

NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at [2:00 p.m.](#) on [April 13, 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 11:00 a.m. on April 13, 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 draft report to Board of Trustees on the Annual Comprehensive Financial Report and Staff response - pages 3 - 24
 2. Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations as contained in the Final Report entitled "Evaluation of Certain Accounting and Reporting Matters", report dated January 14, 2021 - pages 25 - 63
 3. Review, discuss and determine if any further action is necessary on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021 - pages 64 - 70
 4. Review, discuss and determine if any further action is necessary on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets - pages 71 - 72
 5. Review, discuss and determine if any further action is necessary on the lack of disclosure of Claims Payable - Note 13 and Restricted Funds - Note 14 in the 2021 Annual Comprehensive Financial Report - pages 73 - 79
 6. Review, discuss and determine if any further action is necessary on the expensing net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund - pages 80 - 92
 7. Review, discuss and determine if any further action is necessary on Note 22 - Prior Period Adjustment - Annual Comprehensive Financial Report as of June 30, 2021 (ACFR) - pages 93 - 106

Incline Village General Improvement District

Incline Village General Improvement District is a fiscally responsible community partner which provides superior utility services and community oriented recreation programs and facilities with passion for the quality of life and our environment while investing in the Tahoe basin.

893 Southwood Boulevard, Incline Village, Nevada 89451 • (775) 832-1100 • FAX (775) 832-1122

www.yourtahoeplace.com

NOTICE OF MEETING

Agenda for the Audit Committee Meeting of April 13, 2022 - Page 2

8. Review, discuss and determine if any further action is necessary on the Burnt Cedar Pool: Non-compliance with NRS 354: Issuing contracts for the Burnt Cedar Pool construction in excess of available resources - pages 107 - 139
 9. Review, discuss and possibly update the Audit Committee Long Range calendar - page 140
 10. Review, discuss and determine if any further action is necessary on any correspondence received by Audit Committee
- E. MEETING MINUTES (for possible action)
1. Meeting Minutes of November 17, 2021 - pages 141 - 159
 2. Meeting Minutes of December 8, 2021 - pages 160 - 173
 3. Meeting Minutes of December 16, 2021 - pages 174 - 184
 4. Meeting Minutes of February 22, 2022 - pages 185 - 216
- 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 Friday, April 8, 2022 at 9:00 a.m., a copy of this agenda (Audit Committee Session of April 13, 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.yourtahoepace.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)

Audit Committee Members: Vacant (*At-Large Member*), Cliff Dobler (*At-Large Member*), Sara Schmitz (*Trustee*), Raymond Tulloch (*At-Large Member*), Matthew Dent (*Trustee*)

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.yourtahoepace.com; go to "Board Meetings and Agendas".**

MEMORANDUM

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: March 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.

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. The response was discussed at the February 22 Audit Committee meeting and any agreed changes made.

II Action

This report and summary of recommendations 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. The response was discussed at the February 22 Audit Committee meeting and any agreed changes made.

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.

III Recommendations

Summary of Audit Committee Decision Points and Recommendations for the Board of Trustees

1. The Audit Committee notes actions are being taken by management to address the identified issues in the Auditors Compliance Report related to Internal Controls and Construction Projects.

The Audit Committee recommends that the 21-22 audit be expanded in scope to include enhanced review of internal controls.

2. Management corrected prior years of capitalization for items considered to be maintenance and repairs. However, the FY 2019-2020 and 2020-21 ACFRs are inconsistent.
 - a. For the Utility Fund, this is estimated to be \$181,882 (see Comments and Concerns #2 and Section 3.1)
 - b. For Community Services the amount is estimated to be \$1,171,606 (see Concern 11, Section 3.3, and Appendix D). These were for preliminary stage activities which include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives, temporary repairs for the Burnt Cedar pool and temporary repairs at the Mountain Clubhouse.

- c. Similar costs were expensed for 2019-2020 (as a prior period adjustment - Note 22 of CAFR) for the Parks Master Plan (\$212,044) and the Incline Village Ballfield (\$77,216). In 2021 similar costs of \$3,100,110 for the Effluent Pipeline were charged off as a prior period adjustment. This highlights the inconsistency of the financial statements.

The Audit Committee recommends a prior period adjustment to expense items 2a & 2b for consistency and accuracy of our financial statements.

3. Contained in the initial draft of the ACFR, the Auditor had identified an additional \$866,503.70 of charge off to expenses items for items capitalized in past CAFRs. After review by Management, some items were removed including levee and roadway repairs at the wetlands, spot paving at various recreational venues, sewer line repairs and roof repairs which, as noted in #2 above, had been determined to be expense items rather than capital. **These items in aggregate amounted to a depreciated book value of \$500,016.63 and an original cost of \$2,067,116.34**
4. Additionally, equipment items were grouped together to meet the capitalization threshold while Board Practice 2.9 states “**In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item.**”. The Audit Committee Chair reviewed this with the Auditor, after the financial report was complete, and she concurred that the Board Practice is clear and not open to interpretation. In addition, an Audit Committee member reviewed with Melissa Crosthwaite, District Legal Counsel, who also concurred the statement is clear. (see Concern 8 and Section 3.2). **In total the original cost and depreciated book value of these less than \$5000 assets is \$329,558.08 and \$177,413.89.**

The Audit Committee recommends a prior year adjustment to expense these items for compliance with Board Practice and consistency and accuracy of our financial statements.

5. Beginning in 2019 investment income was credited to the General Fund instead of the funds which had cash deposits at LGIP. This caused the General Fund’s opening balance in the 2020-21 ACFR to be overstated by approximately \$492K (over a 10% overstatement). This has not been corrected.

The new process management has chosen to implement is allocating investment income not by the fund with cash invested at LGIP, but based on total cash equivalents by fund.

The Audit Committee recommends a prior period adjustment removing investment income credited to the General Fund and included in the fund

balances for the fund(s) which had cash invested at LGIP, as it had historically been done, prior to 2019.

Additionally, the committee recommends the approach for distribution of investment income be based solely on cash invested by fund or to have separate LGIP accounts by fund, like the Utility Fund, to avoid any confusion.

6. For ease of transparency, and to align with best practices, **the Audit Committee recommends the Capital Improvement budget contain only project costs that are to be capitalized. The Audit Committee recommends that projects or project elements related to repair and maintenance items are separated and included in operating expenses. A separate line item in the Statement of Income, Revenue and Expenses and Change in Net Position for repair and maintenance is recommended for all funds.** This will allow for cross referencing the expense items budgeted within Services and Supplies.

The Audit Committee recommends the additional prior period adjustments should be made to the 2020-2021 ACFR.

Thank you for considering actioning these recommendations from the Audit Committee.

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 Winqest 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 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.

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 this²:

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

Fund	Description	Value of Assets Reviewed		Audit Adjustments			% of Value at Cost	% of Value at Book Value
		Total Value (at Cost)	Total Book Value	Original Cost	Accumulated Depreciation	Book Value (6/30/21)		
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:

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

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

- 1.2.1 The normal useful life of the item is three or more years.
- 1.2.2 The item has an acquisition cost (including freight and installation) of at least the amounts listed above in each asset class.
- 1.2.3 The item will not be substantially reduced in value by immediate use.
- 1.2.4 In case of repair or refurbishment that will be capitalized, the outlay will substantially prolong the life on an existing fixed asset or increase its productivity significantly, rather than merely returning the asset to a functioning unit or making repairs of a routine nature.



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

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

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

2.0 PHYSICAL CONTROL

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

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.

Appendix D

Background

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

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

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

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

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

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

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

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

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

Appendix E

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

Burnt Cedar Pool

Repairs to circulation system -in 2019	119,498
Conceptual Design - TSK 2020	32,200
Schematic Design - TSK 2020	68,104
	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 - BJB 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 GFOA 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: Audit Committee

THROUGH: Ray Tulloch
Audit Committee Chair

FROM: Sara Schmitz
Trustee and Audit Committee Member

SUBJECT: Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

DATE: April 3, 2022

I. RECOMMENDATION

The Audit Committee recommends the Board of Trustees direct staff to implement the following recommendations from the Moss Adams Report (report attached):

1. Account and report on central services cost allocations using an Internal Services Fund with a detailed schedule of individual expenditure line items to be allocated.
2. Cease using contra-accounting (punch card accounting) within Community Services effective July 1, 2022.
3. Reflect revenues from the Facility Fee within each activity/fund/cost center at the time of budget adoption.
4. Report the Facility Fees as nonoperating revenue in the statement of revenues and expenses, as non-capital related financing activities section in the statement of cash flows and as program revenue in the statement of activities.
5. Modify the newly updated capitalization policy to include the following:
 - a. The different stages of a project and the types of costs incurred in the different stages.
 - b. The accounting treatment of costs incurred in the different stages.
 - c. What elements or criteria need to be met for expenditures associated with a repair project to be eligible for capitalization

Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

-2-

April 3, 2022

based on the concept of service capacity in addition to the extension of useful life of an asset.

II. **BACKGROUND**

In 2020, staff, the Audit Committee and members of the community who brought forward various concerns regarding the District's financial reporting, agreed to engage Moss Adams to review the issues and for all parties to accept the findings and recommendations so that the issues would be resolved.

Consistent with Board authorization, the Audit Committee engaged the services of Moss Adams LLC to undertake a review of selected District accounting and financial reporting issues. A professional services contract was awarded in an amount not to exceed \$28,410 with a scope of services to include review of four specific areas:

- 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.

The report prepared by Moss Adams, LLP (see attached) includes specific findings and recommendations informed by industry best practices that to assist the District in identifying opportunities to improve policies, procedures and practices related to accounting and financial reporting related to the specific areas addressed within the scope of work.

Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

-3-

April 3, 2022

Moss Adams conducted analysis by working with all parties, and in January 2021, presented their final report.

The District has implemented the recommendations related to Item 1 by changing to enterprise funds for both Community Services and Beach Funds.

The District has taken the first step recommended related to Item 2, and that was to:

1. Adjust the amounts charged to the various activities/funds (cost center) at to match actual costs incurred thereby modifying the charges from budgeted to actual amounts.
2. The costs accumulated and allocated to other activities/funds (cost centers) are no longer being reported within the General Fund's external financial statements. They are now being reported as costs within the activities/funds that receive the allocations.

However, other recommendation related to Central Services Cost allocations have not yet been implemented nor discussed. That included **accounting for central services within an Internal Services Fund (ISF)** 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. **To improve transparency of the internal service cost allocations, provide 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.

The District has not implemented the recommendations related to Item 3. While the District eliminated contra-revenue accounting (punch card accounting) between Community Services and the Beach Fund, however it continues to use the contra-revenue accounting for the use of punch cards between activities/funds (cost center) within Community Services.

The recommendations contained in the report on this issue are as follows:

Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

-4-

April 3, 2022

“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.”

“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 allocation of Facility Fees determined by the Board at the time of the budget adoption.”

At present, the Facility Fee is budgeted in Community Services Administration, not within each of the activities/funds/cost centers.

“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 nonoperating section in the statement of revenues and expenses and the non-capital related financing activities section in the statement of cash flows.**”

Additionally, “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)**”

As it relates to Item 4, the District's newly approved Capitalization Policy (see attached) doesn't incorporate the recommendations as follows:

Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

-5-

April 3, 2022

“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.”

While the policy lists stages of a project, it doesn't identify how costs are to be accounted for by stage. This additional clarification is needed within the policy.

Additionally, the Moss Adam report recommends “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.”

“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)”

What is notable is that the Moss Adams report identified policy “provides that only expenditures in excess of \$5,000 will be eligible for capitalization.” on page 26 of the report. Moss Adams did NOT make a recommendation on grouping assets to achieve the threshold. The 2021-22 ACFR did not comply with this policy and the newly created policy for grouping doesn't comply with any recommendations made by Moss Adams.

While the Audit Committee may have other recommendations for updates to the newly created capitalization policy, this agenda item is addressing the Moss Adams Report recommendations, exclusively.

Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations

-6-

April 3, 2022

IV. FINANCIAL IMPACT AND BUDGET

Improved financial reporting and clarity of budgeting.

V. ALTERNATIVES

Do nothing. This will continue the ongoing discussions of longstanding concerns and issues related to the District's financial reporting.

Engage another external auditor to review the remaining unimplemented recommendations and provide further clarification and recommendations.

VI. COMMENTS

None.

VII. BUSINESS IMPACT

Time, and therefore money, is being wasted continuing to discuss the remaining items yet to be implemented. Staff, the Audit Committee and members of the community agreed prior to the engagement of Moss Adam that the recommendations would be accepted. By taking action to implement the remaining recommendations, the longstanding issues will be resolved and no longer consume the time of staff, the Board of Trustees and members of the community.



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



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 <i>requiring</i> 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 Facility 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.

<p>3 Observation</p>	<p>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.</p>
<p>Recommendation</p>	<p>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.</p>

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 Services 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 allocation 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 capitalized 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. (GAAPFR 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. (GAAPFR 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:

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

2.1 Capitalization thresholds are typically to be applied to individual items. Thresholds may be applied to a network or group of items when:

- 1) Similar types of assets are grouped together as a class (example: golf carts when they are components of a fleet; banquet facility furnishing)
- 2) The items represent components of a system or network (components of a computer/ telephone network; snow-making system)

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

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

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)

and/or services, and ancillary charges.

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

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

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

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

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

5.0 Criteria for Capitalization of Fixed Assets

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

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)

- 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.

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)

- 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)

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tulloch

FROM: Clifford F. Dobler

SUBJECT: Effluent Pipeline CIP charges to expense for FY 2020 and 2021

STRATEGIC

PLAN REFERENCE(S): None

DATE: 3-17-2022

I. RECOMMENDATION

The Audit Committee recommends that a charge off to expense of \$182,022 for costs incurred on the Effluent Pipeline during Fiscal years ending June 30, 2020 and 2021. The Audit Committee also recommends that the charge off occur in a restated ACFR for fiscal year 2021.

II. BACKGROUND and ANALYSIS

The Effluent Pipeline Project (excluding the pond) has not progressed beyond preliminary stage activities which include conceptual formulation, evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives. According to the Moss Adams report, costs incurred in the preliminary stage activities are typically expensed as they are not directly connected with creating service capacity.

On February 10, 2021, the Audit Committee submitted its report to the Board of Trustees and recommended that \$3,179,000 of costs incurred through June 30, 2019 should be expensed. The Board of Trustees accepted the report but the costs were not charged off in the fiscal year ending June 30, 2020.

In the fiscal year ending June 30, 2021, after considerable debate, \$3,110,110 was charged off as expense and reported as a prior period adjustment. An explanation of the \$69,000 difference between the AC recommendation and the charge off was never disclosed to the Audit Committee.

During fiscal years ending June 30, 2020 and 2021, additional costs of \$110,790 and \$71,233 have been recorded as Construction in Progress and not been charged off as an expense.

During the current fiscal year ending June 30, 2022, it is anticipated that approximately \$800,000 to \$1,000,000 in costs may be incurred for preliminary stage activities on the Effluent Pipeline and will require charge offs.

Exhibit A - Capital Improvement Report as of June 30, 2020

Exhibit B - Capital Improvement Report as of June 20, 2021

III. **BID RESULTS**

Not required

IV. **FINANCIAL IMPACT AND BUDGET**

Material weakness in financial reporting.

V. **ALTERNATIVES**

NONE

VI. **COMMENTS**

IGNOR the AC recommendation and continue inconsistency in financial reporting

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

None

VIII. **BUSINESS IMPACT**

Material weakness in financial reporting could lead to higher interest rates on the planned borrowing

EXHIBIT A

Project Description	CIP #	Carry Forward 2019-20	Capital Budget 2019-20	Budget Reallocations	Carry Forward to FY 2020-21	6/30/2019 Balance	Object 8120 & 8105 Additions	Cost Transfers	Asset in Service	6/30/2020 CIP Balance
General Fund										
Administration Fire Panel Replacement	1099BD1803	-	-	-	-	18,000.00	9,466.90	-	27,466.90	-
Check Writer Printer Replacement - 893 Southwood Administration Building	12120E1601	6,000.00	-	-	-	-	-	-	-	-
Digital Records Management System	1099CO1802	75,000.00	-	-	-	-	-	-	-	-
District Communication Radios	1213CE1701	-	6,000.00	-	-	-	5,779.83	-	5,779.83	-
District Wide PC, Laptops, Peripheral Equipment and Desk Top Printers	1213CO1703	-	95,000.00	-	-	-	59,868.70	-	59,868.70	-
Human Resource Management and Payroll Processing Software	1315CO1801	120,000.00	180,000.00	-	300,000.00	-	-	-	-	-
IT Infrastructure	1213CO1505	-	132,800.00	-	-	-	201,356.60	-	201,356.60	-
IT Master Plan - IT Security Devices	1213CE1101	-	15,000.00	-	-	-	-	-	-	-
Microsoft Exchange Server	1213CO1802	-	28,600.00	-	-	-	-	-	-	-
Microsoft Office Licenses	1213CO1803	-	9,045.00	-	-	-	-	-	-	-
Pavement Maintenance - Administration Building	1099LI1705	-	5,000.00	-	-	-	2,952.00	-	2,952.00	-
Windows Server Operating System	1213CO1804	-	14,000.00	-	-	-	-	-	-	-
		201,000.00	485,445.00	-	300,000.00	18,000.00	279,424.03	-	297,424.03	-
						Fund 990	Fund 100		Fund 990	Fund 990
Utilities										
Household Hazardous Waste Building Improvements	2097BD1802	-	15,000.00	-	-	-	-	-	-	-
Adjust Utility Facilities in NDOT/Washoe County Right of Way	2097DI1401	-	60,000.00	-	-	45,182.00	37,236.23	-	60,557.42	21,860.81
2010 International Vactor Truck #638	2097HV1732	-	-	-	-	-	416,563.50	-	416,563.50	-
1996 Peterbilt Dump Truck #299	2097HV1754	-	75,000.00	-	-	-	-	-	-	-
2004 9' Western Snow Plow #542A	2097LE1723	-	9,000.00	-	-	-	-	-	-	-
2015 Sander/Spreader #710	2097LE1724	-	20,000.00	-	-	-	7,829.31	-	7,829.31	0.00
Pavement Maintenance, Utility Facilities	2097LI1401	-	45,000.00	-	-	-	26,384.36	-	26,384.36	-
2004 GMC 1-Ton Flatbed #542 Pipeline Dept.	2097LV1746	-	48,000.00	-	-	-	-	-	-	-
2008 Chevrolet Service Truck #609 Meter Truck	2097LV1747	-	36,000.00	-	-	-	31,158.98	-	31,158.98	-
Water Reservoir Safety and Security Improvements (Moved from Water)	2097DI1701	386,600.00	10,000.00	-	389,396.00	52,529.75	10,709.01	-	-	63,238.76
Water										
Water Pumping Station Improvements	2299DI1102	-	45,000.00	-	-	43,100.00	38,201.84	-	81,301.84	-
Replace Commercial Water Meters, Vaults and Lids	2299DI1103	-	20,000.00	-	-	618.87	10,883.21	-	11,502.08	-
Water Reservoir Coatings and Site Improvements	2299DI1204	-	85,000.00	-	-	-	71,638.39	-	71,638.39	-
Burnt Cedar Water Disinfection Plant Improvements	2299DI1401	-	50,000.00	-	-	-	22,135.00	-	-	22,135.00
Water Pump Station 2-1 Improvements	2299DI1702	791,800.00	-	-	-	45,700.00	332,085.44	-	377,785.44	-
Burnt Cedar Water Disinfection Plant Emergency Generator Fuel Tank Upgrades	2299DI1707	-	200,000.00	-	175,000.00	-	23,928.25	-	-	23,928.25
Watermain Replacement - Martis Peak Road	2299WS1704	-	50,000.00	-	-	-	58,499.12	-	-	58,499.12
Leak Study R2-1 14inch Steel	2299WS1801	-	-	-	-	78,156.08	349.80	-	-	78,505.88
Watermain Replacement - Alder Avenue	2299WS1802	-	-	-	-	37,587.80	-	-	37,587.80	-
Sewer										
Effluent Export Line - Phase II	2524SS1010	2,251,918.00	2,000,000.00	-	11,586,890.00	662,506.59	71,232.93	-	-	733,739.52
Building Upgrades Water Resource Recovery Facility	2599BD1105	-	10,000.00	-	-	-	-	-	-	-
Treatment Plant Fire Panel Replacement	2599BD1802	-	-	-	-	65,000.00	(13,884.00)	-	51,116.00	-
Sewer Pumping Station Improvements	2599DI1104	-	15,000.00	-	-	-	17,265.15	-	17,265.15	-
Sewer Pump Station #1 Improvements	2599DI1703	220,000.00	250,000.00	-	390,866.00	56,098.15	79,750.23	-	-	135,848.38
Wastewater Treatment Plant Improvements	2599SS1102	-	100,000.00	-	-	57,423.18	44,666.99	-	95,623.85	6,466.32
Wetlands Effluent Disposal Facility Improvements	2599SS1103	-	10,000.00	-	-	-	9,654.44	-	9,654.44	-
Replace & Reline Sewer Mains & Manholes	2599SS1203	-	10,000.00	-	-	79,058.77	18,100.36	-	97,159.13	-
WRRF Biosolids Bins	2599SS1702	-	-	-	-	61,300.00	-	-	61,300.00	-
WRRF Aeration System Improvements	2599SS1707	100,000.00	1,200,000.00	466,500.00	1,598,524.00	133,791.30	329,758.73	-	-	463,550.03
UTILITIES SUBTOTALS:		3,750,318.00	4,363,000.00	466,500.00	14,140,676.00	1,418,052.49	1,644,147.27	-	1,454,427.69	1,607,772.08
Golf										
Championship Golf										
Championship Course Greens, Tees and Bunkers	3141GC1202	25,000.00	-	-	-	67,322.36	20,351.66	-	87,674.02	-
Championship Course Greens and Surrounds	3141GC1802	-	15,000.00	-	-	9,468.33	11,874.76	-	21,343.09	-
Venue Signage Enhancement	3141BD1706	20,000.00	40,000.00	-	-	-	-	-	-	-
Champ. Golf Fuel Tank Epoxy Coating - Unbudgeted	3141BD2001	-	Unbudgeted	-	-	-	8,500.00	-	8,500.00	-
Championship Golf Course Bear Boxes	3141FF1903	-	7,000.00	-	-	-	6,654.70	-	6,654.70	-
Irrigation Improvements	3141GC1103	-	30,000.00	-	5,000.00	-	24,057.24	-	24,057.24	-
Maintenance Building Drainage, Washpad and Pavement improvements	3141GC1501	-	30,000.00	-	-	-	48,092.18	-	-	48,092.18
Championship Course Tees	3141GC1803	-	15,000.00	-	-	-	12,198.40	-	12,198.40	-
Pavement Maintenance of Parking Lots - Champ Course & Chateau	3141LI1201	-	17,500.00	-	-	-	12,891.00	-	12,891.00	-
Pavement Maintenance of Cart Paths - Champ Course	3141LI1202	-	60,000.00	-	-	-	57,074.00	-	57,074.00	-
2005 Carryall Club Car #564	3142LE1733	-	11,000.00	-	-	-	11,468.00	-	11,468.00	-
2005 Carryall Club Car #565	3142LE1734	-	11,000.00	-	-	-	11,468.00	-	11,468.00	-
2005 Carryall Club Car #566	3142LE1735	-	11,000.00	-	-	-	11,468.00	-	11,468.00	-
2005 Carryall Club Car #567	3142LE1736	-	11,000.00	-	-	-	11,468.00	-	11,468.00	-
Replacement of 2010 John Deere 8500 #641	3142LE1760	-	92,000.00	-	92,000.00	-	-	-	-	-
Driving Range Improvements	3143GC1202	-	31,000.00	-	-	-	17,525.19	-	17,525.19	-
Champ Grille Kitchen Equipment	3153FF1204	-	46,200.00	-	-	-	51,611.67	-	51,611.67	-

