NOTICE OF MEETING

REVISION 1

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at 6:00 p.m. on February 22, 2022 via Livestream/Zoom only.

Public comment is allowed and the public is welcome to make their public comment either via e-mail (please send your comments to info@ivgid.org by 2:00 p.m. on February 22, 2022) or via telephone (the telephone number will be posted to our website on the day of the meeting). The meeting will be available for viewing at https://livestream.com/accounts/3411104. (Remote only meeting permitted by AB 253 as Audit Committee contains non-elected members.)

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*
Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Matthew Dent (Trustee) and Raymond Tulloch (At-Large Member)

B. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

C. APPROVAL OF AGENDA *(for possible action)*

The Audit Committee may make a motion for a flexible agenda which is defined as taking items on the agenda out of order; combining agenda items with other agenda items; removing items from the agenda; moving agenda items to an agenda of another meeting, or voting on items in a block.

-OR-

The Audit Committee may make a motion to accept and follow the agenda as submitted/posted.

D. GENERAL BUSINESS ITEMS *(for possible action)*

1. Review and discussion of District Management's response to the Audit Committee report to the Board of Trustees on the Annual Comprehensive Financial Report (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) *Pages 1 - 38*

2. Review and discuss status of implementing recommendations made by the Auditor (DavisFarr) in their Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 as well as implementation of (selected) recommendations from the Audit Committee on the Audit (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) *Pages 39 - 41*

3. Review and discussion of Moss Adams Report recommendations on capitalization and comparison with revised capitalization policy (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) *Pages 42 - 74*

4. Review and discussion of actions taken in response to recommendations in the Moss Adams report on policies and practices (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) *Pages 75 - 81*

5. Review, discuss, and determine if action is required for the following correspondence and memos received by Audit Committee regarding: (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) *Pages 82 -95*
   a. Charge off of expenses which have been included in construction in progress
   b. Incline Park Facility Renovation, Project#4378LI1801, Final disclosure of the close out of the Memorandum of Understanding ("MOU") with Incline-Tahoe Foundation regarding construction of the project (*carried over from the June 9, 2021 Audit Committee meeting)*
   c. Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than Capital Assets (*carried over from the June 9, 2021 Audit Committee meeting)*
   d. Review reporting and use of Facility Fees *(carried over from the June 9, 2021 Audit Committee meeting)*

~~*E. MEETING MINUTES (for possible action)*~~

~~*1. Meeting Minutes of December 8, 2021*~~

~~*2. Meeting Minutes of December 16, 2021*~~

NOTICE OF MEETING

REVISION 1

F. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

G. ADJOURNMENT *(for possible action)*

CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Wednesday, February 16, 2022 at 9:00 a.m., a copy of this agenda (Audit Committee Session of February 22, 2022) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; copies were either faxed or e-mailed to those people who have requested; and a copy was posted at the following six locations within Incline Village/Crystal Bay in accordance with NRS 241.020:

1. IVGID Anne Vorderbruggen Building (893 Southwood Boulevard, Incline Village, Nevada; Administrative Offices)
2. IVGID's website (www.yourtahoeplace.com/Board of Trustees/Meetings and Agendas)
3. State of Nevada public noticing website (https://notice.nv.gov/)

/s/ **Susan A. Herron, CMC**
Susan A. Herron, CMC
District Clerk (e-mail: sah@ivgid.org/phone # 775-832-1207)

Notes: *Items on the agenda may be taken out of order; combined with other items; removed from the agenda; moved to the agenda of another meeting; moved to or from the Consent Calendar section; or may be voted on in a block. Items with a specific time designation will not be heard prior to the stated time, but may be heard later. Those items followed by an asterisk (*) are items on the agenda upon which the Board of Trustees will take no action. Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to call IVGID at 832-1100 at least 24 hours prior to the meeting.* ***IVGID'S agenda packets are available at IVGID's website, www.yourtahoeplace.com; go to "Board Meetings and Agendas".***

M E M O R A N D U M

TO: Board of Trustees

FROM: Ray Tulloch
Audit Committee Chair

SUBJECT: Review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees (Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

DATE: February 9, 2022

I. Background

Under Board Policy 15.1.0, section 2.4, the Audit Committee is required to:

2.4 Facilitate the external audit process.

- 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
- 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
- 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
- 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
- 2.4.5 Follow -up on any corrective action identified.
- 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
- 2.4.7 Assess the performance of the independent auditors.

At the Audit Committee meetings of November 17 and December 8 respectively the Audit Committee completed actions 2.4.3 and 2.4.4

At the Audit Committee meeting of December 16 the Committee reviewed and agreed changes to the draft report prepared by Audit Committee chair Tulloch. This is presented here in final form.

II Action

This report is presented by the Audit Committee for the Board to review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees

(Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

The Audit Committee has previously provided the General Manager and Finance Director with a draft copy of this report to provide them with an opportunity to respond to the issues identified and described herein by the Audit Committee. No response or clarification has been received by the Committee.

The Committee also notes that, since the preparation of this Report, the Board has implemented changes in the Capitalization policy. The Committee expresses deep concern that, as a result of these changes, there are likely to be material issues and lack of consistency in future reporting of Capital assets which will make it difficult to have confidence in, or ability to compare, Capital Assets in subsequent ACFRs.

Exhibit One

January 26, 2022, Annual Audit Committee Report to the IVGID Board of Trustees

1 Background

The IVGID Audit Committee ("AC") is required under Board Policy 15.1.0, subparagraph 2.4.6 to "Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit. This report is provided to comply with the Policy and provide the Board with our questions, concerns, comments and recommendations.

At the public meeting held on December 8th 2021, the Audit Committee received and reviewed the final IVGID Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2020 and other related materials. The Management Representation Letter was not included in the package presented to the Audit Committee but was subsequently emailed to AC members when it was requested. As a result the AC was not able to review the management representation letter during the public meeting. The Audit Committee had previously reviewed an initial draft of the ACFR at the November 17 Audit Committee meeting.

The ACFR and accompanying documents were presented by Director of Finance Paul Navazio and Controller Martin Williams. Davis Farr Audit Engagement Partner Jennifer Farr was in attendance to answer questions and provide an overview with specific comments on the contents of the documents and the opinion issued by Davis Farr as required under their audit engagement letter with IVGID.

In light of the AC receiving the final 2020 ACFR and related documents for the first time on December 8, 2021, it was not possible for the Audit Committee to both remain compliant with Open Meeting Laws and to prepare, review and finalize the required report to the Board of Trustees (BoT) prior to the scheduled meeting of the BoT on December 14, 2021 where the ACFR was scheduled to be reviewed and possibly accepted by the BoT. The Audit Committee subsequently held a meeting on December 16 to review and agree changes to the draft report prepared by Audit Committee chair Tulloch. This is presented here in final form.

2 Comments by and Concerns identified by the Audit Committee

1) The AC notes that IVGID management issued and signed the Management Representation letter to Davis Farr prior to review by the AC, contrary to Board Policy 15.1, 2.4.1. The Management Representation Letter was also not included in the documents provided to the Audit Committee for the December 8 meeting. As such the Audit Committee has still to perform a final review of the Management Representation Letter.

2) The Audit Committee notes that the previously ongoing disagreements and concerns over the $3.179m for assessments, studies and preliminary designs for the Effluent Pipeline that the AC considered to be incorrectly capitalized in FY 19-20 have now been addressed through a Prior Year Adjustment and the $3.179m, less accumulated depreciation, has now been expensed in the utility fund. (Further discussed below). It should be noted that expenditures of $181,822 have been charged to the Effluent Pipeline capital project accounts for fiscal year 2020 and 2021 which are substantially the same type of costs charged off in 2021 and which the Audit Committee considers should also have been expensed.

3) The AC notes that the final version of the Transmittal letter to the Nevada Department of Taxation now includes disclosure of, and reference to the two Material Weaknesses and one significant Deficiency identified by the Audit. This is in concurrence with our request made at the November 17 meeting.

4) The Committee received clarification and confirmation from Davis Farr that the audit engagement was not structured as a comprehensive forensic audit. The Audit opinion provided [1]

"*In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Incline Village General Improvement District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows and the statement of revenues for the year then ended in accordance with accounting principles generally accepted in the United States of America.*"

was based upon the information and statements provided by management and audit tests and review. This complies with statutory requirements.

5) The Audit identified two material weaknesses (MW) and one Significant Deficiency along with other deficiencies which required to be addressed. The Audit Committee notes that this is the second consecutive year where Material Weaknesses have been identified and has concerns at this trend. Management have proposed actions to address these Material Weaknesses which the Audit Committee will review and monitor progress for correction.

6) Several of the concerns and deficiencies identified by the Auditor appear to be a direct result of lack of, and failure to comply with, internal controls. The Committee is deeply concerned about the lack of an opinion from the Auditor regarding internal controls. The Audit Committee also notes that it has previously been urging staff to complete the updates of Internal Controls.

7) The Audit Committee notes that there have now been Prior Year Adjustments in 4 out of the 5 previous years which could indicate an ongoing issue with timely and

[1] Independent Auditors Report @P2

accurate financial reporting. This makes it difficult to be able to have confidence in reported financial performance in the funds and business activities. With that in mind the Statistical Section of the ACFR which is not audited and has not been discussed or reviewed by the Audit Committee may have distortions as a result of these prior period adjustments .

8) The Audit Committee has serious concerns that several of the revisions to the proposed Capital Asset write-offs reviewed and identified by the Auditor were subsequently rejected and reversed by management in apparent violation of Board Policy 9.1.0 and Board Practice 2.9.0 (Discussed further below in 3.2 and details also in Appendix D) Management provided no documented explanation for how the policy was unclear and open to interpretation. The AC views the actions taken related to depreciation as a violation of Board Policy and Practice.

9) The Auditor highlighted concerns (concerns previously expressed by the Audit Committee) that expense items included in Capital Projects were only subject to review and possible transfer to be expensed when a project was closed rather than being expensed at the time of expenditure. There appears to be no clear procedure for ensuring that this review actually takes place and as a result there may be overstatement of capital assets and understatement of expenses. Members of the Committee have also raised concerns that the inclusion of expense items in capital projects funds is not in compliance with NRS, (NRS 354.4995) and GAAP/GASB (GASB #54 paragraph #33. The Audit Committee has requested capital items for expense not be included in the Capital Improvement Budget, but instead in operational expenses.

10) The recording and allocation of investment income to the separate funds does not appear to accurately reflect the relative balances within the funds and appears to be excessively skewed towards the General Fund which has the lowest fund balance. This was previously brought up and discussed with the Finance Director but no action appears to have been taken or supporting justification provided to validate the current allocation. Therefore, the AC views the financial report to incorrectly reflect interest income and therefore fund balance within each of the major funds.

11) It appears that in FY 20-21 several design studies and assessments have again been incorrectly capitalized rather than expensed as previously advised by Moss Adams. This is inconsistent with the actions taken in FY 19-20 where capitalized assessment studies were reversed to expense. (see further detail in Appendix D)Therefore, the AC views the financial reports to be inaccurate related to operational expenses and depreciation.

12) Facility fees (RFF/BFF) are again reported as general revenue rather than program revenues in the Statement of Activities . It is the view of the Audit Committee that this is NOT in compliance with GAAP and should be corrected. The final Moss

Adams report provides clarification on why the Facility Fees should be reported as program revenues.

3 Additional Discussion on Principal Concerns of the Audit Committee.

3.1 Expensing Previously Capitalized costs of the Effluent Pipeline (Comment 2)

Concerns about expensing Effluent Pipeline Phase II costs which were previously reported as Capital Assets and /or Construction in Progress in the 18-19 and 19-20 ACFRs have continued to be a subject of discussion by the Audit Committee during FY 20-21. The recent Moss Adams reports provided applicable capital expenditure and best practice guidance based on Governmental Accounting Standards Board (GASB) Concepts Statement No 4. The accepted practice includes recognition of the different stages of a project which include preliminary studies,, construction and post-construction. The preliminary stage activities that include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives should be expensed as they are not directly connected with creating service capacity.

This highlighted that approximately $3,179,000 in expenses of $5,146,100 in costs incurred through June 30, 2019 for the Effluent Pipeline Phase II Project had been recorded in the Utility Fund as a capital asset and/or construction in progress. AC Member Clifford F. Dobler has previously provided a comprehensive and extensive overview of the entire costs incurred through fiscal year 2019 on the Effluent Pipeline Phase II Project. It is apparent that a major portion of these costs were necessary to satisfy conditions of an Administrative Order on Consent with the Nevada Department of Environmental Protection issued in April, 2014 and not resolved until May, 2019. This was discussed at length during the FY 19-20 ACFR review. The then Auditor and Management disagreed with the Committee view and left the at issue amount of $3,179,000 as a Capital asset in the FY 19-20 financial statements.

For the FY20-21 ACFR, the initial proposal from Davis Farr and Management was that they still considered this to be a correct capitalization . Following extensive discussion of the initial draft ACFR during the November 17 2021 Audit Committee meeting, plus recognition that initial planning for replacement of (and financing options for) the effluent pipeline are now underway, it was agreed by Management that it would now be appropriate to close this outstanding issue by charging off the identified $3.179m in Capital Assets to expense. Due to the magnitude of this write-off it was necessary to account for this as a Prior Period Adjustment and revise the financial statements to reflect this.

The Audit Committee recognizes the extensive effort expended by Mr. Dobler over previous years in accurately identifying the amounts to be expensed. The Audit Committee also recognizes the final agreement and initiative by General Manager Winquest and Finance Director Navazio to implement this change. Accordingly the Audit Committee thanks AC member Dobler, GM Winquest and DoF Navazio for their efforts to bring this long running issue to closure.

3.2 Review of Capitalized Assets

During initial discussions on audit procedures between Davis Farr and the Audit Committee, the Audit Committee had highlighted their concerns around prior capitalization of items that appeared, under relevant GAAP, GASB and GFOA standards, as well as Board Capital Asset Policy 9.1.0 and Board Capitalization Practice 2.9.0, to be expense items rather than Capital Assets.

