Audit Committee Concerns For Davis Farr 4/21/2020

A. LACK OF CONSISTENCY IN CAPITALIZATION

The Audit Committee has discovered similar costs that were written off in prior period adjustments have subsequently been capitalized in the 2020-21 ACFR. In addition, these similar costs appear in the 2022-23 tentative budget as expenses, highlighting the inconsistency in the financial reporting. The committee has requested prior period adjustments for consistency in the District's financial reporting in compliance with GAAP, however staff deems the requests unwarranted.

Important to note were the costs expensed for 2019-2020, as a prior period adjustment - Note 22 of CAFR, for the Community Services Master Plan ($212,044), 38 paving projects ($435,672) and the Incline Village Ballfield ($77,216) and in the 2020-21 ACFR, costs of over $3M for the Effluent Pipeline were charged off as a prior period adjustment. These costs were determined to be repair and maintenance costs, not assets to be capitalized. These are examples for comparison to be used when reviewing the list of concerns.

The list of concerns, identified by the committee, relate to the inconsistency of capitalization. Since the Audit Committee doesn't have the book value for all projects, some are reflected as actual costs incurred.

Management corrected prior years of capitalization for items considered to be maintenance and repairs. However, the FY 2019-2020 and 2020-21 ACFRs are inconsistent.

1. The 2021 ACFR contained a prior period adjustment made to the Utility Fund for repairs and maintenance that had been capitalized in 2019 in the amount of over $3M. However, in the fiscal years 2020 and 2021, similar costs were capitalized. These costs are estimated to be **$181,882.**
2. For Community Services and the Beaches, the costs capitalized that are inconsistent is estimated to be **$1,219,002** (see Appendix A). This total includes $367,829 for the Beach Fund and $851,173 for Community Services. These costs were for preliminary stage activities which include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives, temporary repairs for the Burnt Cedar pool and temporary repairs at the Mountain Clubhouse. *These numbers were updated and resulted in a net decrease for the Beach Fund and a net increase for Community Services from Appendix A in the Audit Committee report to the Board of Trustees. This was due to research that discovered additional costs for the Mountain Cath path pre-design and removed schematic design costs for the beach and Mountain Course projects with approved funding.*

3. Contained in the initial draft of the 2021 ACFR, the Auditor identified $866,503.70 of write offs for items capitalized in past CAFRs. After review by Management, some items were removed including levee and roadway repairs at the wetlands, spot paving at various recreational venues, sewer line repairs and roof repairs which, as noted above, had been determined to be expenses. These items total to a **depreciate book value of $500,016.63** with the original cost of $2,067,116.34. The details are contained in Appendix B.
4. Golf Course irrigation along with greens and bunker maintenance costs are considered maintenance expenses and are budget as maintenance and repairs in the 2022-23 budget. However, over the past 6 years, costs have been capitalized instead of expensed. The total costs have accumulated to $405,888 for the Championship Golf Course and $214,308 for the Mountain Golf Course. These costs are not current book value, but are actual costs incurred over the 6 years for a total of **$620,196**. See Appendix C.
5. Costs that have been determined to be repair and maintenance for the water and sewer infrastructure have, in the past, been capitalized. These same costs are budgeted as repair and maintenance costs in the 2022-23 budget, however they were capitalized in the past totaling **$1,169,230** since 2015. These costs are not current book value, but are actual costs incurred since 2105. See Appendix D.
6. Just recently, it was brought to the attention of the Audit Committee that capital project accounts have been established to maintain services at 13 Water Pump Stations and 18 Sewer Pump Stations. From July, 1, 2015 to June 30, 2021, $425,050 and $687,232 respectively in costs have been capitalized either as a capital asset or construction in progress. These costs do not include depreciation. Most costs involve pumps, motors, valves, variable frequency drives, controls, telemetry equipment, switches and generators. A public records request has been made for all charges to the accounts. It is assumed that most costs do not meet the capitalization thresholds or are for routine repairs and maintenance. This totals **$1,112,282**.

The total costs expended on the maintenance and repairs listed above is **$4,302,592 of actual costs and additional book value amount of $500,016.63**. The Audit Committee hasn't been provided with details or information to refute their stance that these items are for maintenance and repair and therefore the need for the additional write-off.

The Audit Committee would like to understand the approach Davis Farr will be taking on these and other potentially identified maintenance and repair costs that have been capitalized.

