

MEMORANDUM

TO: Audit Committee

THROUGH: Matt Dent

FROM: Clifford F. Dabblers

SUBJECT: Additional engagements of Davis Farr LLC

STRATEGIC

PLAN REFERENCE(S): None

DATE: 5-31-2021

I. RECOMMENDATION

That the Audit Committee make a recommendation to the IVGID Board of Trustees to engage Davis Farr LLC IVGID's external auditors to provide direction on certain outstanding accounting matters which were not addressed in the CAFR for the fiscal year ending June 30, 2020

II. BACKGROUND

Over several years, two residents of Incline Village had provided memorandums regarding the accounting and reporting treatment of certain financial transactions of IVGID.

The Audit Committee engaged Moss Adams LLC to provide recommendations on four items of accounting and reporting and produced a final report on 1/14/2021. Within the report, other accounting and reporting treatments were not in compliance with GAAP or GASB.

Because of the report was received just prior to IVGID's deadline for filing the Comprehensive Annual Financial Report as of June 30, 2020, certain items were not reflected in the CAFR.

At the Audit Committee in January 2021, IVGID management did not agree with the findings of Moss Adams regarding non compliance with GAAP and CASB

and issued a representation letter to Edie Baillie that the CAFR financial statements for 2020 were in compliance with GAAP.

On February 10, 2021, the Audit Committee submitted to the Board of Trustees its "Report to the District's Board of Trustees" as required by Board Policy 15.1.(2.4.6) listing two major concerns regarding non compliance with GAAP and 6 other concerns.

At the 2-10-2020 Board of Trustee meeting, the Trustees unanimously approved the Audit Committee report.

The audit committee report only addressed two major accounting and reporting concerns with other items expressed in expressed by citizens left open. for the new external auditor to review and make recommendations.

III. OUTSTANDING ISSUES

Below is a list of outstanding issues which require clarification prior to the preparation and delivery of the Comprehensive Annual Financial Report for the year end June 30, 2021 by IVGID management to the IVGID Audit Committee and the independent outside auditor, DavisFarr .

- The Community Service Special Revenue Fund does not have adequate Facility Fee revenues to qualify as a special revenue fund - Moss Adams report. Based on the fiscal 2021 budget the Facility Fees designated for operations are only 9.4% of total budgeted revenues.
- 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
- Reporting Facility Fee revenues, designated by resolution specifically for Capital Projects and Debt Service, as Revenues in the Special Revenue Funds is improper and not in compliance with GASB #54 definition of a special revenue fund. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR.
- 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

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.

- 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 CAFR'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.
- 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.
- In fiscal year 2019, \$4.2 million of costs charged to the Effluent Pipeline Phase II construction in progress account was transferred and capitalized as a fixed asset. Based on the Moss Adams report and extensive analysis of members of the Audit Committee, approximately \$3.2 million of the costs

should have been expensed as the costs were for various activities which fall within the guidelines of expense transactions. IVGID management refutes this expensing probably based on a lack of knowledge of the historical events which occurred over the past 6 years.

- 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 a particular items. After the review and revisions are completed, a report on suggested changes should be presented to the Audit Committee for review.
- Should a judiciary or agency fund be established for the activities of the Tahoe Water Suppliers Association which is currently being reported as a department of the Utility Fund?

IVI. **BID RESULTS**

Not required

V. **FINANCIAL IMPACT AND BUDGET**

Unknown

VI. **ALTERNATIVES**

VI. **COMMENTS**

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

None

SUBJECT

-5-

DATE

VIII. BUSINESS IMPACT

None.

or