Accordingly, as part of their audit, Davis Farr performed a high level review of capital assets over the prior 15 year period to identify any apparent incorrect capitalization. Based on this the initial draft report provided to the Audit Committee by management on November 17, 2021, identified $3,592,863.85 (original cost) of items that appeared to have been incorrectly capitalized. Net of accumulated depreciation of $2,726,360.15 this was reflected as a write down of Capital Assets of $866,503.70 in the draft report . A summary of these proposed Fixed Asset Audit Adjustments is attached as Appendix A. The Audit Committee, at that time, agreed in principle with this as a reasonable starting point in correcting previous suspect categorization of assets and accepted the proposed adjustments.

However, as part of the agreement to revise the financial statements to include the Prior Period Adjustment discussed under item 3.1 above, IVGID Management also performed an additional review of the Fixed Asset Adjustments identified by Davis Farr. The intent of this review was to more accurately assess on an individual item basis whether the adjustment was supported by the underlying data. This was done by reviewing additional detail about the asset rather than just looking at the header level detail as had been done by Davis Farr in their assessment. In principle the Audit Committee concurs with the validity of this approach.

When the final version of the ACFR was provided to the Audit Committee on December 8, 2021, it reflected a revised net write-off of capital assets (excluding the Effluent Export Pipeline) of only $167,751, resulting from a total of $1.2 million at original cost, net of $1.03 million in accumulated depreciation. This was a significant delta from the November 17 proposals which were for a $866,503.70 net write-off. On review of the detail of the changes made in this adjustment the Audit Committee identified a number of apparent variances from Policy. This included for example items such as:

(a) paving repairs and maintenance, which appeared on the surface to be expense items
and
(b) A number of discrete assets with an original cost below the $5,000 individual item minimum threshold specified in Board Policy 9.1.0, paras 2.0 and 3.0 (attached as Appendix B), and Board Practice 2.9.0, paras 1.1 and 1.2, (attached as Appendix

C). In aggregate these items amounted to an original cost of $329,558 and a current book value of $177,414.

With regard to items in (a) above, the Audit Committee does not have the level of detail necessary to validate or refute Management's categorization and accepts, subject to reservations, Management's categorization of these assets. A further review by an Audit Committee Member provides more detail on the expensed components which were reversed by Management (Appendix F).

However with regard to items in category (b) above, the considered and unanimous view of the Audit committee is that this categorization appears to be a clear deviation from, and violation of, Board Policy 9.1.0 and Board Practice 2.9.0. Specifically as follows:

Board Policy 9.1.0

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. (emphasis added)

and

Board Practice 2.9.0

1.1 The capitalization threshold ***per item shall b***e:

ASSET CLASS	MINIMUM COST
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.

In discussions, Management advised the Audit Committee that, in terms of complying with the relevant Board Policies and Practices, it is their view that they have the ability to apply their judgement and to be flexible in how they these Policies are to be applied, and also that they are free to aggregate similar individual assets to meet the minimum threshold. They also considered that in terms of materiality this concern is irrelevant as the net delta in write-offs if these items were to be expensed is limited to $152,144. However no supporting documentation, justification or references have been provided to the Committee to support this claim.

Upon perusal of the relevant board Policies and Practices, as well as consultation with legal counsel and Davis Farr, the Audit Committee has been unable to identify any provisions in the Policy that provide for flexibility, judgement or materiality to justify this approach. To the contrary the Policy and Practice appears to be unequivocal, for example:

> *The capitalization threshold per item* ***shall*** *be:*
> ***In no case*** *will the District establish a capitalization threshold of less than $5,000 for any individual item.*

It is the considered and unanimous view of the Committee that compliance with these relevant Board Policies and Practices must be viewed as a binary choice i.e. either compliant or non-compliant. We can find no applicable middle ground or materiality threshold apparent in the text. Therefore the Audit Committee must advise the Board of Trustees that there appears to be a clear violation of Board Policies and Practices in this instance. While in terms of overall materiality of the financial statements the Committee agrees that the total impact is limited, the inference in this instance is that Management regard compliance with Board Policy and Practice as optional.

The Committee cannot in good faith concur with or support this approach.

For example, the language in the contract for the General Manager, (the only employee directly engaged by the Board) the language is very specific on this[2]:

> 1.1 *IVGID hereby employs General Manager full-time to uphold* and abide the laws of the State of Nevada, *District Ordinances, written Policies, Practices, and Resolutions enacted by IVGID Board of Trustees* ("Board of Trustees"),……

So it can reasonably be expected that this requirement to comply with Board Policies, Practices and Resolutions also extends to all other employees of the District.

The Committee raises this apparent violation of Board Policy and Practice for consideration of action and reinforcement by the Board of Trustees as it is the Committee's view that there is a clear and overriding fiduciary requirement for Management to lead by example in compliance with agreed Board Policy. Absent such compliance it brings into question whether Board Policies in general should simply be considered as optional rather than mandatory.

3.3 Inconsistency

Management does not appear to have been consistent in the application of charging off capital expenditures which were expenses according to best practices. In fiscal year ending June 30, 2020, a total of $803,514 of prior year capital expenditures for paving, painting, pre development expenses and abandoned projects were charged off as prior period adjustments. On May 31, 2021, Mr. Dobler provided a memorandum to the Audit

[2] Extract from of IVGID General Manager Employment Agreement

Committee which outlined additional capital costs which should have been expensed applying the same standards of charge offs made on June 30, 2020. Excluding the Effluent Pipeline, a total of $1,171,606 does not appear to have been addressed and either remains in the capital assets or construction in progress accounts of the District. (Appendix E).

Further supporting detail is provided in Appendix D

4 Additional Recommendations

1. The Committee recognizes that in their first year audit Davis Farr has identified several issues that would support more in depth review in future audits to ensure IVGID financial statements provide an accurate representation of the District's finances and assets. It is the Committee's strong and unanimous recommendation that in the 21-22 audit, the Board should expand the scope of the audit, in particular to include more detailed examination of fixed assets and review of compliance with internal controls.

2. The audit has identified a number of apparent issues of failure of internal controls and processes. At the October 26 Audit Committee meeting, the Committee discussed with management their concerns with the apparent lack of progress on developing internal controls and strongly encouraged management to consider bringing on additional resources to ensure that this work was prioritized to ensure effective internal controls could be implemented expeditiously. The Audit Committee strongly recommends that the Board should direct this to be a critical priority for Management action and to be completed by 30 April 2022 at the latest.

3. In the current ongoing review of Board Policies and Practices the Committee recommend that the Board should provide explicit guidance to Management and staff of the absolute requirement to comply with Board Policies and Practices. If compliance is to be regarded as optional it must be questioned whether there is any value in the District applying resources and expenditures to revise these Policies. If staff identify legitimate issues with complying with Policies it is the responsibility of staff to bring these issues to the Board for resolution.

4. With regard to the actions proposed by Management in response to Material Weaknesses and Deficiencies identified by the Audit, it is the intention of the Audit Committee to add review of progress on these actions as a standing item on the AC agenda. The Committee recommends the Board should also highlight this as a priority action for Management with the objective of achieving a FY 21/22 audit that identifies no Material Weaknesses or Significant Deficiencies.

5. It is recommended that the current practice of placing maintenance expenses in Capital Improvement projects be discontinued forthwith and for all such expenditures to be properly budgeted within operating expenses. The process for review of such expenditures for allocation in accordance with Board Policies and Practices should be reviewed, updated as necessary and documented in order to provide an effective audit trail.

Conclusions

The AC believes this report satisfies our required responsibilities under Audit Committee

Board Policy 15.1.0 and trust that the Board of Trustees will consider our questions, concerns, comments and recommendations.

The AC wishes to thank Davis Farr and IVGID Management for the effort applied to the Audit and preparation of the ACFR. The outcomes clearly demonstrate the value of regular rotation of Auditors to bring fresh perspective on IVGID financial reporting.

Respectfully,

IVGID Audit Committee
Ray Tulloch, At large Audit Committee Member and Audit Committee Chair
Mathew Dent, IVGID Board Trustee and Vice Chair
Sara Schmitz, IVGID Board Trustee and Secretary
Clifford F. Dobler, At large Audit Committee Member

Appendix A

SUMMARY OF FIXED ASSET AUDIT ADJUSTMENTS

		Value of Assets Reviewed		Audit Adjustments				
Fund	**Description**	**Total Value (at Cost)**	**Total Book Value**	**Original Cost**	**Accumulated Depreciation**	**Book Value (6/30/21)**	*% of Value at Cost*	*% of Value at Book Value*
100	General Fund	5,251,618.00	3,046,089.00	39,556.33	$ 28,690.52	$ 10,865.81	*0.75%*	*0.36%*
200	Utility Fund	141,958,054.00	65,339,896.00	1,417,460.79	1,028,380.94	389,079.85	*1.00%*	*0.60%*
320	Golf Fund	20,204,054.00	9,870,681.00	1,343,643.67	1,111,875.58	231,768.09	*6.65%*	*2.35%*
330	Facilities	4,512,052.00	2,501,277.00	52,225.77	41,330.63	10,895.14	*1.16%*	*0.44%*
340	Ski	36,912,505.00	19,459,640.00	382,929.90	272,776.68	110,153.22	*1.04%*	*0.57%*
350	Rec Center	8,736,381.00	2,361,328.00	165,604.42	111,424.94	54,179.48	*1.90%*	*2.29%*
360	Rec Admin	1,618,495.00	1,106,932.00	23,618.42	20,338.17	3,280.25	*1.46%*	*0.30%*
370	Parks	17,152,467.00	12,815,403.00	33,410.27	27,609.99	5,800.28	*0.19%*	*0.05%*
380	Tennis	2,681,501.00	1,249,895.00	8,033.00	4,394.25	3,638.75	*0.30%*	*0.29%*
390	Beach	7,440,534.00	3,985,297.00	113,108.49	66,265.66	46,842.83	*1.52%*	*1.18%*
410	Fleet	169,903.00	45,163.00	9,477.92	9,477.92	0.00	*5.58%*	*0.00%*
430	Buildings	70,694.00	6,623.00	3,794.87	3,794.87	0.00	*5.37%*	*0.00%*
	Totals	**$ 246,708,258.00**	**$ 121,788,224.00**	**$ 3,592,863.85**	**$ 2,726,360.15**	**$ 866,503.70**	***1.46%***	***0.71%***

Appendix B

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:

ASSET CLASS	MINIMUM COST
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.

Effective July 1, 2016

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.

Appendix C

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.

Effective July 1, 2016

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)

	Initial	Throw Back	
• 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
		219,802
Incline Beach Building		
	concept design and cost estimates - Bull Stockwell - 2016	216,131
	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**

GRAND TOTAL $ 1,171,606

Appendix F

Audit Committee Report to the Board of Trustees.
Analysis of capital items originally considered a charge off and reversed by IVGID management
Supplement to item 3.2

At the request of IVID management, Davis Farr provided a high level review of cost items classified as capital assets which should have been expensed based on Board Policies and Practices, the Moss Adams recommendations and GFOA sections on capitalization. The report was provided to the Audit Committee on November 17, 2021. The review indicated that $866,503.70, consisting of $3,592,863.85 in costs and $2,726,350.15 in accumulated depreciation, would be charged off and reported as a prior period adjustment. Subsequently, undocumented discussions ensued between Davis Farr and IVGID management wherein it was determined that 169 items with a book value of $677,540.52 consisting of $2,396,674 in costs and accumulated depreciation of $1,179,244 would not be expensed and remain as capital assets. As a result only $189,072 ($866,504 less $677,540) was charged off as expenses and reported as a prior period adjustment. The Audit Committee is unsure why the December 8th memo from Paul Navazio listed $167,751 as the charged off costs. (page 5 of AC Packet)

Based on a Committee Member extended review of the CAPITAL ASSETS reversed the following are conclusions based on historical facts and recommendations.
There were 169 items listed

- 33 items had no book value and were not necessary to be included
- 26 items were not depreciated and had total costs of $50,015. It is unknown what these costs were, however they averaged only $1,924. We have reservations about the whether these costs should remain as capital assets even though Board Policies and Practices did not establish capitalization thresholds for costs which would not be depreciated.
- 64 items with a combined book value of $127,553 should not have been reversed since the original purchase costs for each item did not meet the cost threshold for capitalization as defined in Board Policies and Practices.
- There were two items in the Utility Fund labeled "Maintenance Facility Garage" each costing $42,350 and purchased on the same date of 12/31/2017. The remaining book value of these two items was $34,130. This may be a duplicate.
- There were 10 items in the Utility Fund for repairs of roadways and levees at the 600 acre Wetland site which captures all waste water from the Waste Water Treatment Plant in Incline Village. Total book value was $174,333. Applying the criteria of the Moss Adams Report and the GFOA section - "Governmental Accounting ,Auditing and Financial Reporting" (GAAFR 23-10) these items should not have been capitalized as continuous repairs are being conducted annually at the Wetlands site. As stated in the Moss Adams Report:

  "Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility 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 costs should be recognized as expense when incurred."

- There were seven items listed as parking lot and golf course cart path paving repairs. The net book value was $248,000. Applying Moss Adams and GOFA recommendations (above) these costs should have been expensed. Ironically, in fiscal year 2019/2020, IVGID staff reported a prior period adjustment to expense 38 paving projects with a net book value of $435, 672 which had previously been capitalized.

Also during 2020/2021, 13 parking lot and golf cart paths paving repairs costing $253,736 were expensed. As such, IVGID management is not being consistent in capitalization of expenses regarding paving maintenance and repairs.

Accounting principles - The consistency principle states that, once you adopt an accounting principle or method, continue to follow it consistently in future accounting periods. Only change in accounting principle or method if the new version in some way improves reporting financial results - May 15, 2017

- There were 4 remaining items with a combined net book value of $42,348 which consisted of a sewer line repair ($18,582), a roof repair at the Diamond Peak Snowflake lodge ($14,266), a snowmaking master plan ($8,845) and a small amount of software ($655) all of which appear to be expenses.

