.0.4.5 Public Relations
 - 1.0.4.6 Property Management
 - 1.0.4.7 Grants Management
 - 1.0.4.8 Contract, Procurement and Accounts Payable
 - 1.0.4.9 Grounds and Building Maintenance
 - 1.0.4.10 Budgeting, Accounting, Payroll and Audit
 - 1.0.4.11 Human Resources and Risk Management
 - 1.0.4.12 Information Technology and Communications
 - 1.0.4.13 Warehouse and Storage

Effective for the year ended June 30, 2021 upon acceptance by the Board of Trustees



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

1.0.5 Applicable Credits

1.0.5.1 Applicable Credits will reduce the total costs allowed, when the credit relates directly to a transaction included in total costs.

1.0.6 Costs allowed should be deemed reasonable, ordinary and necessary for the operation of an Enterprise Fund.

2.0 ALLOCATION METHOD

2.0.1 The District's Proprietary Funds include both Enterprise and Internal Service Funds. The Internal Service Funds have and will continue to develop specific billing rates for services based on individual units of service to each department, division or Fund. Enterprise Funds will be billed an annual allocation of Indirect Costs Allowed, net of applicable credits, as evidenced by the adopted budget. The General Fund and Internal Service Funds be allocated a portion of these costs, but will not be billed, as it would only add a layer to recalculating their related rates and charges to the other funds.

2.0.2 The proportion of the allocation will be based on budget data in the form of statistics or amounts:

2.0.2.1 –Eighty percent (80%) of Budget and Accounting central overhead costs, net of credit for interest earnings, are to be allocated on the basis of Services and Supplies expenses, by fund.

2.0.2.2 – Human Resources, Payroll and twenty percent (20%) of Budget and Accounting costs are to be allocated on the basis of a blended rate of budget full-time equivalent

Effective for the year ended June 30, 2022 upon
acceptance by the Board of Trustees
Adopted January __, 2022



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

positions, wages and benefits.

- 2.0.3 The basis of the allocation will be scheduled in support of current rates and be presented to the Board of Trustees in conjunction with establishing the Operating Budget for each fiscal year.
- 2.0.4 The Allocation Method for each Cost will be appropriate in relation to the cost's objective or measurement.

3.0 BILLING RATES

- 3.0.1 Monthly billings will be recorded and paid from the Enterprise Funds to the General Fund, based on actual expenditures incurred. The off-set to the charges billed to the Enterprise Funds will be recorded as an off-set to General Fund expenditures.
- 3.0.2 The June billing each year, shall be adjusted such that the total charges to the Enterprise Funds, for the fiscal year ending that respective June, does not exceed the actual allowed incurred costs net of actual applicable credits. The District may bill less than the budgeted total for a fiscal year, but in no case can the total billing exceed the total approved with the adoption of the District Annual Operating Budget for that fiscal year, including any Board approved amendments or budget augmentation.
- 3.0.3 Payment for billings will be considered completed by an entry in the general ledger for the District, through the Cash Clearing Fund, with appropriate amounts posted to the General Fund and the respective Enterprise Fund(s).

Background:
Existing Board Policies and Practices

Policy 7.1.0 - Fund Balances

Practice 7.2.0 – Fund Balances

Policy 19.10 – Working Capital

Practice 19.2.0 – Working Capital

Policy 8.1.0 Capitalization of Fixed Assets

Policy 9.1.0 – Useful Life of Fixed Assets

Practice 2.9.0 – Useful Life of Fixed Assets

Policy 18.1.0 Central Services Cost Allocation Plan

Practice 18.2.0 – Central Services Cost Allocation Plan



Budgeting and Fiscal Management Appropriate Level of Fund Balance Policy 7.1.0

POLICY. The District will maintain a formal practice on the level of Fund Balance that should be maintained in the General and Special Revenue Funds.

The adequacy of Unassigned Fund Balance in the General Fund should be assessed based upon the District's own specific circumstances. (Nevertheless, the Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain Unassigned Fund Balance in their General Fund of no less than five to fifteen percent of regular General Fund operating revenues.) The Nevada Administrative Code (NAC 354.650) requires a budgeted fund balance of 4%, based on the actual expenditures of the General Fund's previous fiscal year.

Building "stabilization arrangements" in the General Fund is an acknowledged purpose in response to revenue shortfalls and unanticipated expenditures.