Summary of CIP Activity by Project for the Fiscal Year Ending 6/30/2020

Project Description	CIP #	Carry Forward 2019-20	Capital Budget 2019-20	Budget Reallocations	Carry Forward to FY 2020-21	6/30/2019 Balance	Object 8120 & 8105 Additions	Cost Transfers	Asset in Service	6/30/2020 CIP Balance
1997 1-Ton Dump Truck #419	3197HV1749	-	5,000.00	-	-	-	-	-	-	-
2015 John Deere 1500 Fairway Aerator #716	3197LE1732	-	27,000.00	-	-	-	27,646.86	-	27,646.86	-
2005 John Deere Pro Gator #569	3197LE1740	-	34,500.00	-	-	-	34,507.85	-	34,507.85	-
2015 Greens Roller #715	3197LE1741	-	17,000.00	-	-	-	12,600.00	-	12,600.00	-
2014 Vibratory Greens Roller #696	3197LE1742	-	17,000.00	-	-	-	12,600.00	-	12,600.00	-
2004 John Deere 4410 Tractor #548	3197LE1746	-	40,000.00	-	-	-	27,641.01	-	27,641.01	-
Maintenance Shop Crane and Equipment Lift	3197ME1710	-	30,000.00	-	21,827.00	-	8,173.00	-	-	8,173.00
Championship Golf Printer Copier Replacement 955 Fairway	3199OE1501	-	10,000.00	-	-	-	-	-	-	-
Mountain Golf										
ADA Access to On-course Restrooms	3241BD1402	-	-	-	-	7,687.35	-	-	7,687.35	-
Mtn. Golf Course Remodel On Course Bathrooms, #6 & #13/14	3241BD1503	-	60,000.00	-	-	141,650.17	27,357.70	-	169,007.87	-
Mountain Course Greens, Tees and Bunkers	3241GC1101	-	43,000.00	-	15,000.00	20,561.48	29,436.29	-	49,997.77	Expense
Irrigation Improvements	3241GC1404	-	39,000.00	-	18,000.00	-	20,953.23	-	20,953.23	Expense
Mountain Course Clubhouse and Maintenance Building Water Service Line Replacement	3241GC1802	-	65,000.00	(65,000.00)	-	-	-	-	-	-
Mountain Golf Course Cart Path Retaining Walls	3241LI1704	-	17,500.00	-	-	7,000.00	2,650.00	-	-	9,650.00
Mountain Golf Cart Path Replacement - Unbudgeted	3241LI1903	-	-	166,395.00	166,395.00	-	-	-	-	-
Mountain Course 58 Cart Fleet	3241LV1899	-	288,000.00	(166,395.00)	113,985.00	-	-	-	-	-
Mountain Golf Fuel Storage Facility	3241ME1804	-	200,000.00	-	-	-	-	-	-	-
2005 Carryall Club Car #568	3242LE1725	-	11,000.00	-	-	-	11,468.00	-	11,468.00	-
Pavement Maintenance of Parking Lot - Mountain Golf Course	3242LI1204	-	22,500.00	-	-	-	21,750.00	-	21,750.00	Expense
Pavement Maintenance of Cart Paths - Mountain Golf Course	3242LI1205	-	40,000.00	-	-	-	36,573.00	-	36,573.00	Expense
Mountain Course Clubhouse and Maintenance Building Replacement	3299BD1403	-	-	-	-	132,203.83	-	-	-	132,203.83
Repair Roof - Mountain Golf Club House	3299BD1702	76,400.00	25,000.00	-	-	-	114,666.14	-	122,738.14	Cost overrun
Paint Exterior of Mountain Golf Clubhouse	3299BD1705	27,800.00	41,500.00	-	-	-	19,080.00	Expense 2019	19,080.00	-
Mountain Clubhouse Fire Repairs - Unbudgeted	3299BD1902	-	1,464,000.00	65,000.00	-	150,751.45	1,309,027.23	-	1,591,982.51	(132,203.83)
		149,200.00	2,924,700.00	-	432,207.00	544,716.97	2,032,833.11	-	2,511,634.90	65,915.18
Facilities										
Chateau - Replace Carpet	3350BD1103	-	62,000.00	-	-	-	41,745.00	-	-	41,745.00
Replace Hallway Tile at Chateau	3350BD1804	-	65,000.00	-	-	-	-	-	-	-
Repair and Refinish Wood Walls Upstairs at Chateau	3350BD1805	-	10,000.00	-	-	-	9,275.00	-	9,275.00	-
Catering Kitchen Equipment	3350FF1204	-	18,900.00	-	-	-	24,438.84	-	-	24,438.84
Enclose Chateau Exterior Storage Area	3350FF1601	6,500.00	-	-	-	3,875.00	(3,875.00)	Where reclassified?	-	-
Replacement Sod at Aspen Grove	3351LI1807	-	18,000.00	-	-	-	-	-	-	-
		6,500.00	173,900.00	-	-	3,875.00	71,583.84	-	9,275.00	66,183.84
Ski										
Base Lodge Walk In Cooler and Food Prep Reconfiguration	3453BD1806	-	25,000.00	-	25,000.00	-	-	-	-	-
Replace Main Lodge/Snowflake Lodge Dinning Furniture and Fixtures	3453FF1706	-	38,000.00	-	-	-	37,270.00	-	37,270.00	-
Lakeview Ski Lift Maintenance and Improvements	3462HE1702	-	250,000.00	-	239,864.00	-	19,815.60	-	-	19,815.60
Red Fox Ski Lift Maintenance and Improvements	3462HE1712	-	30,000.00	-	-	-	-	-	-	-
Replacement of 2008 Grooming vehicle # 628	3463HE1727	-	390,000.00	-	-	-	374,500.00	-	374,500.00	-
Vehicle Shop/Snowmaking Pumphouse Roof	3464BD1302	-	-	-	-	7,320.00	-	-	7,320.00	-
Resurface Main Lodge Decks	3464BD1403	-	75,200.00	-	-	-	55,337.50	-	55,337.50	-
Replace Snowmaking Air Compressor Microprocessor Control Units	3464HE1902	-	100,000.00	-	-	-	73,120.96	-	73,120.96	-
Ski Resort Snowmobile Fleet Replacement	3464LE1601	-	15,500.00	-	-	-	14,517.98	-	14,517.98	-
2012 Yamaha ATV #683	3464LV1731	-	18,000.00	-	-	-	17,882.57	-	17,882.57	-
Diesel Exhaust Fluid Storage/Dispenser	3464ME1907	-	20,000.00	-	-	-	12,823.44	-	12,823.44	-
Fan Guns Purchase and Refurbishment	3464SI1102	-	130,000.00	-	-	-	117,814.16	-	117,814.16	-
Snowmaking Infrastructure Evaluation and Enhancement	3464SI1104	-	-	-	-	33,500.00	(33,500.00)	-	-	-
Upgrade Popular Snowmaking Power Alignment	3464SI1708	24,000.00	-	-	-	19,324.34	(19,324.34)	-	-	-
Replace Ski Rental Equipment	3468RE0002	135,000.00	200,000.00	-	335,000.00	-	-	-	-	-
Pavement Maintenance, Diamond Peak and Ski Way	3469LI1105	-	55,000.00	-	-	-	48,235.48	-	48,235.48	Expense
Ski Way and Diamond Peak Parking Lot Reconstruction	3469LI1805	-	225,000.00	-	220,000.00	43,599.90	(3,320.00)	-	-	40,279.90
Diamond Peak Way Finding Signage Evaluation and Enhancement	3469RS1709	16,550.00	-	-	-	23,450.00	-	-	-	23,450.00
Ski Area Master Plan Update and Summer Activities Assessment	3499BD1399	-	-	-	-	156,029.78	-	-	-	156,029.78
Diamond Peak Facilities Flooring Material Replacement	3499BD1710	-	43,000.00	-	-	-	39,055.18	-	39,055.18	-
Ski Fleet Fire Panel Replacement - Unbudgeted	3499BD1801	-	-	-	-	-	-	-	-	-
Snowflake Lodge Facilities Maintenance and Improvements	3499BD1803	-	-	-	-	4,533.99	-	-	4,533.99	-
Storage Building Replacement Design Evaluation (Net of Grants)	3499BD1804	40,000.00	-	-	-	-	-	-	-	-
Ski Rental Shop Doors	3499BD1904	-	13,000.00	-	-	-	9,362.00	-	9,362.00	-
HVAC Control Changeout	3499BD1905	-	21,000.00	-	-	-	-	-	-	-
Ecommerce / Middleware Software	3499CE1909	-	202,000.00	-	202,000.00	-	-	-	-	-
Skier Services Building Customer Service Counter	3499FF1607	-	12,000.00	-	-	12,985.00	800.00	-	13,785.00	-
Skier Services Administration Printer Copier Replacement 1210 Ski Way	3499OE1502	-	10,000.00	-	-	-	-	-	-	-
Ski Area Master Plan Implementation - Phase 1	3653BD1501	682,600.00	-	-	450,000.00	67,302.73	28,320.00	-	-	95,622.73
		898,150.00	1,872,700.00	-	1,471,864.00	368,045.74	792,710.53	-	825,558.26	335,198.01
Parks										
Aspen Grove Flatscape and Retaining Wall Enhancement and Replacement	4378BD1605	-	55,000.00	-	-	-	-	-	-	-
Rosewood Creek Foot Bridges	4378BD1705	-	8,000.00	-	-	-	-	-	-	-

Summary of CIP Activity by Project for the Fiscal Year Ending 6/30/2020

Project Description	CIP #	Carry Forward 2019-20	Capital Budget 2019-20	Budget Reallocations	Carry Forward to FY 2020-21	6/30/2019 Balance	Object 8120 & 8105 Additions	Cost Transfers	Asset in Service	6/30/2020 CIP Balance
Incline Park Fencing Refurbishment	4378BD1707	18,000.00	-	-	-	-	-	-	-	-
Incline Park Improvements - Unbudgeted	4378BD1801	-	-	-	-	120,267.57	-	-	-	120,267.57 expense
Village Green Restroom drainage improvements	4378BD1901	-	25,000.00	-	-	-	5,886.28	-	-	5,886.28
Incline Park Backflow Device Replacement	4378BD1702	18,800.00	32,000.00	-	-	3,817.29	42,179.59	-	45,996.88	-
2005 Shattertine Aerifier	4378LE1724	-	8,100.00	-	-	-	8,515.00	-	8,515.00	-
2008 JD Pro-Gator #623	4378LE1730	-	35,000.00	-	-	-	34,677.06	-	34,677.06	-
2013 Ball Field Groomer #681	4378LE1739	-	17,100.00	-	-	-	21,000.00	-	21,000.00	-
2013 Ball Field Mower / Toro 3500D Groundskeeper #682	4378LE1740	-	35,400.00	-	-	-	33,822.19	-	33,822.19	-
High School Public Park	4378LI0903	-	-	-	-	77,216.47	(77,216.47)	-	-	-
Pavement Maintenance, East & West End Parks	4378LI1207	-	-	-	-	1,100.00	-	-	-	1,100.00
Pavement Maintenance, Village Green Parking	4378LI1303	-	5,000.00	-	-	1,910.10	-	-	-	1,910.10
Pavement Maintenance, Preston Field	4378LI1403	-	5,000.00	-	-	1,910.10	-	-	-	1,910.10
Bocce Courts at Rec Center	4378LI1503	-	-	-	-	8,240.68	-	-	-	8,240.68
Incline Creek Restoration Project - Upstream of SR-28 (Net of Grants)	4378LI1504	178,800.00	163,200.00	-	-	-	-	-	-	-
Restoration Project - Upstream of SR28	4378LI1504B	36,000.00	-	-	-	71,120.50	346,454.22	-	417,574.72	-
Pavement Maintenance, Overflow Parking Lot	4378LI1602	-	5,000.00	-	-	1,910.10	(1,910.10)	-	-	-
Pump Track Demonstration	4378LI1604	317,852.00	-	-	-	6,066.92	(6,066.92)	-	-	0.00
Pavement Maintenance - Incline Park	4378LI1802	-	7,500.00	-	-	1,500.00	7,250.00	-	8,750.00	-
Incline Park Facility Renovations (Net of Grants)	4378LI1803	-	-	-	-	33,330.00	1,435,384.67	-	-	1,468,714.67
Bocce Courts at Recreation Center Property Design	4378LI1804	15,000.00	-	115,000.00	-	-	94,836.60	-	-	94,836.60
2003 1-Ton Service Truck #520	4378LV1736	-	43,000.00	-	-	-	-	-	-	-
		584,452.00	444,300.00	115,000.00	-	328,389.73	1,944,812.12	-	570,335.85	1,702,866.00
Tennis										
Tennis Center Renovation	4588BD1604	8,450.00	1,285,000.00	(115,000.00)	996,630.00	52,315.00	199,108.19	-	-	251,423.19
Pavement Maintenance, Tennis Facility	4588LI1201	-	23,500.00	-	-	3,100.00	20,710.00	-	23,810.00	-
Resurface Tennis Courts 3 thru 7	4588RS1402	-	-	-	-	34,965.00	(1,690.00)	-	33,275.00	-
Resurface Tennis Courts 1 and 2	4588RS1501	-	47,000.00	-	-	-	15,650.00	-	-	15,650.00
Tennis Facility Study	4588RS1605	-	-	-	-	40,142.24	-	-	-	40,142.24
		8,450.00	1,355,500.00	(115,000.00)	996,630.00	130,522.24	233,778.19	-	57,085.00	307,215.43
Recreation Center										
Rec Center Natatorium Mezzanine - Unbudgeted Project from FY 15/16	4884BD1501	-	-	-	-	6,929.10	(6,929.10)	-	-	-
Replace Walkway Bollard Lights	4884BD1703	54,950.00	55,000.00	-	-	5,550.00	100,503.00	-	-	106,053.00
Repair Deck Stairs and Powder Coat All Patio Deck Railings	4884FF1502	-	20,000.00	14,190.00	-	128,660.50	5,669.75	-	134,330.25	-
Recreation Center Natatorium Mezzanine Safety Enhancements	4884BD1601	-	90,000.00	-	-	-	-	-	-	-
External Surveillance Security Cameras for Recreation Center	4884CE1903	-	15,000.00	-	-	-	11,045.28	-	11,045.28	-
Pavement Maintenance, Recreation Center Area	4884LI1102	-	57,500.00	-	-	-	27,364.04	-	27,364.04	-
Pool Facility Deck/Floor Re-coat	4885BD1606	-	34,000.00	(14,190.00)	-	-	19,810.00	-	19,810.00	-
Fitness Equipment	4886LE0001	-	44,200.00	-	-	-	17,718.66	-	-	17,718.66
Paint Interior of Recreation Center	4899BD1305	-	15,500.00	-	-	-	-	-	-	-
Paver install Front Walkway at Recreation Center	4899BD1801	-	82,500.00	-	-	-	69,633.00	-	69,633.00	-
		54,950.00	413,700.00	-	-	141,139.60	244,814.63	-	262,182.57	123,771.66
Community Services Administration										
Parks and Recreation Master Plan Update	4999RS1603	-	-	-	-	261,501.64	(261,501.64)	-	-	-
		-	-	-	-	261,501.64	(261,501.64)	-	-	-
COMMUNITY SERVICES SUBTOTALS:		1,701,702.00	7,184,800.00	-	2,900,701.00	1,778,190.92	5,059,030.78	-	4,236,071.58	2,601,150.12
Beaches										
Burnt Cedar Food & Beverage Customer Improvements	3939BD1803	8,650.00	-	-	-	1,750.00	(1,750.00)	-	-	-
Burnt Cedar Swimming and Toddler Pool Resurface and Mechanical Improvements	3970BD2601	-	800,000.00	-	-	119,497.56	30,496.25	-	-	149,993.81
Kayak Rack Enhancements	3972LI1801	-	-	-	-	23,032.32	-	-	23,032.32	-
Incline Beach Facility Study	3973LI1302	29,400.00	-	-	-	210,631.84	5,500.00	-	-	216,131.84
Incline Beach Shade Structure - Unbudgeted Project from FY 15/16	3999BD1507	-	-	-	-	6,000.00	-	-	-	6,000.00
Pavement Maintenance, Ski Beach	3972BD1301	-	11,000.00	-	-	-	11,496.87	-	11,496.87	-
Beaches Flatscape and Retaining Wall Enhancement and Replacement	3972BD1501	-	55,000.00	-	-	-	16,925.00	-	16,925.00	-
Burnt Cedar Dumpster enclosure	3972BD1707	-	10,000.00	-	-	-	1,300.00	-	-	1,300.00
Beach Furnishings	3972FF1704	20,000.00	-	-	-	-	18,041.00	-	18,041.00	-
Pavement Maintenance, Burnt Cedar Beach	3972LI1202	50,000.00	6,000.00	-	-	-	-	-	-	-
		108,050.00	882,000.00	-	-	360,911.72	82,009.12	-	69,495.19	373,425.65
Grand Total		5,761,070.00	12,915,245.00	466,500.00	17,341,377.00	3,575,155.13	7,064,611.20	-	6,057,418.49	4,582,347.85

EXHIBIT B

Incline Village General Improvement District		Capital Improvement Projects Report to the Board of Trustees		For the Fourth Quarter - Fiscal Year Ending June 30, 2021								
DESCRIPTION	PROJECT #	Prior Year	Current Year	Projects Cancelled	Adjustments	Reallocation	Future Year	FY2020/21	Fiscal Year		Status	
		Carry Forward	Budgeted				Reservation Fund Balance	Adjusted Budget	Expenditures As of 6/30/21	Variance		
General Fund:												
IT Master Plan - IT Security Devices	1213CE1101		15,000					15,000	-	15,000		
District Wi-Fi Installation Update	1213CE1501		40,000					40,000	16,382	23,618	Completed	
District Communication Radios	1213CE1701		6,000					6,000	5,827	173	Completed	
District Wide Update to Voice Over Internet Phone System	1213CE1901		60,000					60,000	55,596	4,404	Completed	
IT Infrastructure	1213CO1505		91,800			(33,700)		58,100	0	58,100	Completed	
District Wide PC, Laptops, Peripheral Equipment and Desk Top Printers	1213CO1703		97,050					97,050	57,053	39,997	On-going	
Microsoft Office Licenses	1213CO1803		9,300			(9,300)		-	-	-	Re-allocation	
Windows Server Operating System	1213CO1804		14,000			43,000		57,000	56,547	453	Completed	
Admin Roof Repairs	1099BD1501		12,000					12,000	-	12,000	Delayed	
Pavement Maintenance - Administration Building	1099LI1705		5,000					5,000	700	4,300	On-going	
Human Resources Management and Payroll Processing	1315CO1801		300,000					300,000	237,353	62,647	In Progress	
	Total General Fund		\$ 300,000			\$ 350,150		\$ -	\$ -	\$ 650,150	\$ 429,458	\$ 220,692
Utility Fund:												
Arc Flash Study - Utilities	2097BD2001		60,000					60,000	44,839	15,161	Completed	
Public Works Billing Software Replacement	2097CO2101		10,000					10,000	-	10,000	Delayed	
Adjust Utility Facilities in NDOT/Washoe County Right of Way	2097DI1401		25,000					25,000	21,874	3,126	On-going	
Water Reservoir Safety and Security Improvements	2097DI1701	389,396	200,000		(3,505)			585,891	518,815	67,076	In Progress	
2011 Chevrolet Service Truck #647 Treatment	2097LV1749		45,000					45,000	43,036	1,964	Completed	
2004 9' Western Snow Plow #542A	2097LE1723				9,000			9,000	9,000	-	Completed	
2004 GMC 1-Ton Flatbed #542 Pipeline Dept.	2097LV1746				48,000			48,000	52,883	(4,883)	Completed	
1996 Peterbilt Dump Truck #299	2097HV1754				75,000			75,000	70,608	4,392	Completed	
Pavement Maintenance, Utility Facilities	2097LI1401				22,763			22,763	17,900	4,863	On-going	
	Utility Shared Projects	389,396	340,000		151,258			880,654	778,955	101,699		
Water Pumping Station Improvements	2299DI1102		70,000					70,000	46,999	23,001	In Progress	
Replace Commercial Water Meters, Vaults and Lids	2299DI1103		55,000					55,000	48,818	6,182	On-going	
Water Reservoir Coalings and Site Improvements	2299DI1204		85,000					85,000	85,000	0	Delayed	
Burnt Cedar Water Disinfection Plant Improvements	2299DI1204		25,000					25,000	7,347	17,653	In Progress	
Watermain Replacement - Martis Peak Road vicinity	2299WS1704		990,000			(353,910)		636,090	588,790	47,300	Completed	
Watermain Replacement - Slott Pk Cl	2299WS1706					45,000		45,000	28,575	16,425	In Progress	
Burnt Cedar Water Disinfection Plant Emergency Generator Fuel Tank Upgrades	2299DI1707		175,000			1,072		176,072	1,728	174,344	In Progress	
Unallocated Capital Project Funding						308,910		308,910	-	308,910		
	Water	175,000	1,225,000		1,072			1,401,072	722,257	678,815		
Effluent Export Pipeline Project												
Effluent - Pond Lining	2524SS1010		11,586,890					(11,586,890)	2,000,000	110,790	1,889,210	Multi-Year
Building Upgrades Water Resource Recovery Facility	2599BD1105		80,000					80,000	52,726	27,274	In Progress	
Sewer Pumping Station Improvements	2599DI1104		70,000					70,000	48,263	21,737	In Progress	
Sewer Pump Station #1 Improvements	2599DI1703	390,866	650,000		(616)			1,040,250	1,225	1,039,025	Delayed	
Water Resource Recovery Facility Improvements	2599SS1102		125,000					125,000	102,149	22,851	In Progress	
Wetlands Effluent Disposal Facility Improvements	2599SS1103		16,500					16,500	16,340	160	Completed	
Replace & Re-line Sewer Mains, Manholes and Appurtenances	2599SS1203		80,000					80,000	69,270	10,730	On-going	
WRRF Aeration System Improvements	2599SS1707		1,598,524		(161,783)			1,436,741	1,405,669	31,072	Completed	
	Sewer	13,576,280	3,021,500		(162,399)			4,848,491	1,806,432	3,042,059		
	Total Utility Fund	\$ 14,140,676	\$ 4,586,500		\$ (10,069)			\$ (11,586,890)	\$ 7,130,217	\$ 3,307,644	\$ 3,822,573	
Internal Service:												
Replace 2004 Pick-up Truck 4X4 (1/2-ton) #540 Used Internal	5394LV1722		5,000					5,000	-	5,000		
	Total Internal Service	\$ -	\$ 5,000		\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ 5,000		
Championship Golf Course:												
Champ Golf Exterior Ice-maker Replacement	3141FF1804		10,500					10,500	7,556	2,944		
Championship Golf Course Bear Boxes	3141FF1903		6,000					6,000	5,845	155	Completed	
Irrigation Improvements	3141GC1103	5,000	15,000		943			20,943	18,714	2,229	Completed	
Maintenance Building Drainage, Washpad and Pavement	3141GC1501		700,000			(121,567)		578,433	548,258	30,175	Completed	
Pavement Maintenance of Parking Lots - Champ Course & Chateau	3141LI1201		55,000					55,000	48,394	6,606	Completed	
Pavement Maintenance of Cart Paths - Champ Course	3141LI1202		62,500					62,500	2,525	59,975	In Progress	
Championship Golf Course Electric Cart Fleet and GPS	3141LV1898		378,000					378,000	-	378,000	Delayed	
2006 Carrvill Club Car #589	3142LE1737		13,000					13,000	-	13,000	In Progress	
2006 Carrvill Club Car #590	3142LE1738		13,000					13,000	-	13,000	In Progress	
2006 Carrvill Club Car #591	3142LE1739		13,000					13,000	-	13,000	In Progress	
2016 Bar Cart #724	3142LE1741		17,000					17,000	-	17,000	Delayed	
2016 Bar Cart #725	3142LE1742		17,000					17,000	-	17,000	Delayed	
Replacement of 2010 John Dere 8500 #641	3142LE1760	92,000						92,000	-	92,000	Delayed	
Driving Range Nets	3143GC1201		90,000					90,000	96,000	(6,000)	Completed	
2008 Planetair HD50 #616	3197LE1731		38,000					38,000	27,000	11,000	Completed	
2017 TORO Procore 864 Aerator #747	3197LE1735		28,000					28,000	28,596	(596)	Completed	
2017 Deep Tine Aerator #763	3197LE1752		27,000					27,000	27,102	(102)	Completed	
Graden Sand Injection Verticutter	3197LE1902		18,500					18,500	16,450	2,050	Completed	
2017 TORO Procore 864 Aerator #756	3197LE2004		33,500					33,500	34,453	(953)	Completed	
Maintenance Shop Crane and Equipment Lift	3197ME1710		21,827					21,827	-	21,827	Completed	
Unallocated Capital Project Funding						121,567		121,567	-	121,567		
	Total Championship Golf Course	\$ 118,827	\$ 1,535,000		\$ 943	\$ -	\$ -	\$ 1,654,770	\$ 860,893	\$ 793,877		
Mountain Golf Course:												
Mountain Course Greens, Tees and Bunkers	3241GC1101		15,000		(1,436)			21,564	19,513	2,051	Completed	
Irrigation Improvements	3241GC1404		18,000		47			18,047	17,806	241	Completed	
Mountain Course 58 Cart Fleet acquired by lease	3241LV1899		113,985					113,985	-	113,985	In Progress	
Mountain Golf Cart Path Replacement	3241LI1903		166,395					166,395	88,946	77,450	Multi-Year	
2016 Bar Cart #726	3242LE1726		20,000					20,000	-	20,000	Delayed	
Pavement Maintenance of Parking Lot - Mountain Golf Course	3242LI1204		6,000					6,000	1,100	4,900	On-going	
	Total Mountain Golf Course	\$ 313,380	\$ 34,000		\$ (1,389)	\$ -	\$ -	\$ 345,991	\$ 127,365	\$ 218,626		

Incline Village General Improvement District		Capital Improvement Projects Report to the Board of Trustees		For the Fourth Quarter - Fiscal Year Ending June 30, 2021				Future Year	FY2020/21	Fiscal Year		
DESCRIPTION	PROJECT #	Prior Year	Current Year	Projects	Adjustments	Reallocation	Reservation Fund	Adjusted Budget	Expenditures As of 6/30/21	Variance	Status	
		Carry Forward	Budgeted	Cancelled	Balance							
Chateau:												
Resurface Patio Deck - Chateau	3350BD1302		36,000					36,000	17,300	18,700	Completed	
Replace Air Walls Chateau	3350BD1704		56,500					56,500	3,150	53,350	Completed	
Retrofit Chateau Ventilation Ducts	3350ME2001		7,500					7,500	6,600	900	Completed	
Catering Kitchen Equipment	3350FF1204									(3,288)	Completed	
		\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ 23,762	\$ 76,238		
Diamond Peak Ski Resort:												
Base Lodge Walk in Cooler and Food Prep Reconfiguration	3453BD1806	25,000	15,000					40,000	-	40,000	Delayed	
Crystal Express Ski Lift Maintenance and Improvements	3462HE1502		55,000					55,000	34,793	20,207	In Progress	
Lakeview Ski Lift Maintenance and Improvements	3462HE1702	239,864	25,000		(9,680)			255,184	199,720	55,464	Completed	
Ridge Ski Lift Maintenance and Improvements	3462HE1903		45,000					45,000	33,450	11,550	Completed	
Ski Resort Snowmobile Fleet Replacement	3464LE1601		16,000					16,000	14,452	1,549	Completed	
2013 Yamaha Rhino (ATV) #674	3464LV1732		21,000					21,000	-	21,000	In Progress	
Replace Ski Rental Equipment	3468RE0002	335,000	200,000					535,000	-	535,000	In Progress	
Replace 2010 Shuttle Bus #635	3469HE1739		140,000					140,000	-	140,000	Delayed	
Replace 2010 Shuttle Bus #636	3469HE1740		140,000					140,000	-	140,000	Delayed	
Pavement Maintenance, Diamond Peak and Ski Way	3469LI1105		25,000					25,000	21,335	3,665	On-going	
Ski Way and Diamond Peak Parking Lot Reconstruction	3469LI1805	220,000	300,000		8,320			528,320	19,500	508,820	Delayed	
Diamond Peak Facilities Flooring Material Replacement	3499BD1710		55,000					55,000	-	55,000	Delayed	
Arc Flash Study - Ski	3499BD2002		20,000					20,000	13,600	6,400	Completed	
Ecommerce/Middleware Software	3499CE1909	202,000	-					202,000	100,000	102,000	Completed	
Replace Staff Uniforms	3499OE1205		135,000					135,000	-	135,000	In Progress	
Ski Master Plan Implementation (Entitlements)	3653BD1501		450,000				(400,000)	50,000	2,760	47,240	Delayed	
	Total Diamond Peak	\$ 1,471,864	\$ 1,192,000	\$ -	\$ (1,360)	\$ -	\$ (400,000)	\$ 2,262,504	\$ 439,610	\$ 1,822,895		
Parks:												
Resurface and Coat Incline Park Bathroom Floors	4378BD1603		13,940					13,940	4,730	9,210	Delayed	
Rosewood Creek Foot Bridges	4378BD1705		8,000					8,000	11,068	(3,068)	Completed	
Preston Field Retaining Wall Replacement	4378BD1801		10,000					10,000	6,573	3,427	On-going	
2008 JD Pro-Gator #624	4378LE1731		36,000					36,000	35,170	830	Completed	
2015 Ball Field Groomer #706	4378LE1742		24,000					24,000	-	24,000	Cancel	
Maintenance, East & West End Parks	4378LI1207		7,000					7,000	3,110	3,890	In Progress	
Pavement Maintenance, Village Green Parking	4378LI1303		7,500					7,500	100	7,400	Delayed	
Pavement Maintenance, Preston Field	4378LI1403		5,000					5,000	1,630	3,370	In Progress	
Pavement Maintenance, Overflow Parking Lot	4378LI1602		5,000					5,000	100	4,900	Delayed	
Pump Track	4378LI1604		-					-	250	(250)		
Pavement Maintenance - Incline Park	4378LI1802		3,500					3,500	1,050	2,450	Delayed	
2004 Pick-up Truck 4x4 (1-Ton) #541	4378LV1737		45,000					45,000	43,623	1,377	Completed	
Replace Playgrounds - Preston	4378RS1601		7,500					7,500	-	7,500	Delayed	
Incline Park Facility Renovations (Net of Grants)	4378LI1803		-					-	86,005	(86,005)	Prior Year	
2003 1-Ton Service Truck #520	4378LV1736		-					-	43,063	(43,063)	Prior Year	
	Total Parks	\$ -	\$ 172,440	\$ -	\$ 43,063	\$ -	\$ -	\$ 215,503	\$ 236,472	\$ (20,969)		
Tennis:												
Paint All Court Fences and Light Poles, Replace Wind Screens	4588BD1602		26,000					26,000	-	26,000	Delayed	
Tennis Center Renovation	4588BD1604	996,630	-					996,630	854,440	142,190	Completed	
Pavement Maintenance, Tennis Facility	4588LI1201		5,000					5,000	-	5,000	Delayed	
Resurface Tennis Courts 8-9-10-11	4588RS1401		17,600			(17,600)		-	-	-		
Tennis Center Pickle Ball Court Conversion	4588RS2101		-			17,600		17,600	17,600	-	Completed	
	Total Tennis	\$ 996,630	\$ 48,600	\$ -	\$ -	\$ -	\$ -	\$ 1,045,230	\$ 872,040	\$ 173,190		
Recreation Center:												
Recreation Center Upstairs Lobby Restrooms Remodel	4884BD1902		170,000					170,000	45,067	124,933	In Progress	
Pavement Maintenance, Recreation Center Area	4884LI1102		62,500					62,500	63,006	(506)	Completed	
Fitness Equipment	4886LE0001		45,000					45,000	45,481	(481)	Completed	
Rec Center Locker Room Improvements	4899FF1202		60,000					60,000	65,807	(5,807)	In Progress	
Recreation Center Elevator Modernization	4899ME2001		97,500					97,500	87,681	9,819	Completed	
Recreation Center Printer Copier Replacement 980 Incline Way	4899OE1607		20,000					20,000	8,870	11,130	Completed	
Repair Deck Stairs and Powder Coat All Patio Deck Railings	4884FF1502		-			24,200		24,200	24,200	-	Completed	
	Total Recreation Center	\$ -	\$ 455,000	\$ -	\$ 24,200	\$ -	\$ -	\$ 479,200	\$ 340,112	\$ 139,088		
Community Services Administration:												
Arc Flash Study - Community Services	4999BD2001		10,000					10,000	7,000	3,000	In Progress	
Web Site Redesign and Upgrade	4999OE1399		80,000					80,000	-	80,000	Delayed	
	Total Community Services Administration	\$ -	\$ 90,000	\$ -	\$ -	\$ -	\$ -	\$ 90,000	\$ 7,000	\$ 83,000		
Community Services Total									\$2,907,255			
Beach:												
Burnt Cedar Swimming Pool Improvements	3970BD2601		225,000		1,258,289			1,483,289	1,226,710	256,579	In Progress	
Pavement Maintenance, Ski Beach	3972BD1301		6,000					6,000	1,200	4,800	On-going	
Beaches Flatscape and Retaining Wall Enhancement and Replacement	3972BD1501		55,000					55,000	-	55,000	Delayed	
Burnt Cedar Dumpster enclosure	3972BD1707		35,000					35,000	5,860	29,140	Delayed	
Beach Furnishings	3972FF1704		7,000					7,000	6,535	465	Completed	
Pavement Maintenance, Incline Beach	3972LI1201		6,500					6,500	4,700	1,800	On-going	
Pavement Maintenance, Burnt Cedar Beach	3972LI1202		12,500					12,500	200	12,300	On-going	
Replace Playgrounds - Beaches	3972RS1701		7,500					7,500	-	7,500	On-going	
Incline Beach Facility Replacement	3973LI1302		100,000					100,000	-	100,000	Delayed	
	Total Beach	\$ -	\$ 454,500	\$ -	\$ 1,258,289	\$ -	\$ -	\$ 1,712,789	\$ 1,245,205	\$ 467,584		
District-wide Total		\$ 17,341,377	\$ 9,023,190	\$ -	\$ 1,313,677	\$ -	\$ (11,986,890)	\$ 15,691,354	\$ 7,889,560	\$ 7,801,795		

June 1, 2021

To: IVGID Audit Committee

cc: Indra Winqest 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

<u>Type of Maintenance</u>	<u>Championship</u>		<u>Mountain</u>		<u>Total Annual Avg</u>
	<u>Total Costs</u>	<u>Annual Average</u>	<u>Total Costs</u>	<u>Annual Average</u>	
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	<u>\$ 405,888</u>	<u>67,648</u>	<u>214,308</u>	<u>35,718</u>	<u>\$ 103,366</u>

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tulloch

FROM: Clifford F. Dobler

SUBJECT: Lack of disclosure of Claims Payable - Note 13 and Restricted Funds - Note 14 in the 2021 Annual Comprehensive Financial Report

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 3-29-2022

I. RECOMMENDATION

The Audit Committee recommends that Note 13 Claims Payable in the 2021 Annual Comprehensive Financial Report ("ACFR") be expanded to provide more information of the Claims. In the 2020 CAFR there is no indication of any Claims Payable in the Statement of Net Position or the Footnotes. As such, Note 13 is not factual. While the claim may have been included in accounts payable there was no claims payable. The expansion should provide detailed information on what was the nature, the terms, any interest and the IVGID fund which is responsible for the Claim.