Conclusion

The audit committee generally concurred with the original analysis by Davis Farr wherein most of the $866,504 of net book value of assets should have been expensed and recorded as a prior period adjustment.

- We find that IVGID management did not follow board Policies and Practices, nor the recommendations of Moss Adams, nor the guidance by the GOFA but rather used their own "judgment" as to costs which should be capitalized as opposed to expensed.
- It is unclear to the AC the extent of the Davis Farr review. Davis Farr provided no opinion on their review.

Recommendation:

- A deeper review of the Capital Assets should be conducted after an agreement is reached by the Board of Trustees on a definitive description of what costs should be capitalized or expensed.

MEMORANDUM

TO: Board of Trustees
Audit Committee

THROUGH: Indra Winquest
District General Manager

FROM: Paul Navazio
Director of Finance

Martin Williams
Controller

SUBJECT: Comments Related to Annual Audit Committee Report (dated January 26, 2022)

DATE: February 9, 2021

The purpose of this memorandum is to provide the Board of Trustees and Audit Committee with staff comments regarding selected issues of concerns and recommendations included in the Annual Report of the Audit Committee, appearing on the Board agenda for the meeting of February 9th.

Comments by and Concerns Identified by the Audit Committee:

1) *Management Representation Letter*. Management acknowledges that the Management Representation Letter was signed without prior review by the Audit Committee.

   As was noted to the Audit Committee the Management Representation Letter is prepared by the independent auditor and audit standards require that the Management Representation Letter be signed prior to issuance of the final audit report by the auditor. Despite the language in Board Policy 15.1, 2.4.1, stating that facilitation of the external audit include "Review and approve formal reports or letters to be submitted to the external auditor", it is unclear as to whether this section applies to the Management Representation Letter in that it is impractical, and more importantly, inappropriate for the Audit Committee to approve the Management Representation Letter.

   While Staff concurs with the sentiment that the Audit Committee be kept informed throughout the audit, and be provided a copy of the Management Representation Letter for review, the language in the current Board Policy has been revised (as of 2/3/22) to clarify the role of the Audit Committee with respect to the Management Representation Letter.

4) *Scope of independent audit (of financial statements)*. Management concurs that the scope of the independent audit engagement did not constitute a "comprehensive forensic audit," nor is this typically the scope of an annual audit of financial statements.

   Should the Committee or Board choose to undertake an audit that goes beyond the standard audit procedures for review of financial statements for compliance with GAAP/GAASB and Generally-Accepted Audit Standards, this should be discussed with the external auditor prior to the engagement for the FY2021/22 audit. Additional audit scope would likely require a separate engagement (and cost) from the specific scope of the annual financial statement audit.

5) *Material Weaknesses*. Management concurs with the Audit Committee's concerns related to Material Weakness findings in the auditor's report and is making every effort to address the issues identified by the external auditor.

6) *Internal Controls*. Staff acknowledges the need to prioritize strengthening internal controls and has already made significant progress in this regard. Several of the specific audit findings that related to weaknesses in internal have already been addressed (in fact, some were addressed *prior* to the start of the audit).

7) *Prior Year Adjustments*. Management concurs with the concern over recurring Prior Year adjustments, and is working to ensure that these are not a regular occurrence. It should be noted however, that most of the prior year adjustments over the past two years result from requests from the Audit Committee to address concerns raised by the Committee, despite past audits not raising concerns over the course of the audit.

8) *Capital Asset Write-off*. The Audit Committee report states that revisions proposed by the Auditor were "rejected and reversed by management in apparent violation of Board Policy."

   This is factually incorrect. As discussed with the Audit Committee, and supported by the Auditor, at issue are items that the Auditor had identified as *potential write-offs*, based on their review of Board Policy and GAAP/GASB guidelines. The reversals of items initially written-off were all reviewed with the Auditor <u>and were only reversed upon concurrence of the Auditor</u>.

Moreover, management believes that the review of capital assets and subsequent write-offs to be consistent with Board Policy 9.1 and Board Practice 9.2. At the same time, given the identified need to clarify aspects of the capitalization policy, these have been largely addressed in the updated capitalization policy approved by the Board in January.

9) *Timing and accounting of expensing of CIP Budget items*. Management concurs with the audit comments related to the timing of expensing costs that do not meet capitalization criteria and internal processes have been updated to identify and expense these items when incurred rather than at the close-out of a project.

   With respect to the Audit Committees concern that expense items were recorded in the capital project funds, management's position – supported by the independent auditor – is that the recording of these costs within the capital project funds *does not* violate GAAP/GASB, nor does it violate provisions of the NRS. (The Department of Taxation has since rendered its opinion that he 2020/21 Annual Comprehensive Finance Report contains no violation of applicable NRS statutes or regulations).

   Note – on a going forward basis, this issue is rendered moot by the transition from Governmental Funds to Enterprise Funds for the District's Community Services and Beach funds.

10) *Investment income*. The accounting for investment income has been modified beginning with the 2021/22 (current) fiscal year.

11) *Review of items capitalized in the FY2020/21 financial statements*. All FY2020/21 capital and construction-in-process items were reviewed by management and the auditor and concluded that capitalization was appropriate.

12) *Recording of Facility Fees in the Statement of Activities*. The Audit Committee report states that, in the Committee's opinion, the reporting of Facility Fees as general revenues is not in compliance with GAAP, and should be corrected. Management, along with current and past auditors, have determined that the Facility Fees represent non-exchange transactions and, as such, are appropriately recorded as general revenues in the District's financial statements. The Audit Committee engaged a specific discussion on this topic with Jennifer Farr, DavisFarr Managing Partner for this audit engagement.

Section 4 – Additional Recommendations

1) Expanded Scope of FY2021/22 audit – See Comment #4, above.

2) Internal Controls – Management concurs with the need to prioritize review and strengthening of internal controls. This ongoing project is currently focused on a) review and update of relevant Board Policies and Practices, b) implementation or recommendations from the Moss Adams Construction Advisory report and Moss Adams Capital Planning, Budgeting and Reporting report, b) review and update of the District's Purchasing Policy and c) review and update of internal Accounting and Finance Procedures Manual (Management Partners). Target completion date is May/June 2022 (prior to start of new fiscal year).

   Note – Internal Control procedures are also being evaluated in conjunction with planned transition to the new Tyler/Munis Financial System. A significant number of Accounting and Finance procedures – including internal control considerations – will be updated (again) after July 1, 2022, as appropriate, to reflect workflows control parameters being implemented in the new financial system.

3) *Compliance with Board Policies.* Management believes that current management practices, including those related to accounting, financial reporting and preparation of the District's financial statements are consistent with Board Policy. Areas where issues or concerns have arisen as a result of interpretation of Board Policy are being (and have been) addressed.

4) *Addressing Material Weaknesses referenced in Audit report*. Management is in full concurrence.

5) *Maintenance Expenses reflected in Capital Budget*. Management does not concur with this recommendation and this issue warrants Board discussion.

   Management concurs, and has implemented, budgeting and accounting practice of reflecting all capital maintenance expenses as operating costs within the District's budget and financial statements. However, the presentation of these items in the capital budget is not only consistent with current Board Policy 13.1/ Practice 13.2, but also assists in identifying individual projects, with varying levels of funding requirements, all related to the maintenance and replacement of the District's facilities, infrastructure, and assets.

   Management is developing improved presentation and reporting of the different elements contained in the Capital Improvement Plan for ease of understanding.

Memorandum

To: Audit Committee

From: Clifford F. Dobler

2-14-2021

Re: Rebuttal to February 9, 2021 statements made by Paul Navazio, IVGID Director of Finance regarding accounting and reporting operating expenses in Capital Project Funds.

Within the January 26, 2022 Audit Committee Report to the Board of Trustees, members expressed concerns that reporting operating expenses in the capital project funds potentially violated GASB #54 definition of a Capital Project Fund and NRS 354.4995 definition of a Capital Project Fund. Definitions of both are on Exhibits A and B.

In response to the Audit Committee Report, Mr. Paul Navazio claims in his February 9, 2022 memorandum to the Board of Trustees and the Audit Committee, (Exhibit C) that there was no violation of either GASB or NRS based on support by the independent auditor Davis Farr. Mr. Navazio claims that the Department of Taxation (DT) has rendered an "opinion" that the 2020/2021 Annual Comprehensive Finance Report contains no violations of applicable NRS statutes or regulations. This is incorrect. According to the January 13, 2022 letter from Kellie Grahmann, Budget Analyst of the DT (Exhibit D) there were NO violations of statute and/or regulations noted in the audit report from Davis Farr. The report from Davis Farr regarding compliance states that Davis Farr performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements which could have a direct and material effect on the financial statement amounts. The results of the tests disclosed no instances of noncompliance. However providing an opinion on compliance was not an objective of the audit and no opinion was expressed. (Exhibit E). The Audit Committee has not been provided any information on what was tested by Davis Farr.

According to the engagement letter between Davis Farr and IVGID, the responsibility for compliance with GASB and NRS lies not with the auditor but with management of IVGID. As such, Davis Farr has little or no liability for non compliance with GASB and NRS in reporting IVGID financial statements. As such "support" becomes

Under NRS 354.624 (Exhibit F) Each local government shall provide to its auditor:

(a) A statement indicating whether each of the following funds established by the local government is being used expressly for the purposes for which it was created, in the form required by NRS 354.6241:

(1) An enterprise fund.
(2) An internal service fund.
(3) A fiduciary fund.
(4) A self-insurance fund.

(5) A fund whose balance is required by law to be:
   (I) Used only for a specific purpose

The specific purpose of the Capital Project Funds is clearly established by Resolution 1838 (Exhibit G).

Under NRS 354.6241 (Exhibit G), IVGID must provide the auditor a statement that the Capital Project Funds are being administered in accordance with generally accepted accounting procedures.

On October 26, 2021, audit committee members brought forward concerns about possible incorrect accounting for and reporting of operating expenses in the Capital Projects Funds for Community Services and Beaches and corrections could have been made prior to submitting the final financial statements.

Since the Board of Trustees approved the January 14, 2021 Moss Adams report there was adequate time to bring forth, for Board approval, an augmentation of the 2020/2021 budget to reflect a reallocation of Facility Fees from the Capital Project Funds to the Special Revenue Fund to provide funds for the expenses incurred.

According to the final 2020/2021 Annual Comprehensive Finance Report a total of $705,397 in operating expenses were reported in the Community Services Capital Projects Fund and $234,767 in operating expenses in the Beach Capital Project Fund. If these operating expenses had been properly classified in the respective Special Revenue Funds, the revenues in excess of expenditures in the Community Services Special Revenue Fund (operating) would have been reduced by 25%,. The excess of expenditures over revenues in the Beach Special Revenue Fund would have been increased from $211,408 to $446,175 and increase of 111%.

Any reader of the financial statements could be misled regarding the actual expenses of operating the recreational venues.

resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

32. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.

Capital Projects Funds

33. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Funds

34. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Exhibit B

NRS 354.4995 "Capital projects fund" defined. "Capital projects fund" means a fund created to account for resources used for the acquisition or construction of designated capital assets by a governmental unit except those financed by proprietary or trust funds.

(Added to NRS by 1983, 1636; A 1989, 402; 2001, 1798)

EXHIBIT C

Moreover, management believes that the review of capital assets and subsequent write-offs to be consistent with Board Policy 9.1 and Board Practice 9.2. At the same time, given the identified need to clarify aspects of the capitalization policy, these have been largely addressed in the updated capitalization policy approved by the Board in January.

9) *Timing and accounting of expensing of CIP Budget items.* Management concurs with the audit comments related to the timing of expensing costs that do not meet capitalization criteria and internal processes have been updated to identify and expense these items when incurred rather than at the close-out of a project.

With respect to the Audit Committees concern that expense items were recorded in the capital project funds, management's position – supported by the independent auditor – is that the recording of these costs within the capital project funds *does not* violate GAAP/GASB, nor does it violate provisions of the NRS. (The Department of Taxation has since rendered its opinion that he 2020/21 Annual Comprehensive Finance Report contains no violation of applicable NRS statutes or regulations).

Note – on a going forward basis, this issue is rendered moot by the transition from Governmental Funds to Enterprise Funds for the District's Community Services and Beach funds.

10) *Investment income.* The accounting for investment income has been modified beginning with the 2021/22 (current) fiscal year.

11) *Review of items capitalized in the FY2020/21 financial statements.* All FY2020/21 capital and construction-in-process items were reviewed by management and the auditor and concluded that capitalization was appropriate.

12) *Recording of Facility Fees in the Statement of Activities.* The Audit Committee report states that, in the Committee's opinion, the reporting of Facility Fees as general revenues is not in compliance with GAAP, and should be corrected. Management, along with current and past auditors, have determined that the Facility Fees represent non-exchange transactions and, as such, are appropriately recorded as general revenues in the District's financial statements. The Audit Committee engaged a specific discussion on this topic with Jennifer Farr, DavisFarr Managing Partner for this audit engagement.

Section 4 – Additional Recommendations

EXHIBIT D

STATE OF NEVADA
DEPARTMENT OF TAXATION
Web Site: http://tax.nv.gov
1550 College Parkway, Suite 115
Carson City, Nevada 89706-7937
Phone: (775) 684-2000 Fax: (775) 684-2020

STEVE SISOLAK
Governor
JAMES DEVOLLD
Chair, Nevada Tax Commission
MELANIE YOUNG
Executive Director

RENO OFFICE
4600 Kietzke Lane
Building L, Suite 235
Reno, Nevada 89502
Phone: (775) 688-1295
Fax: (775) 688-1303

LAS VEGAS OFFICE
Grant Sawyer Office Building, Suite1300
555 E. Washington Avenue
Las Vegas, Nevada 89101
Phone: (702) 486-2300 Fax: (702) 486-2373

HENDERSON OFFICE
2550 Paseo Verde Parkway, Suite 180
Henderson, Nevada 89074
Phone: (702) 486-2300
Fax: (702) 486-3377

January 13, 2022

Incline Village General Improvement District
Paul Navazio, Finance Director
893 Southwood Boulevard
Incline Village, NV 89451

Re: Annual Audit Report – Fiscal Year 2021

Dear Mr. Navazio:

Pursuant to NRS 354.6245, the Department of Taxation is charged with the review of all annual audits to determine their compliance with statutes and/or regulations. The Department must also identify all violations of statute and/or regulations reported therein.