The District employs the term "fund balance" to describe the net position of governmental funds calculated in accordance with Generally Accepted Accounting Principles (GAAP) at the individual fund level. Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis. In both cases, fund balance is intended to serve as a measure of the financial resources available for use in a governmental fund type.

Financial reporting distinguishes restricted fund balance from unassigned and unrestricted fund balance. Typically, only the latter is available for spending. A "stabilization arrangement" indicates a designated portion of unassigned or unrestricted fund balance is subject to an action by the governing body concerning the use of that amount.



**Budgeting and Fiscal Management
Appropriate Level of Fund Balance
Practice 7.2.0**

RELEVANT POLICIES: 1.1.0 Strategic Planning, 7.1.0 Appropriate Level of Fund Balance, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management

PRACTICE. It is the practice of the Incline Village General Improvement District, hereinafter referred to as the District, to maintain Fund Balance in the General Fund and each governmental or proprietary fund type in a manner which provides for contractual, bond and customer service obligations, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations.

1.0 SCOPE

This Practice shall apply accounting principals as forth in Governmental Accounting Standards Board (GASB) Statement 54 considering the unique characteristics of the District. To that end the following measurements will apply to each fund or type:

General Fund

The General Fund must meet the minimum balance requirements under Nevada Administrative Code Section 354.

Proprietary Fund Types:

Measurements of target fund balances with Stabilization Arrangements:

Community ServicesOperations - 25% of operating expenses
Debt Service - One year's payments
Capital Expenditure – 1 year of a 3 year average depreciation

Beach EnterpriseOperations - 25% of operating expenses
Debt Service - One year's payments
Capital Expenditure – 1 year of a 3 year average depreciation



**Budgeting and Fiscal Management
Appropriate Level of Fund Balance
Practice 7.2.0**

UtilitiesOperations - 25% of operating expenses
Debt Service - One year's payments
Capital Expenditure – 1 year of a 3 year average
depreciation

Internal Services.....Operations - 25% of operating expenses

Governmental Activities:

Workers CompensationSIR - Stated Deductible

Operating expenses for these calculations do not include depreciation or interest expense since they are covered by separate definitions.

2.0 Definition of Stabilization Arrangement

In conformity with GASB Statement 54, the District will establish a stabilization arrangement only when it includes:

- 2.0.1 Recognition of the authority by which the arrangement is established including resolution, ordinance or other action.
- 2.0.2 When to make additions to the stabilization amount
- 2.0.3 When stabilization amounts can be spent
- 2.0.4 That a balance will be reported at each fiscal year end.



**Budgeting and Fiscal Management
Appropriate Level of Fund Balance
Practice 7.2.0**

3.0 Other Classifications

The District will apply other classifications and accounting standards under GASB 54 including the use of Nonspendable, Restricted, Committed, Assigned, Unassigned and Unrestricted when presenting either a Statement of Net Assets or other forms of fund balance in its financial reports.

Effective Date: June 30, 2009



Budgeting and Fiscal Management Appropriate Level of Working Capital Policy 19.1.0

POLICY. The District will maintain a formal practice on the level of working capital that should be maintained in the Enterprise (Utility) Fund.

Enterprise Funds distinguish between current and non-current assets and liabilities. It is possible to take advantage of this distinction to calculate Working Capital (i.e., current assets less current liabilities). The measure of working capital indicates the relatively liquid portion of total Enterprise Fund capital, which constitutes a margin or buffer for meeting obligations. It is essential that the District maintain adequate levels of working capital in its Enterprise Funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees. Working Capital is a crucial consideration, too, in long-term financial planning. Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness. Likewise, laws and regulations may speak to appropriate levels of working capital for some Enterprise Funds.

The Government Finance Officers Association (GFOA) recommends that local governments adopt a target amount of working capital to maintain in each of their Enterprise Funds. The District's targets will be formally described in the Practice as adopted and amended as needed.

Working capital is defined as current assets minus current liabilities; the District will consider certain characteristics of working capital that affect its use as a measure. Specifically, the "current assets" portion of working capital includes assets or resources that are reasonably expected to be realized in cash (e.g., accounts receivable) or consumed (e.g., inventories and prepaid expenses) within a year.

Stability of revenues and expenses are also considerations for an accurate calculation of working capital. The District will consider the adequacy of Working Capital in its Enterprise Funds during each annual budget process. The majority of such consideration will be established by the predictability of the revenues to be received from users. Building Working Capital in the Enterprise Funds is an acknowledged purpose in response to revenue shortfalls and unanticipated expenditures, debt service requirements and planning for capital expenditures.