The Audit Committee also recommends that Note 14 - Restricted Funds is unclear as to the purpose or the decision to restrict funds according to GASB Statement #34. The information contained in Note 14 should have been part of Note 13 relating to the Claims Payable. There is no cross reference other than a dollar amount.

In addition, there are other restricted funds which have not been disclosed in Note 14 which include \$141,727 in the Community Services Special Revenue Fund, \$1,000 in the Beach Special Revenue Fund, and \$324,306 in the Utility Fund.

II. BACKGROUND and ANALYSIS

IVGID was required by a settlement reached in August 2020 between Washoe County and property owners within the IVGID boundaries, to refund a portion of property taxes collected in prior years. IVGID proportional share of the refunds is reported to be \$1,359,757.

The Claims Payable is effectively a debt obligation and disclosure of the Claims and its terms should be included under Long Term Debt Obligations since the Claims extend beyond one year.

The Washoe County, Nevada Notes to Financial Statements June 30, 2021 (page 63) refers to the claim as a Property Tax Refund and is included in Long Term Debt Obligations.

Exhibit A - Note 13 and 14 of the 2021 ACFR
Exhibit B - Statement of Net Position 2021 ACFR
Exhibit C - Statement of Net Position 2020 CAFR
Exhibit D - Page 63, Washoe County Nevada Notes to the Financial Statements June 30, 2021

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Weakness in Financial Reporting

V. ALTERNATIVES

NONE

VI. COMMENTS

NONE

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

Possible risk premium of interest rates on borrowings as a result of material weakness in financial reporting.

EXHIBIT A

The District has elected to participate in the Nevada Public Agency Insurance Pool. The risk-sharing Pool secures insurance coverage for all its members. The Pool agreement provides coverage for the equivalent of errors and omissions and directors' and officers' acts. The Pool does not offer general or excess liability coverage for the Diamond Peak Ski Resort. Therefore, separate coverage is purchased.

A portion of each member's premium contributions to the Pool goes into the Loss Fund and the remainder pays for the excess insurance premiums and administrative expenses. The amount of the Loss Fund contribution is determined by the underwriters based on each member's average annual losses over the prior five years. This amount may vary each year.

The Pool pays all losses from the Loss Fund per occurrence, less the member's maintenance deductible. The District has a \$5,000 deductible. Excess insurance above the Pool's self-funded amount, is provided by secondary markets based on arrangements made with the Pool, including a Pool owned captive.

There were no District settlements in excess of insurance coverage in any of the three prior fiscal years.

Ski Liability Insurance is not covered by the Nevada Public Agency Insurance Pool. A separate insurance program, less the District's \$10,000 deductible, provides coverage.

The District has elected to participate in the Nevada Public Agency Compensation Trust (NVPACT) to provide workers compensation coverage for all employees. The District pays quarterly assessments. The assessments are based on actuarial estimates provided by NVPACT utilizing covered payroll data for the most recent calendar year. A portion of each member's assessment goes into the Loss Fund and the remainder pays for the excess insurance premiums and administrative expenses. This amount may vary each year.

13. CLAIMS PAYABLE

Claims payable are as follows for the last two fiscal years:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
FY2020	\$ -	\$1,359,757	\$ -	\$1,359,757
FY2021	1,359,757	-	-	1,359,757

14. RESTRICTED FUNDS

The General Fund reflects a restriction of \$1,359,736 to reflect the District's obligation under the terms of settlement of the property tax dispute filed against Washoe County et al, Nevada State Board of Equalization and the Department of Taxation by the Village League to Save Incline Assets, Inc. As the terms of the settlement are finalized, this amount is recorded as a liability at June 30, 2021 in the government-wide Statement of Net Position.

15. COMMITTED FUNDS

As of July 1, 2015, the Board of Trustees established Special Revenue, Capital Project and Debt Service funds for District Community Services and Beach activities. Based on governmental accounting standards the fund balance for the Special Revenue funds are committed for the purpose of recreation privileges utilizing the assessed facility fee. Furthermore, fund balances within the Community Services Capital Fund and Beach Capital Fund are further committed for the purpose of future planned capital improvement projects. These funds generally represent revenues collected through the Recreation and Beach Facility fees allocated specifically to capital projects.

Exhibit B

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2021

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash, cash equivalents, and investments	\$ 28,903,510	\$ 15,828,516	\$ 44,732,026
Receivables:			
Accounts receivable, net	78,021	1,356,069	1,434,090
Interest on investments	16,415	3,790	20,205
Grants receivable	373,912	12,881	386,793
Due from other governments	505,377	-	505,377
Inventories	495,351	161,068	656,419
Prepaid items	779,979	-	779,979
Restricted assets:			
Restricted deposits	142,727	324,306	467,033
Capital assets:			
Land	17,290,327	6,715,544	24,005,871
Construction in progress	1,939,563	1,035,834	2,975,397
Buildings, structures, improvements, infrastructure, equipment and vehicles, net of accumulated depreciation	39,552,343	55,934,282	95,486,625
Total assets	<u>90,077,525</u>	<u>81,372,290</u>	<u>171,449,815</u>
LIABILITIES			
Accounts payable	1,379,102	288,273	1,667,375
Accrued personnel costs	1,397,480	333,705	1,731,185
Accrued interest payable	8,465	46,566	55,031
Due to other governments	17,678	-	17,678
Unearned revenue	2,201,964	171,921	2,373,885
Noncurrent liabilities:			
Bonds due within one year	378,000	573,891	951,891
Claims payable within one year	355,507	-	355,507
Bonds due in more than one year	389,043	2,972,341	3,361,384
Claims payable in more than one year	1,004,229	-	1,004,229
Total liabilities	<u>7,131,468</u>	<u>4,386,697</u>	<u>11,518,165</u>
NET POSITION			
Net investment in capital assets	58,015,190	60,139,428	118,154,618
Restricted	142,727	324,306	467,033
Unrestricted	24,788,140	16,521,859	41,309,999
Total net position	<u>\$ 82,946,057</u>	<u>\$ 76,985,593</u>	<u>\$ 159,931,650</u>

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

Exhibit C

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 16,600,567	\$ 9,415,167	\$ 26,015,734
Short term investments	4,801,614	3,791,702	8,593,316
Receivables:			
Accounts receivable, net	7,165	1,268,002	1,275,167
Interest on investments	33,822	17,560	51,382
Taxes and Fees from Washoe County	38,914	-	38,914
Grants Receivable	371,079	12,881	383,960
Due from other governments	466,730	-	466,730
Inventories	557,257	151,327	708,584
Prepaid items	175,449	-	175,449
Long term investments	3,598,620	1,537,061	5,135,681
Restricted assets:			
Restricted Deposits	385,160	322,895	708,055
Capital assets:			
Land	17,290,327	6,715,544	24,005,871
Construction in progress	2,974,576	1,607,772	4,582,348
Buildings, Structures, Improvements, Infrastructure, Equipment and Vehicles, net of accumulated depreciation	38,532,744	58,963,987	97,496,731
Total assets	<u>85,834,024</u>	<u>83,803,898</u>	<u>169,637,922</u>
LIABILITIES			
Accounts payable	2,215,584	355,031	2,570,615
Accrued personnel costs	1,587,807	444,160	2,031,967
Accrued interest payable	11,235	54,080	65,315
Due to other governments	17,517	-	17,517
Unearned revenue	1,361,285	167,926	1,529,211
Noncurrent liabilities:			
Due within one year	368,000	538,707	906,707
Due in more than one year	763,685	3,546,231	4,309,916
Total liabilities	<u>6,325,113</u>	<u>5,106,135</u>	<u>11,431,248</u>
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow	243,026	-	243,026
NET POSITION			
Net investment in capital assets	57,665,962	63,202,365	120,868,327
Restricted	142,134	322,895	465,029
Unrestricted	21,457,789	15,172,503	36,630,292
Total net position	<u>\$ 79,265,885</u>	<u>\$ 78,697,763</u>	<u>\$ 157,963,648</u>

no claims payable

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

Exhibit D

WASHOE COUNTY, NEVADA NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021 (CONTINUED)

Outstanding balances at June 30, 2021 is as follows:

	Governmental Activities	Business-type Activities	Total
Washoe County:			
Vacation	\$ 15,990,386	\$ 269,206	\$ 16,259,592
Sick Leave	10,327,919	156,818	10,484,737
Compensatory Leave	6,658,955	110,240	6,769,195
Benefits	475,219	7,776	482,995
Total Compensated Absences	\$ 33,452,479	\$ 544,040	\$ 33,996,519

Net Other Postemployment Benefits Obligation

Prior to May 11, 2010, when the County established the Washoe County, Nevada OPEB Trust (Note 15), the County financed their net other postemployment benefits obligation on the pay-as-you-go basis with the funds accumulated in the Pre-Funded Retiree Health Benefits Fund. Currently, the OPEB Trust is funded from the General fund.

Due to other Governments – Business Type Activities

The Utilities fund has a liability to an outside government agency in the amount of \$17,581 which is not due within 12 months.

Pollution Remediation Obligation

The pollution remediation activities of the Central Truckee Meadows Remediation District (CTMRD) are paid for through an annual charge billed directly to residents and businesses within its boundaries. Accordingly, the CTMRD's pollution remediation obligation is limited to the net position accumulated by the fund for payment of future remediation related expenditures. All of the assets of CTMRD are held for remediation and are offset by a long-term liability for remediation. As of June 30, 2021, the remediation liability for net position held in CTMRD was \$4,770,578.

Claims and Judgments

The claims and judgments liability of \$23,030,000 consists of pending property and liability claims, workers' compensation claims, and unprocessed health benefits claims. These claims will be liquidated through the Risk Management and Health Benefits Internal Service Funds (Note 16). The Risk Management and Health Benefits Funds finance the payment of claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds or, as needed, through transfers from the General Fund.

Property Tax Refunds

The County was the defendant in various lawsuits with property owners disputing the County Assessor's valuation methods used for property within the Lake Tahoe Basin. The County vigorously defends the Assessor's valuations; however, in August 2020 the Board of County Commissioners approved a settlement agreement that would dismiss the case resulting in a roll back of property values and subsequent refunds in the amount of \$23,800,000. These property owner's claims will be paid starting July 1, 2021 by charging other funds based on management's assessment of the original property taxes paid that should be assumed by individual funds or, as needed, through transfers from the General Fund.

Discretely Presented Component Unit:

General obligation bonds

Truckee Meadow Fire Protection District (TMFPD) issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds are direct obligations and pledge the full faith and credit of TMFPD and are additional secured by a pledge of 15% of certain proceeds of liquor taxes, tobacco taxes, real property transfer taxes, basic governmental services tax and basic and supplemental sales taxes. During the fiscal year 2021, principal and interest paid on the bonds totaled \$156,635 and pledged revenues totaled \$1,559,487.

TMFPD issued general obligation capital improvement bonds in the year ended June 30, 2021 to provide funds for fire station projects. These bonds will be repaid from all legally available funds of TMFPD, including its capital projects fund and its general fund. The bonds have a stated rate of interest of 1.53% and are payable in equal installments over the next 15 years.

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tulloch

FROM: Clifford F. Dobler

SUBJECT: Expensing net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund .

STRATEGIC

PLAN REFERENCE(S): None

DATE: 3-17-2022

I. RECOMMENDATION

The Audit Committee recommends that \$1,169,230 in costs net of accumulated depreciation for 3 ongoing Utility Fund projects be EXPENSED. The costs are for the fiscal years ending June 30, 2015 to 2021 (Exhibit A). It is recommend that the charge off and expense be incorporated in a revised Annual Comprehensive Financial Report as of June 30, 2021. The amount of accumulated depreciation must be determined.

II. BACKGROUND and ANALYSIS

Several years ago, IVGID established 3 capital projects as follows:

- 1) Adjust Utility Facilities in NDOT/Washoe County Right of Way (Exhibit B)
- 2) Replace Commercial Water Meters, Vaults and Lids (Exhibit C)
- 3) Replace and Reline Sewer Mains, Manholes and Appurtenances (Exhibit D)

The first project is mandated by various state agencies when public streets are being repaved. Normally the paving occurs annually. A contract is entered into with NDOT with estimates of cost of each manhole, vaults, or lid which are less than \$2,500 each and IVGID is responsible to complete the task .

The second project is the maintenance of 85 commercial water meters and 26 pressure reducing valve stations.

The third project is the replacement and rehabilitation of sewer mains, manholes and appurtenances. The District maintains 1,800 manholes, 100 miles of gravity sewer mains, 32 miles of force sewer mains and 79 air release valves. These do not include the Effluent Pipeline..

Some of the repairs and maintenance are accomplished by in house personnel. and larger projects may be contracted out.

The Moss Adams report dated 1-27-2021 - page 27 states: (Exhibit E)

"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 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)"

In addition, Board Policy 9.1.0 has set a capitalization threshold of \$5,000 based on individual items

Lastly, the current draft Capital Improvement Budget for fiscal year 2022-2023 has listed \$155,000 for the three projects to be EXPENSED.

Exhibit A - Expensing the net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund

Exhibit B - Project Summary 2907DI1401A Adjust Utility Facilities in NDOT/Washoe County Right away

Exhibit C - Project Summary 2299DI1103 Replace Commercial Water Meters Vaults

Exhibit D - Replace & Reline Sewer Mains, Manholes and Appurtenances

Exhibit E - Moss Adams report page 27

BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Additional prior period adjustments except for F/Y 2021

V. ALTERNATIVES

Do not comply with Board approved decisions regarding expensing past capital asset and have inconsistencies in the reporting of the annual financial reports. .

VI. COMMENTS

None

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

Consistency with Board Policies and the Moss Adams recommendations provide for financial statements which are consistent from year to year and are fair and reasonable.

EXHIBIT A

**Incline Village General Improvement District
Expensing Utility Fund Capital Assets for water and sewer items
Fiscal year 2015 to 2021**

<u>Type of Capital Assets to be expensed</u>	<u>Account Num</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Adjust Utility Facilities in NDOT/Washoe County Right of Way	2097DI1401	\$ 3,458	136,548	24,354	71,248	60,027	30,376	21,874	\$ 347,885
Replace Commercial water meters, vaults and lids	2299DI1103	123,149	94,548	68,934	23,278	47,386	10,883	48,818	416,996
Replace & Reline Sewer Mains, Manholes & Appurtenances	2599SS1203	22,779	21,285	103,985	102,351	66,559	18,120	69,270	404,349
Total		\$ 149,386	252,381	197,273	196,877	173,972	59,379	139,962	\$ 1,169,230

Source - Capital Project Reports 2015 to 2021

DOES NOT INCLUDE ACCUMULATED DEPRECIATION



Project Summary

Project Number:	2097DI1401
Title:	Adjust Utility Facilities in NDOT/Washoe County Right of Way
Project Type:	E - Capital Maintenance
Division:	97 - Public Works Shared
Budget Year:	2021
Finance Option:	
Asset Type:	DI - Distribution Infrastructure
Active:	Yes

Project Description

Adjust manholes and valve box covers in public streets in conjunction with Washoe County, RTC and Nevada Department of Transportation (NDOT) projects, including Environmental Improvement Projects (EIP). The scope of annual projects are not known until spring of each year and is based on the Washoe County Public Works, RTC and NDOT preliminary estimates of work. In addition to the valves and manholes within Washoe County's project limits, IVGID will adjust some of the miscellaneous valves and manholes that are out of specifications if discovered. On occasion, NDOT and County projects can require utility relocation of a scope beyond simply adjusting manholes and valve box covers. The budget provided in this data sheet will also be utilized to cover the design costs associated with utility relocation on such projects.

Project Internal Staff

Engineering will do the contract administration, bidding, and inspection. Work is done by outside contractors.

Project Justification

As a requirement of our use of public rights-of-way for Utility improvements the District must adjust our structures to comply with the requirements of public infrastructure projects. Washoe County's CIP includes money for road and EIP work in Incline Village and Crystal Bay generally every year. In May 2021 Washoe Co. is expected to begin work on their Lower Wood Creek EIP likely affecting IVGID utilities. In 2021 NDOT anticipates extensive work along both SR28 and Mount Rose Highway. In prior years, the District has spent between \$30,000 and \$70,000 each year to complete this work. Certain projects can include complete relocation of sewer and water mains to avoid conflict with the infrastructure to be installed by the County or NDOT.

Forecast			
Budget Year	Total Expense	Total Revenue	Difference
2021			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Year Total	25,000	0	25,000
2022			
Internal Services	10,000	0	10,000
NDOT projects	60,000	0	60,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	95,000	0	95,000
Year Total	180,000	0	180,000
2023			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000

2024			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2025			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2026			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2027			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2028			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2029			
Internal Services	10,000	0	10,000
NDOT projects	100,000	0	100,000
Raise Manholes & Valve Boxes	5,000	0	5,000
Washoe County projects	100,000	0	100,000
Year Total	215,000	0	215,000
2030			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2031			
Internal Services	10,000	0	10,000

Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2032			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2033			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2034			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
2035			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
2036			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
	1,200,000	0	1,200,000

Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Senior Engineer	



Project Summary

Project Number:	2299DI1103
Title:	Replace Commercial Water Meters, Vaults and Lids
Project Type:	E - Capital Maintenance
Division:	99 - General Administration - Water
Budget Year:	2021
Finance Option:	
Asset Type:	DI - Distribution Infrastructure
Active:	Yes

Project Description				
The District owns and maintains 85 commercial water meters installed in heavy duty meter vaults and 26 pressure reducing valve stations. This project will continue the replacement of these commercial water meters and PRV vaults and or lids. Current useful life of a commercial meter is 20-50 years dependent on use, pressure and flows. Vault life can be approximately the same time period depending on location, traffic and the elements. These meters, vaults and lids have been put on our replacement list by priority but the list can change from year to year depending on the needs. These meters are in various configurations ranging in size from 4 to 10 inch. In coming years there will be continued replacement needed for meters, vaults and lids.				
Project Internal Staff				
Public Works staff will order and purchase the meters, vaults and lids, and bid and oversee the installations. Contractors will install the meters and replace vaults and lids.				
Project Justification				
Replacement of the commercial water meters will increase accuracy in meter reading and increase revenue. As meters age, they become less accurate and will measure water usage below actual, as is required by AWWA standards. Commercial water meters can last 20-50 years. Typically old meters are not worth repairing because parts are unavailable and newer meters meet the water demand profiles of our customers. Many meter vaults and lids are also in disrepair and need replacement for public and crew safety reasons and ease of accessibility for testing. This project allows for radio reading of all the commercial and residential meters combined. This project is programmed to replace the meter, vaults and lids using a just-in-time approach to maximize use prior to failure. In 2020-21, the District will be replacing all the large meter transponders from radio transponders to cellular transponders to improve data collection, enhance customer service and provide rel water usage tracking for these large revenue meters. Staff has received a quote of \$38,000 from Badger Meter for the materials. Staff would install during meter calibration and testing of these meters.				
Forecast				
Budget Year	Total Expense	Total Revenue	Difference	
2021				
Transponder and Register Head Replacement	40,000	0	40,000	
Trimble Unit	10,000	0	10,000	
Vaults, structures and lids replacement	5,000	0	5,000	
Year Total	<u>55,000</u>	<u>0</u>	<u>55,000</u>	
2022				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	<u>40,000</u>	<u>0</u>	<u>40,000</u>	
2023				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	<u>40,000</u>	<u>0</u>	<u>40,000</u>	
2024				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	<u>40,000</u>	<u>0</u>	<u>40,000</u>	
	175,000	0	175,000	
Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Collection/Distribution Supervisor	



Project Summary

Project Number:	2599SS1203
Title:	Replace & Reline Sewer Mains, Manholes and Appurtenances
Project Type:	E - Capital Maintenance
Division:	99 - General Administration - Sewer
Budget Year:	2021
Finance Option:	
Asset Type:	SS - Sewer System
Active:	Yes

Project Description

This project includes the replacement and rehabilitation of sewer mains, manhole and appurtenances. Sections of sewer line, manholes and air relief valve rehabilitation have been identified for replacement. A priority list has been developed by Public Works staff. In addition to regular maintenance, sewer rehabilitation projects help the District to stay in compliance with Nevada Department of Environmental Protection (NDEP) permits and avoid sanitary sewer overflows. The District maintains approximately 1,800 manholes, 100 miles of gravity mains, 32 miles of force main and 79 air relief valves.

Project Internal Staff

Public Works staff will perform design, bid, contract administration and inspection. Larger projects will be contracted out while smaller projects will be performed by Public Works staff.

Project Justification

Line blockages and ground water intrusion increases the District's operating costs and puts the District at risk of violating its (NDEP) permit and potentially incur fines. Typically older clay sewers exhibit poor performance and are likely candidates for blockages and increased maintenance activities mainly due to root intrusion. There are manholes throughout the service area that require rehabilitation to prevent groundwater intrusion, which can also cause the concrete structure to deteriorate and to possibly collapse. By keeping close track if line blockages, customer complaints and closed circuit television (CCTV) inspection results, a priority list has been established for replacement or relining of sewer mains and manholes. The priority is based on a score, flow, proximity to streams and/or the lake. Older air release valves (arv's) can be difficult to access and unsafe to work on. Parts for these valves are obsolete. By repairing faulty mains and manholes, we also reduce the potential for sewer overflows in storm events while reducing the flows to the wastewater treatment plant. This works in conjunction with a strong preventative maintenance program of line cleaning and CCTV work. Extensive sewer main rehabilitation work was done in 2014 by CIPP lining and future projects are planned for anticipated failures as pipes age. ARV replacements are ongoing by IVGID crews.

Forecast			
Budget Year	Total Expense	Total Revenue	Difference
2021			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	75,000	0	75,000
Year Total	80,000	0	80,000
2022			
Internal Services	10,000	0	10,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	60,000	0	60,000
2023			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000

2024			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	105,000	0	105,000
2025			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2026			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Sewer Main Rehabilitation	500,000	0	500,000
Year Total	555,000	0	555,000
2027			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2028			
Construction Inspection & Testing	5,000	0	5,000
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	100,000	0	100,000
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	160,000	0	160,000
2029			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2030			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2031			
Internal Services	5,000	0	5,000

Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2032			
Construction Inspection & Testing	5,000	0	5,000
Internal Services	5,000	0	5,000
Sewer Main Rehabilitation	100,000	0	100,000
Year Total	110,000	0	110,000
2033			
Construction Inspection & Testing	40,000	0	40,000
Internal Services	50,000	0	50,000
Manhole and Wet Well Rehabilitation	150,000	0	150,000
Sewer Main Rehabilitation	1,000,000	0	1,000,000
Year Total	1,240,000	0	1,240,000
2034			
Manhole and Wet Well Rehabilitation	150,000	0	150,000
Sewer Main Rehabilitation	1,000,000	0	1,000,000
Year Total	1,150,000	0	1,150,000
2038			
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	50,000	0	50,000
	3,840,000	0	3,840,000

Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Senior Engineer	



Moss Adams Report

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.

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tolloch

FROM: Clifford F. Dobler

SUBJECT: Note 22 - Prior Period Adjustment - Annual Comprehensive Financial Report. as of June 30, 2021 (ACFR)

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 3-17-2022

I. RECOMMENDATION

That the Audit Committee make a recommendation to the Board of Trustees to retract the Prior Period Adjustment transferring \$1,637,400 from the Community Services Special Revenue Fund to the Capital Project Fund. In addition it is recommended that the required transfer of \$1,742,843 from the Community Services Special Revenue Fund to the Capital Project Fund be enacted and restated in the 2021 ACFR.. The proper transfer is required to fund the necessary resources necessary to pay for the actual expenditures incurred during fiscal year 2020-2021. In addition, disclosure of the transfer is required in Note 7 - Interfund Accounts and Transfers of the 2021 ACFR.

II. BACKGROUND and ANALYSIS

Annually the District Board of Trustees adopts a Facility Fee for Community Services which is allocated separately into operations (special revenue fund) capital projects and debt service. The total amount allocated to each fund was improperly recorded as revenues in the Special Revenue Fund and subsequent transfers were made to the Capital Project Fund and Debt Services. The transfers, however, exceeded that amount of facility fees allocated resulting in

additional transfers from the Special Revenue Fund. These excess transfers did not comply with requirements of GASB #54.