The Department has completed its review of your audit report and NO violations of statute and/or regulations were noted. The auditor met the statutory provisions required by NRS 354.624 and NRS 354.6241.

If you should have any questions, please do not hesitate to contact me at 775-684-2065 or my e-mail at kgrahmann@tax.state.nv.us.

Sincerely,

Kellie Grahmann

Kellie Grahmann
Budget Analyst
Local Government Finance

Exhibit E

Davis Farr - Section of Report

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Incline Village General Improvement District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Recommendations

The District's written response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
December 3, 2021

Exhibit F

NRS 354.624 Annual audit: Requirements; designation of auditor; scope and disposition; dissemination; prohibited provision in contract with auditor.

1. Each local government shall provide for an annual audit of all of its financial statements. A local government may provide for more frequent audits as it deems necessary. Except as otherwise provided in subsection 2, each annual audit must be concluded and the report of the audit submitted to the governing body as provided in subsection 6 not later than 5 months after the close of the fiscal year for which the audit is conducted. An extension of this time may be granted by the Department of Taxation to any local government that submits an application for an extension to the Department. If the local government fails to provide for an audit in accordance with the provisions of this section, the Department of Taxation shall cause the audit to be made at the expense of the local government. All audits must be conducted by a certified public accountant or by a partnership or professional corporation that is registered pursuant to chapter 628 of NRS.

2. The annual audit of a school district must:

(a) Be concluded and the report submitted to the board of trustees as provided in subsection 6 not later than 4 months after the close of the fiscal year for which the audit is conducted.

(b) If the school district has more than 150,000 pupils enrolled, include an audit of the expenditure by the school district of public money used:

(1) To design, construct or purchase new buildings for schools or related facilities;

(2) To enlarge, remodel or renovate existing buildings for schools or related facilities; and

(3) To acquire sites for building schools or related facilities, or other real property for purposes related to schools.

3. The governing body may, without requiring competitive bids, designate the auditor or firm annually. The auditor or firm must be designated, and notification of the auditor or firm designated must be sent to the Department of Taxation not later than 3 months before the close of the fiscal year for which the audit is to be made.

4. Each annual audit must cover the business of the local government during the full fiscal year. It must be a financial audit conducted in accordance with generally accepted auditing standards in the United States, including findings on compliance with statutes and regulations and an expression of opinion on the financial statements. The Department of Taxation shall prescribe the form of the financial statements, and the chart of accounts must be as nearly as possible the same as the chart that is used in the preparation and publication of the annual budget. The report of the audit must include:

(a) A schedule of all fees imposed by the local government which were subject to the provisions of NRS 354.5989;

(b) A comparison of the operations of the local government with the approved budget, including a statement from the auditor that indicates whether the governing body has taken action on the audit report for the prior year;

(c) If the local government is subject to the provisions of NRS 244.186, a report showing that the local government is in compliance with the provisions of paragraphs (a) and (b) of subsection 1 of NRS 244.186; and

(d) If the local government is subject to the provisions of NRS 710.140 or 710.145, a report showing that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

5. Each local government shall provide to its auditor:

(a) A statement indicating whether each of the following funds established by the local government is being used expressly for the purposes for which it was created, in the form required by NRS 354.6241:

(1) An enterprise fund.

(2) An internal service fund.

(3) A fiduciary fund.

(4) A self-insurance fund.

(5) A fund whose balance is required by law to be:

(I) Used only for a specific purpose other than the payment of compensation to a bargaining unit, as defined in NRS 288.134; or

(II) Carried forward to the succeeding fiscal year in any designated amount.

(b) A list and description of any property conveyed to a nonprofit organization pursuant to NRS 244.287 or 268.058.

(c) If the local government is subject to the provisions of NRS 244.186, a declaration indicating that the local government is in compliance with the provisions of paragraph (c) of subsection 1 of NRS 244.186.

(d) If the local government is subject to the provisions of NRS 710.140 or 710.145, a declaration indicating that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

6. The opinion and findings of the auditor contained in the report of the audit must be presented at a meeting of the governing body held not more than 30 days after the report is submitted to it. Immediately thereafter, the entire report, together with the management letter required by generally accepted auditing standards in the United States or by regulations adopted pursuant to NRS 354.594, must be filed as a public record with:

(a) The clerk or secretary of the governing body;

(b) The county clerk;

(c) The Department of Taxation; and

(d) In the case of a school district, the Department of Education.

7. After the report of the audit is filed by the local government, the report of the audit, including, without limitation, the opinion and findings of the auditor contained in the report of the audit, may be disseminated by or on behalf of the local government for which the report was prepared by inclusion, without limitation, in or on:

(a) An official statement or other document prepared in connection with the offering of bonds or other securities;

(b) A filing made pursuant to the laws or regulations of this State;

(c) A filing made pursuant to a rule or regulation of the Securities and Exchange Commission of the United States; or

(d) A website maintained by a local government on the Internet or its successor,

➥ without the consent of the auditor who prepared the report of the audit. A provision of a contract entered into between an auditor and a local government that is contrary to the provisions of this subsection is against the public policy of this State and is void and unenforceable.

8. If an auditor finds evidence of fraud or dishonesty in the financial statements of a local government, the auditor shall report such evidence to the appropriate level of management in the local government.

9. The governing body shall act upon the recommendations of the report of the audit within 3 months after receipt of the report, unless prompter action is required concerning violations of law or regulation, by setting forth in its minutes its intention to adopt the recommendations, to adopt them with modifications or to reject them for reasons shown in the minutes.

(Added to NRS by 1965, 735; A 1967, 939; 1969, 800; 1971, 1344; 1973, 184; 1975, 451, 1688, 1801; 1977, 547; 1981, 313, 1768; 1987, 1043; 1989, 620; 1995, 1896, 1935; 1997, 574, 1611, 1739; 1999, 472, 2945; 2001, 1810; 2003, 1231; 2005, 292, 1344)

Exhibit G

NRS 354.6241 Contents of statement provided by local government to auditor; expenditure of excess reserves in certain funds; restrictions on use of budgeted ending fund balance in certain circumstances. [Effective through June 30, 2021.]

1. The statement required by paragraph (a) of subsection 5 of NRS 354.624 must indicate for each fund set forth in that paragraph:

(a) Whether the fund is being used in accordance with the provisions of this chapter.

(b) Whether the fund is being administered in accordance with generally accepted accounting procedures.

(c) Whether the reserve in the fund is limited to an amount that is reasonable and necessary to carry out the purposes of the fund.

(d) The sources of revenues available for the fund during the fiscal year, including transfers from any other funds.

(e) The statutory and regulatory requirements applicable to the fund.

(f) The balance and retained earnings of the fund.

2. Except as otherwise provided in subsection 3 and NRS 354.59891 and 354.613, to the extent that the reserve in any fund set forth in paragraph (a) of subsection 5 of NRS 354.624 exceeds the amount that is reasonable and necessary to carry out the purposes for which the fund was created, the reserve may be expended by the local government pursuant to the provisions of chapter 288 of NRS.

3. For any local government other than a school district, for the purposes of chapter 288 of NRS, a budgeted ending fund balance of not more than 16.67 percent of the total budgeted expenditures, less capital outlay, for a general fund:

(a) Is not subject to negotiations with an employee organization; and

(b) Must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits.

(Added to NRS by 1995, 1934; A 2001, 387, 1812; 2011, 1690; 2015, 2967; 2019, 3608)

Exhibit H

INCLINE VILLAGE
GENERAL IMPROVEMENT DISTRICT
ONE DISTRICT ~ ONE TEAM

RESOLUTION NO. 1838

A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015

RESOLVED, by the Board of Trustees of the Incline Village General Improvement District, Washoe County, Nevada, that

WHEREAS, pursuant to Nevada Administrative Code (NAC) Section 354.241, a local government is required to adopt a Resolution to create a fund types covered by Nevada Revised Statute 354.624 5 (a); and

WHEREAS, the District Community Services and Beach Funds provides services as defined under Nevada Revised Statute (NRS) 318, which in effect requires the use of those Fund's fund balance for a specific purpose; and

WHEREAS, on December 10, 2014, the Board of Trustees directed staff to apply for approval of the District's 2015-16 budget by the Nevada Department of Taxation utilizing Special Revenue, Capital Projects and Debt Service Fund accounting for Community Services and the Beach Funds; and

WHEREAS, the District expects to receive notice that its budget is found to be in compliance with NRS 354.598 by the Nevada Department of Taxation.

NOW, THEREFORE, IT IS ORDERED, as follows:

1. Effective July 1, 2015 the Incline Village General Improvement District, Nevada shall establish the governmental fund type Special Revenue, Capital Projects and Debt Service Funds for use by its Community Services and Beach Funds.

2. The table on the last page of this Resolution contains the required elements 1-4 and 6-7 under NAC 354.241, element 5 is met by the existing fund balance of the affected funds.

INCLINE VILLAGE
GENERAL IMPROVEMENT DISTRICT
ONE DISTRICT ~ ONE TEAM

RESOLUTION NO. 1838

A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015

* * * * * *

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly passed and adopted at a regularly held meeting of the Board of Trustees of the Incline Village General Improvement District on the 21st day of May, 2015, by the following vote:

AYES, and in favor thereof, Trustees:
NOES, Trustees:
ABSENT, Trustees:

Jim Hammerel
Secretary, IVGID Board of Trustees

GENERAL IMPROVEMENT DISTRICT
ONE DISTRICT – ONE TEAM

RESOLUTION NO. 1838

A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015

Fund Name	Purpose	Source of Revenues	Short-term Expenditures	Long-term Expenditures	Plan for Fund Balance	Adequacy of Fund Balance
Community Services – Special Revenue	Recreational activities conducted by the District under NRS 318, other than Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide recreational activites	Transfers out to capital purchases and debt service to support recreational activities	Meet the minimum necessary to maintain District recereational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Sales of coverage and capital assets and transfers from the Community Services Special Revenue Fund	Operating expenditures related to Community Services capital expenditures Classic Gannaso	Capital purchases to support Community Services recreational activities	Meet the minimum necessary to execute Community Services capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Transfer from the Community Services Special Revenue Fund	Operating expenditures related to Community Services debt service expenditures	Debt service expenditures to support Community Services recreational activities	Meet the minimum necessary to execute Community Services debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Special Revenue	Recreational activities conducted by the District under NRS 318 for Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide Beach recreational activites	Transfers out to capital purchases and debt service to support Beach recreational activities	Meet the minimum necessary to maintain District Beach recereational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Sales of coverage and capital assets and transfers from the Beach Special Revenue Fund	Operating expenditures related to Beach capital expenditures Classic Gannaso	Capital purchases to support Beach recreational activities	Meet the minimum necessary to execute Beach capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Transfer from the Beach Special Revenue Fund	Operating expenditures related to Beach debt service expenditures	Debt service expenditures to support Beach recreational activities	Meet the minimum necessary to execute Beach debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance

Exhibit I

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2021

	GENERAL	COMMUNITY SERVICES SPECIAL REV.	BEACH SPECIAL REVENUE	COMMUNITY SERVICES CAP. PROJECTS	BEACH CAPITAL PROJECTS	COMMUNITY SERVICES DEBT SERV.	Nonmajor BEACH DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
REVENUES								
Ad valorem taxes	$ 1,760,049	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,760,049
Personal Property Tax	52,909	-	-	-	-	-	-	52,909
Intergovernmental								
Consolidated taxes	1,629,192	-	-	-	-	-	-	1,629,192
Local Government Tax Act	259,256	-	-	-	-	-	-	259,256
Services	1,440	36,997	-	-	-	-	-	38,437
Charges for Services	-	16,092,512	839,405	-	-	-	-	16,931,917
Facility Fees	-	1,735,612	648,974	536,571	3,196,016	412,748	7,720	6,537,641
Interfund Services	-	91,769	-	-	-	-	-	91,769
Operating Grants	-	17,000	-	-	-	-	-	17,000
Capital Grants	-	-	-	88,505	-	-	-	88,505
Investment income	68,489	4,471	635	-	-	-	-	73,595
Miscellaneous	8,363	119,697	-	-	-	-	-	128,060
Total revenues	3,779,698	18,098,058	1,489,014	625,076	3,196,016	412,748	7,720	27,608,330
EXPENDITURES								
GENERAL GOVERNMENT								
Manager	397,556	-	-	-	-	-	-	397,556
Trustees	143,722	-	-	-	-	-	-	143,722
Accounting	324,601	-	-	-	-	-	-	324,601
Information Services	940,924	-	-	-	-	-	-	940,924
Human Resources	2,999	-	-	-	-	-	-	2,999
Health & Wellness	16,218	-	-	-	-	-	-	16,218
Community & Employee Relations	165,651	-	-	-	-	-	-	165,651
Administration	565,250	-	-	-	-	-	-	565,250
Capital Outlay	365,878	-	-	-	-	-	-	365,878
RECREATION								
Championship Golf	-	3,342,505	-	112,217	-	-	-	3,454,722
Mountain Golf	-	1,014,000	-	11,330	-	-	-	1,025,330
Facilities	-	1,005,717	-	60,107	-	-	-	1,065,824
Ski	-	6,603,759	-	287,796	-	-	-	6,891,555
Community Programming and Recreation Center	-	1,938,411	-	87,206	-	-	-	2,025,617
Parks	-	758,179	-	66,349	-	-	-	824,528
Tennis	-	249,060	-	73,392	-	-	-	322,452
Recreation Administration	-	377,556	-	7,000	-	-	-	384,556
Beach	-	-	1,700,422	-	234,767	-	-	1,935,189
Capital Outlay								
Championship Golf	-	-	-	785,415	-	-	-	785,415
Mountain Golf	-	-	-	79,296	-	-	-	79,296
Ski	-	-	-	115,469	-	-	-	115,469
Community Programming and Recreation Center	-	-	-	252,906	-	-	-	252,906
Parks	-	-	-	170,123	-	-	-	170,123
Tennis	-	-	-	798,648	-	-	-	798,648
Beach	-	-	-	-	1,010,438	-	-	1,010,438
Debt Service								
Principal	-	-	-	-	-	362,075	5,925	368,000
Interest	-	-	-	-	-	21,097	345	21,442
Total expenditures	2,922,799	15,289,187	1,700,422	2,907,254	1,245,205	383,172	6,270	24,454,309
Excess revenues (expenditures)	856,899	2,808,871	(211,408)	(2,282,178)	1,950,811	29,576	1,450	3,154,021
OTHER FINANCING SOURCES:								
Proceeds from Sale of Capital and Intangible Assets	-	52,250	-	1,500		-	-	53,750
Transfers In (Out) - Facility Fees for Capital Expenditure	-	(537,835)	-	537,835		-	-	-
Net change in fund balance	856,899	2,323,286	(211,408)	(1,742,843)	1,950,811	29,576	1,450	3,207,771
Fund Balance, July 1, as reported	4,630,149	15,280,913	2,591,632	-	-	-	-	22,502,694
Prior period adjustment	243,512	(1,637,400)	-	1,637,400	-	-	-	243,512
Fund balance, July 1 as adjusted	4,873,661	13,643,513	2,591,632	1,637,400	-	-	-	22,746,206
Fund balance, June 30	$ 5,730,560	$ 15,966,799	$ 2,380,224	$ (105,443)	$ 1,950,811	$ 29,576	$ 1,450	$ 25,953,977