**Budgeting and Fiscal Management
Appropriate Level of Working Capital
Policy 19.1.0**

The District employs the term “Net Position” for Enterprise Funds, calculated in accordance with Generally Accepted Accounting Principles (GAAP). Financial reporting distinguishes Restricted from Unrestricted Net Position. Typically, only the latter is available for spending. Working Capital for operating needs should be sourced from Unrestricted Net Position. The District has debt service and capital expenditure needs that extend beyond one year. Therefore, amounts outside of the calculation of Working Capital may develop for those purposes. As such these may also be considered elements of both Restricted and Unrestricted Net Position.



**Budgeting and Fiscal Management
Appropriate Level of Working Capital
Practice 19.2.0**

RELEVANT POLICIES: 1.1.0 Strategic Planning, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting, 14.1.0 Debt Management, 19.1.0 Appropriate Level of Working Capital

PRACTICE. It is the practice of the Incline Village General Improvement District, hereinafter referred to as the District, to maintain Working Capital in each Enterprise Fund in a manner which provides for contractual, bond and customer service obligations, while meeting its routine and non-routine cash flow requirements and complying with all federal, state and local statutes and regulations.

1.0 SCOPE

This Practice shall apply accounting principals as forth in Generally Accepted Accounting Principles (GAAP) considering the unique characteristics of the District. To that end the following measurements will apply to each fund:

- Strength of collections of accounts receivable, to the extent they can be converted to cash within a timeframe expected for use in the District's operations.
- Historical consumption of inventories and prepaid expenses, to the extent they can be utilized to support operations within the timeframe of the District's budget cycle.
- Levels and flow of annual operating expenses. At no time will the calculation consider less than 45 days operating needs. However, any amount over 90 days needs must be specifically supported and approved in writing by the District's General Manager.
- Support by the General Fund. This includes shared expenses and operating transfers that represent Central Services Cost Allocations.
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- Control over rates and revenues.
- Asset age and condition, whether there is a chance of extra ordinary repairs or a replacement under the Capital Improvement Plan.
- Volatility of expenses and the ability to control fixed and variable costs.



Budgeting and Fiscal Management Appropriate Level of Working Capital Practice 19.2.0

- Management plans for Working Capital including any inherent affects of Restricted Net Position or items extending beyond one year that would normally not be covered by Working Capital.
- Debt Service or Multi-Year Capital Plan needs identified as current requirements.

2.0 Definition of Target amounts for Working Capital as measured each Fiscal Year End

Utilities

Operations – 45 to 90 days of operating expenses**

Debt Service – up to one year's payments of interest expense, since current maturities of long term debt are already considered in determining working capital, when classified as a current liability.

Capital Expenditure – up to 1 year of a 3 year average depreciation

** Operating expense excludes depreciation and interest.

3.0 Other Accumulation of Resources

The District may accumulate other resources in support of Debt Service or the Multi-Year Capital Plan in addition to Working Capital since these needs extend beyond the measurement period of one year.



Accounting, Auditing and Financial Reporting Establishing the Estimated Useful Lives of Capital Assets Policy 8.1.0

POLICY. The best source of relevant information on the estimated useful lives of the District's capital assets comes from its own past experience with similar assets. In situations where the documentation of the District's own past experience, for a given type of capital asset, is not adequate for this purpose, the District will consider the experience of other governments, professionally determined specifications, and private-sector enterprises. The District will make whatever adjustments are needed to estimated useful lives that were obtained from others to ensure that such estimates are appropriate to its own particular circumstances. It is especially important to consider the potential effect of each of the following factors when depending on the experience of others:

- 1.0 Quality.** Similar assets may differ substantially in quality, and hence in their useful lives, because of differences in materials, design and workmanship.
- 2.0 Application.** The useful life of a given type of capital asset may vary significantly depending upon its intended use.
- 3.0 Environment.** Environmental conditions in the Tahoe Basin include climate and regulatory sources. Conditions can be defined by the Tahoe Regional Planning Agency, the United States Forest Service Basin Management Unit and the North Lake Tahoe Fire Protection District. The service life of some capital assets used in connection with highly regulated activities could be affected by these agencies codes or best management practices.
- 4.0 Life Cycle Considerations.** The vast majority of the District's capital assets are used in conjunction with programming activities. Useful lives reflect the amount of utilization that will be consumed by an operating period and could affect the care and condition needed for services rendered by those venues. The District should also consider the possibility of varying useful lives for components of larger assets, both for capitalization and to reflect the appropriate life cycle maintenance interval for such components.