All expenditures from 2016 to 2021 were funded by resources from capital asset sales, grants and enough resources from the Special Revenue Fund. Exhibit A provides evidence that no additional resources were required from 2016 to 2021 to justify a prior period adjustment. It is unknown the rationale of the prior period adjustment of \$1,637,400.

However, in 2021, The Board of Trustees authorized only \$536,571 of Facility Fees for the Community Service Capital Project Fund which was far below the actual expenditures of \$2,907,254 recorded. Additional resources of \$90,005 from capital grants and sale of capital assets were obtained and for some unknown reason only \$537,835 was transferred from the Community Services Special Revenue Fund. As a result, the resources required to pay for the expenditures was short \$1,742,843. This shortage could only be obtained from the Community Services Special Revenue Fund or possibly the General Fund.

For some reason only \$537,835 was transferred from the Special Revenue Fund leaving another \$1,742,843 to be transferred.

The unsubstantiated prior period adjustment of \$1,637,400 was used to cover most of the 2021 expenditures but a remaining balance of \$105,443 was not covered. This shortage could possibly be considered non compliance with NRS 354.626 "Unlawful expenditures of money in excess of amounts appropriated". It is unclear why a transfer for the full amount of expenditures was not made since the budget for F/Y 2021 provided \$5,594,546 to be transferred from the Special Revenue Fund to the Capital Project Fund. Exhibit B & C).

Another matter which cannot be corrected is the \$3,131,381 transfers (other than transfers of facility Fees) from the Community Services Special Revenue Fund to the Community Services Capital Project Fund in violation of GASB #54 paragraph 30 Exhibit E. Including the AC recommendation the total transfers would be \$4,874,224 for the 6 year period (Exhibit D)

"Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects."

Exhibits

- A - Note 22 of the Annual Comprehensive Financial Report as of June 30, 2021
- B - 2021 ACFR - Community Services Special Revenue Fund - Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
- C - 2021 ACFR - Community Services Capital Project Fund - Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
- D. History of Expenditures and Resources of the Community Services Capital Project Fund - FY 2016 to 2021.
- E. GASB #54 Definition of Special Revenue Funds

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET**V. ALTERNATIVES**

NONE

VI. COMMENTS

See above

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

Improper financial reporting

General Fund	\$ 66,947
Utility Fund	3,341,387
Community Services Fund	2,110,924
Beach Fund	453,019

Budgeting for the Fiscal Year Ending June 30, 2022:

The District’s budgeting for the fiscal year ending June 30, 2022 anticipates a reduction in Fund Balance and Net Position caused by completion of capital projects. The identified reductions include; General Fund by \$217,063 including implementation of a new Human Resources Management and Payroll System; Community Services reduction of \$3,757,491 (including \$550,000 for the Mountain Golf Course Path Replacement Project, \$800,000 for the Recreation Center Locker Room Improvement Project). The Beach Fund has a reduction of \$2,066,683 related to renovation of the Burnt Cedar Pool as well as Incline Beach Facility Improvements. The Utility Fund capital plan anticipates a draw-down in Net Position primarily due to advancing the Effluent Export Pipeline Project.

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

Contractor	Project	Contract Amount	Completed (6/30/21)	Remaining Amount
CORE West, Inc	Burnt Cedar Pool Imp	\$3,845,865	\$773,143	\$3,072,722
Avail Enterprises, LLC	Rec Center Lobby	159,832	-	159,832
Ward-Young Architects	Rec Center Lobby	39,724	16,237	20,487
Granit Construction	Effluent Pipeline	369,218	25,618	343,600

21. STATE OF NEVADA TAX ABATEMENTS AFFECTING DISTRICT REVENUES

The State of Nevada has entered into various tax abatement agreements that reduce the tax revenues of local governments. Taxes reduced include the Consolidated Tax, which includes allocated sales and use tax revenue. State law establishes the abatements. The District’s estimated share of abatements for this fiscal year is \$41,360.

22. PRIOR PERIOD ADJUSTMENT

The Governmental Funds Statement of Revenues, Expenditures, and Change in Fund Balance has three prior period adjustments. The first is a transfer between the Community Services Special Revenue Fund and the Community Services Capital Projects Fund that was reported in the prior year \$1,637,400 lower than the entry in the financial reports. The second adjustment is for the \$243,512 that was reported as unavailable revenue but should have been recorded as revenue when received in prior years. There were several assets capitalized in prior years that the auditors determined should not have been capitalized. The total affect to the financial reports was \$3,267,861. \$3,166,966 was in the Utilities fund, including \$3,100,110 of the Effluent Pipeline project that was written off. Governmental activities had \$100,895 in book value of assets written off as a prior period adjustment.

EXHIBIT B

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
COMMUNITY SERVICES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Charges for Services				
Championship Golf	\$ 3,391,290	\$ 3,391,291	\$ 3,214,950	\$ (176,341)
Mountain Golf	818,834	818,834	809,745	(9,089)
Facilities	1,440,299	1,440,299	790,683	(649,616)
Ski	10,148,735	10,148,734	10,206,918	58,184
Community Programming	1,007,900	1,007,900	1,014,837	6,937
Parks	38,700	26,600	22,350	(4,250)
Tennis	100,400	100,400	156,631	56,231
Recreation Administration	(317,830)	(317,830)	(123,602)	194,228
Facility Fee:				
Championship Golf	32,812	32,812	33,019	207
Mountain Golf	221,481	221,481	222,882	1,401
Facilities	41,015	41,015	41,275	\$1,735,612 260
Ski	(1,640,400)	(1,640,400)	(1,650,784)	(10,384)
Community Programming	1,222,098	1,222,098	1,229,835	7,737
Parks	729,978	729,978	734,600	4,622
Tennis	114,828	114,828	115,555	727
Recreation Administration	1,041,833	1,041,833	1,009,230	(32,603)
Operating Grants	17,000	17,000	17,000	-
Interfund Services	98,849	98,849	91,769	(7,080)
Intergovernmental Services	21,700	21,700	36,997	15,297
Investment Earnings	52,500	52,500	4,471	(48,029)
Miscellaneous	118,130	130,230	119,697	(10,533)
Total revenues	<u>18,700,152</u>	<u>18,700,152</u>	<u>18,098,058</u>	<u>(602,094)</u>
EXPENDITURES				
Culture and Recreation - All Functions:				
Function Summary (see next page)	18,149,871	18,149,869	15,289,187	2,860,682
Total expenditures	<u>18,149,871</u>	<u>18,149,869</u>	<u>15,289,187</u>	<u>2,860,682</u>
Excess (deficiency) of revenues over expenditures	<u>550,281</u>	<u>550,283</u>	<u>2,808,871</u>	<u>2,258,588</u>
OTHER FINANCING SOURCES (USES)				
Sale of Assets	-	-	52,250	52,250
Transfers In	-	-	(537,835)	(537,835)
This should be a transfer out				
Transfers Out - Capital Projects	(5,594,546)	-	-	-
Net change in fund balance	<u>(5,044,265)</u>	<u>550,283</u>	<u>2,323,286</u>	<u>1,773,003</u>
Fund Balance, July 1, as reported	15,280,913	15,280,913	15,280,913	-
Prior period adjustment	(1,637,400)	(1,637,400)	(1,637,400)	-
Fund balance, July 1 as adjusted	<u>13,643,513</u>	<u>13,643,513</u>	<u>13,643,513</u>	<u>-</u>
Fund balance, June 30	<u>\$ 8,599,248</u>	<u>\$ 14,193,796</u>	<u>\$ 15,966,799</u>	<u>\$ 1,773,003</u>

Note: The State Budget Form 4404LGF recognized the Total Facility Fee revenue in the Community Services and Beach fund, while utilizing transfers to the Capital Projects and Debt Service Funds for expenditure by those Funds. **Incorrect Statement. The Facility Fee was allocated to individual funds and not transferred**

See notes to required supplementary information

EXHIBIT C

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
 COMMUNITY SERVICES CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Sales of Assets and Intangibles	\$ -	\$ -	\$ 1,500	\$ 1,500
Facility Fees	533,195	533,195	536,571	3,376
Capital Grants	-	-	88,505	88,505
Total revenues	533,195	533,195	626,576	93,381
EXPENDITURES				
Championship Golf	1,653,827	1,653,381	860,893	792,488
Mountain Golf	347,380	347,380	127,365	220,015
Facilities	100,000	100,000	23,762	76,238
Ski	2,263,864	2,262,504	439,610	1,822,894
Community Programming	455,000	531,756	340,112	191,644
Parks	172,440	215,503	236,472	(20,969)
Tennis	1,045,230	1,045,230	872,040	173,190
Comm. Serv. Administration	90,000	90,000	7,000	83,000
Total expenditures	6,127,741	6,245,754	2,907,254	3,338,500
Excess (deficiency) of revenues over expenditures	(5,594,546)	(5,712,559)	(2,280,678)	3,431,881
OTHER FINANCING SOURCES				
Transfers In	5,594,546	5,594,546	537,835	(5,056,711)
Transfers Out	-	-	-	-
Total other financing sources	5,594,546	5,594,546	537,835	(5,056,711)
Net change in fund balance	-	(118,013)	(1,742,843)	(1,624,830)
Fund Balance, July 1, as reported	-	-	-	-
Prior period adjustment	1,637,400	1,637,400	1,637,400	-
Fund balance, July 1 as adjusted	1,637,400	1,637,400	1,637,400	-
Fund balance, June 30	\$ 1,637,400	\$ 1,519,387	\$ (105,443)	\$ (1,624,830)

Note: The State Budget Form 4404LGF recognized Facility Fee revenue in the Community Services and Beach fund, while utilizing transfers to the Capital Projects and Debt Service Funds for expenditure. **Incorrect statement. The Facility Fee was allocated to individual funds and not transferred. See above**

EXHIBIT D

**Incline Village General Improvement District
Community Services Capital Projects fund
Fiscal Years 2016 to 2021
Source CAFR & 2016 to 2021**

	2016	2017	2018	2019	2020	2021
Expenditures	(2,344,198)	(3,633,210)	(3,905,926)	(6,043,500)	(5,059,031)	(2,907,254)
Resources						
Grants and Sale of Capital Assets	625,064	176,567	158,755	37,550	1,637,399	90,005
Facility Fee recored directly						536,571
Transfer in from Special Revenue Fund	3,780,675	3,818,908	3,650,842	3,678,473	3,421,632	537,835
Fund Balance	2,061,541	362,265	(96,329)	(2,327,477)	-	(1,742,843)
Cumulative Fund Balance	2,061,541	2,423,806	2,327,477	-	-	(1,742,843)

Prior period adjustment - There was no need to provide additional resources from 2016 to 2020 **1,637,400**

The \$1,637,400 is NOTHING MORE than a current year transfer from the Special Revenue Fund

Unfunded Expenditures - Possible violation of NRS 354.626 Unlawful expenditure of money in excess of amount appropriated **(105,443)**

**Transfers in from Special Revenue Fund
in excess of Facility Fees**

Transfers in from Special Rvenue Fund	3,780,675	3,818,908	3,650,842	3,678,473	3,421,632	537,835
Facility Fees Authorized by Board	(2,524,818)	(2,619,078)	(3,612,400)	(3,678,473)	(3,322,215)	in revenues
Transfers in excess of Facility Fees	1,255,857	1,199,830	38,442	-	99,417	537,835
Cumulated	1,255,857	2,455,687	2,494,129	2,494,129	2,593,546	3,131,381

Recommended Adjustment by AC

Special Revenue Fund resources cannot be used for Capital Projects. GASB #54

1,742,843

4,874,224

EXHIBIT E

Governmental Fund Type Definitions

28. Governmental fund types include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds, as discussed in paragraphs 29–35.

General Fund

29. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds

30. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

31. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.² Other

²For revolving loan arrangements that are initially funded with restricted grant revenues, the consideration may be whether those restricted resources continue to comprise a substantial portion of the *fund balance* in the fund's balance sheet.

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.

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tolloch

FROM: Clifford F. Dobler

SUBJECT: Improper disclosure of a prior period adjustment of \$243,512 - Note 22 Prior Period Adjustments - 2021 Annual Comprehensive Financial Report (ACFR)

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 3-18-2022

I. RECOMMENDATION

The Audit Committee recommends that the disclosure regarding the \$243,512 prior period adjustment indicated in Note 22 of the 2021 Annual Comprehensive Financial Report (Exhibit A) should be restated to reflect actual information.

Suggested revision

\$243,512 was received by IVGID in 2017 to satisfy a judgment against an individual. The payment was reported as a restricted deposit and a deferred inflow until all appeals by the individual were concluded. Appeals were finally resolved in 2020 wherein the restriction deposit and deferred inflow should have unwound and reported as General Fund revenue in fiscal year 2020.

II. BACKGROUND and ANALYSIS

For several years, a lawsuit involving an individual and IVGID resulted in a judgment in favor of IVGID for \$243,512. In 2017 the cash was received by IVGID and recorded as a Restricted Deposit and a Deferred Inflow of Resources until all appeals of the judgment were resolved. In 2020, a final order by the Nevada Supreme Court was rendered in favor of IVGID, and the cash

was no longer required to be a restricted deposit and a deferred inflow and should have been unwound and reported as General Fund Revenue.

The prior period adjustment stated "the second adjustment is for the \$243,512 that was reported as **unavailable revenue** but should have been recorded as revenue **when received in prior years.**"

The Audit Committee deems the description to be inaccurate.

- 1) The recording and reporting was a deferred inflow of revenue not an "unavailable resource". (Exhibit B)
- 2) When the money was received in 2017 it had to be restricted until all appeals were resolved so the statement that the amount "should have been recorded as revenue when received" is inaccurate. The cash was received in 2017 but did not become revenues until 2020.
- 3) There was no indication that the revenues were received in the General Fund

This amount included interest earned since 2017.

Exhibit A - Note 22. Prior Period Adjustment - 2021 ACFR

Exhibit B - Note 20 - 2020 CAFR

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Weakness in Financial Reporting

V. ALTERNATIVES

NONE

VI. COMMENTS

NONE

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

None

EXHIBIT A

General Fund	\$ 66,947
Utility Fund	3,341,387
Community Services Fund	2,110,924
Beach Fund	453,019

Budgeting for the Fiscal Year Ending June 30, 2022:

The District's budgeting for the fiscal year ending June 30, 2022 anticipates a reduction in Fund Balance and Net Position caused by completion of capital projects. The identified reductions include; General Fund by \$217,063 including implementation of a new Human Resources Management and Payroll System; Community Services reduction of \$3,757,491 (including \$550,000 for the Mountain Golf Course Path Replacement Project, \$800,000 for the Recreation Center Locker Room Improvement Project). The Beach Fund has a reduction of \$2,066,683 related to renovation of the Burnt Cedar Pool as well as Incline Beach Facility Improvements. The Utility Fund capital plan anticipates a draw-down in Net Position primarily due to advancing the Effluent Export Pipeline Project.

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

Contractor	Project	Contract Amount	Completed (6/30/21)	Remaining Amount
CORE West, Inc	Burnt Cedar Pool Imp	\$3,845,865	\$773,143	\$3,072,722
Avail Enterprises, LLC	Rec Center Lobby	159,832	-	159,832
Ward-Young Architects	Rec Center Lobby	39,724	16,237	20,487
Granit Construction	Effluent Pipeline	369,218	25,618	343,600

21. STATE OF NEVADA TAX ABATEMENTS AFFECTING DISTRICT REVENUES

The State of Nevada has entered into various tax abatement agreements that reduce the tax revenues of local governments. Taxes reduced include the Consolidated Tax, which includes allocated sales and use tax revenue. State law establishes the abatements. The District's estimated share of abatements for this fiscal year is \$41,360.

22. PRIOR PERIOD ADJUSTMENT

The Governmental Funds Statement of Revenues, Expenditures, and Change in Fund Balance has three prior period adjustments. The first is a transfer between the Community Services Special Revenue Fund and the Community Services Capital Projects Fund that was reported in the prior year \$1,637,400 lower than the entry in the financial reports. The second adjustment is for the \$243,512 that was reported as unavailable revenue but should have been recorded as revenue when received in prior years. There were several assets capitalized in prior years that the auditors determined should not have been capitalized. The total affect to the financial reports was \$3,267,861. \$3,166,966 was in the Utilities fund, including \$3,100,110 of the Effluent Pipeline project that was written off. Governmental activities had \$100,895 in book value of assets written off as a prior period adjustment.

Exhibit B

19. COMMITMENTS AFFECTING FUTURE PERIODS

General Fund:

The District entered into an unemployment insurance contract with First Nonprofit Companies for total premiums of \$185,000 for calendar year 2020 services. As of June 30, 2020, \$92,500 in quarterly deposits are remaining as a part of the subsequent year's budget.

Capital Improvement Project Budget Carryover:

The District budgets for capital improvement projects one year at a time for spending authority. The actual execution of construction or acquisition can span one or more fiscal years. The District identifies carryover and unspent budget authority for those projects. The amounts for governmental fund types are re-budgeted for the subsequent fiscal year. The unused Utility Fund resources become part of Unrestricted Net Position, and are budgeted under cash flow on the State of NV budget forms. Amounts carried over at year-end are:

General Fund	\$ 300,000
Utility Fund	2,533,786
Community Services Fund	2,502,701
Beach Fund	-

Budgeting for the Fiscal Year Ending June 30, 2021:

The District's budgeting for the fiscal year ending June 30, 2021 anticipates a reduction in Net Position caused by completion of capital projects. The identified reductions include; General Fund by \$650,150 including \$300,000 for a new Human Resources Management and Payroll System; Community Services reduction of \$6,127,741 including \$996,630 for the Tennis Center Renovation, \$700,000 for Championship Golf Course Maintenance Building improvements, \$520,000 for Ski Way and Diamond Peak Parking Lot Reconstruction, \$264,864 for Lakeview Ski Lift Improvements, and \$166,395 for the Mountain Golf Cart Path Replacement. The Beach Fund has a reduction of \$454,500 related to work on Burnt Cedar Pool and Incline Beach Facility Improvements.

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

		Contract Amount	Completed at June 30, 2020	Remaining Commitment
<i>Utility Fund:</i>				
Paso Robles Tank, Inc.	Water Reservoir Safety and Security Improvements	\$ 109,000	\$ -	\$ 109,000
<i>Community Services Capital Fund</i>				
Daniel Fraiman Construction	Tennis Center Renovation Project	709,000	9,680	699,320
Mission Controls, Inc.	Lakeview Charlift Control Panels	96,800	-	96,800
Cruz Construction	Maintenance Building Drainage & Washpad	475,433	-	475,433

20. RESTRICTED DEPOSIT HELD IN LAWSUIT

The District has been engaged in a lawsuit with an individual over many years. A District Court decision made an award to the District for the recovery of fees. Both the Court decision and the fees awarded are under an appeal. In order to reduce possible longer-term exposure to the individual, the District received \$241,646 on September 14, 2017. These refunds are in a separate money market account and classified as a Deferred Inflow until all appeals under the lawsuit are

resolved. An appeal was filed with Nevada Supreme Court, and a final order was issued in favor of the District in November 2020.

21. STATE OF NEVADA TAX ABATEMENTS AFFECTING DISTRICT REVENUES

The State of Nevada has entered into various tax abatement agreements that reduce the tax revenues of local governments. Taxes reduced include the Consolidated Tax, which includes allocated sales and use tax revenue. State law establishes the abatements. The District’s estimated share of abatements for this fiscal year is \$21,199.

22. PRIOR YEAR ADJUSTMENTS

The District’s financial statements for the year ended June 30, 2020 reflect prior year adjustments related to (1) unearned revenues from Golf Passes recorded in the prior year (\$138,505), (2) to restate as expenses \$289,660 for selected Construction in Progress items that were reported as assets in the financial statements for the year ended June 30, 2019, as well as (3) restate as expense \$514,254 for selected items that were reported as capital assets in the financial statements for the year ended June 30, 2019.

Construction in Progress items restated as expense include \$212,044 related to development of a Parks Master Plan and \$77,216 related to improvements planned at Incline Village Ballfield. Management has determined that no future capital asset(s) are expected to be constructed as a result of the preliminary design work that had been included in prior year’s Construction in Progress.

Capital Asset items restated as expense include items determined to qualify as reporting as repairs and maintenance, consistent with established Board policy and practices. Examples include pavement maintenance, parking lot repairs, and painting projects. This determination should have been made in prior year(s).

As a result, a total of \$665,009 is recorded as a prior year adjustment in the governmental activities of the government-wide financial statements and a total of \$138,505, is recorded as a prior year adjustment in the Community Services Special Revenue Fund in the governmental funds financial statements.

	Government-wide	Community Services
	<u>Statement of Activities</u>	<u>Special Revenue Fund</u>
Net position / Fund Balance July 1, 2019, as previously reported	\$ 75,655,473	\$ 13,333,953
Prior Period Adjustment – Golf Passes	138,505	138,505
Prior Period Adjustment – Construction in Process	(289,260)	-
Prior Period Adjustment – Capital Assets	<u>(514,254)</u>	<u>-</u>
Net Position / Fund Balance, July 1, 2019, as adjusted	\$ 74,990,464	\$ 13,472,458

November 23, 2021

To: IVGID Board of Trustees, IVGID Audit Committee, Counsel Josh Nelson and Director of Finance Paul Navazio

From: Clifford F. Dobler

THIS MEMORANDUM REPLACES MY AUGUST 2, 2021 MEMORANDUM IN ITS ENTIRETY

Subject: Non-compliance with NRS 354: Issuing contracts for the Burnt Cedar Pool construction in excess of available resources with the possible intent to mislead the public and the Board of Trustees in order to obtain approval of these contracts.

Executive Summary

At the April 29, 2021 Board of Trustees meeting, IVGID senior staff requested approval and appropriation of \$4,042,045 for 5 contracts to construct a new Burnt Cedar Pool without having available resources as defined in NRS 354.410 (**Exhibit A**) which may have violated provisions of NRS 354.626 "UNLAWFUL EXPENDITURE OF MONEY IN EXCESS OF AMOUNT APPROPRIATED; PENALTIES; EXCEPTIONS." (**Exhibit B**)

The Board of Trustees approved the following contracts according to the meeting minutes (**Exhibit C**):

• CORE Construction - Guaranteed Maximum Price	\$3,749,404
• CORE Construction - Alternates #1,#2,#3,#4,	96,461
• TSK Architects - Construction Administration	105,680
• TRI Sage - Construction Inspection Services	69,500
• Reno Tahoe Geo Associates, Inc.	21,000
Total Contracts	\$4,042,045

Available Resources

According to NRS 354.410, available resources for a capital projects fund would be the unappropriated ending fund balance based on the 2020/2021 budget submitted to the State on Form 4404LGF. The budgeted ending fund balance for the Beach Capital Projects Fund was \$2,753,172 (**Exhibit D**). On December 20, 2020, \$258,289 was appropriated for additional design work and Resolution 1882 (**Exhibit E**) was also approved and submitted to the Nevada Department of Taxation. As a result, the available resources were reduced to \$2,494,883 from the Beach Capital Projects appropriations of the Beach Facility Fees.

Appropriations exceeding Available resources

The Board of Trustees approving contracts for \$4,042,045 exceeded Available Resources and the appropriations in the Beach Capital Projects Fund by **\$1,547,162**. The approval appears to directly violate NRS 354.626 which states:

*"No governing body or member thereof, officer, office, department or agency may, **during any fiscal year**, expend or contract to expend any money or incur any liability or enter into any contract which by its terms involves the expenditure of money in excess of the amounts appropriated for that function..."*

When contracts are issued there must be available resources and appropriations to cover the contracts. Contracts are commitments against resources. Logic should have prevailed that if there were not available resources, then contracts in excess of available resources could not be issued no matter when expenditures under the contracts take place. The

presumption that since only \$1,000,000 of the \$4,045,045 would be spent in fiscal year 2020/2021 does not render NRS 354.626 irrelevant and exempt the District from compliance.

Resolution 1886 - Deficient in so many ways

On April 29, 2021, Mr. Navazio presented Resolution 1886 (**Exhibit F**) to the Board of Trustees to appropriate and provide a budget augmentation of only \$1,000,000 from available resources of the Beach Capital Projects Fund in order to provide funding for commencement of construction work in the current fiscal year ending June 30, 2021. The Resolution was unanimously approved by the Board of Trustees.

Issues

According to NRS 354.626, the Board of Trustees could not issue contracts exceeding the available resources in the Beach Capital Projects Fund. Appropriating only \$1,000,000 would not satisfy the requirements of NRS 354.626. According to the 4/29/2021 Board meeting minutes (**Exhibit G**), Mr. Navazio made the following statement: *"There is **sufficient funds available in the fund balance**, we are not asking **nor is it required** that the Board appropriate the entire amount of the contract, this is an early opening and that is what we clarified with the State of Nevada Department of Taxation just earlier this week."* A request for public records did not provide any evidence that the Department of Taxation ("DofT") was informed of the dollar amount that contract commitments exceeded available resources. According to Mr. Navazio, the only guidance provided by the DofT (**Exhibit H**), which was included as a supplemental to the 4/29/2021 Board of Trustees agenda, was that the District may use unappropriated current year revenues and projected fund balance as an "available resource" as defined in NRS 354.410. Nothing was evidenced by the DofT regarding only appropriating a PORTION of the funds needed for fulfillment of the contracts issued to satisfy NRS 354.626.

Mr. Navazio continues: *"so the funding plan is to advance no more than \$1 million that would be spent on this contract, and the small risk that the Board absolutely needs to be aware of is that the recommendation to proceed with the contract tonight presumes that the Board is going to approve next year's capital budget that will include the balance of the funding that is needed for the project."* This statement circumvents the requirements of NRS 354.626. It is quite apparent that Mr. Navazio was well aware that available resources were not adequate and NRS 354.626 was not being complied with.

After approval by the Board of Trustees, the DofT may have accepted Resolution 1886 augmenting the 2020/2021 budget for only \$1,000,000 based upon incomplete information. There is no written record demonstrating that Staff provided the DofT with the total amount of money of the Board approved contracts exceeding available resources in the Beach Capital Projects Fund and the DofT permitting only \$1,000,000 to satisfy the requirements of NRS 354.626.

Within Resolution 1886 (**Exhibit I**) the following statement was made: *"**WHEREAS**, the funding for construction phase of the Burnt Cedar Pool Renovation Project in the amount of \$4,350,000 is included in the District's Capital Improvement Program for FY 2021/22."* This is a factually incorrect statement as the 5 year plan for 2021 to 2025, approved on 5/27/2021, only provided \$2,700,000 for fiscal year 2021/2022 (**Exhibit J**) and when the 2021/2022 capital budget was approved on May 27, 2021 (**Exhibit K**), there was only \$3,350,000 budgeted for the Burnt Cedar Pool project.

On September 15, 2021, in a verbal conversation with IVGID Counsel Josh Nelson, I had indicated that NRS 354.626 had been violated by issuing contracts in excess of available resources. He stated the following:

- Since the CORE contract has a "Owner May Terminate for Convenience" clause (**Exhibit L**), then IVGID would always have available resources since, if resources were not available, the contract could be cancelled.
- NRS 354.626 has never been tested in the courts.
- We will try to do better next time.

Inaccurate information on Available Budget, Estimated Project Budget and false Project Summary provided to the Board of Trustees on April 29, 2021 with the possible intent to deceive.