Total of $705,397

The notes to the financial statements are an integral part of this statement

M E M O R A N D U M

TO: Audit Committee

THROUGH: Paul Navazio
Director of Finance

FROM: Martin Williams
Controller

SUBJECT: Review of status of implementation of auditor's recommendations and Audit Committee recommendations

DATE: February 16, 2022

I. RECOMMENDATION

Review and discuss status of implementation the finance department have put into place in regards to recommendations received from the auditors and the Audit Committee.

II. DISTRICT STRATEGIC PLAN

Long Range Principal #3 - Finance

III. BACKGROUND

Through the audit of the 2021 Annual Comprehensive Financial Report (ACFR), our external auditors put forth several recommendations for improvements of internal controls and procedures. After reviewing the ACFR, the Audit Committee (AC) put forth several recommendations of their own.

IV. DISCUSSION

The Finance Department has taken steps to address the findings and recommendation in the Report on Internal Control Over Financial Reporting (RICOFR) issued by the District's independent auditor (DavisFarr) as well as addressing selected recommendations contained in the Audit Committee's report (ACR) to the Board of Trustees. These are summarized as follows:

1. *RICOFR 2021-001 Material Adjusting Journal Entries, ACR 2.2 Asset Write off, ACR 2.3 Transmittal letter disclosing weakness, ACR 2.5, Material Weakness, ACR 2.6 Internal Controls, and ACR 2.7 Prior Year Adjustments:* Recommend IVGID enhance its year-end procedures to include areas that resulted in audit adjustments.

The finance department has instituted quarterly reconciliations of all balance sheet accounts for all funds to ensure any material variances are detected and corrected prior to year-end procedures.

2. *RICOFR 2021-002 Capital Assets, ACR 2.8 Capital Write Offs, ACR 2.9 Capital Projects, and ACR 2.11 Design Studies and Assessments:* Recommend to develop procedures to record capital asset activity in the Capital Outlay account in governmental funds then review these accounts on a regular basis and move maintenance expenses to the appropriate accounts.

   The majority of the District's funds are now reported as Proprietary Funds, therefor these expenditures are no longer reported as Capital Outlay. The General Fund is the sole exception to this. The Financial department has implemented improved procedures to track maintenance expenditures in the Supplies and Services section of all funds. The Finance department has also submitted updated Capital Asset Policy to the Board to address concerns on what expenses should be capitalized.

3. *RICOFR 2021-003 Vendor Contracts:* Recommends that IVGID update the purchasing policy to clarify when competitive bidding is required on a contract.

   The finance department has reviewed the purchasing policy, has made updates to this policy, and has retained an outside consultant to review the policies to make additional suggestions for improvements.

4. *RICOFR 2021-004 Bank Signature Cards:* Recommends that IVGID review and update the authorized signatures at District's banking institutions at least annually to remove employees and Board Members no longer associated with the District.

   The finance department has reviewed all banking institutions and found no unauthorized signature cards. This process has also been added to the ongoing reviews performed in the Finance Department.

5. *RICOFR 2021-005 Temporary Meter Deposits:* Recommends that IVGID deposit temporary meter deposit payments into the District's bank account and issue refund checks through accounts payable.

   After internal discussion, IVGID management determined the amount held to be insufficient to warrant the increase cost in staff time necessary to follow this recommendation.

6. *RICOFR 2021-006 Review of User Accounts:* Recommends that IVGID reviews user accounts periodically to ensure access to sensitive information is restricted to authorized personnel.

   The IT department has instituted a quarterly review of all user accounts to ensure proper restriction of this sensitive data.

7. *RICOFR 2021-007 Environmental Controls:* Recommends a risk assessment and feasibility study to determine what environmental controls should be added to the Administration data center.

   Although best practices would suggest a fire suppressant system for the filer server room, the building this room is housed in has no fire suppressant system, so installing such a system in one room in a building would be prohibitively expensive and ineffectual.

8. *ACR 2.10 Investment Income:* expresses concern about the investment income allocation.

   This process has been updated so that all investment income is allocated based on cash balances for the current fiscal year.

Proprietary & Confidential

FINAL REPORT

Incline Village General Improvement District

EVALUATION OF CERTAIN ACCOUNTING AND REPORTING MATTERS

January 14, 2021

Moss Adams LLP
975 Oak Street, Suite 500
Eugene, OR 97401
(541) 686 -1040

MOSSADAMS

Table of Contents

I. **Executive Summary** 3

A. Scope and Methodology 3

B. Summary of Observations and Recommendations 3

II. **Background, Scope, and Methodology** 6

A. Background 6

B. Scope and Methodology 6

III. **Observations and Recommendations** 8

1. Enterprise vs. Governmental Fund Reporting 8

2. Central Services Cost Allocations 15

3. Punch Card Accounting 20

4. Accounting for Capital Expenditures 25

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.

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.**

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.

#		
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

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:

ASSET CLASS	CAPITALIZATION THRESHOLD
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 of 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:

- The project is creating a new asset for the District
- The project extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset, and/or
- 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)

FINAL REPORT

Incline Village General Improvement District

BOARD POLICIES AND PRACTICES ASSESSMENT

January 6, 2022

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500

IV. DRAFT BOARD POLICY 8.1.0, *CAPITALIZATION OF FIXED ASSETS,* RECOMMENDATIONS

District management requested that we complete a review of the draft Board Policy 8.1.0, *Capitalization of Fixed Assets*, which was updated in August 2021. As part of this review, we completed the following:

- Compared the draft policy to similar policies from other municipalities for completeness and attempted to identify where gaps may exist;
- Verified whether prior consulting report audit findings had been closed, including updates for GFOA best practice implementation and GASB and whether these were tailored to the specific needs of the District; and,
- Provided feedback based on our expertise and best practices.

Based on our review of the updated Board Policy 8.1.0, the District has consolidated Board Policy 8.1.0, Board Policy 9.1.0, and Board Practice 2.9.0 into one more in-depth policy document. This approach is consistent with the recommendation provided in Observation No. 2 above. Additionally, the updated policy appears to have incorporated the applicable GFOA best practices and GASB Codification.

The current draft of the policy discusses the classification of capital assets, capitalization thresholds, cost basis and useful lives, and the criteria for capitalization; however, it does not discuss the accumulated depreciation of capital asset additions and disposals. Additionally, while the updated Board Policy 8.1.0 is significantly improved, it lacks specific details around defining the process for capitalization, including who is responsible for each activity, including not specifically outlining who is responsible for completing capitalization of fixed assets, who reviews additions and disposal of fixed assets, and whether any reporting is prepared and presented to District management and/or the Board of Trustees. The District should review the current draft policy and compare it to other capitalization policies (examples to be provided) when making final updates to the draft.

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	Management Comments - FY 2020/21 CAFR Preparation
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.	Does not apply to 2020/21 financial statements. (Transition back to Enterprise Funds for Community Services and Beach funds for FY2021/22 Budget)
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.**	Under review by District's external auditor; recommended expensing of assets previously capitalized are being done in accordance to auditor recommendations.
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.	Substantially addressed in 19/20 financials; additional items being expensed in 20/21 based on review by external auditor.
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.	Partially implemented; Punch Card contra-revenues are no longer adjusted based on ration of Recreation / Beach Facility Fee; Punch card utilization was changed in 20/21 to remain within Community Services or Beach funds, based on venue.
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.	Issue addressed in 19/20 financials
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.**	Under review by District's external auditor.
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.**	Note to Financial Statement is being updated for 20/21 to reflect complete list of (material) construction contract commitments.

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	Management Comments - FY 2020/21 CAFR Preparation
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.**	Under revierw by District's external auditor. (See document request list)
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.	Under revierw by District's external auditor. (See document request list)
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.**	Under revierw by District's external auditor.
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.**	Under revierw by District's external auditor. (See document request list)

Incline Village General Improvement District
Classification of accounting/reporting issues raised

#	Issue	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	Management Comments - FY 2020/21 CAFR Preparation
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.**	Under revierw by District's external auditor. (See document request list)
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.	Notes reviewed for consistency (ongoing).
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.	Under review - applies to Supplemental information

Incline Village General Improvement District
Classification of accounting/reporting issues raised

#	Issue	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	Management Comments - FY 2020/21 CAFR Preparation
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.**	Facility Fee revenues are budgeted and reported within Special Revenue, Capital and Debt funds in FY20/21 financials.
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.	Under revierw by District's external auditor. (See document request list)
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.**	Note disclosure to be updated
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.**	Note disclosure to be updated
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.	No action needed.
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.	

Incline Village General Improvement District
Classification of accounting/reporting issues raised

#	Issue	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	Management Comments - FY 2020/21 CAFR Preparation
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.**	The amounts being collected from customers for the Effluent Pipeline project are not, technically, a special assessementl rather, it is included in the Capital Project charge in both the Sewer Rate ordinance and on the utility bills. The Board has designated a portion of the capital charge for a specific project, but it is being collected and accounted conistent with the other rate revenues collected by the uitlity.
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.	Note has been updated to include interest earnings applied to Effluent Export Pipeline set-aside
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.	No action needed.

May 31, 2021

To: Audit Committee for meeting on June 9, 2021

CC: Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated 1/14/2021.

Background

In 2020, Moss Adams was engaged by the Audit Committee to review the capitalization policies and provide best practice accounting guidance. As outlined in the final report: "***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. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.***

Over several years, IVGID staff did not distinguish or establish separate accounts for the three phases of a project and only one project account was established. As such, ALL costs of a project were considered a future capital assets and were accounted initially in Construction in Progress and once the project was placed into service, ALL of the costs were transferred to a capital asset account and depreciated.

In the 2020 CAFR, IVGID management only expensed two projects which had preliminary stage activities. The expense was treated as a prior year adjustment (Note 22 of 2020 CAFR). The two projects were $212,044 related to the development of a Parks Master Plan (Plan was actually called the Community Services Master Plan) and $77,216 related to preliminary designs for the High School Ball Fields but stated in Note 22 of the 2020 CAFR as the Incline Village Ball field. It should be understood what the reason was for preliminary design of the High School Ball Fields.

IVGID management either overlooked or did not address expensing other preliminary stage activities on several projects and the costs remain in the Construction in Progress account as of June 30, 2020. A short description of the projects and estimated costs to be expensed are listed below:

Burnt Cedar Pool

In 2019, IVGID incurred $119,498 to repair waterlines at the Burnt Cedar Pool. Since a new pool has been started, these repairs have no future value, have been abandoned and must be expensed. See my memo to Audit Committee dated August 24, 2020.

In 2020 two contracts were awarded to TSK architects for conceptual design ($32,200) and for schematic design ($68,104) to develop a new swimming pool at Burnt Cedar Beach and the amounts should be expensed. In addition, all IVGID staff charges and third party cost estimates should also be expensed. A final design contract and a CMAR contract were approved by the Board of Trustees on December 9, 2020.

Utilities - WRRF Aeration System

In March 2018, a contract was issued to CH2M- Hill for conceptual design ($40,000) for improvements to the WRRF Aeration System which should be expensed together with all related IVGID staff charges from March to December, 2018 when the final design for the project was authorized.

Utilities - Waterline Leak Study

In March 2019, a contract was issued to Pure Technologies for $52,500 to provide a conditions assessment of a 4,200 foot long alternate water transmission line from Water Pump Station #2 to a water reservoir located on Lariat Circle. The line was taken offline in 2001 because of recurring leaks. The total costs of the assessment as of June 30, 2020 was $78,506 which may have included IVGID staff time and other costs. These costs should be expensed.

Utilities - Effluent Pipeline Phase II

This project involves several items. In violation Board requirements to keep individual projects separate, the General Manager decided in 2018 that any costs associated on or for the effluent pipeline from the Wastewater Treatment Plant to the wetlands in the Carson city area would be reported within this project.

On January 29, 2020, IVGID Staff provided a presentation to the Board of Trustees which indicated the accumulated costs were $5,146,100 through June 30, 2019, however the CIP report for the same date indicated only $4,864,275 had been accumulated on the project. It is unknown what is the difference between the two reports. The requested reconciliation of the air pressure relief valves reported as $643,400 but public records documented only $567,409 and the difference has not been explained by Staff. A reconciliation of the meters and valves installed in three different areas and reported as $86,500 in costs. However, public records documented only $77,687 in costs and the difference has not been explained.