Accounting, Auditing and Financial Reporting
Establishing the Estimated Useful Lives of Capital Assets
Policy 8.1.0

- 5.0 Maintenance.** The potential effect of each of the factors just described may be mitigated or exacerbated as a consequence of the District's evaluation of capital asset care and condition, as well as the approach to maintenance and replacement policy. Once established, estimated useful lives for major categories of capital assets should be periodically compared with the District's actual experience and appropriate adjustments should be made to reflect this experience.



Accounting, Auditing and Financial Reporting
Establishing Appropriate Capitalization Threshold for Capital Assets
Policy 9.1.0

POLICY. The District will consider the following guidelines in establishing capitalization thresholds:

- 1.0** Potentially capitalizable items should only be capitalized if they have an estimated useful life of greater than two years following the date of acquisition or placed into service.
- 2.0** Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets.
- 3.0** In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item.
- 4.0** In establishing capitalization thresholds, when the District is a recipient of federal awards, then federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts for purposes of federal reimbursement will prevail.
- 5.0** Capitalization of buildings and infrastructure should consider the use of componentization as a way to reflect the varying life cycle considerations of mechanical, structural elements, and wear items that may require different cycles of maintenance and replacement from the main asset being capitalized. The significance of such componentization takes precedent over the \$5,000 threshold, and thus smaller amounts may be listed to facilitate proper asset management.



**Accounting, Auditing and Financial Reporting
Capitalization of Fixed Assets
Practice 2.9.0**

RELEVANT POLICIES: 8.1.0 Establishing the Estimated Useful Lives of Capital Assets and 9.1.0 Establishing Appropriate Capitalization Threshold for Capital Assets

1.0 ACCOUNTING CONTROL

The capitalization threshold for all asset classes shall be identified during the budget process each fiscal year by the Finance and Accounting staff and approved by the Board of Trustees as part of the adoption of the annual Debt Management Policy, including the Five Year Capital Improvement Plan and its statement on Minimum level of expenditure.

1.1 The capitalization threshold per item shall be:

<u>ASSET CLASS</u>	<u>MINIMUM COST</u>
Equipment	\$ 5,000.00
Structures and Land Improvements ...	\$10,000.00

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

1.2.1 The normal useful life of the item is three or more years.

1.2.2 The item has an acquisition cost (including freight and installation) of at least the amounts listed above in each asset class.

1.2.3 The item will not be substantially reduced in value by immediate use.

1.2.4 In case of repair or refurbishment that will be capitalized, the outlay will substantially prolong the life on an existing fixed asset or increase its productivity significantly, rather than merely returning the asset to a functioning unit or making repairs of a routine nature.



Accounting, Auditing and Financial Reporting
Capitalization of Fixed Assets
Practice 2.9.0

- 1.2.5 The capitalization threshold is applied to individual items rather than to groups of similar items (e.g. desks and tables).

- 1.2.6 The utilization of componentization of assets under the project, to provide a more appropriate management of an assets care, condition and associate maintenance or replacement, takes precedent over the stated thresholds under section 1.1.

2.0 PHYSICAL CONTROL

All fixed assets acquired either as operating or capital expenditures will be identified as IVGID property and recorded. Such items represent a value to the operations that have an ongoing usefulness to justify safeguarding them from loss or abuse. The items should be expected to be in service at least two years and can be readily assigned to a function or activity as responsible for its care and condition.



Budgeting and Fiscal Management
Adoption of Central Service Cost Allocation Plan
Policy 18.1.0

POLICY. The District will maintain practices in conformity with the Nevada Revised Statute Section 354.107 (Regulations) and 354.613(c) (Enterprise Funds Cost Allocation), including:

- 0.1 Central Service Cost Allocation Plan for accumulating, allocating and developing billing rates on allowable costs of services provided by the District's General Fund to departments, divisions and Enterprise Funds.
- 0.2 This Policy and related Practice can only be modified by a non-consent agenda item during a regular meeting of the Board of Trustees.

The District's adopted other Financial Policies (6.1.0) that should be used to frame major practice initiatives and be summarized in the budget document. This Policy is specific to the equitable distribution of general, overhead, administrative and similar costs incurred by the District's General Fund in the process of supporting the operation of the District's Enterprise Funds.