At the April 29, 2021 Board of Trustees meeting, a memorandum dated April 21, 2021 provided inaccurate information on the Total Available Budget, the Estimated Project Budget and a false Project Summary for the Burnt Cedar Pool Project (**Exhibit M**) as follows:

Total Available Budget

• FY 20/21 Funds	\$225,000
• FY 20/21 Budget Augmentation - Resolution 1882	258,289
• FY 21/22 Funds	4,350,000
Total	\$4,833,289

Estimated Project Budget

• Design and District Staff time - Previously appropriated	\$475,130
• Construction Contracts - Construction and Support	4,071,365
• District Staff Time during Construction	75,000
• Construction Reserve (permits, furnishing, etc)	175,000
Total	\$4,767,175

For the record, the project budget and subsequent augmentation for fiscal year 2020/2021 was only \$483,289 (\$225,000 and \$258,289) and an additional \$2,700,000 was planned in fiscal year 2021/2022 and approved by the Board of Trustees. **As such, the estimated costs of \$4,767,175 were \$1,583,886 higher than what was contemplated.**

Stating that the Available Budget was \$4,833,289 was entirely false and directly violated NRS 354.410 as the \$4,350,000 for FY21/22 budget did not exist, and therefore, could not be available.

Rather than reporting the actual facts, a false unapproved Project Summary (**EXHIBIT M**) was included. It stated that the capital budget for fiscal 2021/2022 was \$4,350,000 when the actual plan was only \$2,700,000.

This may indicate intent to deceive the public and the Board that the approved capital plan provided adequate funds for the project and the funds were available.

During the entire period of time from August 2020 until April 2021, the Board was made aware that the Beach Capital Projects Fund did not have adequate resources to fund the estimated costs. As early as August 12, 2020, the project estimate was \$5,623,480 and suggestions were made to 1) increase the current Beach Facility Fee, or 2) keep the Beach Facility Fee high for the next fiscal year, or 3) borrow money.

As the estimated costs settled into \$4.8 million, the existing budget and the large cost overrun was never discussed.

On May 5, 2021, the Board of Trustees, aware that since the Community Services Funds had a substantial amount of excess fund balance above appropriate levels, agreed to allocate a major portion (\$5.3 million = 87%) of the 2021/2022 Facility Fees to the Beach Fund, with the understanding that approximately \$1,100,000 would be used to fund operations and the remaining \$4,200,000 would be used to fund some small capital projects and provide funds for a new building at Incline Beach. However, because the Burnt Cedar Pool project was over the original budget by almost \$1.6 million, nothing was allocated in

the 2021/2022 capital budget or in the five year capital plan for a new building at Incline Beach. Thus, by ignoring the requirements of NRS 354.626, the increased costs of the Burnt Cedar Pool were never addressed.

Conclusions

1. Violation of NRS 354.626 - Issuing contracts without available resources.
2. Inference that the Nevada Department of Taxation provided IVGID with a "green light" to augment the 2020/2021 budget for only \$1,000,000 when approved contracts exceeded available resources.
3. The Board of Trustees and the public were deceived by representations that the 5 year capital plan for fiscal year 2021/2022 had \$4,350,000 budgeted for the Burnt Cedar Pool project when the plan only had \$2,700,000.
4. The 2021/2022 budgeted Facility Fees of \$5.8 million was understood to be substantially allocated for Beach operating activities shortfalls and to provide funds for a new building at Incline Beach but instead a major portion (40%) was directed to cover estimated cost overruns of the Burnt Cedar Pool.

Requests and Recommendations

- 1. The Department of Taxation must be notified that contracts were issued for the Burnt Cedar Pool in excess of Available Resources and request what corrective actions should be taken.**
- 2. IVGID Counsel Josh Nelson should submit his 9-15-2021 verbal comments to me in writing and provide his opinion on how IVGID had not violated NRS 354.626.**
- 3. Davis Farr LLC should be notified that a violation of NRS 354.626 may have occurred. Certain disclosure requirements must be made in the Notes to the Financial Statements for the June 30, 2021 Comprehensive Annual Financial Report (now known as the Annual Comprehensive Financial Report "ACFR").**

EXHIBITS

- A. NRS 354.410
- B. NRS 354.626
- C. Excerpt of Board of Trustees meeting minutes of April 29, 2021 approving contracts and augmenting the Beach Capital Projects Fund budget by \$1,000,000 for fiscal year 2020/2021
- D. Beach Capital Projects Fund Budget for fiscal year 2020/2021 - Form 4404LGF
- E. Resolution 1882 - Augmenting Beach Capital Projects Fund Budget for \$258,289 to increase design contracts
- F. Resolution 1886 - Augmenting Beach Capital Projects Fund Budget for \$1,000,000 to fund construction costs until the end of fiscal year 2020/2021
- G. Excerpt of Board of Trustees meeting minutes of April 29, 2021 regarding statements made by Paul Navazio
- H. Guidance provided by the Department of Taxation - April 26, 2021 - Available Resources
- I. Resolution 1886 - Error in reporting the 2021/2022 budget of \$4,350,000 which was not approved by Board of Trustees
- J. Five Year Capital Plan and Project Summary for the Burnt Cedar Pool for fiscal year 2021/2022 indicating only \$2,700,000 was approved by Board of Trustees
- K. Capital Improvement Project Summary Report Budget for 2021/2022 indicating only \$3,350,000 was approved on May 27, 2021
- L. Excerpt of Core Construction Contract: "Owner May Terminate for Convenience" clause
- M. Excerpt of a 4/21/2021 memorandum to Board of Trustees of the Total Available Budget and the Estimated Project Budget for Burnt Cedar Pool submitted to the Board of Trustees on April 29, 2021

EXHIBIT A

NAC 354.410 Available resources. ([NRS 354.107](#), [354.594](#), [354.598005](#))

1. An unappropriated ending balance of any governmental fund, except a fund for capital projects, is not an available resource. Available resources are:

- (a) An opening balance which is larger than anticipated;
- (b) Revenues in excess of those budgeted;
- (c) Revenues generated from previously unbudgeted sources; or
- (d) An unappropriated ending balance of a fund for capital projects.

2. The difference between the total of the original budgeted resources and the total of the revised resources is the amount available for budget augmentation.

[Tax Comm'n, Local Gov't Reg. part No. 10, eff. 1-13-72; A 2-7-76; 1-14-82]—(NAC A 8-2-90; A by Com. on Local Gov't Finance by R201-01, 4-5-2002)

EXHIBIT B

NRS 354.626 Unlawful expenditure of money in excess of amount appropriated; penalties; exceptions.

1. No governing body or member thereof, officer, office, department or agency may, during any fiscal year, expend or **contract to expend** any money or incur any liability, or **enter into any contract** which by its terms involves the expenditure of money, in excess of the amounts **appropriated for that function**, other than bond repayments, medium-term obligation repayments and any other long-term contract expressly authorized by law. Any officer or employee of a local government who willfully violates [NRS 354.470](#) to [354.626](#), inclusive, is guilty of a misdemeanor and upon conviction thereof ceases to hold his or her office or employment. Prosecution for any violation of this section may be conducted by the Attorney General or, in the case of incorporated cities, school districts or **special districts**, by the district attorney.

2. Without limiting the generality of the exceptions contained in subsection 1, the provisions of this section specifically **do not apply to:**

(a) Purchase of coverage and professional services directly related to a program of insurance which require an audit at the end of the term thereof.

(b) Long-term cooperative agreements as authorized by [chapter 277](#) of NRS.

(c) Long-term contracts in connection with planning and zoning as authorized by [NRS 278.010](#) to [278.630](#), inclusive.

(d) Long-term contracts for the purchase of utility service such as, but not limited to, heat, light, sewerage, power, water and telephone service.

(e) Contracts between a local government and an employee covering professional services to be performed within 24 months following the date of such contract or contracts entered into between local government employers and employee organizations.

(f) Contracts between a local government and any person for the construction or completion of public works, money for which has been or will be provided by the proceeds of a sale of bonds, medium-term obligations or an installment-purchase agreement and that are entered into by the local government after:

(1) Any election required for the approval of the bonds or installment-purchase agreement has been held;

(2) Any approvals by any other governmental entity required to be obtained before the bonds, medium-term obligations or installment-purchase agreement can be issued have been obtained; and

(3) The ordinance or resolution that specifies each of the terms of the bonds, medium-term obligations or installment-purchase agreement, except those terms that are set forth in subsection 2 of [NRS 350.165](#), has been adopted.

↳ Neither the fund balance of a governmental fund nor the equity balance in any proprietary fund may be used unless appropriated in a manner provided by law.

(g) Contracts which are entered into by a local government and delivered to any person solely for the purpose of acquiring supplies, services and equipment necessarily ordered in the current fiscal year for use in an ensuing fiscal year and which, under the method of accounting adopted by the local government, will be charged against an appropriation of a subsequent fiscal year. Purchase orders evidencing such contracts are public records available for inspection by any person on demand.

(h) Long-term contracts for the furnishing of television or FM radio broadcast translator signals as authorized by [NRS 269.127](#).

(i) The receipt and proper expenditure of money received pursuant to a grant awarded by an agency of the Federal Government.

(j) The incurrence of obligations beyond the current fiscal year under a lease or contract for installment purchase which contains a provision that the obligation incurred thereby is extinguished by the failure of the governing body to appropriate money for the ensuing fiscal year for the payment of the amounts then due.

(k) The receipt by a local government of increased revenue that:

(1) Was not anticipated in the preparation of the final budget of the local government; and

(2) Is required by statute to be remitted to another governmental entity.

(l) An agreement authorized pursuant to [NRS 277A.370](#).

(Added to NRS by [1965, 736](#); A [1969, 801](#); [1971, 1016, 1345](#); [1973, 68, 1155](#); [1975, 40, 279, 711](#); [1981, 1769](#); [1985, 648](#); [1987, 1720](#); [1995, 1908](#); [1997, 573](#); [1999, 833](#); [2001, 1812, 2324](#); [2003, 162, 802](#); [2005, 579](#); [2009, 432, 852](#); [2011, 1690, 2728](#); [2013, 2715](#))

NRS 354.529 “Function” defined. “Function” means a group of related activities aimed at accomplishing a major service or regulatory program for which a governmental unit is responsible, including, without limitation, **general government**, public safety, public works, health, welfare, **culture and recreation**, conservation of natural resources, urban redevelopment and housing, economic development and assistance, economic opportunity and activities relating to the judiciary.

(Added to NRS by [1981, 1756](#); A [2001, 1797](#))

EXHIBIT C

Minutes
Meeting of April 29, 2021
Page 9

General Manager Winqest said that he will follow up with the Director of Finance on the parcels as well as follow up on professional services. Yes, it is beneficial for Staff to know what the Board would like to see in the memorandums as that would help Staff to get that feedback. Trustee Dent said he likes that idea and that he has three items to be added to the long range calendar that are coming through Audit Committee – meeting minutes of 3/11/2021 - page 89, consultant re: employee benefits; page 91, price all venues for non-profits; and then an item that was passed at today's meeting – interviews dates and times for next Audit Committee member appointment which will be for a two-year term. Trustee Wong said she thought we needed to reschedule one of the May meetings. District General Manager Winqest said we are going to keep the May 26 meeting because of noticing, etc. of the public hearing.

G. DISTRICT GENERAL COUNSEL UPDATE (for possible action)

There is no District General Counsel update for this agenda.

H. REPORTS TO THE BOARD* - Reports are intended to inform the Board and/or the public.

H.1. Audit Committee Chairman Matthew Dent – Verbal Report on Audit Committee Meeting of April 29, 2021

Audit Committee Chairman Dent said that the Audit Committee reviewed the whistleblower program draft and that we are getting there. This item will be coming back to us in June and then it will be forwarded to the Trustees. On internal controls, we are making a little progress, Audit Committee At-Large Member Derrek Aaron is the liaison and that he has just started on this effort and that there was no update as he wasn't present for today's meeting. We also had the engagement letter with Davis Farr and the Audit Committee had a discussion with Jennifer Farr and we are awaiting an audit work plan. The next Audit Committee meeting is scheduled for June 9, 2021 at 4 p.m.

I. CONSENT CALENDAR (for possible action)

There are no Consent Calendar items for this agenda.

 **J. GENERAL BUSINESS (for possible action)**

J.1. Review, discuss, and possibly authorize or approve:

- (A) Four contracts for the Burnt Cedar Swimming Pool and Site Improvement Project - Fund: Beaches; Project 3970BD2601. Vendor: CORE Construction in the amount of \$3,845,865 which includes adding alternates #1, #2, #3, #4, Tri-Sage Consulting in the amount of \$69,500, Reno Tahoe Geo Associates, Inc. in the amount of \$21,000, TSK Architects in the amount of \$105,680;**
- (B) Resolution Number 1886 authorizing a budget augmentation of \$1,000,000 from available funds within the Beach Capital Fund (Fund 590) in support of the Burnt Cedar Swimming Pool Renovation Project**

(Requesting Staff Member: Engineering Manager Nathan Chorey)

District General Manager Winqest said we got guidance from the Department of Taxation that is why we had the change to this item. Engineering Manager Chorey introduced CORE Construction representatives Travis Coombs and Daniel Salego, who gave a brief overview of the submitted material. Engineering Manager Chorey gave an overview of the submitted materials. Trustee Schmitz said, on agenda packet pages 167G and 167H, related to CMAR contingency, will any savings or approved value engineering be added to the contingency? On agenda packet 167G, it says CORE has say on the use and does the District have a change order process so we have some control as it says it is used at CORE's discretion so she is asking to have that modified so the District has more decision making on some of those things. Director of Public Works Brad Underwood said we have had that decision with CORE and there is an approval process so that oversight is included and that yes, we can have some modification to that language. Trustee Schmitz asked District General Counsel Nelson if that change could be made; District General Counsel Nelson said yes, we can make that change. Trustee Schmitz said on agenda packet page 21, on the cost sheet, there is a line item in the amount of \$175,000. It talks about it being reserves however it appears to be for things outside the construction project. Can this potentially be removed from this project because this is supposed to be about the pool? The painting of the building is part of maintenance and the fact that it says reserves, well, she needs clarification please. Engineering Manager Chorey said all the funds are for this project as we don't want to paint the building but the Tahoe Regional Planning Agency (TRPA) is requiring us to improve the value and it is a direct requirement of this project by TRPA. Trustee Schmitz said so it is not reserves but it is for other construction costs. Trustee Schmitz said

she does have questions about financing. We have to set aside the funds for the entire project and that she is concerned about what our fund balance is and are we still in compliance or below for our policy relative to the beach fund? Trustee Dent said agenda packet page 201 says it is time and material with a not-to-exceed – is that correct? Engineering Manager Chorey said yes, that is correct, time and material with a not-to-exceed. Trustee Schmitz asked if the bid sheets were acceptable from a contract perspective? Look at agenda packet page 192, used as a basically scope of work statement, other pages are letters, agenda packet page 199, that should have Exhibit A on the top of it is a letter, is this acceptable for a contract as well as legally acceptable to protect the District as far as a scope of work goes? District General Counsel Nelson said yes and that he is working with the Public Works team on updating and that it is very consistent with past District practice. Trustee Wong said thank you to Engineering Manager Chorey for fostering this project along and that it has been a pleasure to work with you; it is extremely exciting to vote on this project after all this work. Trustee Schmitz asked if the Director of Finance will be addressing the financial question? Director of Finance Navazio said regarding funds and fund balance question – as proposed, the project budget is built into next year's budget and one of the actions items tonight is to advance those funds. With this project, this year's budget, and what is proposed for next year, the Beach Fund is projected to end, next fiscal year, with a fund balance that continues to meet the current fund balance policy in the Beach Fund and to be clear, it is close. Also, this project is not dipping into the fund balance. Trustee Schmitz said she would like clarification as we can't talk about future funds, we can only talk about the funds that we have in this fiscal year's budget and so her question is in this fiscal year, she doesn't believe we have the funds to appropriate \$4.7 million to this and in addition what does it do to this fiscal year's fund balance? Director of Finance Navazio said we have been collecting monies this year through the increase in the beach fees, there is sufficient funds available in the fund balance, we are not asking nor is it required that the Board appropriate the entire amount of the contract, this is an early opening and that is what we clarified with the State of Nevada Department of Taxation just earlier this week so the funding plan is to advance no more than \$1 million that would be spent on this contract, and the small risk that the Board absolutely needs to be aware of is that the recommendation to proceed with the contract tonight presumes that the Board is going to approve next year's capital budget that will include the balance of the funding that is needed for the project. From a cash flow standpoint – we have the funds available, from a budget appropriations standpoint, the resolution that is part of this packet would provide the budget authority for the contractor's charges before the end of the fiscal year, we

would have the remaining portion, \$3.35 million, included in next year's budget, based on our estimates and at the end of the project, the Beach Fund is able to support the project and not dip into the operating reserve, and the current recommendation in front of the Board provides appropriate budget authority consistent with Nevada Revised Statutes (NRS) related to this kind of project. Trustee Schmitz said so this is something that you reviewed with the Department of Taxation and how this is being presented is all acceptable per NRS and the Department of Taxation? Director of Finance Navazio said correct, we explained the situation to the State and they are comfortable with the revised resolution. Trustee Dent asked if Staff will have the breakdown for this at the next meeting? Director of Finance Navazio said the budget workshop next Wednesday will include forecasts and projections for each of the major funds, including the Beach fund, as well as projections on ending this fiscal year and that he is not sure about the additional breakdown. Trustee Dent asked if we have enough time to update this information such that we aren't getting an addendum to the packet? Director of Finance Navazio said yes. Trustee Schmitz said on page 167, I., it talks about what is excluded and it talks about lifeguard chairs, reels lane markers, and such so are all those types of things included in our estimated project budget? Engineering Manager Chorey said yes those items are included in our reserves because IVGID can procure those items less expensively ourselves. Trustee Schmitz said on page 167D, it talked about carpentry, interior, etc. what is that for? Engineering Manager Chorey said we are going into the mechanical room for the pool and we are going to have to totally reorient that room. Trustee Schmitz said if we approve this as it states with all the alternatives or will the alternatives come back up for discussion at a later date and time. Engineering Manager Chorey said we are recommending approval tonight and you are welcome to discuss them. The concrete color will be discussed further as there is a small sample that is forthcoming that we are going to review and approve. Trustee Schmitz said the concrete is sort of a Tahoe color and that is the color of our rocks. Engineering Manager Chorey said that is why we are having them pour a standard concrete sample next to the color concrete square, solicit feedback and make a decision.

Trustee Wong made a motion to:

1. Award a guaranteed maximum price construction contract to CORE Construction in the amount of \$3,749,404, consisting of a \$3,508,440 base contract and \$240,964 for CMAR Contingency and allowances, for construction of the Burnt Cedar Swimming Pool and Site Improvement Project.

2. Award add alternates #1, #2, #3 and #4 to CORE Construction in the amount of \$96,461 for the Burnt Cedar Swimming Pool and Site Improvement Project.
3. Authorize Chair and Secretary to execute the contract based on a review by General Counsel and Staff.
4. Authorize Staff to approve all change orders associated with the contract and the CMAR contingency and allowances.
5. Authorize Staff to utilize construction reserves for additional work, permit fees, and District furnished material/Furniture, Fixtures and Equipment (FFE) up to \$160,000.
6. Authorize Staff to enter into a Short Form Agreement with Tri-Sage Consulting in the amount of \$69,500 for services during construction of the project.
7. Authorize Staff to enter into an Additional Services Addendum with Reno Tahoe Geo Associates, Inc. in the amount of \$21,000 for services during construction of the project.
8. Authorize Staff to enter into an Additional Services Addendum with TSK Architects in the amount of \$105,680 for services during construction of the project.
9. Approve Resolution Number 1886 authorizing a budget augmentation of \$1,000,000 from available resources within the Beach Capital Fund (Fund 590) in support of the Burnt Cedar Swimming Pool Renovation Project.

Trustee Tonking seconded the motion. Chairman Callicrate asked for further comments, receiving none, he called the question – the motion was passed unanimously.

Chairman Callicrate called for a break at 7:33 p.m., the Board reconvened at 7:47 p.m.

J.2. Review and discuss and possibly authorize or approve: (revised at the start of the meeting – Approval of the Agenda)

EXHIBIT E



RESOLUTION NO. 1882

A RESOLUTION OF THE BOARD OF TRUSTEES AUGMENTING THE DISTRICT’S FISCAL YEAR 2020/21 BUDGET TO APPROPRIATE \$258,289 IN AVAILABLE RESOURCES FROM THE BEACH CAPITAL FUND (FUND 590) TO THE BURNT CEDAR SWIMMING POOL RENOVATION PROJECT (CIP# 3970BD2601) TO PROVIDE FUNDING FOR DESIGN CONTRACT WORK

WHEREAS, an additional appropriation of \$258,289 is required in order for the District to execute the design contract for the Burnt Cedar Swimming Pool Renovation Project;

NOW, THEREFORE, IT IS ORDERED, as follows:

Incline Village General Improvement District Board of Trustees authorizes a budget augmentation of \$258,289 from available resources, as defined, within the Beach Capital Improvement Fund (Fund 590) to provide for a supplemental appropriation to the Fiscal Year 2020/2021 project budget for the Burnt Cedar Swimming Pool Renovation Project (CIP #3970BD2601).

* * * * *

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 9th day of December, 2020, by the following vote:

AYES, and in favor thereof,
NOES,
ABSENT,

Kendra Wong
Secretary, IVGID Board of Trustees



RESOLUTION NO. 1886

A RESOLUTION OF THE BOARD OF TRUSTEES AUGMENTING THE DISTRICT'S FISCAL YEAR 2020/21 BUDGET TO APPROPRIATE \$1,000,000 IN AVAILABLE RESOURCES FROM THE BEACH CAPITAL FUND (FUND 590) IN SUPPORT OF THE BURNT CEDAR SWIMMING POOL RENOVATION PROJECT (CIP# 3970BD2601) TO PROVIDE FUNDING FOR COMMENCEMENT OF CONSTRUCTION WORK IN THE CURRENT FISCAL YEAR

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

WHEREAS, the Board of Trustees has established the Burnt Cedar Swimming Pool Renovation Project (CIP#3970BD2601) as a priority project and funding to support the project is included in the adopted Five-Year Capital Improvement Plan; and

WHEREAS, the original FY 2020/21 approved budget included \$225,000 for planning and design work expected to be undertaken in the current fiscal year; and

WHEREAS, at their meeting of December 9, 2020 the Board of Trustees approved Resolution No. 1882 to augment the project budget by \$258,289 to supplement funding to complete the pre-design phase of the project; and

WHEREAS, at same meeting of December 9, 2021, the Board of Trustees approved a CMAR delivery method and authorized Staff to solicit proposals and negotiate a guaranteed maximum price (GMP) contract to complete construction of the project, consistent with the requirements of NRS 338.169; and

WHEREAS, the funding for construction phase of the Burnt Cedar Renovation Project in the amount of \$4,350,000, is included in the District's Capital Improvement Program for FY 2021/22; and

WHEREAS, the Board of Trustees intends to award contracts and commence construction on the Burnt Cedar Pool Renovation Project in the current fiscal year; and

WHEREAS, Nevada Revised Statutes (NRS) 354.598005 provides procedures and requirements for augmentation of local agency budgets, including the requirement that budget augmentations within governmental Capital Funds require the governing body to adopt a formal resolution authorizing the budget augmentation from available resources, as defined; and



RESOLUTION NO. 1886

A RESOLUTION OF THE BOARD OF TRUSTEES AUGMENTING THE DISTRICT'S FISCAL YEAR 2020/21 BUDGET TO APPROPRIATE \$1,000,000 IN AVAILABLE RESOURCES FROM THE BEACH CAPITAL FUND (FUND 590) IN SUPPORT OF THE BURNT CEDAR SWIMMING POOL RENOVATION PROJECT (CIP# 3970BD2601) TO PROVIDE FUNDING FOR COMMENCEMENT OF CONSTRUCTION WORK IN THE CURRENT FISCAL YEAR

WHEREAS, the Nevada Administrative Code 354.410 provides for definition of "available resources" for budget augmentation to include an unappropriated ending balance of a fund for capital projects." And

WHEREAS, the final, approved FY 2020/21 budget for the District's Beach Capital Fund (Fund 590) reflects an unappropriated fund balance, as reported to the Department of Taxation on Form4404LGF, which constitutes available resources to support this budget augmentation; and

NOW, THEREFORE, IT IS ORDERED, as follows:

1. Incline Village General Improvement District Board of Trustees authorizes a budget augmentation of \$1,000,000 from available resources, as defined, within the Beach Capital Improvement Fund (Fund 590) to provide for a supplemental appropriation to the Fiscal Year 2020/21 capital project budget for the Burnt Cedar Swimming Pool Renovation Project (CIP #3970BD2601).

* * * * *

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 29th day of April, 2021, by the following vote:

AYES, and in favor thereof,
NOES,
ABSENT,

Sara Schmitz
Secretary

EXHIBIT G

Minutes
Meeting of April 29, 2021
Page 9

General Manager Winqest said that he will follow up with the Director of Finance on the parcels as well as follow up on professional services. Yes, it is beneficial for Staff to know what the Board would like to see in the memorandums as that would help Staff to get that feedback. Trustee Dent said he likes that idea and that he has three items to be added to the long range calendar that are coming through Audit Committee – meeting minutes of 3/11/2021 - page 89, consultant re: employee benefits; page 91, price all venues for non-profits; and then an item that was passed at today's meeting – interviews dates and times for next Audit Committee member appointment which will be for a two-year term. Trustee Wong said she thought we needed to reschedule one of the May meetings. District General Manager Winqest said we are going to keep the May 26 meeting because of noticing, etc. of the public hearing.

G. DISTRICT GENERAL COUNSEL UPDATE (for possible action)

There is no District General Counsel update for this agenda.

H. REPORTS TO THE BOARD* - Reports are intended to inform the Board and/or the public.

H.1. Audit Committee Chairman Matthew Dent – Verbal Report on Audit Committee Meeting of April 29, 2021

Audit Committee Chairman Dent said that the Audit Committee reviewed the whistleblower program draft and that we are getting there. This item will be coming back to us in June and then it will be forwarded to the Trustees. On internal controls, we are making a little progress, Audit Committee At-Large Member Derrek Aaron is the liaison and that he has just started on this effort and that there was no update as he wasn't present for today's meeting. We also had the engagement letter with Davis Farr and the Audit Committee had a discussion with Jennifer Farr and we are awaiting an audit work plan. The next Audit Committee meeting is scheduled for June 9, 2021 at 4 p.m.

I. CONSENT CALENDAR (for possible action)

There are no Consent Calendar items for this agenda.