On 2/10/2021, the Audit Committee by a unanimous vote approved the Audit Committee Report to the Board of Trustees which included the recommendation to expense $3,179,600 which was capitalized in fiscal year 2019 as "***Placed in Service***". Exhibit C of the Audit Committee report describes the items which should be expensed. According to minutes of the Board of Trustee meeting held on February 10, 2021, the Board of Trustees approved the Audit Committee recommendation.

It is recommended that all charges made to the Effluent Pipeline Phase II project be reviewed and separated into the various subprojects to provide an accurate accounting for capitalization and expenses. In the past, the Board of Trustees has recommended that individual projects be reported rather than "lumped" into one project.

Mountain Golf Course

In 2012/2014 contracts were issued to Global Golf Advisors and BRG Architecture for a facility assessment and future needs recommendations and to develop conceptual designs on 5 options for a new clubhouse. Costs incurred as of June 30, 2020 were $132,203. These costs should be expensed as no recommendations were enacted.

In the summer of 2018, a fire occurred in the Clubhouse kitchen area. In November 2018, Smith Design was issued a design contract for the rehabilitation of the Clubhouse which included a large expansion of the deck area. The intent was to fast track the rehabilitation for completion prior to the opening of the golf course in May 2019. Subsequently it was determined that the rehabilitation could not occur in time for the season and would be postponed until the season ended. In order to provide services, fire damage repairs were completed for temporary use during the 2019 season. The costs incurred was $150,751 (may include the design fees of Smith which should not be expensed). An unknown portion of the temporary repairs were abandoned when the extensive rehabilitation started at the end of the 2019 season. Certain of the temporary repair costs should be expensed.

In 2020 a contract was issued to Lumos and Associates for schematic design ($27,500) of the Mountain Golf Course cart path replacements which should be expensed together with all IVGID staff charges of $18,500 from July, 2020 to February 2021 when final design was approved by the Board of Trustees.

Tennis Center

In 2015 and 2016, a contract and change order was issued to LLoyd Design for $42,120 to evaluate the Tennis Center. This assessment should be expensed together with IVGID staff charges.

In 2018 a contract was issued to BJG Architecture and Engineering to develop conceptual design ($26,501) for the rehabilitation of the Tennis Center. These costs should be expensed together with all IVGID staff charges from 2018 to the Board approval of the final design on 6/19/2019.

Incline Park - Ball fields

In July, 2017, a contract was issued to LPA Inc. for $41,000 to develop conceptual design for improvements to the three ball fields at Incline Park. In December, 2017 a contract was issued to Lloyd Consulting Group, LLC for $58,500 to provide engineering design services including a survey, site planning, schematic design, construction documents and permitting. In November, 2018 an additional contract for $15,430 was issued to LLoyd to modify the design to lower the estimated costs. A project called Incline Park Improvements (#4378BD1801) was set up but a budget was never established. The total costs as of June 30, 2020 was $120,268 which includes other unknown costs beyond the three contracts. Another project called Incline Park Facility Renovation (#4378LI1803) was established for construction of improvements to only one ball field. A review of both project accounts should be conducted as the total costs as of March 31, 2021 for the Park Facility Renovation is $1,550,570 which is in excess of the Incline-Tahoe Foundation grant made to IVGID of $1,328,001. The two Lloyd contracts mentioned above were for final design and subsequent modification. The actual payments made were $75,458 ($59,563 & $15,430) and should be transferred from the Incline Park Improvements project to the Incline Park Facility Renovation project.

Incline Beach Building

In May 2016, a contract for design of the Incline Beach Building was issued to Bull, Stockwell and Allen for $221,891. The contract consisted of two main phases 1) community outreach, program concepts, and schematic design for $81,745 and 2) final design and construction documents. A large portion of the work was authorized based on the Beach Recreation Enhancement Opportunity Plan approved by the Board of Trustees in February 2016. After phase 1 of the contract was substantially completed, two cost estimates were conducted resulting in estimates between $3.9 million and $5.2 million which included site improvements never addressed in the design contract. More importantly the design was a replica of the building at Sand Harbor which was is six times larger than the existing building at incline beach . Sand Harbor has between 800,000 to 1,000,000 visitors while Incline Beach has annual visits of about 130,000.

The total costs in the construction in progress account is $216,131 which includes IVGID staff time, estimates and unknown other costs. The entire amount should expensed as expenditures were for only the first phase of the contract.

Diamond Peak

In 2014, IVGID Board decided to develop a master plan for summer activities and expansion of the winter activities by issuing an assessment contract on 9/12/2014 ($152,000) to the SE Group which was approved by the Board of Trustees in 2015. Accumulated costs through 6/30/2020 is $156,030. This work was concept only, community steering and financial models which should all be expensed.

In October, 2015, the Board of Trustees approved expenditures to submit a plan for Phase 1a of the approved master plan to TRPA, USFS and Washoe county for environmental clearances. Contracts were issued in 2015 to SE Group for $29,000 for permit submittals and in 2019 to Hauge Brueck Associates for $32,800 to perform biological resources surveys of rare plants, California Spotted Owl and the Northern Goshawk required in advanced of environmental documentation. The submittals, if made, by the SE Group are almost six years old and are probably would need to be re submitted. Currently the Board of Trustees have removed Phase 1a and 1b of the master plan from the 5 year capital plan. With the Forest Service special use permit on 361 acres expiring on December 31, 2023 and the lack of interest in continuing the Phase 1a summer activities, these costs are conceptual submittals and should be expensed.

Conclusions and Recommendations

IVGID management has historically assigned only one project number for a future construction project. In order to avoid the consolidating costs, components two separates accounts should be established for each project. First an expense account which will include all concepts, community outreach, schematics designs, assessments, and financing options. After the Board of Trustees accept the inputs and accepts other conditions and decides to move forward with final plans then a CIP account should be established for the final design, construction and in house staff time to complete the project.

The Audit Committee recommends that IVGID Staff establishes separate accounts as prescribed in the Moss Adams report for the three main phases of a project. This should eliminate recording of expenses in the CIP accounts.

Date: May 31, 2021

To: Audit Committee

CC: Board of Trustees, Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Incline Park Facility Renovation # 4378LI1801 - Final disclosure of the close out of the Memorandum of Understanding with Incline-Tahoe Foundation ("MOU")regarding construction of the project - Recommendations to Board of Trustees.

Background of MOU and budget

Incline Tahoe Foundation ("IFT") provided two specific grants for the improvements to the Ball Fields at Incline Park. Funds for the grants were provided to IFT from a private donor. The first grant was for $58,400 to design upgrades to three ball fields. A contract was awarded on December 18, 2017 to LLoyd Engineering. A second grant for $1,350,801 only for improvements to Ball Field #3 was made on March 18, 2019 after several amendments were made to reduce the scope of work to offset the high price of the sole bid from a contractor for construction . From the second grant ITF was to receive $22,800 for administration and IVGID was to receive $1,386,401. In addition, $135,080 of contingency fees could be provided for additional improvements if the donor, which provided the fund to ITF, approved the additional improvements.

The CIP budget for this project was established in fiscal year 2019 for $1,208,071 and was never increased.

Costs and reimbursements from IFT under Grant

As of March 31, 2021, the total costs of the project is $1,550,570, however, does not include the design fees from Lloyd Consulting Group under two contracts for $58,500 and $15,430 (Costs $75,458), plan check fees ($6,123), and TRPA Soils application ($601) all of which were charged to another project called Incline Park Improvements (#4378BD1801) which was unbudgeted and which a project summary was never completed. The total costs are $82,182 and should properly be accounted for as costs for the IFT grant funded project. If properly transferred the total costs for the grant funded project would be $1,632,752 exceeding the CIP budget by $424,681. Nothing was ever brought to the Board of Trustees to approve the budget overruns. Certain Board members suggest that because the costs were being funded by a grant, increasing the budget was not necessary. Untrue. All expenditures must have a budget. The funds from a grant is a revenue item and do not reduce the expenditures. I suggest that the words "net of grant" be removed from the project description in the CIP "popular report" as of March 31, 2021 since it is an inaccurate statement.

The costs also exceed the two IFT grant amounts of $1,444,801 ($58,500 and $1,386,401) by **$187,951**. Assuming the $135,080 contingency fees available in the second grant was authorized to reimburse IVGID for the increased costs, there would remain $52,871 which would not be recovered (see below for the unreimbursed costs).

In 2019, IVGID requested three reimbursements from ITF for only $1,355,400, with the last request done on December 19, 2019 almost 17 months ago, leaving a considerable amount of IVGID's out of pocket costs unreimbursed. According to the reimbursement statements, two change orders from RaPID Construction (#2 and #8) were excluded from the reimbursements. Change order #2 ($51,150) was for increased costs to change the drainage plan, which according to Indra Winquest, was considered, presumably by staff, an infrastructure project and not part of the Grant. According to the revised drainage plan, the improvements in the original plan were eliminated and the change order should have reflected a credit for the eliminated items. That was not done. Change order #4 ($8,778) was for light pole repairs which may be a proper exclusion but should have been expensed and not left in the CIP.

Assuming the two change orders issued to RaPID Construction are not reimbursed, then the total IVGID costs subject to reimbursement would be $1,572,824 ($1,632,752 less $51,150 and $8,778). Since IVGID has only billed $1,355,400, then *$237,424* is required to billed and funded by ITF. According to a recent e mail from Susan Herron, a billing is in process. According to the MOU the District responsibilities are under section 3.4 "Invoicing shall be on a reimbursement basis and shall be submitted no more frequently than monthly". Not 17 months.

A major condition of the MOU, was that ITF would be responsible for all costs of the project. Excluding the change order for the increased cost of drainage improvements from reimbursement should have been a Board decision, not management and could have been discussed at the time the RaPID requested the change order for $51,150 which required Board approval.

It is unknown if all reimbursement requests made by IVGID have been paid by ITF.

History of Grant Agreements:

1) A letter agreement regarding the first grant of $58,500 for design of the 3 ball fields at Incline Park

2) On December 14, 2017 a "Grant Agreement" for $760,000 was executed

3) In April , 2018 an increase to the Grant Agreement to $1,208,071 was approved by the Board of Trustees, however, an amendment to the 2017 Grant Agreement was never prepared but the increase was understood by correspondence.

4) On 3-19-2019, a new Memorandum of Understanding(MOU) , replacing the two previous agreements was approved by the Board which increased the IVGID portion of the grant to $1,386,301.

RaPID Construction Contract - Circumventing Board approval of Change orders

In December 20, 2018, RaPID Construction was the only bid received from the invitation to bid advertisement dated 11-16-2018 for the IVGID Ball field Improvement Project. The bid was $1,456,654 with an additional $357,764 in alternatives.

In early 2019, IVGID Staff negotiated with RaPID to reduce the scope of work by eliminating improvements to Fields #1 and #2 and eliminating all alternatives. The negotiated price was established at $1,298,241 and a contract was executed on 3-19-2019.

However for some unknown reason, on March 18, 2019, (one day before the contract date) IVGID issued Change Order #1 reducing the contract by $158,413 based on the **BID amount not the CONTRACT amount.** This change order should never have been issued.

As a result of this improper change order, seven additional changes orders of $116,663 were issued without Board approval, under the assumption that until cumulative change orders exceeded $50,000 no approvals were required. Under Board Practice 13.2.0 - 3.8.7.2, it states: ***General Manager Responsibility - Duties: Approve change orders cumulatively not exceeding 10% of construction contract or $50,000.***

By creating a phony $158,413 negative change order, the seven additional change orders were issued for $116,663 which on a CUMULATIVE basis when combined with the phony change order #1 did not meet the required Board approval for cumulative change orders over $50,000. Thus all change orders were never brought to the Board for approval and Staff intentionally or unintentionally violated Board Practice 13.2.0.

Change order #2 was for $51,150 issued on July 24, 2019 for a reconfiguration of the drainage system. During negotiations to establish a lower contract price modifications to the infield drainage system was a major item. Apparently on May 5, 2019, the drainage plan was changed again with county comments delivered in May and July, 2019. Had the phony Change order #1 not been created, this change order would have require Board approval.

Purchase order #19-0216 was dated May 1, 2020 almost 14 months after the contract was issued and only included change orders 2 through 6.

Another major concern is the MOU with Incline Tahoe Foundation (ITF) only provided for $1,298,241(the original contract amount). It is unclear if the additional $116,663 in change orders were approved by ITF.

Conclusion

The administration of this contract and the related MOU was quite weak. Request by certain Board members and the Audit Committee to hire a contract administrator has not yet been fulfilled but should be acted upon as soon as possible.

Based on the irregularities in this contract, the PICA contract, the Terracon contract and the Moss Adams report which reviewed only a few contracts, an investigation into the proper handling of other large contracts should be considered

Recommendation

Since a major amount of time has elapsed since completion of the project in 2020, a report to the Board of Trustees should be completed which establishes:

- Classification of costs into proper project accounts
- The final amount which will be reimbursed to IVGID by ITF
- The final amount of IVGID's costs which will not be reimbursed
- Status of any disputes which may exist with ITF
- A memorandum from IVGID and ITF that MOU conditions for the project construction have been satisfied.
- A close out memorandum between RaPID and IVGID
- That all as built drawing are completed (especially the drainage plan)
- Explanation if any IVGID engineering costs were billed to the project

Exhibits are extensive and will be delivered upon request.

June 1, 2021

To: IVGID Audit Committee

cc: Indra Winquest and Paul Navazio

From: Clifford F. Dobler

Re: Golf Courses Irrigation, Greens, Tees and Bunkers ect. Expenses rather than capital assets

IVGID management has established ongoing capital projects for various costs to maintain or improve the irrigation system and other costs for Greens, Tees and Bunkers at the Championship and Mountain Golf Courses. Over the past six years, an average of $103,366 per year has been spent and accounted for as capital assets as opposed to operating expenses. EXHIBIT A provides a summary for each course and type of cost.