The underlying practice, along with any others that may be adopted for other financial purposes, will be reviewed during the budget process. The Finance and Accounting staff should review the practices to ensure continued relevance and to identify any gaps that should be addressed with new practices. The results of the review should be shared with the Board of Trustees during the review of the proposed budget. Each budget year, the current Central Service Cost Allocation Plan will be filed with the Nevada Department of Taxation as required.

Practice categories that should be considered for development, adoption and regular review are as follows:

- 0.1.1 Costs Allowed
- 0.1.2 Allocation Method
- 0.1.3 Billing rates for services provided

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



**Budgeting and Fiscal Management
Central Service Cost Allocation Plan
Practice 18.2.0**

RELEVANT POLICY: 18.1.0 Adoption of Central Service Cost Allocation Plan

1.0 COSTS ALLOWED

- 1.0.1 Costs will be determined in accordance with generally accepted accounting principles and approved by the Board of Trustees as part of the annual budget process, including any budget augmentation.
- 1.0.2 Costs incurred by a department, division or Fund specifically associated with their activities and operation will be Direct Costs to those departments, divisions or Funds.
- 1.0.3 Costs incurred for a common or joint purpose, benefitting more than one objective, will be considered Indirect Costs. These Indirect Costs must be necessary and reasonable for proper and efficient performance and administration.
- 1.0.4 Costs incurred may include, without limitation:
 - 1.0.4.1 Legislative costs for the Board of Trustees
 - 1.0.4.2 Legal Costs
 - 1.0.4.3 General Administration
 - 1.0.4.4 Emergency Services
 - 1.0.4.5 Public Relations
 - 1.0.4.6 Property Management
 - 1.0.4.7 Grants Management
 - 1.0.4.8 Contract, Procurement and Accounts Payable
 - 1.0.4.9 Grounds and Building Maintenance
 - 1.0.4.10 Budgeting, Accounting, Payroll and Audit
 - 1.0.4.11 Human Resources and Risk Management
 - 1.0.4.12 Information Technology and Communications
 - 1.0.4.13 Warehouse and Storage

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



Budgeting and Fiscal Management Central Service Cost Allocation Plan Practice 18.2.0

1.0.5 Applicable Credits

1.0.5.1 Applicable Credits will reduce the total costs allowed, when the credit relates directly to a transaction included in total costs.

1.0.6 Costs allowed should be deemed reasonable, ordinary and necessary for the operation of an Enterprise Fund.

2.0 ALLOCATION METHOD

2.0.1 The District's Proprietary Funds include both Enterprise and Internal Service Funds. The Internal Service Funds have and will continue to develop specific billing rates for services based on individual units of service to each department, division or Fund. Enterprise Funds will be billed an annual allocation of Indirect Costs Allowed, net of applicable credits, as evidenced by the adopted budget. The General Fund and Internal Service Funds be allocated a portion of these costs, but will not be billed, as it would only add a layer to recalculating their related rates and charges to the other funds.

2.0.2 The proportion of the allocation will be based on budget data in the form of statistics or amounts.

2.0.3 The basis of the allocation will be scheduled in support of current rates and be presented to the Board of Trustees in conjunction with establishing the Operating Budget for each fiscal year.

2.0.4 The Allocation Method for each Cost will be appropriate in relation to the cost's objective or measurement.

Effective for the year ended June 30, 2012 upon
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Adopted February 29, 2012



**Budgeting and Fiscal Management
Central Service Cost Allocation Plan
Practice 18.2.0**

3.0 BILLING RATES

- 3.0.1 Monthly billings will be recorded and paid from the Enterprise Funds to the General Fund, based on a total as adopted with the District's Annual Operating Budget, including any Board approved amendments or budget augmentation.
- 3.0.2 The June billing each year, may be adjusted such that the total charges to the Enterprise Funds, for the fiscal year ending that respective June, does not exceed the actual allowed incurred costs net of actual applicable credits. The District may bill less than the budgeted total for a fiscal year, but in no case can the total billing exceed the total approved with the adoption of the District Annual Operating Budget for that fiscal year, including any Board approved amendments or budget augmentation.
- 3.0.3 Payment for billings will be considered completed by an entry in the general ledger for the District, through the Cash Clearing Fund, with appropriate amounts posted to the General Fund and the respective Enterprise Fund(s).