J. GENERAL BUSINESS (for possible action)

J.1. Review, discuss, and possibly authorize or approve:

- (A) **Four contracts for the Burnt Cedar Swimming Pool and Site Improvement Project - Fund: Beaches; Project 3970BD2601. Vendor: CORE Construction in the amount of \$3,845,865 which includes adding alternates #1, #2, #3, #4, Tri-Sage Consulting in the amount of \$69,500, Reno Tahoe Geo Associates, Inc. in the amount of \$21,000, TSK Architects in the amount of \$105,680;**
- (B) **Resolution Number 1886 authorizing a budget augmentation of \$1,000,000 from available funds within the Beach Capital Fund (Fund 590) in support of the Burnt Cedar Swimming Pool Renovation Project**

(Requesting Staff Member: Engineering Manager Nathan Chorey)

District General Manager Winqest said we got guidance from the Department of Taxation that is why we had the change to this item. Engineering Manager Chorey introduced CORE Construction representatives Travis Coombs and Daniel Salego, who gave a brief overview of the submitted material. Engineering Manager Chorey gave an overview of the submitted materials. Trustee Schmitz said, on agenda packet pages 167G and 167H, related to CMAR contingency, will any savings or approved value engineering be added to the contingency? On agenda packet 167G, it says CORE has say on the use and does the District have a change order process so we have some control as it says it is used at CORE's discretion so she is asking to have that modified so the District has more decision making on some of those things. Director of Public Works Brad Underwood said we have had that decision with CORE and there is an approval process so that oversight is included and that yes, we can have some modification to that language. Trustee Schmitz asked District General Counsel Nelson if that change could be made; District General Counsel Nelson said yes, we can make that change. Trustee Schmitz said on agenda packet page 21, on the cost sheet, there is a line item in the amount of \$175,000. It talks about it being reserves however it appears to be for things outside the construction project. Can this potentially be removed from this project because this is supposed to be about the pool? The painting of the building is part of maintenance and the fact that it says reserves, well, she needs clarification please. Engineering Manager Chorey said all the funds are for this project as we don't want to paint the building but the Tahoe Regional Planning Agency (TRPA) is requiring us to improve the value and it is a direct requirement of this project by TRPA. Trustee Schmitz said so it is not reserves but it is for other construction costs. Trustee Schmitz said

she does have questions about financing. We have to set aside the funds for the entire project and that she is concerned about what our fund balance is and are we still in compliance or below for our policy relative to the beach fund? Trustee Dent said agenda packet page 201 says it is time and material with a not-to-exceed – is that correct? Engineering Manager Chorey said yes, that is correct, time and material with a not-to-exceed. Trustee Schmitz asked if the bid sheets were acceptable from a contract perspective? Look at agenda packet page 192, used as a basically scope of work statement, other pages are letters, agenda packet page 199, that should have Exhibit A on the top of it is a letter, is this acceptable for a contract as well as legally acceptable to protect the District as far as a scope of work goes? District General Counsel Nelson said yes and that he is working with the Public Works team on updating and that it is very consistent with past District practice. Trustee Wong said thank you to Engineering Manager Chorey for fostering this project along and that it has been a pleasure to work with you; it is extremely exciting to vote on this project after all this work. Trustee Schmitz asked if the Director of Finance will be addressing the financial question? Director of Finance Navazio said regarding funds and fund balance question – as proposed, the project budget is built into next year’s budget and one of the actions items tonight is to advance those funds. With this project, this year’s budget, and what is proposed for next year, the Beach Fund is projected to end, next fiscal year, with a fund balance that continues to meet the current fund balance policy in the Beach Fund and to be clear, it is close. Also, this project is not dipping into the fund balance. Trustee Schmitz said she would like clarification as we can’t talk about future funds, we can only talk about the funds that we have in this fiscal year’s budget and so her question is in this fiscal year, she doesn’t believe we have the funds to appropriate \$4.7 million to this and in addition what does it do to this fiscal year’s fund balance? Director of Finance Navazio said we have been collecting monies this year through the increase in the beach fees, there is sufficient funds available in the fund balance, we are not asking nor is it required that the Board appropriate the entire amount of the contract, this is an early opening and that is what we clarified with the State of Nevada Department of Taxation just earlier this week so the funding plan is to advance no more than \$1 million that would be spent on this contract, and the small risk that the Board absolutely needs to be aware of is that the recommendation to proceed with the contract tonight presumes that the Board is going to approve next year’s capital budget that will include the balance of the funding that is needed for the project. From a cash flow standpoint – we have the funds available, from a budget appropriations standpoint, the resolution that is part of this packet would provide the budget authority for the contractor’s charges before the end of the fiscal year, we



would have the remaining portion, \$3.35 million, included in next year's budget, based on our estimates and at the end of the project, the Beach Fund is able to support the project and not dip into the operating reserve, and the current recommendation in front of the Board provides appropriate budget authority consistent with Nevada Revised Statutes (NRS) related to this kind of project. Trustee Schmitz said so this is something that you reviewed with the Department of Taxation and how this is being presented is all acceptable per NRS and the Department of Taxation? Director of Finance Navazio said correct, we explained the situation to the State and they are comfortable with the revised resolution. Trustee Dent asked if Staff will have the breakdown for this at the next meeting? Director of Finance Navazio said the budget workshop next Wednesday will include forecasts and projections for each of the major funds, including the Beach fund, as well as projections on ending this fiscal year and that he is not sure about the additional breakdown. Trustee Dent asked if we have enough time to update this information such that we aren't getting an addendum to the packet? Director of Finance Navazio said yes. Trustee Schmitz said on page 167, I., it talks about what is excluded and it talks about lifeguard chairs, reels lane markers, and such so are all those types of things included in our estimated project budget? Engineering Manager Chorey said yes those items are included in our reserves because IVGID can procure those items less expensively ourselves. Trustee Schmitz said on page 167D, it talked about carpentry, interior, etc. what is that for? Engineering Manager Chorey said we are going into the mechanical room for the pool and we are going to have to totally reorient that room. Trustee Schmitz said if we approve this as it states with all the alternatives or will the alternatives come back up for discussion at a later date and time. Engineering Manager Chorey said we are recommending approval tonight and you are welcome to discuss them. The concrete color will be discussed further as there is a small sample that is forthcoming that we are going to review and approve. Trustee Schmitz said the concrete is sort of a Tahoe color and that is the color of our rocks. Engineering Manager Chorey said that is why we are having them pour a standard concrete sample next to the color concrete square, solicit feedback and make a decision.

Not true

Trustee Wong made a motion to:

1. Award a guaranteed maximum price construction contract to CORE Construction in the amount of \$3,749,404, consisting of a \$3,508,440 base contract and \$240,964 for CMAR Contingency and allowances, for construction of the Burnt Cedar Swimming Pool and Site Improvement Project.

2. Award add alternates #1, #2, #3 and #4 to CORE Construction in the amount of \$96,461 for the Burnt Cedar Swimming Pool and Site Improvement Project.
3. Authorize Chair and Secretary to execute the contract based on a review by General Counsel and Staff.
4. Authorize Staff to approve all change orders associated with the contract and the CMAR contingency and allowances.
5. Authorize Staff to utilize construction reserves for additional work, permit fees, and District furnished material/Furniture, Fixtures and Equipment (FFE) up to \$160,000.
6. Authorize Staff to enter into a Short Form Agreement with Tri-Sage Consulting in the amount of \$69,500 for services during construction of the project.
7. Authorize Staff to enter into an Additional Services Addendum with Reno Tahoe Geo Associates, Inc. in the amount of \$21,000 for services during construction of the project.
8. Authorize Staff to enter into an Additional Services Addendum with TSK Architects in the amount of \$105,680 for services during construction of the project.
9. Approve Resolution Number 1886 authorizing a budget augmentation of \$1,000,000 from available resources within the Beach Capital Fund (Fund 590) in support of the Burnt Cedar Swimming Pool Renovation Project.

Trustee Tonking seconded the motion. Chairman Callicrate asked for further comments, receiving none, he called the question – the motion was passed unanimously.

Chairman Callicrate called for a break at 7:33 p.m., the Board reconvened at 7:47 p.m.

J.2. Review and discuss and possibly authorize or approve: (revised at the start of the meeting – Approval of the Agenda)

EXHIBIT H

Following guidance provided by the Department of Taxation on Monday, April 26, 2021, IVGID Staff is issuing a REVISED Agenda, Memorandum and Resolution related to the Agenda Item J.1. – Burnt Cedar Swimming Pool project on the agenda of April 29, 2021.

Specifically, the Department of Taxation has advised that the District MAY use unappropriated current year revenues and projected fund balance (as of June 30, 2021) as reported on our Final FY20/21 Budget (Form 4404LGF) as an “available resource”, as defined in NAC 354.410 to augment the FY2020/21 budget.

Therefore, and as a result of the above guidance, attached are a REVISED Board of Trustees agenda, Memorandum (please remove pages 16 through 23 and replace with the attached pages 16 through 23), which has changes in the subject matter (B), I. Recommendation, 9. revised text is in **bold**, and V. Financial Impact and Budget, last two paragraphs with revised text in *italics*, and please remove and replace pages 25 – 26, Resolution Number 1886, with the attached pages 25 – 26 entitled Resolution Number 1886, which has had changes made to the resolution header and near the end of the resolution under “Now, therefore, it is ordered, as follows:” is attached hereto.

Please feel free to contact Director of Finance Paul Navazio, pcn@IVGID.org, should you have any questions related to these revisions prior to the Board meeting.



RESOLUTION NO. 1886

A RESOLUTION OF THE BOARD OF TRUSTEES AUGMENTING THE DISTRICT'S FISCAL YEAR 2020/21 BUDGET TO APPROPRIATE \$1,000,000 IN AVAILABLE RESOURCES FROM THE BEACH CAPITAL FUND (FUND 590) IN SUPPORT OF THE BURNT CEDAR SWIMMING POOL RENOVATION PROJECT (CIP# 3970BD2601) TO PROVIDE FUNDING FOR COMMENCEMENT OF CONSTRUCTION WORK IN THE CURRENT FISCAL YEAR

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

WHEREAS, the Board of Trustees has established the Burnt Cedar Swimming Pool Renovation Project (CIP#3970BD2601) as a priority project and funding to support the project is included in the adopted Five-Year Capital Improvement Plan; and

WHEREAS, the original FY 2020/21 approved budget included \$225,000 for planning and design work expected to be undertaken in the current fiscal year; and

WHEREAS, at their meeting of December 9, 2020 the Board of Trustees approved Resolution No. 1882 to augment the project budget by \$258,289 to supplement funding to complete the pre-design phase of the project; and

WHEREAS, at same meeting of December 9, 2021, the Board of Trustees approved a CMAR delivery method and authorized Staff to solicit proposals and negotiate a guaranteed maximum price (GMP) contract to complete construction of the project, consistent with the requirements of NRS 338.169; and

WHEREAS, the funding for construction phase of the Burnt Cedar Renovation Project in the amount of \$4,350,000, is included in the District's Capital Improvement Program for FY 2021/22; and

WHEREAS, the Board of Trustees intends to award contracts and commence construction on the Burnt Cedar Pool Renovation Project in the current fiscal year; and

WHEREAS, Nevada Revised Statutes (NRS) 354.598005 provides procedures and requirements for augmentation of local agency budgets, including the requirement that budget augmentations within governmental Capital Funds require the governing body to adopt a formal resolution authorizing the budget augmentation from available resources, as defined; and



RESOLUTION NO. 1886

A RESOLUTION OF THE BOARD OF TRUSTEES AUGMENTING THE DISTRICT'S FISCAL YEAR 2020/21 BUDGET TO APPROPRIATE \$1,000,000 IN AVAILABLE RESOURCES FROM THE BEACH CAPITAL FUND (FUND 590) IN SUPPORT OF THE BURNT CEDAR SWIMMING POOL RENOVATION PROJECT (CIP# 3970BD2601) TO PROVIDE FUNDING FOR COMMENCEMENT OF CONSTRUCTION WORK IN THE CURRENT FISCAL YEAR

WHEREAS, the Nevada Administrative Code 354.410 provides for definition of "available resources" for budget augmentation to include an unappropriated ending balance of a fund for capital projects." And

WHEREAS, the final, approved FY 2020/21 budget for the District's Beach Capital Fund (Fund 590) reflects an unappropriated fund balance, as reported to the Department of Taxation on Form4404LGF, which constitutes available resources to support this budget augmentation; and

NOW, THEREFORE, IT IS ORDERED, as follows:

1. Incline Village General Improvement District Board of Trustees authorizes a budget augmentation of \$1,000,000 from available resources, as defined, within the Beach Capital Improvement Fund (Fund 590) to provide for a supplemental appropriation to the Fiscal Year 2020/21 capital project budget for the Burnt Cedar Swimming Pool Renovation Project (CIP #3970BD2601).

* * * * *

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 29th day of April, 2021, by the following vote:

AYES, and in favor thereof,
NOES,
ABSENT,

Sara Schmitz
Secretary

EXHIBIT J



5 Year Capital Improvement Plan Summary Beaches

Description	Project Number	Project Title	Project	2021	2022	2023	2024	2025	Total
Beaches									
	3970BD2601	Burnt Cedar Swimming Pool Improvements	Engineering Manager	225,000	2,700,000	-	-	-	2,925,000
	3972BD1301	Pavement Maintenance, Ski Beach	Senior Engineer	6,000	8,500	15,000	256,000	6,000	291,500
	3972BD1501	Beaches Flatscape and Retaining Wall Enhancement and Replacement	Senior Engineer	55,000	55,000	55,000	55,000	-	220,000
	3972BD1707	Burnt Cedar Dumpster enclosure	Senior Engineer	35,000	-	-	-	-	35,000
	3972FF1704	Beach Furnishings	Parks Superintendent	7,000	21,000	-	-	-	28,000
	3972LE1720	2014 John Deere 5075E Tractor #698	Fleet Superintendent	-	-	-	-	54,000	54,000
	3972LI1201	Pavement Maintenance, Incline Beach	Senior Engineer	6,500	6,500	31,500	6,500	6,500	57,500
	3972LI1202	Pavement Maintenance, Burnt Cedar Beach	Senior Engineer	12,500	12,500	67,500	12,500	12,500	117,500
	3972RS1701	Replace Playgrounds - Beaches	Senior Engineer	7,500	7,500	15,000	100,000	100,000	230,000
	3973FF1204	Incline Beach Kitchen	Food and Beverage Director	-	7,260	-	-	-	7,260
	3973LI1302	Incline Beach Facility Replacement	Engineering Manager	100,000	-	-	-	-	100,000
	3974FF1101	Burnt Cedar Beach Kitchen	Food and Beverage Director	-	6,800	-	-	-	6,800
	3999BD1702	Resurface Burnt Cedar Pool Patio Deck	Buildings Superintendent	-	-	-	-	29,100	29,100
	3999BD1703	Replace Ski Beach Entrance Gate	Buildings Superintendent	-	-	-	19,500	-	19,500
	3999BD1708	Ski Beach Bridge Replacement	Senior Engineer	-	-	120,000	-	-	120,000
	3999DI1706	Burnt Cedar Beach Backflow Device Replacement	Engineering Manager	-	-	45,000	-	-	45,000
	Total			454,500	2,825,060	349,000	449,500	208,100	4,286,160



Project Summary

Project Number:	3970BD2601
Title:	Burnt Cedar Swimming Pool Improvements
Project Type:	D - Capital Improvement - Existing Facilities
Division:	70 - Beach Aquatics
Budget Year:	2021
Finance Option:	
Asset Type:	BD - Buildings & Structures
Active:	Yes

Project Description				
The Burnt Cedar Swimming Pool and Toddler pool fiberglass surfaces require periodic replacement. Over time, discoloration, cracking and surface failure will create health and safety impacts to continued use of the pools. Breakdown of the pool surface will allow materials to cloud the water and make it unsanitary and cloudy water will not meet health dept safety code requirements. It has been determined the pool has reached the end of its service life. This project is for full swimming and toddler pool replacement, associated mechanical systems improvements, and pool deck replacement.				
A consultant will be selected to complete an alternative layout analysis and evaluate existing mechanical systems. Consideration will be given to reducing the maximum depth of the pool, providing a zero-entry pool edge for improved ADA access, maintaining a water slide, and a second toddler pool or splash pad.				
Project Internal Staff				
Engineering will manage the project. The Director of Parks and Recreation will determine the needs for the project and coordinate project timing because the pool will need to be out of service during the summer season to complete the work. A community interest committee will be convened by the General Manager.				
Project Justification				
This project will reconstruct the swimming and toddler pool, mechanical equipment and pool deck. The cost estimate is a placeholder at this time because the exact scope of work has not been identified for the replacement Burnt Cedar pool facility. The General Manager will lead a community group to received input on community desires and needs for a new pool facility. It is anticipated at this time that construction will occur in the summer of 2021. The impact to the facility will be substantial during the summer operation period. Construction will require the closing of the pool facility for the whole summer or a portion of the summer.				
Forecast				
Budget Year	Total Expense	Total Revenue	Difference	
2021				
Design	225,000	0	225,000	
Year Total	225,000	0	225,000	
2022				
Construction Management	225,000	0	225,000	
Construction Reserves	225,000	0	225,000	
Placeholder - Construction	2,250,000	0	2,250,000	
Year Total	2,700,000	0	2,700,000	
2027				
Placeholder - Construction	175,000	0	175,000	
Year Total	175,000	0	175,000	
2034				
Placeholder - Construction	200,000	0	200,000	
Year Total	200,000	0	200,000	
	2,600,000	0	2,600,000	
Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2019	Jun 30, 2022	Engineering Manager	

Can not even add

EXHIBIT K

2022 Capital Improvement Project Summary Report - 5.26.2021



Department Description	Project Number	Project Title	Project Manager	2022	2023	2024	2025	2026	Total	
Recreation Center	4884BD1702	Replace Bird Netting	Buildings Superintendent	-	-	17,720	-	-	17,720	
	4884BD1804	Chemtrol System for Recreation Center Pool	Buildings Superintendent	-	22,000	-	-	-	22,000	
	4884FF1501	Resurface Recreation Center Patio Deck	Buildings Superintendent	-	-	-	-	35,000	35,000	
	4884LI1102	Recreation Center Parking Lot Reconstruction	Senior Engineer	-	350,000	300,000	300,000	-	950,000	
	4884LI1102X	Pavement Maintenance, Recreation Center Area	Senior Engineer	7,500	7,500	7,500	7,500	6,000	36,000	
	4884RS1503	Replaster Recreation Center Pool	Buildings Superintendent	-	-	200,000	-	-	200,000	
	4886LE0001	Fitness Equipment	Recreation Center Manager	53,000	49,000	70,000	57,200	51,300	280,500	
	4899BD1305	Paint Interior of Recreation Center	Buildings Superintendent	15,500	-	15,500	-	-	31,000	
	4899FF1202	Rec Center Locker Room Improvements	Engineering Manager	800,000	-	-	-	-	800,000	
	4899LV1721	2012 15-Passenger Van #667	Fleet Superintendent	-	-	-	-	45,800	45,800	
	4899LV1723	2017 Chevy Compact SUV #751	Fleet Superintendent	32,000	-	-	-	-	32,000	
	4899OE1607	Recreation Center Printer Copier Replacement 980 Incline Way	Director of IT	-	-	-	-	25,000	25,000	
	Total				908,000	428,500	610,720	364,700	163,100	2,475,020
	Community Services Shared	4999LV1802	2017 Dodge Caravan ADA #769	Fleet Superintendent	-	-	64,000	-	-	64,000
Total						64,000			64,000	
Total Community Services				3,870,130	6,299,700	3,796,020	3,553,820	4,445,853	21,965,523	
Beaches	3970BD2601	Burnt Cedar Swimming Pool and Site Improvements	Engineering Manager	3,350,000	-	-	-	-	3,350,000	
	3972BD1301	Reconstruct Pavement - Ski Beach	Senior Engineer	-	-	250,000	-	-	250,000	
	3972BD1301X	Pavement Maintenance, Ski Beach	Senior Engineer	8,500	15,000	6,000	6,000	6,000	41,500	
	3972BD1501	Beaches Flatscape and Retaining Wall Enhancement and Replacement	Senior Engineer	55,000	55,000	55,000	55,000	-	220,000	
	3972BD2101	Ski Beach Boat Ramp Improvement Project	Engineering Manager	-	-	-	20,000	715,000	735,000	
	3972BD2102	Beach Access Improvement Project	Engineering Manager	45,000	-	-	-	-	45,000	
	3972FF1704	Beach Furnishings	Parks Superintendent	21,000	-	-	-	-	21,000	
	3972LE1720	2014 John Deere 5075E Tractor #698	Fleet Superintendent	-	-	-	54,000	-	54,000	
	3972LI1201	Pavement Maintenance, Incline Beach	Senior Engineer	6,500	31,500	6,500	6,500	12,500	63,500	
	3972LI1202	Pavement Reconstruction - Burnt Cedar Beach	Senior Engineer	-	-	-	-	835,000	835,000	
	3972LI1202X	Pavement Maintenance, Burnt Cedar Beach	Senior Engineer	12,500	67,500	12,500	12,500	-	105,000	
	3972RS1701	Replace Playgrounds - Beaches	Senior Engineer	-	7,500	100,000	100,000	-	207,500	
	3972RS1701X	Playground Repairs - Beaches	Senior Engineer	7,500	7,500	-	-	-	15,000	
	3973FF1204	Incline Beach Kitchen	Food and Beverage Manager	7,260	-	-	-	-	7,260	
	3974FF1101	Burnt Cedar Beach Kitchen	Food and Beverage Manager	6,800	-	-	-	-	6,800	
	3999BD1702	Resurface Burnt Cedar Pool Patio Deck	Buildings Superintendent	-	-	-	29,100	-	29,100	
	3999BD1703	Replace Ski Beach Entrance Gate	Buildings Superintendent	-	-	19,500	-	-	19,500	
	3999BD1708	Ski Beach Bridge Replacement	Senior Engineer	-	120,000	-	-	-	120,000	
	3999DI1706	Burnt Cedar Beach Backflow Device Replacement	Engineering Manager	-	45,000	-	-	-	45,000	
3999LI1902	Burnt Cedar Beach Eastern Stormwater Improvements	Senior Engineer	-	-	-	-	189,200	189,200		
Total				3,520,060	349,000	449,500	283,100	1,757,700	6,359,360	
total				12,125,628	12,087,200	8,538,020	9,428,440	13,667,253	55,846,541	

EXHIBIT L

- C. Subject to the terms and operation of any applicable performance bond, if Owner has terminated the Contract for cause, Owner may exclude Contractor from the Site, take possession of the Work, incorporate in the Work all materials and equipment stored at the Site or for which Owner has paid Contractor but which are stored elsewhere, and complete the Work as Owner may deem expedient.
- D. Owner may not proceed with termination of the Contract under Paragraph 16.02.B if Contractor within 7 days of receipt of notice of intent to terminate begins to correct its failure to perform and proceeds diligently to cure such failure.
- E. If Owner proceeds as provided in Paragraph 16.02.B, Contractor shall not be entitled to receive any further payment until the Work is completed. If the unpaid balance of the Contract Price exceeds the cost to complete the Work, including all related claims, costs, losses, and damages (including but not limited to all fees and charges of engineers, architects, attorneys, and other professionals) sustained by Owner, such excess will be paid to Contractor. If the cost to complete the Work including such related claims, costs, losses, and damages exceeds such unpaid balance, Contractor shall pay the difference to Owner. Such claims, costs, losses, and damages incurred by Owner will be reviewed by Engineer as to their reasonableness and, when so approved by Engineer, incorporated in a Change Order. When exercising any rights or remedies under this paragraph, Owner shall not be required to obtain the lowest price for the Work performed.
- F. Where Contractor's services have been so terminated by Owner, the termination will not affect any rights or remedies of Owner against Contractor then existing or which may thereafter accrue, or any rights or remedies of Owner against Contractor or any surety under any payment bond or performance bond. Any retention or payment of money due Contractor by Owner will not release Contractor from liability.
- G. If and to the extent that Contractor has provided a performance bond under the provisions of Paragraph 6.01.A, the provisions of that bond will govern over any inconsistent provisions of Paragraphs 16.02.B and 16.02.D.

16.3 *Owner May Terminate for Convenience*

- A. Upon 7 days' written notice to Contractor and Engineer, Owner may, without cause and without prejudice to any other right or remedy of Owner, terminate the Contract. In such case, Contractor shall be paid for (without duplication of any items):
 - 1. completed and acceptable Work executed in accordance with the Contract Documents prior to the effective date of termination, including fair and reasonable sums for overhead and profit on such Work;
 - 2. expenses sustained prior to the effective date of termination in performing services and furnishing labor, materials, or equipment as required by the Contract Documents in connection with uncompleted Work, plus fair and reasonable sums for overhead and profit on such expenses; and
 - 3. other reasonable expenses directly attributable to termination, including costs incurred to prepare a termination for convenience cost proposal.
- B. Contractor shall not be paid for any loss of anticipated profits or revenue, post-termination overhead costs, or other economic loss arising out of or resulting from such termination.

16.4 *Contractor May Stop Work or Terminate*

- A. If, through no act or fault of Contractor, (1) the Work is suspended for more than 90 consecutive days by Owner or under an order of court or other public authority, or (2) Engineer fails to act on any

Watermain Replacement Project, Preston Field Retaining Wall Replacement Study, and Burnt Cedar Swimming Pool Improvement Project.

TSK Architects were selected following a request for proposals for qualified architectural consulting firms for involvement in IVGID’s Burnt Cedar Swimming Pool Improvement Project. After an extensive evaluation period and interview process that included four (4) IVGID staff members and one (1) IVGID Trustee, the TSK Architects’ design team was selected and awarded a preliminary design contract on May 20, 2020.

V. FINANCIAL IMPACT AND BUDGET

The approved FY 2020-2021 budget originally included \$225,000 for the design phase of the Burnt Cedar Pool Improvement Project. At the December 9, 2020 Board Meeting, Resolution No. 1882 was approved to augment the FY2020/21 capital budget by \$258,289 from available resources within the unappropriated fund balance of the Beach Capital Fund, in support of the Burnt Cedar Swimming Pool Improvement Project (CIP#3970BD2601). There is an additional \$4,350,000 programmed for this project in the Tentative 2021/2022 Capital Improvement Program Budget (see attached data sheet).

The following table outlines the total project budget, funded through the Beach Fund and related Beach Capital Fund.

Total Available Budget

Description	Amount	Fund
3970BD2601 – FY20/21 Funds	\$225,000	Beach Capital
Budget Augmentation (Res No. 1882)	\$258,289	Beach Capital
3970BD2601 – FY21/22 Funds	\$4,350,000	Beach Fund
Total Available Budget	\$4,833,289	

The table below presents the estimated cost for the Burnt Cedar Swimming Pool and Site Improvement Project budget, based on the Guaranteed Maximum Price received and the recommendations related to Add-Alternate project elements:

Estimated Project Budget

Description	Amount
TSK Architects Conceptual design fees (not to exceed)	\$32,200
TSK Architects Schematic design fees (not to exceed)	\$68,104
TSK Architects Final design fees (not to exceed)	\$216,626
Reno Tahoe Geo Associates (not to exceed)	\$20,700
CMAR pre-construction fees	\$37,500
District staff time during design, 3 rd part cost estimator, permit fees, and miscellaneous project expenses (Period 7/1/19 – 4/15/21)	\$100,000
Design Phase sub-total	\$475,130
CMAR Construction Base Contract (CORE Construction)	\$3,508,440
Alternates #1, #2, #3, and #4	\$96,461
CMAR Contingency and Allowances	\$240,964
Total Guaranteed Maximum Price Contract	\$3,845,865
Construction Administration (TSK Architects)	\$105,680
Construction Inspection Services (Tri Sage)	\$69,500
Special Inspection and Materials Testing (Reno Tahoe Geo Associates, Inc.)	\$21,000
District Staff Time	\$75,000
IVGID Construction Reserves (Additional work, Permit fees, and District furnished material/FFE)	\$175,000
Construction Administration sub-total	\$446,180
Estimated Project Total	\$4,767,175

IVGID Construction reserves are to account for permit fees, deferred submittals, and certain project elements have been removed from the construction contract and will be completed outside of the construction contract. For instance, a TRPA requirement to paint the exterior of the Burnt Cedar Pool Building will be outside of the CMAR contract. District furnished material / Furniture, Fixture, and Equipment (FFE) includes pool elements, security cameras, and patio furniture, as examples.

The estimated project cost estimate for the Burnt Cedar Swimming Pool and Site Improvement Project is \$4,767,175, or \$66,114 below the total available budget. Upon project completion, all savings will revert to fund balance and be available for re-appropriation for future capital projects, subject to Board approval.