According to the 1/14/2021 report by Moss Adams LLP regarding best practices for capitalization, a key criteria to consider: "do the costs increase the service capacity".

While it is unknown exactly what has been accomplished, I am aware of the following items at the Championship Golf Course.

- Irrigation - Replacement of the irrigation apparatuses are always being repaired or replaced with new and better products, but do these replacements actually increase capacity?
- Greens - I am unaware of any major changes to the Greens.
- Tees - An additional set of tees on most holes were installed to provide shorter lengths and it is possible that service capacity could have been increased by more beginners playing golf. Expansion of the tee boxes on Hole #7 (upper level) and #17 have been completed. The costs to expand hole #17 was $25,531. Service capacity would not be increased but the expansion was probably done to provide a larger area as the many divots made the original tees boxes somewhat unattractive.
- Bunkers- There are two parts. First part - Several bunkers were removed or made smaller to make the course easier to play. Second part - Some years past, sand was purchased from an Idaho supplier and installed in each bunker, however, the sand had pebbles. After several complaints by seasoned golfers, the sand was removed, sifted through grates and then reinstalled. The unanticipated result was the sand became a "hard pan" and not acceptable for proper bunker play. Over the past 3 to 4 years, and still ongoing, a higher grade of sand has been and continues to be installed. Prior to the installation, existing sand had to be removed and new drainage lines inside the bunkers were installed. The service capacity was not increased and the costs, if capitalized, were to correct a mishap in purchasing. Sand will always need to be installed as bunker play normally scatters sand outside the bunkers which is meshed into the fairways.
- Last year, a small one foot high split log fence was installed around certain tees and greens. These costs may have been capitalized, but did not increase service capacity and the objective may have been an effort for beautification.

Conclusion and Recommendation - These costs should be considered ongoing maintenance expenses similar to maintaining cart paths and parking lots. Beautification costs should be expensed as the results are similar to a marketing expense.

Recommendation would be to expense these historical costs in fiscal year 2021, consistent with the look back time period determined for the "Prior Year Adjustments" of $514,254 made in fiscal year ending June 30, 2021 for previously capitalized costs for paving repairs and painting at the District various venues.

EXHIBIT A - Summary of Costs capitalized for Irrigation, Greens Tees and Bunkers - Golf Courses

EXHIBIT A

Incline Village General Improvement District

Capitalized Maintenance Costs which should have been expensed
Golf Courses

Fiscal years - 2015 to 2020
Six year time period

	Championship		Mountain		
Type of Maintenance	Total Costs	**Annual Average**	**Total Costs**	**Annual Average**	**Total Annual Avg**
Irrigation	160,023	26,671	48,953	8,159	34,829
Greens, Tees and Bunkers	212,352	35,392	151,874	25,312	60,704
Hole 17 rebuild	25,531	4,255			4,255
Drainage enhancements	7,982	1,330		-	1,330
Cart Path Retaining Walls			13,481	2,247	2,247
Total	$ 405,888	67,648	214,308	35,718	$ 103,366

June 1, 2021

To: IVGID Audit Committee

cc: Board of Trustees, Indra Winquest, Paul Navazio

From: Cliff Dobler

Re: Improper reporting and use of Facility Fees

Beginning on July 1, 2015, the District management determined that the Facility Fee was a special revenue and as such, the reporting and accounting of the Community Service venues and the Beaches would be done using separate governmental funds on a modified accrual basis . The funds established were a special revenue fund, a capital projects fund and a debt service fund. The intent as described in the 2015 CAFR Notes #19 - Subsequent Event was: "***The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide resources for capital expenditures and debt service cannot be displayed in a readily understandable fashion for its constituents.***" (Exhibit A)

The annual facility fees , thereafter, were assessed by the Board of Trustees as one amount but clearly indicated how much would be specified for operations, capital projects and debt service. Operating revenues and expenses would be accounted for in a Special Revenue fund, capital projects expenditures in a capital project fund and debt services in a debt service fund.

Qualifying for Special Revenue Accounting -

GASB stated conditions to form a Special Revenue fund requires two elements:

- The special revenue, determined to be the operating portion of the Facility Fee, must represent a "substantial portion" of all revenues which has been established as a benchmark at "around 20%" concluded by the Governmental Finance Officers Association.
- Facility Fees committed to be used for capital projects and debt service CANNOT be included as revenues in a Special revenue fund nor could the Facility Fees specified for operations be used for capital projects or debt service (GASB #54).

Both of these conditions were never satisfied in reporting the operations of the Community Service venues in a Special Revenue Fund since the Special Revenue, Capital Projects and Debt Service were established.

The Facility Fee committed for operations of the Beaches did represent a substantial portion of all revenues and did qualify as a special revenue fund as calculated in Exhibit C.

Improper accounting to meet conditions to qualify as a Special Revenue Fund for the Community Services

In order to circumvent both conditions, IVGID management would include as revenues in the Special Revenue Fund the Facility Fees specified for capital projects and debt service and in turn transfer out the amounts to the capital projects and debt service funds. The Moss Adams report dated 1-21-2021 (Exhibit B) clearly stated that such accounting and reporting was not in compliance with GAAP.

The probable intent of this improper accounting was to satisfy the condition that the facility fees (which included the capital project and debt service portions) would reach 20% of revenues in order to have a substantial portion. Had the portion of the facility fees specified for capital projects and debt service been property recorded as revenues in the respective funds, the portion of the facility fees for operations was never adequate to never reached the suggested threshold of 20% . As calculated on Exhibit B the past five year average of facility fees used for operations as a percent of total revenues was only 10.67%. (Exhibit C)

Current IVGID staff believes that the last page of resolution 1838 which established the new governmental funds which provided an inappropriate accounting treatment, somehow overshadowed GASB statements, NRS definitions and common sense and as such, the past accounting and reporting was correct. GASB is the generally accepted accounting principles not a concoction contrived by management.

Material overstatement of Revenues and the excess of revenues over expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services Special Revenue Fund for the five year period 2016 to 2020

By improperly recording Facility Fees specified for capital projects and debt service in the Community Service Special Revenue fund, material misstatements in the 2016 to 2020 Comprehensive Annual Financial Reports have occurred. By violating requirements of GASB and NRS the revenues were overstated by an average of 17.5% over the five year period. More important the Excess of Revenues over Expenditures were overstated by a massive 63.4% (Exhibit D). Any reader of the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services venues would be led to believe that operations were more profitable than actually was the case.

Misappropriation of Funds - Community Services Special Revenue Fund

During the past five years from July 1, 2016 to June 30, 2020, Revenues (other than the Facility Fee) for all recreational venues and related administration exceeded expenses by $1,513,639 (Exhibit D). As a result the annual Facility Fee committed for operations, was ***NEVER NEEDED***. Since the Facility Fee is considered a "standby service charge" and was not needed then all amounts are "standing by" to be used for operating activities. The total amount collected from property owners over the five year period was $9,807,950 (Exhibit D). Since the portion of the facility fees for operations could NOT be used for capital projects or debt service as required by GASB and NRS , the $9,807,950 could either be returned to the owners whose properties were assessed or would have to be used ONLY for operations expenses which exceeded revenues in the future.

Again, IVGID management, ignoring the purpose and intent of separate and specified funds, chose to TRANSFER every year, a portion of the facility fee committed ONLY for operations to the capital project fund. For the five year period $3.3 million was improperly transferred and utilized for capital projects violating the specific intent of the Board of Trustees and GASB requirements. At the end of June 30, 2020 about $6.5 million of unspent facility fees committed for operations remained in the special revenue fund (Exhibit F).

The budget for fiscal year 2020/2021 properly accounted for and reported the specific portions of the Facility Fees committed for operations, capital projects and debt service in the respective funds. However, $5,594,546 of the $6.5 million prior years unused Facility Fee committed for operations and "standing by" was transferred out of the Special Revenue Fund to the capital project fund. Unfortunately this transfer was not in compliance with GASB #54 or the intent of the Board of Trustees when adopting the annual resolutions assessing the Facility Fees for specific purposes.

This improper use of funds is similar to the funds raised for the Effluent Pipeline Phase II project which was to be set aside to replace only 6 miles of the Effluent Pipeline but instead a portion was used for other projects. In order to circumvent this misuse of fund, in 2018. the District management renamed the project the "Effluent Pipeline Project" and considered any costs associated with the ENTIRE 21 mile pipeline from the Treatment Plant to Wetlands could be funded from the set aside money for only the 6 mile project. This change was not the intent or commitment provided to the customers using the sewer facilities when the money was collected annually.

It was quite apparent that in the fiscal year 2019/2020 budget, Mr. Gerald Eyck, former Director of Finance , realized that GASB and NRS were being violated by using Facility Fees for capital projects committed for operations. In a last ditch effort to circumvent the situation, he stated in his May 23, 2019 message within 2019/2020 State Budget, that the Capital Projects and Debt Service funds would become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project. Apparently he assumed that when the budget was approved, his message became the new accounting for capital projects. Thereafter any capital project or purchase which was not funded by borrowing money would be an operating cost and accounted for in the Special Revenue Fund. This was quite odd, because at the same time, the Board of Trustees had approved the Facility Fee and committed specific amounts to operations, capital projects and debt service. This was pure folly, as the action was a blatant attempt to continue misappropriating funds specified for one purpose to another purpose (Exhibit G). In 2020, that accounting folly was overturned.

Why does all this matter now?.

1)Financial Statement are to be presented in accordance with GAAP and other accepted guidance.

2) One of the very top principles of accounting and reporting is Consistency which has not been the case for several years.

3) Since the Facility Fees specified for Community Services operations never reached the substantial portion threshold of 20% of all revenues, then accounting for the operations in a Special Revenue was inherently wrong.

4) Reporting ALL of the facility fees as revenues in the special revenue fund did not comply with GASB and provided an inaccurate representation that the operations of the Community Services venues were extremely profitable.

Conclusion

Over the past five years, the extent of the material misrepresentations regarding the improper use of a Special Revenue fund, the material weakness in capitalization of costs which should have been expensed, the material weakness in internal controls over financial reporting and missing disclosure in the financial statement notes which were prevalent in the 2019 CAFR would lead many professionals to consider a restatement of the past five years of IVGID's financial statements. The accounting and reporting of the Facility Fees in the 2019 CAFR which was not in compliance with GAAP, was "passed on" by the external auditors based on a representation letter from senior management that all accounting and reporting was in accordance with Generally Accepted Accounting Principles.

It is important to review all of the accounting issues with the past CAFR's and engage Davis Farr, the new auditors, to review the extend of materially and whether the previous financial statements should be restated or disclosures should be made in the 2021 CAFR.

EXHIBITS (continues on next page)

A - Note 19 - Subsequent Events - CAFR for the year ending June 30, 2015

B - Excerpt of the 1-21-2021 Moss Adams report regarding Special Revenue Fund reporting

C - Facility Fees - Calculations of "substantial Portion" for the Community Services and Beaches Special Revenue Funds

D - Analysis of improper reporting Facility Fees specified for Capital Projects and Debt Service in Special Revenue Funds

E - Community Services - Special Revenue Fund by Venue - Operating Revenues and Expenditures 2016-2020 exclusive of Facility Fees

F - Summary of Facility Fees transferred to the Capital Projects and Debt Service Funds which were in excess of Facility Fees improperly recorded in Special Revenues Funds - Fiscal years 2016-2020

G - Excerpt from Budget Message - May 23, 2019 by Gerald Eyck - Budget for fiscal year ending June 30, 2020 regarding ending the use of Capital Projects and Debt Service Funds

Exhibit A

The District has committed to these capital improvement projects through contractual arrangements:

	Contract Award	Completed at June 30, 2015	Remaining Commitment
Utility Fund			
Water main Replacement			
Q&D Construction, Inc.	$596,560	$267,848	$328,712
Community Services Fund			
Creek Restoration			
Cardno, Inc.	$227,000	$197,773	$ 29,227
Ski Resort Point of Sales System			
Active Network	$313,449	$132,400	$181,049

18. EXTRAORDINARY EXPENSE FOR UTILITY FUND

In April 2014, a leak occurred in the District's effluent pipeline that results in damage to an area highway. Leaks of this magnitude and consequence are not expected in the normal course of operations and thus the repairs costs have been reported as an extraordinary expense. In July 2014 the District incurred $26,906 of repair costs to complete the paving of the State highway affected by the leak.

19. SUBSEQUENT EVENT

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 Fund 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 resources for capital expenditure and debt service cannot be displayed in a readily understandable fashion for its constituents.

The Board of Trustees has approved a budget, which has been filed with the State of Nevada Department of Taxation, which reflects this change. The remaining action will be to have the Board of Trustees approve the transfer of the Net Position of the Community Services Fund and the Beach Fund upon conclusion of the audit process and the acceptance of that report. The budget document filed with the State estimated that amount to be $5,294,138 for the Community Services Fund, and $1,302,486, for the Beach Fund. The District presented a template for calculating the transfer amount to the Nevada Department of Taxation Committee on Local Government Finance and outlined its intended method to convert from accrual based accounting under an enterprise fund, to modified accrual accounting for the Special Revenue governmental funds, which would go forward. No Net Position is considered directly related to either the capital projects funds or debt service funds at July 1, 2015.

Based on the audit as of June 30, 2015 the Net Position of the Community Services Fund is $44,762,511. The Net Position for the Beach Fund is $5,701,288. These amounts are adequate to satisfy their role in supporting the budget for the fiscal year ending June 30, 2016. The amount of capital project carryover $1,115,576 (See Note 17) was known and set as a part of the approval of the operating and capital budget.

As of October 28, 2015 the District agreed to a settlement of the suit, described in Note 12, that will result in collecting $245,000.

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.