B. INTVESTMENT INCOME ALLOCATIONS

Until 2019, the District allocated investment income based on the cash invested, by Fund. In 2020, all investment income was credited to the General Fund in the amount of $492,000. **The Audit Committee has requested this allocation be adjusted removing the investment income from the General Fund and be included in the fund balances for the Fund(s) with the cash invested at LGIP.** Management has given no explanation as to why they are unwilling to make this adjustment.

Additionally, management has decided to change the allocation going forward to allocate investment income NOT based on cash invested, but by total CASH equivalents by Fund. **The Audit Committee has requested the allocation method be reverted to the method used until 2019 or create separate investment funds to avoid any further confusion.**

BACKGROUND: On June 1, 2021 and again on October 18, 2021, a member of the Audit Committee provided memorandums regarding the improper allocation to the General Fund of ALL investment earnings from cash deposits held in a single account at the LGIP. It is estimated that during fiscal 2019 and 2020 approximately $492,000 was improperly allocated to the General Fund based on average of the beginning and ending balances of cash in each of the seven funds. The General Fund, the two Special Revenue Funds, the two Capital Project Funds and the two Debt Service Funds. It is unknown the amount of interest earned from Certificate of Deposits which were held at Wells Fargo Bank on behalf of ALL funds mentioned above. Also mark to market adjustments of value gains on CD's have not been documented.

The Audit Committee would like to understand the approach Davis Farr will be taking on this issue for the upcoming audit.

C. INCORRECT PRIOR PERIOD ADJUSTMENT REPORTED

Note 22 in the 2021 ACFR is incorrect. The Board approved budget was intended to utilize fund balance to meet the financial needs of the capital fund budget. The amount need was $1,742,843, however the District transferred $1,637,400 from the Special Revenue Fund balance to meet the budgetary needs of the Capital Projects Fund. **This was not a prior period adjustment, but a transfer between funds**.

Additionally, the Community Services Special Revenue Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance and the Community Services Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance both reflect the $1,637,400 as a prior period adjustment, instead of a transfer between the funds.

D. OTHER RECOMMENDATIONS FROM MOSS ADAMS PRESENTED TO THE AUDITOR ON JUNE 9, 2021 (memo dated 5-21-2021 attached)

Some of the items contained in the memo have been reviewed and addressed. Below are the remaining items with impact on the District's financial reporting:

1. Reporting all Facility Fee revenues as general revenues in the Statement of Activities is improper and not in compliance with GAAP. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR.
2. Facility Fee revenues reported in the Community Service and Beach funds should not be reported as operating revenues but should be reported as other financing sources in the Statements of Revenues, Expenses and 25 SUBJECT -3- DATE Changes in Fund Balance. The imposed nature of the Facility Fees which are effectively secured by real property within the IVGID boundaries creates the necessity of other than revenues. Moss Adams e mail. IVGID management has not provided any input.
3. Utility Fund Revenues of $2,000,000 per year, which has been and currently is being collected from users of sewer services and specifically designated to replace the Effluent Pipeline Phase II (6 miles), should not be reported as operating revenues but should be reported as non-operating revenues. These collections are a financing transaction for a specific FUTURE infrastructure and no services are being delivered in exchange for the collections. According to the CAFR1 s, the average annual operating income from fiscal years 2016 to 2020 has been $1.777 million. If the $2 million collected annually to finance the future pipeline was not included in operating revenues, the average annual loss would have been $223,000. As a result, the unrestricted net position of the Utility Fund (adjusted for the pipeline set aside) has steadily declined over the past several years and is expected to be negative by $2.7 million at June 30, 2022.
4. The accounting for items within Construction in Progress - Note 5 of the 2020 CAFR is considered misleading and recommended by Moss Adams to cease. IVGID management reports ALL purchases and construction of a capital nature to be charged first to Construction in Progress accounts which in turned is transferred to other capital accounts when the purchases or construction is placed into service. This accounting treatment is misleading as a substantial portion of charges are annual purchases of equipment, rolling stock, uniforms, ski rental equipment, golf carts etc which are NOT

construction in progress. Purchases should be charged directly to the capital accounts and not be ran through construction in process. Moss Adams verbal recommendation at Board meeting.

5. The Notes to the Basic Financial Statements should be reviewed and revised as needed primarily regarding Significant Accounting Policies. The Notes are poorly written, out of place and in some cases factually incorrect. A lack of consistency exists in the use of words describing particular items. After the review and revisions are completed, a report on suggested changes should be presented to the Audit Committee for review.