FALSE Project Summary

Part of 4-29-2021 Agenda approving Contracts



Project Summary

Project Number:	3970BD2601
Title:	Burnt Cedar Swimming Pool and Site Improvements
Project Type:	D - Capital Improvement - Existing Facilities
Division:	70 - Beach Aquatics
Budget Year:	2022
Finance Options:	
Asset Type:	BD - Buildings & Structures
Active:	Yes

Project Description				
<p>The Burnt Cedar Swimming Pool and Toddler pool fiberglass surfaces require periodic replacement. Over time, discoloration, cracking and surface failure will create health and safety impacts to continued use of the pools. Breakdown of the pool surface will allow materials to cloud the water and make it unsanitary and cloudy water will not meet health dept safety code requirements. It has been determined the pool has reached the end of its service life. This project is for full swimming and toddler pool replacement, associated mechanical systems improvements, pool deck replacement, and other site improvements.</p> <p>An architectural consultant is in the process of completing the final construction documents.</p>				
Project Internal Staff				
<p>Engineering will manage the project. The Director of Parks and Recreation will determine the needs for the project and coordinate project timing because the pool will need to be out of service during the summer season to complete the work. A community interest committee will be convened by the General Manager.</p>				
Project Justification				
<p>This project will reconstruct the swimming and toddler pool, mechanical equipment, and pool deck. The cost estimate is based on the February 2021 cost estimate from the Construction Manager at Risk. It is anticipated at this time that construction will occur in the summer of 2021. The impacts on the facility will be substantial during the summer operation period. Construction will require the closing of the pool facility for the whole summer or a portion of the summer.</p>				
Forecast				
Budget Year	Total Expense	Total Revenue	Difference	
2022				
Construction Management	200,000	0	200,000	
Construction Reserves/Internal Services	250,000	0	250,000	
Placeholder - Construction	3,900,000	0	3,900,000	
Year Total	4,350,000	0	4,350,000	
	4,350,000	0	4,350,000	
Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2019	Jun 30, 2022	Engineering Manager	

DATE	DAY OF THE WEEK	TIME	LOCATION	COMPLETED MEMORANDUMS WITH ALL BACK UP MATERIALS FOR AGENDA ITEMS FROM AUDIT COMMITTEE MEMBERS DUE DATE	ITEMS SLATED FOR CONSIDERATION
					<p>Discuss the option of calling for public comment</p> <p>Seeing the October financials sent to the auditors</p> <p>Procurement card policy and authority</p> <p>Contract management</p> <p>Dillon's Rule on DPSEF contract (Trustee Schmitz said that the Board of Trustees did approve a scope of work)</p> <p>Restricted funds versus committed funds</p> <p>7 items on 6/9 agenda that were deferred to the future</p> <p>Items that should be expensed</p> <p>Misallocation of investment earnings</p> <p>Burnt Cedar pool contract in violation of NRS</p>

MINUTES

AUDIT COMMITTEE MEETING OF NOVEMBER 17, 2021 Incline Village General Improvement District (Amended)

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, November 17, 2021 at 3:00 p.m. via Zoom.

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) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman), Matthew Dent (Trustee).

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

Dick Warren said the biggest joke for him is to read in the Transmittal Letter that, once again, the GFOA has awarded IVGID a Certificate of Achievement for Excellence in Financial Reporting, and then to peruse the "Report on Internal Control over Financial Reporting" and find out that IVGID had two Material Weaknesses and two Significant Deficiencies detected by Davis Farr during their audit. If IVGID Management had any integrity they would take that crap about Excellence in Financial Reporting out of their Transmittal Letter; it's a sad joke, and everyone knows IVGID pays for that award, and obviously IVGID certainly never earned it. Two material weaknesses & two significant deficiencies is a big deal, normally heads roll when this happens in the private sector. I seriously wonder how Davis Farr can actually opine on these financials. If they are relying on management's responses to take care of things, good luck with that. The effectiveness of internal controls is about where it was almost 2 years ago, dead in the water. It's obvious that IVGID Management cannot clean up this mess called Internal Controls, and it's also obvious that the Board collectively does not have the guts to fix this problem by firing Indra & Navazio. So the AC needs to recommend to the Board that Moss Adams, or a similar reputable firm, be brought in to get Internal Controls in Place, Running, and Reviewed. We have at least 2 year's worth of lousy CAFR's, do you really think next year's CAFR will be any better? Of course not, the IVGID Finance Talent Pool is very dry. Let's get competent folks in to fix this. Not only can Indra & Navazio not do the job, but they really do not want to do the job, they like the lack of controls because it allows them to do what they want to do. My disgust is not with the AC (you folks are fine), but with the Board. They refuse to acknowledge that Indra himself is a lousy GM, and

Minutes

Audit Committee Meeting of November 17, 2021

Page 2

Navazio as a Finance Director is an even a bigger issue. How many more “screw-ups” re the CAFR’s, Internal Controls, Contracts, etc., can the Board endure before they finally do something about it? You folks on the AC can expedite that process by pointing out the current deficiencies in IVGID Finance Management. And you have a responsibility to do that, you cannot ignore the fact that the Finance folks at IVGID suck. Okay??? You cannot pass on this....period. If you do, then you are wimping out. One quick item, on page 91 Davis Farr says “....the underlying accounting records do not support the financial statements without significant adjustments to remove full accrual accounting transactions for the presentation of governmental fund types...” Really? IVGID accounting can’t even produce the financials WITHOUT significant adjustments? Amazing!!! Thank you.

Judith Miller said whatever action is taken today, she wants to thank the members of the Audit Committee for their activities this past year to bring greater transparency to our financial reporting. There remains much work ahead as evidenced by recent IVGID construction projects as well as the draft comprehensive annual financial report itself especially in the area of internal controls, capitalization policies, and purchasing policies. Admittedly, Staff has an enormous workload but until now has declined to accept outside help; please recommend to our Board that the District contract with appropriate experts in drafting policies for internal controls as well as for capitalization and for purchasing. She also wants to express her hope that the whistleblower policy and the Audit Committee charter will soon be adopted by the Board retaining the recommendations of this Audit Committee. Among the recently released e-mails in Mark Smith’s lawsuit, there was indications that complaints by Staff are not adequately addressed or resolved without the ability to report complaints to an independent body, such as the Audit Committee. Again, thank you for your diligence and she wishes you a very good afternoon.

Mike Abel said Management’s Discussion and Analysis authored by the General Manager and the Director of Finance is quite entertaining to read. Only good things and nothing bad or **potentially challenging**. In three pages they spew out a few bits of semi-accurate information. A few examples.....

States that DP has over 100,000 skiers. Why not the actual of 126,000

States that 35,000 rounds of golf are played. why not the actual of 41,000

States Rec Center at 120,000. Who really knows if this is accurate and upon what it is based.

Beach Visits – Have never been 210,000

Minutes

Audit Committee Meeting of November 17, 2021

Page 3

Development in the district – There is no mention of the ongoing permit process for the 2 acres 30+ unit residential development at Southwood and highway 28 or the impact on the community from the potential development of the OES for a bus terminal with adjacent parking. The paragraph on SNC is interesting as it seems like it was written last year. As we all know there is a significant shake-up at SNC. It is being taken over by UNR. This could significantly affect our community – why no mention? Any or all of the partnerships mentioned may be gone or changed within one year. Strategic Plan talks about delivering exceptional service, update Board Policies, strengthen internal control, improve contract management and enhance transparency and accountability. Yet he has yet to receive documents on a public records request that is now over 40 days simmering. No mention is made about any capital projects other than the pipeline. Maybe that is a good thing in the wake of the Golf Cart Path contracting disaster. Between current management, staff and PW engineering, and Davis-Farr's critique of contracting maybe it is better that nothing is planned. The CAFR claims the Board of Trustees has yet to determine how the effluent pipeline will ultimately be funded. This letter should state – when collection of the \$2,000,000 started, how much is in the fund, and mention the reason for the discrepancy. Why just happy talk. The letter says that the \$830 rec fee is consistent with the District's objective of long-term financial planning and fiscal stability. The General Fund raked in \$860,000 more than needed and now has \$3.8 million which is 33 times what the Board Policy suggests as the appropriate level. Plus, the Community Services Funds hauled in an additional \$2.8 million and now has almost \$16 million in fund balance which is 3.37 times what the Board Policy suggests as an appropriate level. The Rec Fee has not been needed but keeps on getting collected. He guesses as long as the rubes do not complain, just keep doing the same thing. On the other hand, the Utility Fund is stone broke. Money has been collected for the Pipeline and then shifted away to other projects. At June 30, 2021 the Fund is **negative** \$1.7 million after setting aside the \$14.2 million collected for the pipeline and \$3.4 million of commitments on other projects in process. And no reserves 'too boot". Finally – quit that silly GFOA prestigious award nonsense. It is a phony nonsensical waste of time, money, and space in the CAFR. The guy that runs the satirical Republic of Melosia at Nevada Day every year could probably qualify for the same prestigious award. My biggest concern is that the General Manager and the Director of Finance might choke someday by patting themselves on the back too hard!

Linda L. Smith said she has been a property owner in Incline Village for over 23 years. The purpose of her public comments this afternoon is to provide professional suggestions on the report issued by David Farr, CPAs on the internal controls and compliance over financial reporting for the IVGID's fiscal year ending

Minutes

Audit Committee Meeting of November 17, 2021

Page 4

June 30, 2021. By way of background, she served as Director of Finance for the City and County of Honolulu, a municipality of 880,000 residents with an annual budget, at that time, of over \$550 million. The scope of her responsibilities included financial accounting, tax collection, contracting, auditing, cash management, bond issuances, capital improvements, as well as licensing and debt management. Honolulu met GAAP (generally accepted accounting principles) and GAS (government auditing standards) standards every year and had a AAA bond rating. It is from this perspective, as well as being a concerned citizen and taxpayer of Incline Village, that she shares her perspectives on what this Audit Committee is confronting. It is not possible, from the documents she has reviewed, to determine if IVGID is facing a problem of incompetence or, worse, malfeasance. It certainly is alarming to see basic, common-sense processes not followed, such as updating bank signature cards or controlling who has access to the Improvement District's sensitive financial records. What is equally troubling is to see that the underlying accounting records do not support the financial statements of the organization and that proper accrual accounting has not been followed. The problems are serious and include improper statements of capital assets, improper use of accumulated depreciation, and the lack of internal controls to detect and avoid fiscal misstatements. These deficiencies not only mis-represent the fiscal health of IVGID, but they undermine the bond ratings we may seek, and the confidence of investors in those bonds. Transitioning to new financial software next year will not help if the staff are not capable. She believes this Audit Committee has several options, depending upon how serious you view the findings in this report:

1. Set specific benchmarks and timetables for the current staff to demonstrate they have addressed these problems and review their progress on a monthly basis.
2. Determine that the current staff do not have the skill set to handle the job but are trainable and seek assistance from national organizations such as NACO to upgrade their skills.
3. Determine that the current staff do not have the ability to handle the job and replace them with competent, trained personnel.
4. Ask the Nevada courts to appoint an overseer to take over management of the GID, similar to what is done to states and localities who are unable to meet federal operating standards by the Federal government.

Thank you for the opportunity to express her concerns.

Minutes

Audit Committee Meeting of November 17, 2021

Page 5

Carol Black said she is a resident of Incline Village for the about the last 8 years and she is going to join the choir. While recognizing the accolades reported in today's agenda, she was surprised, confused and worried in reviewing the audit report findings to be discussed today. She is not a trained accountant or a finance person, she does not have the creds of Ms. Smith that she believes who just spoke. Nonetheless, having spent a number of years in the management capacity in several different organizations, admittedly in the health care arena, she is a retired physician manager, she has seen and reviewed numbers of annual audit reports. IVGID audit findings include two material weaknesses and two significant deficiencies as you know. She does not recall ever seeing the report with similar serious citations. She finds this particularly concerning given that similar findings were apparently reported last year. The sums are pretty significant, several millions of dollars, moving around to rectify the issues. So corrective actions proposed, she does not understand how this issues have been allowed to persist through last year and now this year and where is the oversight? She has also heard the rumor that there is a proposal to decrease the IVGID audit functions; she doesn't know if that is true or not. If true, she cannot imagine rational for this change given this report. She is hoping for rigorous, remedial and ongoing plans to emerge and she thinks we have heard some very good suggestions today already. Thank you.

Chris Nolet said thank you for the opportunity to provide public comment on the draft audit results for the fiscal 2021 ACFR and the associated District management commentaries. Compliment Ms. Smith for her comments. Some context is in order to fully explain my comments. He believes that the following facts are correct:

The ACFR (formerly referred to as the CAFR) has been cited for containing material errors for the fiscal years ended 2019 and 2020 (which he understands have been corrected through the use of "out of period adjustments" in each succeeding year). Certainly, the draft ACFR for 2021 has material "out of period" adjustments included therein.

Our auditors have reported material weaknesses in internal controls over financial reporting for the past two years. In fact, the draft audit results for fiscal 2021 audit include 2 material weakness and 1 significant deficiency.

It is not an overstatement to characterize the fiscal 2021 and 2020 audit findings as extremely concerning. Fiscal 2021 was to have been a year in which significant focus by management would be given to strengthening internal controls over financial reporting. Well, the audit reports clearly demonstrates that this initiative was a dismal failure. 2 MWs and 1 SD are akin to a gold medal in the Olympics –

a feat rarely achieved. And these findings come on the heels of 2 MWs noted in prior year audit. In the corporate world, those responsible for such negative and consistently poor audit results would be severely reprimanded (at a minimum). Moreover, if the auditors had also been asked to opine on the District's system of internal control over financial reporting, below is an example of how their opinion might read:

In our opinion, because of the effect of the material weaknesses (2) and significant deficiency (1) on the achievement of the objectives of the control criteria, management's assessment that the District maintained effective internal control over financial reporting as of June 30, 2021, **is not fairly stated**, in all material respects, based on [Identify control criteria, for example, "criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."]. Also, in our opinion, because of the effect of the material weaknesses and significant deficiency on the achievement of the objectives of the control criteria, the District **has not maintained effective internal control over financial reporting** as of June 30, 2021, based on [Identify control criteria, for example, "criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."].

Additionally, several of the District management responses to the internal control observations appear to contradict the specific audit finding noted (as to both the control operation and the amount of the error correction). He assumes that our auditor will **NOT** publish their report and related materials until these apparent contradictions are resolved. As a licensed CPA and auditor for 37 years, he can't overstate how unacceptable these audit results are. With an obviously substandard financial leadership team, the responsibility for these audit results ultimately rests with our General Manager. Hence, the "exceeded expectations" annual performance rating recently provided to our GM is difficult to justify. District management not taking full responsibility for your fiduciary obligations to be good stewards of funds that belong to the District's citizens is not something to be taken lightly. His last comment is this. He simply cannot see how ANY TRUSTEE can accept the draft management transmittal letter which can be found beginning on page 9 of the materials for this meeting. Page 10 of today's materials includes this quote in the transmittal letter – "This ACFR consists of management's representation of the finances of the District and, as such, management assumes full responsibility for the completeness and reliability of the information contained in this ACFR, **consistent with a framework of internal controls established for this purpose.**" As the fiscal 2021 ACFR contains material out of period

adjustments (plural) as described in Footnote 21, how can this statement be true? The omission of 1) any description of the adjustments in fiscal 2021 to effectively restate fiscal 2020, 2) any adjustments made to correct material errors originating in the current year, and 3) the lack of maintaining an effective system of internal controls over financial reporting, renders the transmittal letter materially misleading. He cautions the Trustees not to be associated with such a letter. Thank you.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; none were made. The agenda was approved as submitted.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Presentation and discussion: DRAFT of the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and Results of Audit (Presented by Director of Finance Paul Navazio and Jennifer Farr, Partner, Davis Farr, LLP)

Audit Committee At-Large Member Dobler said he has to leave at about 5:50 p.m. and asked that the comments made by Director of Finance Paul Navazio are kept as short as possible. Jennifer Farr shared her screen and verbally went over a PowerPoint presentation that is incorporated herewith by reference. Audit Committee Chairman Tulloch asked about the footnote regarding no decision on financing of the pipeline; he doesn't understand that when there is a resolution by the Board and money is being collected. Ms. Farr deferred to Staff. Director of Finance Navazio asked if Audit Committee Chairman Tulloch wanted an answer now or after Ms. Farr's presentation. Audit Committee Chairman Tulloch said it can be addressed after the presentation. Audit Committee At-Large Member Dobler asked for further information regarding the unavailable revenue. Ms. Farr said you will see this in governmental, GASB 33 is the reference, and that you can't record revenue if it is not collected in 60 days and this was related to a lawsuit and that this was a classification issue. Audit Committee At-Large Member Dobler said that this was the Katz litigation; Ms. Farr said yes. Audit Committee At-Large Member Dobler said it was actually paid. Audit Chairman Tulloch said that budgets were exceeded even though the funds didn't? Ms. Farr said it is hard with revenues. Audit Chairman Tulloch asked if your review of the capital assets included only the prior year? Ms. Farr said it was not transactional, it was of all funds, and it was since the beginning of

time. Director of Finance Navazio said his understanding is they looked at the total of all assets reported on our balance sheet and requested that we adjust by this amount shown. Audit Chairman Tulloch asked about the \$5,000 threshold? Director of Finance Navazio said we applied the current policy and their analysis stated that there were some that shouldn't have been capitalized. Trustee Schmitz said so if management went through this process and reviewed and applied the policy and you did likewise, how is it that another \$855,000 was found? Director of Finance Navazio said Staff didn't look at all assets, some of the assets have been on the books for 10, 20, 30 and 40 years and that Staff will provide you with the list as requested. Audit Committee At-Large Member Dobler said he probably knows the Effluent Pipeline project better than anyone in this room and while he doesn't know the depreciation, this isn't enough, and he doesn't see that this number is not correct. Ms. Farr said \$3.5 million, accumulated depreciation \$2.7m and that is how we get to the \$855,000. Audit Committee At-Large Member Dobler said we can talk about that later. Ms. Farr continued her presentation. There was a discussion regarding contracts and the District's policies. Ms. Farr continued her presentation. Audit Committee Chairman Tulloch said that there was a severe disconnect with a satisfactory finding and two material weaknesses. Ms. Farr said she heard the comments as well and they stand by their finding. They were not engaged to express an opinion on your internal controls and recommendations are standard. The recommendations are not unusual in the governmental industry. Audit Committee Chairman Tulloch said your opinion of satisfactory means the numbers add up? Ms. Farr said yes, the numbers are correct. Audit Committee At-Large Member Dobler said he would like to talk about capitalization of assets; asked for Ms. Farr to pull up her letter on internal controls; went over the \$3.5 million and \$2.7 million for a net of \$855,000, and then they went to the next page, and he asked if that was another adjustment? Ms. Farr said no, it is included in the total. Audit Committee At-Large Member Dobler asked about the depreciation. Ms. Farr asked if he wanted the depreciation broken out. Audit Committee At-Large Member Dobler said no. Audit Committee Chairman Tulloch said please put the depreciation against each item. Audit Committee At-Large Member Dobler then went to page 45, and said that this is where he was disturbed. The accumulated depreciation for the Utility Fund equipment and vehicles on agenda packet page 45 of the ACFR is incorrect. Ms. Farr said she appreciates this being pointed out and will get it corrected. Trustee Schmitz said what she heard Ms. Farr say is that material weaknesses are not unusual for government entities – can you please clarify what you mean by that? Ms. Farr said yes, she did say that and it is true, acceptable or not –

she is not commenting on. Rather it is more about other governments and that comparison that she has experience with. Trustee Schmitz asked if we were different because of golf courses, etc.? Ms. Farr said most of their other city clients have businesses however the ski resort is different and that amenity is mostly in cities. Audit Committee Chairman Tulloch said we did hear from Ms. Smith about Honolulu and that they didn't have any of these issues; that is a useful comparator. Trustee Schmitz said, in the compliance section, you had management responses for materials weaknesses and significant deficiencies but for the others, you just had your recommendations. It is acceptable to have Management put what their response is to raise the confidence level or is that something that is not allowed because this is the format of the document? Ms. Farr said it is allowed, it is required for material weaknesses and significant deficiencies and it is not required for the other comments but it is certainly allowed. Trustee Schmitz said she didn't see anything in the notes that clarified for us where these accounting adjustments were made as far as the capital assets go? Audit Committee At-Large Member Dobler said we need them in detail. Ms. Farr said it is not a required disclosure and that it would be unusual in the financial report to mention it that and what changed. Audit Committee At-Large Member Dobler said we aren't asking that, we are asking if you have an overall adjustment of \$3 million, depreciation beside it, it is \$2.7 million and what funds did it affect? Audit Committee Chairman Tulloch said that this is the detail that he had requested so perhaps Staff can give us the detail on this. Director of Finance Navazio said the detail is pretty extensive, 10-page list in landscape form, he is happy to provide the list to the committee and post it on the website as well. Director of Finance Navazio then went over a detail record via screen share and it is incorporated herewith by reference. Discussion followed on depreciation schedules and pushing operating losses out further on the pipeline. Trustee Dent said that we have been talking about this for over a year and that the Audit Committee made a recommendation to the Board of Trustees that was accepted by the Board of Trustees in a 5-0 vote and that one of those things was correcting exactly what we are talking about tonight when it comes to the capital. There was a huge portion and he thinks it was \$3.5 million that we were talking about that should have been cleaned up and addressed. So he feels that this is a little like Deja' vu and that we are revisiting ourselves. Groundhog Day is a better way to put it but that it is something that the Board, not just the Audit Committee, directed Staff to fix this to move forward and put this behind us. Here we are, 1 year later, talking about the same thing that the Board directed Staff to fix a year ago. So, he just wanted to put that out there because when the Board gives direction, and it is a

unanimous decision by the Board, Staff should take that and those are the marching orders and that is something that should be corrected. He knows there are several things that are being worked on but what we are looking for is results and not words so Staff can show us that they are doing this stuff instead of resisting it, he feels like we could have moved this forward much quicker and not be revisiting this 1 year later. District General Manager Winqest said he wanted to respond to Trustee Dent's remarks; yes, that is accurate that the Board accepted the report from the Audit Committee and he is not going to argue Trustee Dent's point but he didn't get that was the direction on all of those items and that the Board was directing Staff to make all of those corrections so if he assumed incorrectly or the Director of Finance assumed incorrectly, he apologizes. Accepting a report, to him, is not providing direction to Staff necessarily to do these things. On the issue of the \$3.5 million, to put this to bed, if Staff has to go and just expense it, then so be it. We are not trying to be resistant and all we said was that we were going to leave this decision, that was contentious, up to the auditors which is exactly what we did. If this is what we are going to be arguing about, he has no issue with expensing this stuff and he knows that it is probably not what the Director of Finance expected to hear from him, but this is crazy. Audit Committee Chairman Tulloch said he would agree with the District General Manager and that this is the most successful reasoning around this issue that he has heard. Audit Committee At-Large Member Dobler said he appreciates what the District General Manager just said but it was well spelled out in the Moss Adams report of what preconstruction preliminary items were and those that should be expensed. That is what the Audit Committee did, in great detail, to lay it out. From the report that was given in January 2020, that is the report that we used by type of all of the items that were in that pipeline project and we bifurcated it. Now Staff we want to take some surgical tweezers to it and not look at it. Let's be honest about that, we have been at this for almost 10 years and we have gotten nothing out of it. We finally just decided on a larger pond because we couldn't make the smaller pond last 10 years. At the end of the day, we have had this Marcus guy running around and he is promising to get money here and he is going to get that and we are going to co-locate with the Transportation District; that was all fluff but at the end of the day, what are we doing now? We are on our own and we are doing it because all of the rest of the stuff was preliminary stuff to try and pull the rabbit out of the hat which you were not capable of doing. Trustee Schmitz said she pulled up the meeting minutes, and the motion basically stated "...and their recommendation is for improvements going forward" so it was identified in the motion and in the recommendations it was listed that the recommendation was to include the

Minutes

Audit Committee Meeting of November 17, 2021

Page 11

expense write off of roughly \$3.1 million so she is pulling up what was discussed last year that Trustee Dent brought up. It appears to her that there was very specific direction that was given and that she is just going back and looking at the agenda item and the meeting minutes. Director of Finance Navazio said he is of the same opinion as the District General Manager, and in those very same minutes there were Trustees that said "they are comfortable implementing the recommendations but not any specific dollar amounts because Moss Adams also said that any write offs related to the pipeline project, and going back to the matrix of the 24 comments, should be reviewed in this year's review of the financials in consultation with the new auditors. Staff doesn't believe it should be written off, using the same criteria for all of this, no different criteria to the pipeline, past auditors looked at it, current ones looked it, and Staff is fine with getting this issue behind us. Audit Committee At-Large Member Dobler said he opened up the doors at least a dozen times and said let's all sit down and go over it because he has the most history and that no one would call him and he has asked for someone to call him at least half dozen times. Audit Committee Chairman Tulloch said he will defer to the two Trustees who made their views clear, he does not totally agree it has been consistent and no one thinks the repairs will keep it going for another 35 years which would be consistent with the depreciation schedule and we are arguing over the timing of it. It makes much more sense to take the hit on it now, clear the decks, and be aware of it. District General Manager Winquest said he is not trying to argue the point, there are different interpretations, and Staff just wants to put this behind us, move forward, and expense out these items. To Audit Committee At-Large Member Dobler, you have suggested discussing it, but only one sided conversations so let's get this done. Audit Committee Chairman Tulloch said it wasn't intended as a slight to Audit Committee At-Large Member Dobler. Everyone's desire is to move on and looking at clearing up any write offs and doing a rate study so this is clearing the decks. Audit Committee Chairman Tulloch said it was requested that the Audit Committee wanted to see, by fund and with the detail, to see where the accumulated depreciation etc. it is coming from. Where is the write off coming from? Director of Finance Navazio said he will have it in his summary - \$389,000 was Utility Fund, \$332,000 to Golf Fund, \$110,000 to Ski, \$54,000 to Recreation Center, \$46,800 to Beach Fund. Audit Committee Chairman Tulloch asked if this applied to last year's statement? Director of Finance Navazio said yes and they roll up. There is also a small amount for the General Fund. Audit Committee At-Large Member Dobler said going to agenda packet page 28 – the dilemma we have – governmental funds and statement of revenues and expenditures are on an all cash basis. What the Director of Finance did

in May 2020, he had a whole lot of things that we decided that there were certain items that they thought were capital but should be expensed. Look at the middle of the page, those are expenses and are not capital assets, look at GASB 54 and NRS 354.495 both of which he read. These are expenses that should be recorded elsewhere. Same situation with the beach capital project fund – we have to move those out. The rub on it is because they are expenses, you have overstated your net revenues because you don't have those expenses in there and the beaches would have a big loss. Director of Finance Navazio said that this reflects that when we budgeted and expensed an item, budgeted in capital project funds, and when we went through and identified them, we expensed them instead of capitalized. Expenses got taken out of the numbers below so this is showing them as expensed. Brought this up with the first draft and the auditors felt it wasn't illegal etc. to report them so they were looked at as Staff raised the issue. Audit Committee At-Large Member Dobler said it doesn't comply with GASB 54 or 354.495 – can't have it both ways. Ms. Farr said it is not a violation of GAAP, extremely rare for 100% of a capital project to be capitalized, not a 1 to 1 ratio, current presentation is not uncommon or a violation of GAAP. Appreciate that the fund is supposed to be used for capital projects and it may include other items that are capitalized. Director of Finance Navazio said Staff will look at it and that he appreciates Ms. Farr's comment about not being against GAAP and GASB. Audit Committee Chairman Tulloch asked about the increase over prior year; asked Staff to look at it. Trustee Schmitz asked what is the decision on TWSA and where are we going with that? Director of Finance Navazio said we determined that it met 90% of the criteria thus TWSA is still reported in the Utility Fund. Controller Williams said it is due to the payroll being paid and therefore it is still within the Utility Fund. Audit Committee Chairman Tulloch said is there any reason we don't have a separate account for it as to any liability to the District? Controller Williams said it is just up to the funds. Audit Committee Chairman Tulloch said is the District underwriting them? Controller Williams said no, just a checkbook for them. Trustee Schmitz said what is the checkbook requirements for another organization? Director of Finance Navazio said we have IVGID Staff charging to the fund and we have discussed another situation and billing them and if we do that, it would be appropriate to show it as a fiduciary fund. Ms. Farr said GASB 54, fiduciary fund, the District would have to benefit in no way from the transactions of the entity. The District is a beneficiary in a way – using the services, etc. – thus not allowed to be a fiduciary fund. No transactions with them but the fact that you are beneficiary is what disqualifies them. Audit Committee Chairman Tulloch asked about the Veterans Club. Ms. Farr said for the dollar amount not