Incline Village General Improvement District EXHIBIT C

Facility Fees - Calculation of Substantial Portion of Revenues

2016-2020

	Community Services SRF		Beaches SRF	
	Budget	Actual	Budget	Actual
Fiscal 2016				
Total Revenues	17,612,962	22,166,508	1,750,500	1,790,203
Less				
Facility Fee - Capital Projects	(2,519,748)	(2,524,818)	(185,832)	(186,259)
Facility Fee - Debt Service	(1,276,236)	(1,278,804)	(7,743)	(7,761)
Net	13,816,978	18,362,886	1,556,925	1,596,183
Facility Fee - Operations Only	2,176,146	2,180,524	580,725	582,058
Substantial Percentage	**15.75%**	**11.87%**	**37.30%**	**36.47%**
Fiscal 2017				
Total Revenues	19,186,160	23,113,720	1,783,300	2,236,315
Less				
Facility Fee - Capital Projects	(2,618,240)	(2,619,078)	(185,856)	(185,937)
Facility Fee - Debt Service	(1,309,120)	(1,309,540)	(7,744)	(7,744)
Net	15,258,800	19,185,102	1,589,700	2,042,634
Facility Fee - Operations Only	2,045,500	2,050,534	580,800	581,937
Substantial Percentage	**13.41%**	**10.69%**	**36.54%**	**28.49%**
Fiscal 2018				
Total Revenues	20,026,514	20,692,535	2,001,700	2,236,315
Less				
Facility Fee - Capital Projects	(2,704,020)	(2,700,842)	(302,484)	(301,833)
Facility Fee - Debt Service	(1,311,040)	(1,309,499)	(7,756)	(7,739)
Net	16,011,454	16,682,194	1,691,460	1,926,743
Facility Fee - Operations Only	1,761,710	1,759,641	659,260	657,842
Substantial Percentage	**11.00%**	**10.55%**	**38.98%**	**34.14%**
Fiscal 2019				
Total Revenues	21,067,974	23,900,518	2,001,700	2,503,996
Less				
Facility Fee - Capital Projects	(3,612,400)	(3,633,412)	(302,484)	(304,238)
Facility Fee - Debt Service	(410,500)	(413,417)	(7,756)	(7,800)
Net	17,045,074	19,853,689	1,691,460	2,191,958
Facility Fee - Operations Only	1,765,150	1,775,946	659,260	663,083
Substantial Percentage	**10.36%**	**8.95%**	**38.98%**	**30.25%**
Fiscal 2020				
Total Revenues	22,298,780	21,630,483	2,479,800	2,614,821
Less				
Facility Fee - Capital Projects	(3,322,215)	(3,322,215)	(302,172)	(302,172)
Facility Fee - Debt Service	(410,500)	(410,150)	(7,748)	(7,748)
Net	18,566,065	17,898,118	2,169,880	2,304,901
Facility Fee - Operations Only	2,050,750	2,050,750	658,580	658,580
Substantial Percentage	**11.05%**	**11.46%**	**30.35%**	**28.57%**
Totals years 2016 to 2020				
Total Revenues	100,192,390	111,503,764	10,017,000	11,381,650
Less				
Facility Fee - Capital Projects	(14,776,623)	(14,800,365)	(1,278,828)	(1,280,439)
Facility Fee - Debt Service	(4,717,396)	(4,721,410)	(38,747)	(38,792)
Net	80,698,371	91,981,989	8,699,425	10,062,419
Facility Fee - Operations Only	9,799,256	9,817,395	3,138,625	3,143,500
Substantial Percentage	**12.14%**	**10.67%**	**36.08%**	**31.24%**

EXHIBIT D

Incline Village General Improvement District
Community Services
Analysis of improper reporting Facility Fees specified for Capital Projects and Debt Service
in Special Revenue Fund
2016 to 2020

Source: Comprehensive Annual Financial Reports

	2016	2017	2018	2019	2020	Total
Total Revenues	$ 22,166,508	23,113,720	20,692,554	23,900,518	21,630,483	$ 111,503,783
Facility Fees improperly recorded in Special Revenue Fund						
Captial Projects	2,524,818	2,619,078	2,700,842	3,612,400	3,322,215	14,779,353
Debt Service	1,278,804	1,309,540	1,309,499	410,500	410,500	4,718,843
	3,803,622	3,928,618	4,010,341	4,022,900	3,732,715	19,498,196
Percentage Over Statement of Revenues	17.2%	17.0%	19.4%	16.8%	17.3%	17.5%
Excess of Revenue over Expenditures	7,312,933	7,193,761	4,555,107	6,611,938	5,084,379	30,758,118
Percentage overstatement of Excess of Revenues over Expenditures	52.0%	54.6%	88.0%	60.8%	73.4%	63.4%

In fiscal year 2019, the facility fees for capital projects were understated by $1,103,872 and recored as facility fees for operations. Corrections were identifed in 2020 but CAFR was not restated

EXHIBIT E

Incline Village General Improvement District
Community Services Special Revenue Fund by Venue
Operating Revenues and Expenditures 2016 to 2020
exclusive of Facility Fees

	Championship Golf Course	*Mountain Golf Course*	*Facilities*	*Diamond Peak*	*Rec Center Community Programming*	*Parks*	*Tennis*	*Recreation Administration*	*Other Revenues*	*Total*
2016										
Revenues (NO Facility Fee)	3,488,229	645,128	275,156	10,202,972	1,264,177	59,521	166,533	(521,179)	601,927	16,182,464
Expenses	(3,526,103)	(937,694)	(432,187)	(6,441,024)	(2,228,737)	(715,538)	(256,359)	(315,943)		(14,853,585)
Captial Projects										
	(37,874)	(292,566)	(157,031)	3,761,948	(964,560)	(656,017)	(89,826)	(837,122)	601,927	1,328,879
2017										
Revenues (NO Facility Fee)	3,542,663	627,986	387,701	11,326,968	1,274,149	45,430	166,577	(573,542)	336,636	17,134,568
Expenses	(3,944,772)	(1,002,359)	(498,577)	(6,810,598)	(2,225,893)	(821,034)	(262,369)	(354,367)		(15,919,969)
Capital Projects										
	(402,109)	(374,373)	(110,876)	4,516,370	(951,744)	(775,604)	(95,792)	(927,909)	336,636	1,214,599
2018										
Revenues (NO Facility Fee)	3,765,419	630,214	355,696	9,155,646	1,289,953	48,910	145,197	(758,481)	375,561	15,008,115
Expenses	(4,055,702)	(972,171)	(448,797)	(7,024,327)	(2,232,105)	(818,298)	(228,530)	(357,498)		(16,137,428)
Capital Projects										
	(290,283)	(341,957)	(93,101)	2,131,319	(942,152)	(769,388)	(83,333)	(1,115,979)	375,561	(1,129,313)
2019										
Revenues (NO Facility Fee)	3,902,689	740,968	392,246	11,778,871	1,364,044	46,580	153,435	(730,819)	429,729	18,077,743
Expenses	(4,285,423)	(960,442)	(482,527)	(7,830,948)	(2,296,972)	(815,439)	(253,544)	(363,285)		(17,288,580)
Capital Projects										
	(382,734)	(219,474)	(90,281)	3,947,923	(932,928)	(768,859)	(100,109)	(1,094,104)	429,729	789,163
2020										
Revenues (NO Facility Fee)	4,070,762	690,798	361,890	9,781,499	1,004,900	32,505	133,786	(590,712)	370,987	15,856,415
Expenses	(4,255,618)	(960,547)	(469,752)	(7,011,524)	(2,189,572)	(843,619)	(242,873)	(572,599)		(16,546,104)
Capital Projects										
	(184,856)	(269,749)	(107,862)	2,769,975	(1,184,672)	(811,114)	(109,087)	(1,163,311)	370,987	(689,689)
Total										
Revenues (NO Facility Fee)	18,769,762	3,335,094	1,772,689	52,245,956	6,197,223	232,946	765,528	(3,174,733)	2,114,840	82,259,305
Expenses	(20,067,618)	(4,833,213)	(2,331,840)	(35,118,421)	(11,173,279)	(4,013,928)	(1,243,675)	(1,963,692)	-	(80,745,666)
Capital Projects										
	(1,297,856)	(1,498,119)	(559,151)	17,127,535	(4,976,056)	(3,780,982)	(478,147)	(5,138,425)	2,114,840	**1,513,639**
Costs recovered	***-93.53%***	***-69.00%***	***-76.02%***	***-148.77%***	***-55.46%***	***-5.80%***	***-61.55%***	***161.67%***		

Recreation fee appropriated for operations which was never required.

	Operating Portion
2016	2,181,200
2017	2,050,000
2018	1,763,000
2019	1,763,000
2020	2,050,750
Total	9,807,950

About $2.5 million of negative revenues in Recreation Administration were transfers to the Beaches via contra revenue accounting

Total Excess Cash flow from Operations and unused Facility Fee specified for operations **$ 11,321,589**

EXHIBIT F

Incline Village General Improvement District

Summary of Transfers from Special Revenues Funds to
Captial Project and Debt Services Funds which were in
excess of Facility Fees improperly recorded in Special Revenue Fund
Fiscal years 2016-2020

	Community Services		Beaches	
	Capital Projects	Debt Service	Capital Projects	Debt Service
2016				
Transferred from SRF to Capital Project and Debt Service Funds	3,530,675	1,285,185	336,924	7,771
Facility Fee recorded in SRF for CP and DS (improperly)	(2,524,818)	(1,278,804)	(186,259)	(7,761)
Excess transferred from Facility Fee specified for operations	1,005,857	6,381	150,665	10
2017				
Transferred from SRF to Capital Project and Debt Service Funds	3,818,908	1,309,540	240,937	7,747
Facility Fee recorded in SRF for CP and DS (improperly)	(2,619,078)	(1,309,540)	(185,937)	(7,747)
Excess transferred from Facility Fee specified for operations	1,199,830	-	55,000	-
2018				
Transferred from SRF to Capital Project and Debt Service Funds	3,650,842	1,309,499	301,833	7,739
Facility Fee recorded in SRF for CP and DS (improperly)	(2,700,842)	(1,309,499)	(301,833)	(7,739)
Excess transferred from Facility Fee specified for operations	950,000	-	-	-
2019				
Transferred from SRF to Capital Project and Debt Service Funds	3,678,473	329,848	198,558	1,635
Facility Fee recorded in SRF for CP and DS (improperly)	(3,612,400)	(410,500)	(302,484)	(7,756)
Excess transferred from Facility Fee specified for operations	66,073	(80,652)	(103,926)	(6,121)
2020				
Transferred from SRF to Capital Project and Debt Service Funds	3,421,632	384,354	82,009	6,289
Facility Fee recorded in SRF for CP and DS (improperly)	(3,322,215)	(410,015)	(302,172)	(7,748)
Excess transferred from Facility Fee specified for operations	99,417	(25,661)	(220,163)	(1,459)
Excess transferred from Facility Fees specified for operations	**$ 3,321,177**	(99,932)	(118,424)	(7,570)
2021 Budget				
Transferred from SRF to Capital Project and Debt Service Funds	None	None	None	None
Facility Fee recorded in SRF for CP and DS (improperly)	None	None	None	None
Excess transferred from Facility Fee specified for operations	$5,594,546			

Error in the 2019 CAFR - Facility Fees were misstated and not in accordance with the Resolution authorizing the Facility Fees

	Community Services		Beaches	
	Capital Projects	Debt Service	Capital Projects	Debt Service
Authorized by Board of Trustees	3,612,400	410,500	302,484	7,756
Recorded in CAFR	(2,508,528)	(329,848)	(198,558)	(1,635)
ERROR	1,103,872	80,652	103,926	6,121

This error was corrected prior to the end of fiscal year 2021 August 12,2020 Board Meeting - Item I.3
by transferring $1,100,000 from theSpecial Revenue Funds to the Capital Projects Funds

EXHIBIT G

Excerpt from Budget Message - May 23, 2019 by Gerald Eick - Budget for fiscal year ending June 30, 2020.

The District is expected to adopt the updated Community Services Master Plan during the budget year. Neither the operating nor capital budgets include any projects contemplated by this plan. Should any project's needs develop prior to June 30, 2020, they would have to follow the augmentation requirements to become authorized.

During the fiscal year 2016-2017 the District began the process of update and review of the Diamond Peak Master Plan by the Tahoe Regional Planning Agency (TRPA). This is a multi-year process that may not be completed until after June 30, 2020. A substantial portion of that capital project's budget will be carried over to 2019-20.

Governmental Fund Balance

The District Final Budget Summary reports the following select Fund Balances:

	Estimated Fund Balance 6/30/19	Projected Minimum by Board Policy	Projected Fund Balance 6/30/20
General Fund	$ 3,093,112	$ 199,000	$ 2,304,242
Comm. Services SR	$13,183,167	$4,493,000	$ 9,146,076
Beach Special Rev.	$ 1,749,171	$ 526,000	$ 1,123,442

Comparison across Fiscal Years Presented in Form 4404LGF

A fundamental aspect of the Form 4404LGF is comparison of information across the audited results of the fiscal year ending June 30, 2018, an estimated result for the year ending June 30, 2019, along with a presentation of the Tentative and Final budgets for the year ending June 30, 2020. The form and content for those three periods utilizes the same accounting principles and methodologies. Comparisons can be made knowing that differences are the consequence of circumstances, not methodology.

One major variation year on year relates to the District's use of Capital Projects and Debt Service Funds for the Community Services and Beach activities from July 1, 2015 through June 30, 2019. The objective for using these funds was the expectation for the need to demonstrate the sources and uses of the facility fee for capital expenditure and debt service. Our experience has been expenditures are the most sought after information. This can be demonstrated effectively within the functional expenditure reporting in Special Revenue funds. Therefore the Capital Projects and Debt Service funds will become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project.

Another variation is in the level of activity for food and beverage operations. The fiscal year 2017-18 saw increased activity. However, the greatest jump for 2018-19 relates to the Beach Fund taking on delivering food and beverage services at the two beaches. For many years, this was a concessionaire service. The respective revenues and expenditures increase, as well as the bottom line results. This also resulted in increases to FTE's with the addition of staff.