Minutes

Audit Committee Meeting of November 17, 2021

Page 13

enough to report as a separate fund. Audit Committee Chairman Tulloch said so as a District we are not on the hook for any checks they write? Controller Williams said we write the checks for them and we won't write the check for more funds than they have. Audit Committee Chairman Tulloch said on agenda packet page 90, Compliance Section, this may answer some questions for our listeners. On agenda packet page 91, half way down, acquired before 7/1/2016? Director of Finance Navazio said yes, he believes that is correct and Staff will review the management responses and make them more comprehensive as well as identify areas that need to be improved going forward; these are short hand responses that warrant some more detail. Audit Committee Chairman Tulloch said he would be happy to get together and help with that. Audit Committee At-Large Member Dobler said cited several concerns on agenda packet pages 51 and then with a reference to agenda packet page 24 and concluded by asking everyone to read GASB 54. Audit Committee Chairman Tulloch said he disagreed about the legislation. Audit Committee At-Large Member Dobler said he doesn't think people understand it. Audit Committee Chairman Tulloch said that legislation is about State or Federal and that a policy passed by an entity doesn't qualify as legislation. Audit Committee At-Large Member Dobler asked for that in writing. The legislation is NRS 383. Audit Committee Chairman Tulloch said the legislation allows for the collection of the fee. Ms. Farr said the only way to have the restriction is the first moment/day of the creation. If that restriction is part of that, create a brand new fee, and that fee would be restricted for this project, then it could be against this project; deciding how to spend fees does not meet the legislation test. Trustee Dent said he had no comments. Audit Committee Chairman Tulloch said we haven't addressed the transmittal letter. Audit Committee At-Large Member Dobler said regarding the charge off of the baseball fields, etc. Eide Bailly has a correction of an error. Then referenced Davis Farr and restatement of net position and fund position – it is not in there and it has got to go somewhere. Ms. Farr said we do have a correction of that error, we are not requirement to use that specific language, and we call it a prior period adjustment and it is the same thing. Audit Committee At-Large Member Dobler said he doesn't see any. Ms. Farr said it is Note 21. Audit Committee Chairman Tulloch said agenda packet page 54. Audit Committee At-Large Member Dobler said it is not there for \$835,000. Ms. Farr said it is not material for the financials and it is in the governmental column of government wide statements. Audit Committee At-Large Member Dobler said so this is not disposal of assets rather it is a loss of writing off assets, agenda packet page 31, wording change \$538,000 and the \$300,000 is somewhere else? Ms. Farr said she agrees we could change to say loss on

Minutes

Audit Committee Meeting of November 17, 2021

Page 14

sale of assets. Audit Committee At-Large Member Dobler signed off the meeting at 5:43 p.m. Trustee Schmitz asked if we have lease obligations at this point for Tyler Software? Director of Finance Navazio said no, we will look at it but it is not considered a lease. Audit Committee Chairman Tulloch said it just a liability – multi-year agreement. Controller Williams said we don't have a set term that we can calculate and therefore it doesn't fit in the current GASB. Audit Committee Chairman Tulloch said so it is an annual obligation? Controller Williams said yes, we have an annual payment but no term so we can't calculate that. Director of Finance Navazio said there was a lot of attention on material weakness; the actual adjustment is not material to the financial statements. When we first looked at it, it was not material. We chose to make the adjustment, just to be more accurate, which resulted in a finding but the internal control and integrity issue is viewed a little different. We have a material weakness on internal control which Director of Finance Navazio explained. Audit Committee Chairman Tulloch said it reflects the public comment we heard and that this is being disingenuous, not being totally transparent, and that we have a GFOA award which we basically pay for. One of the objectives of the District is transparency and the transmittal letter is what people see in the community. A previous Trustee has stated that everything was perfect and that IVGID had a very clean audit report. It is not a perfectly clean auditing report because what is behind it is being a bit disingenuous. It is healthy to be clear and maybe embarrassing. Everything hunky dory, no. Director of Finance Navazio said we have a material weakness and a clean opinion which is not referring to the transmittal letter and others may chime in. There is no intent to sweep anything under the rug and last year, he and Trustee Schmitz worked on it. Ms. Farr said that in the transmittal letter there are specific things that are required to be in there and she can provide the list. It does not require to have any comment on internal controls and she likes the idea of referring the reader to a separate letter however she can't recall any mention in any letter. Audit Committee Chairman Tulloch said it is more about the findings and an action plan to correct these things – it is missing. There is a glaring weakness that we have time to adjust. We do need to show a plan for improvement and that this is a fairly limited audit – the plan is something he would like to see. Trustee Schmitz said in the best interest of the District, we should add some additional information as we have got two paragraphs that describe the GFOA award therefore we need to have two paragraphs on what we learned and are going to do better and then refer back to the compliance section. By getting it out into the open, she thinks it is a credibility builder. We have two paragraphs describing an award and we don't have two paragraphs about what the internal controls were and the actions the

District is taking. It is in our best interest unless she is missing something. Trustee Dent said he would agree with Audit Committee Chairman Tulloch and Trustee Schmitz regarding transmittal letter. He thinks this Committee is different and that does build credibility and it starts to build it. He wants to thank Davis Farr and Ms. Farr for staying on schedule. This is the 7th audit he has been on and it is the first time we are seeing it in November. We have made huge steps forward and kudos to Staff and our Auditor for committing to the plan and sticking to it. We should lay out how much we are over or under in our policies on our fund balances as that is important information that we can no longer hide from our constituency. Audit Committee Chairman Tulloch said that is an excellent suggestion. District General Manager Winqest said there is no attempt to try and avoid folks from understanding there is findings, no problem adding that and that Staff is taking steps to correct. Most of the people he talks to understand that there are things that come up and they will be corrected. He asked that the SNU reference be taken out as we don't have a joint use agreement any more. As far as GFOA Certificate of Excellence, it is an extremely thorough packet, and he thinks that is being exaggerated. Trustee Schmitz said thank you to Ms. Farr for being very thorough. If we do make some of these statements in the transmittal letter, is there any risk or negative to taking the approach? Ms. Farr said there is no risk and when you do get the GFOA award, she doesn't think they would get a finding from GFOA however that would be worth seeing what happened. Audit Committee Chairman Tulloch said he was making broad brush comments so he didn't mean any offense. Echo the positive comments made by his colleagues. As a first draft, this is very encouraging. Thanks to the Staff as well and it goes both ways. What is our timeline for revisiting a revised document – near final? Director of Finance Navazio said this was a very helpful and constructive conversation. Hopefully, we are still on schedule and the current schedule would call for a final report to come back to the committee in December and we are also on schedule for the Board to receive the report and file it. There is only one Board meeting in December, that is December 8, hope that the Audit Committee will have a meeting on the same date. There is a lot of work to do so we may come to the Board at its workshop later in December. Audit Committee Chairman Tulloch said it is not going to be on the same day. Know it is the desire to comply with December 31 filing date. Ms. Farr said she is fine with the schedule.

E. PUBLIC COMMENTS*

There were no public comments made at this time.

F. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:07 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.

Submitted by Diane L. Becker: Concerns about deficiencies identified by the Auditors in the District's 2020-2021 Financial Audit: Recommendations re Adoption of Formal Policies and Employee Training on Policies

Herron, Susan

From: Diane Heirshberg <dbheirshberg@gmail.com>
Sent: Wednesday, November 17, 2021 3:14 PM
To: Herron, Susan
Subject: Fwd: Concerns About Deficiencies Identified by the Auditors in the District's 2020-2021 Financial Audit; Recommendation re Adoption of Formal Policies and Employee Training on Policies

I am submitting this to you per request of Mr. Turloch.

Sent from my iPhone
Diane L.Becker

Begin forwarded message:

From: Diane Heirshberg <dbheirshberg@gmail.com>
Date: November 17, 2021 at 9:08:15 AM PST
To: tulloch_audit@ivgid.org, dobler_audit@ivgid.org, dent_trustee@ivgid.org, schmitz@ivgid.org
Subject: Concerns About Deficiencies Identified by the Auditors in the District's 2020-2021 Financial Audit; Recommendation re Adoption of Formal Policies and Employee Training on Policies

November 16, 2021

Dear Audit Committee:

I am writing this email to express my concern with the deficiencies noted in the District's 2020-2021 financial audit findings. I look forward to hearing the presentation by Davis Farr at the Audit Committee meeting on November 17, 2021, but I wanted to give the Audit Committee a few thoughts.

I urge that the Audit Committee consider approaching the findings with the standard steps taken in any risk management program:

- (i) identification of the risks (some have been identified in the audit report, some at Board of Trustee meetings, some in your Audit Committee);
- (ii) analyze and evaluate the risks;
- (iii) treat and manage the risks;**
- (iv) communicate the risks and train on programs set up to treat and manage the risks;**
- (v) **monitor and review;**
- (vi) record compliance with administrative policies as a part of all employee performance reviews.**

I believe that consideration should be given to addressing the noted deficiencies, in part by setting up a formal contract administration program, and formal administration programs on the areas of noted deficiencies in accounting. As you know, administrative controls refer to an entity's plan of organization, procedures and records that lead up to management's approval of transactions. If you consider two key questions, namely "Are the administrative controls adequate?" and "Does the entity follow the administrative controls that it has put into place?", I fear that the current audit would indicate that there are failures in some of the administrative controls that need to be addressed.

I do not have the qualifications to make recommendations on the accounting controls. But after 43+ years in the practice of law, with over one-half of them spent in advising clients on legal risk management and acting as general counsel, I would respectfully submit that a contracts administration policy is needed by the district. That would include:

(a) A formal contract approval policy which would include **bidding policies** (i.e., competitive bidding of contracts, formal conflict of interest policies, and formal gift receipt policies);

(b) Use of a contract approval form where a number of people sign off that they have **reviewed and approved each contract before submission to the Board of Trustees**. This form would include the written approval by the individual requesting signature of the contract, approval by the manager of the individual requesting signature, approval by finance and purchasing, approval of insurance terms where appropriate, and for contracts of a certain dollar amount/risk approval by company counsel or a trained contracts administrator. By signing their approval, each of the persons submitting the contract would be responsible to be sure that the terms are appropriate and that the contract document is complete;

(c) **Training of all employees and managers on the policies, and of their responsibilities under the policies, and of the impact of compliance/non-compliance on the employee review process.** The incomplete contracts lacking exhibits again being submitted to the Trustees last week and with form contracts being used that were not fully understood by the employees, it is clear that training of employees and managers on contract terms and preparation would greatly benefit the employees and the District. Employees cannot fairly be held responsible for errors when they are not trained in contracts and terms and a formal District policy, but at the same time, once trained, the employees can and should be held responsible for sloppy and incomplete work if it occurs; and

(d) **Adding compliance with the District's policies of administrative control, including the contracts administration program and other programs is, to the human resource department's written performance review of all employees, will greatly improve employee performance and adherence to all administrative control policies.**

To leave individuals who are no longer employed or associated with the District, or no longer in appropriate positions of responsibility on bank signature cards should not happen when a good contract administration program is in place. Similarly, leaving Exhibits to a contract or material contract terms blank would not occur if there was a regular supervisor review and sign off policy. Nor would a lack of competitive bidding occur if there is a required sign-off by a supervisor and accounting.

I sincerely believe that with well thought out written policies, training of all employees on the policies and then making compliance/non-compliance with policies an important item on performance reviews, many or hopefully most of the failures identified in the current audit will not be repeated on next year's audit.

Thank you in advance for your consideration of my comments.

Diane Becker

local Incline Village resident

dbheirshberg@gmail.com

MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 8, 2021 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, December 8, 2021 at 3:00 p.m. via Zoom.

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) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman). Absent on roll call was Matthew Dent (Trustee). Trustee Dent joined the meeting at 3:04 p.m.

District General Manager Winqest introduced Melissa Crosthwaite of BB&K who will be working with the District. Audit Committee At-Large Member Dobler asked if District General Counsel Nelson was taking a hike? District General Manager Winqest said no. Trustee Schmitz asked if Ms. Crosthwaite was licensed in Nevada; Acting District General Counsel Crosthwaite said yes, she is licensed in Nevada and that she looks forward to being good support to District General Counsel Nelson.

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

There were no public comments made at this time.

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

Audit Committee Chairman Tulloch asked for any changes; none were made. The agenda was approved as submitted.

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

D.1. Receive and discuss a presentation on the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 (Presented by Director of Finance Paul Navazio and Jennifer Farr, Partner, Davis Farr, LLP)

Audit Committee Chairman Tulloch said that there are a lot of questions from the Audit Committee and asked that everyone try to keep things moving

forward. Director of Finance Navazio gave an overview of the submitted materials. Audit Committee Chairman Tulloch said that he doesn't see a copy of the Management Representation letter; Director of Finance Navazio said that is correct and that Staff can provide that letter. Audit Committee Chairman Tulloch said that without that letter the packet is incomplete; Director of Finance Navazio said it will be provided. Audit Committee Chairman Tulloch asked that it be sent right away. Director of Finance Navazio said he will do that. Ms. Jennifer Farr gave an overview of the Annual Comprehensive Financial Report (ACFR) that is included in the packet. Audit Committee Chairman Tulloch said he appreciates all the work by Davis Farr and the District Staff. The scope of the work is relatively limited and your opinion is about balancing the two sides of the books and not expressing an opinion on the quality of the results; assessing that the statements are fair. Ms. Farr said yes, that is very accurate. Audit Committee Chairman Tulloch asked if this is the standard audit that you do for government agencies? Ms. Farr said that this audit didn't have an expanded scope and an expansion is done with a list of scopes of work. Audit Committee Chairman Tulloch said that this is more for the benefit of the community and most of our community members have experience in the corporate world versus government. Director of Finance Navazio said that the Management Representation letter was just e-mailed. Trustee Schmitz said the Management Representation letter was dated last Monday and asked if there was a reason it wasn't included? Director of Finance Navazio said no, it was part of our internal procedures, if there was an expectation, that is just on him as there was no intent. Trustee Schmitz said it is part of the Audit Committee procedure so we will just go forward. Audit Committee At-Large Member Dobler said having something and just giving it to us puts us at quite a disadvantage which isn't fair. Last year's letter listed all the changes required by Eide Bailly so we were able to track the changes that the auditors made which are close to 25 and now we are absent that and we had a discussion at the last meeting that we didn't have a red-line of the ACFR so again we are at quite a disadvantage which isn't fair. Director of Finance Navazio said that he doesn't think it was the Management Representation Letter that would have been included in that list. Ms. Farr said it is not requirement for them to be listed in the Management Representation letter. In previous meetings, you were provided with the original trial balance and she agrees that was before these final adjustments; it can be provided again. Audit Committee Chairman Tulloch asked if it was more of a red-lined version? Audit Committee At-Large Member Dobler said it is really about the quality of our management which the auditors review. They then make adjustments and we have no way of knowing what

adjustments the auditors have recommended. He doesn't understand why we have a different philosophy and without this list, he can't assess the management. Audit Committee Tulloch said he would like to cut this off and stated that what we would like to see is the list of the adjustments made. Director of Finance Navazio said that Eide Bailly included the ones that Management passed on and that they identified. He is not sure that they have items that were suggested by Davis Farr and passed on and he thinks that all of the adjustments suggested by Davis Farr are included within the document. Audit Committee Chairman Tulloch asked if all were included? Ms. Farr said two adjustments were not made and they are noted on page 7. Audit Committee At-Large Member Dobler said he just has a challenge and has no way of evaluating our compliance with many things. At the last meeting, he ran through many things for changes, and you said you made them. Now he has 4 that are outstanding and 2 areas that are not in compliance with GAAP. Audit Committee Chairman Tulloch asked Audit Committee At-Large Member Dobler to identify the 2 areas and move onto those points. Audit Committee At-Large Member Dobler said on agenda packet page 32, Statement of Revenues and Expenses, Changes in Fund Balance, within the capital project funds for both Beaches and Community Services, there are expense items that are in the range of \$705,000; Beach Fund has \$234,000 – they should have not been in the project capital fund. Referencing GASB 54 and NRS 354.4995, the District is putting expenses that we know are capital project expenses in there and that is a violation as they are not going to the respective Special Revenue Fund. Director of Finance Navazio said that we discussed it with the auditors after the meeting of November. Having those reflected in there is not in violation of GAAP and GASB as we did discuss it and kept them in that fund. Ms. Farr agreed with what was said by Director of Finance Navazio. Audit Committee At-Large Member Dobler said so the definitions in GASB 54 and NRS 354.4995 have no bearing, they don't matter, are unimportant and we have 2 people making decisions on 2 items that are specific and he doesn't buy in to that. Audit Committee Chairman Tulloch said that these are probably expense items that have been left in the capital assets and they will be transferred or identified as a prior year adjustment and charged off. Director of Finance Navazio said no, they are expensed, paid for as a cash outlay and they are expensed in the Capital Project Fund, and it is because of the last year of the Governmental Fund/Special Revenue Funds so they have been expensed and going forward, having moved to Proprietary Funds, thus they will be in the Community Services Fund. They are written off, they are not capital assets and they were just expensed out of the Capital Projects Fund. Audit Committee Chairman Tulloch said so these items have been expensed

and they have been taken out of the Capital Project budget allocations – is that correct? Director of Finance Navazio said yes. Audit Committee Chairman Tulloch said so money for capital is being allocated for expense? Director of Finance Navazio said no, it is expensed where they were budgeted and our review showed they did not meet capital fund thresholds so we expensed them in the fund where they were budgeted and charged. Audit Committee Chairman Tulloch said so the money collected from facility fees, etc. has been allocated to capital and some of that has been reallocated to expense – is that correct? Director of Finance Navazio said had we, at the budget time, determined that these were to be expensed, then the facility fee collected for it would have been in the Special Revenue Fund and not the Capital Fund. So the revenue was there for the expense and the question is whether it was capitalized or not as it is the same funding source. Trustee Schmitz said to summarize the capital fund is a budgetary fund and within it there may be projects that some may be capital assets and some may be maintenance, either depreciated or come out of this fund – is that a correct summary? Director of Finance Navazio said yes, he thinks so. Trustee Schmitz said so they are not expensed against another funding source? Audit Committee At-Large Member Dobler said so definitions don't matter? Trustee Schmitz said perhaps there is specific language? Audit Committee Chairman Tulloch said he is similarly concerned when we are collecting fees for capital and having these monies applied to expenses. Trustee Schmitz said there is no distinction between maintenance and procuring capital assets? If there is a problem with language, please read them to us. Audit Committee At-Large Member Dobler read from GASB 54 and NRS 354.4995 and stated that the expenses should not be in there as we are talking about reporting in accordance with GASB and the NRS. On agenda packet page 29, Statement of Activities, it has to do with the general revenues of the Facility Fee and considering it general revenue. He brought it up last year and that is that the Facility Fee should be charges for services, GASB 34 is quite clear, paragraph 38 and paragraph 48. Moss Adams reported it isn't being handled according to GAAP, so why are we having it as a general revenue – brought it up last year and this year – it is still considered general revenue and it is not because it cannot be used by General Fund or Utilities Fund. Why they are there is beyond him however he is guessing we have a decision by our Chief Financial Officer that is to heck with the Moss Adams report. Director of Finance Navazio responded that prior and current auditors believe it is appropriate this way as does Management. Regardless of terminology, these are not revenues that are generated by our activities, not tied to use of the venue, and we are comfortable and we discussed it with the auditors as well as at the last

meeting so it is appropriately reflected where it is. Ms. Farr said for it to be a charge for services, it has to be an exchange transaction such as paying a fee for golf or paying a fee for something be given to you. A fee will never be a transaction. This gets back to are they really restricted by enabling legislation, because it is not and not an exchange category, it is not and your prior auditor agreed with that methodology. Audit Committee Chairman Tulloch said he takes exception to the statement about agree with the client to get more business. Director of Finance Navazio said it is a non-exchange transaction which is the key. Audit Committee At-Large Member Dobler said exchange or non-exchange doesn't matter and has no bearing. Director of Finance Navazio said revenues collected by fund is folks paying for those services. Audit Committee Chairman Tulloch said is it compliant with GASB and GAAP – had two auditors say it is. Does it have any impact on taxes? Doesn't think it does. It is more of an availability charge, is that correct? Audit Committee At-Large Member Dobler said GASB and the resolution says it directly benefits the owners and he doesn't agree with that. Audit Committee Chairman Tulloch said we will make note of that and that he pays a large part of his taxes for education and gets no advantage. Audit Committee At-Large Member Dobler said then the resolution is telling the public a lie but you are getting benefit. Audit Committee Chairman Tulloch said he understands and that there are some that get no benefit. Accept what you are saying, these benefits are potentially out there and whether they take advantage or not is the issue. Director of Finance Navazio said for most people looking at this, showing the Facility Fee as a revenue, it shows how the cost isn't covered and that there are other reasons why it helps with the information. Without the benefit, we wouldn't have been able to charge the fee. Audit Committee Chairman Tulloch said most of the residents regard it as a tax, it is a grey area, and this is charging these fees without any guarantee of getting something therefore, in his simple world, it is a tax. Audit Committee At-Large Member Dobler said the misallocation of the investment earnings, did 2019 and 2020, it is clear that they were charging the interest to the General Fund, it is his estimate that \$531,000 that was collected belongs to Beach and Special Revenue fund. Allowing an additional \$500,000 to go into the General Fund is incorrect. Staff said no big deal while he believes that it is horrible that it has not been adjusted especially when he brought it up 3 or 4 times. Audit Committee Chairman Tulloch said he would concur, just divvy it up, and he asked Staff if they understand what Audit Committee At-Large Member Dobler is coming from? Audit Committee At-Large Member Dobler said you are overstating your fund balance and that is material, not fair, and not right. Audit Committee Chairman Tulloch said he thought it was being corrected? Director of

Finance Navazio said we went through it and presented an item to the committee several months ago. In the past, up to 2021, the interest earnings were not allocated based on pool cash and pooled investment. They were allocated out and we did have some money market earnings that could have been spread and allocated and they were allocated to the funds that purchased them. Starting with this year, we are doing a pooled cash and pooled investment and they will be allocated; we are transitioning to that. What Audit Committee At-Large Member Dobler is referring to is a past action. Audit Committee At-Large Member Dobler said because you decide to set up 1 fund and throw all this cash in to it - what is going on? Audit Committee Chairman Tulloch asked for an explanation about the allocation – methodology? Director of Finance Navazio said there is money invested in securities, money in money market accounts, and then in State agencies and then money earned on our regular account. Audit Committee Chairman Tulloch said if we have \$10 million invested and \$8 million is from Community Services and \$2 million from General Fund and then the interest is going back 20/80 – he must be missing something here. Controller Williams went over, in detail, the District's investments and various monetary holdings to Audit Committee At-Large Member Dobler continued his challenges and Audit Committee Chairman Tulloch stated that he is very uncomfortable with all of this. Audit Committee At-Large Member Dobler said he is not confused at all. Trustee Schmitz said as it relates to Management's responses to the deficiencies, agenda packet page 111, what she had suggested was, when it comes to Management's responses on the bank accounts and user accounts, there needs to be an employer termination process in place. Her suggestion was that the employee process or checklist be executed immediately upon termination or a change of the Trustee on the Board. This talks about periodic review, her feeling is it should be an immediate process and have an internal audit just to verify that the checklist process is being used in an expeditious fashion. Audit Committee Chairman Tulloch said it makes sense as every place he has worked, all privileges are revoked immediately. He thought after our last meeting, we agreed cut off immediately. Director of Finance Navazio said yes, we are doing it and agreed to it. On the checks, we have outstanding checks so there is a clearing process but we let the committee know we are doing this. Trustee Schmitz said she would like to see the checklist and to talk to Information Technology and Human Resources to get that in place. District General Manager Winquest said he has no issue with what Trustee Schmitz is saying. When an employee resigns, upon verification by Human Resources, we do terminate access to recreational privileges and then it happens with Information Technology and others. He has seen it occur

timely, seen where it hasn't and chalk it up to transition and it is an operational issue that we will report back to this committee. He hasn't seen a rampant error process and we will strive to put that on paper and get it to the committee. Trustee Schmitz said thank you and appreciates the internal review process. On the bottom of agenda packet page 99, environmental conditions of the data center, read management response, so we have offsite storage and redundancy so that we are up and running the next day? Director of Finance Navazio said we do have offsite redundant storage. Trustee Schmitz said storage is different than running systems? Audit Committee Chairman Tulloch said we discussed this at the last meeting. Director of Information Technology Gove said he can't confirm 24-hour turnaround, we do have both redundant storage and compute storage but he can't say 24 hours and he can't make that guarantee. Do have fail over and it is a manual process. Trustee Schmitz said she appreciates it and it might be something that we might want to assess the risk and how long would it take as there is a business risk. Director of Information Technology Gove said it is a focus of his department, we are working to get there, there is a lot of financial investments that need to be made and we are going about them in the best way possible. It is something that is a concern, we have considered it, and we can respond. The rest of the building is a tinder box, thus putting sprinklers in that one room, it would be financially unfeasible to do that. Audit Committee Chairman Tulloch said he appreciates that and there is a cost benefit analysis. Far be it from him to suggest a paper to the Board from you and District General Manager to do so. He asked if there is a Halon system option? Director of Information Technology Gove said yes, completely agree, but in the middle of a wood building the choice is poor. Audit Committee Chairman Tulloch said thank you. Trustee Schmitz said what changes did Ms. Farr make where she was highlighting at our last meeting that Audit Committee At-Large Member Dobler was pointing out? Ms. Farr said she has the document from the last meeting – a lot of wording changes/suggestions – big ones are summarized in the report that was included. Audit Committee Chairman Tulloch said are there any major ones that aren't covered? Audit Committee At-Large Member Dobler said one of the major ones is the reporting and financial statements – Note 4 regarding capital assets – numbers didn't tie out to anything, there is a huge variance. Pages 37 and 38, Note 4, draw your attention to page 38, walk through it – have five columns, before had 4, added a column called adjustments. Prior period adjustments - just the Utility Fund, take a look at equipment and vehicles to be depreciated and look at the adjustments, taking out \$20,000 but take a look at the accumulated depreciation \$1.2 million – realistically thinks the beginning balance was obviously wrong but we aren't talking

about that and making this major adjustment and he has no idea what happened – he would like an explanation. Ms. Farr said she thinks that the Director of Finance and the Controller worked on that adjustment. Audit Committee At-Large Member Dobler said we are talking about a major difference and something big is going on here. Controller Williams said what happened was last year in the annual report, this note had an error as a number was swapped and the correction of that swap was made. Audit Committee Chairman Tulloch said no explanatory note? Controller Williams said no because the net effect was zero. Audit Committee At-Large Member Dobler said ok. Audit Committee Chairman Tulloch said let's make sure there is a footnote on that. Audit Committee Chairman Tulloch said on page 20, Financial Highlights, the prior period adjustments are hidden away and that he appreciates that we have highlighted the material weaknesses. There has been \$3.5 million written off, there is no mention that this is a major impact, written off because of whatever; that is something that should be lowlighted and something where taxpayers deserve a little more information. He does have a concern about covering up expenses in the past and noted that there were no bonuses paid out for financial performance. District General Manager Winqest said no bonuses as that is not a practice at the District. Audit Committee Chairman Tulloch said so annual performance assessments do not include budget versus actuals? District General Manager Winqest said that it is a small group but he hasn't seen anything like you are suggesting. Audit Committee Chairman Tulloch said he wasn't make any assumptions but rather just clarification for himself. District General Manager Winqest said there have been no performance bonuses since 2014. Audit Committee Chairman Tulloch said it is more of a general statement. He does have a concern about the prior period adjustment, 55% of the facility fees, and that it is a general comment. If you are striving for transparency, we have to do so with both the positive and negative. Audit Committee At-Large Member Dobler said on page 20, two things are fascinating to him, have 5 items, saying nothing about the Utility Fund, highlighting all the good things and our net position fell by 2.2%. Had to book a liability for \$1.4 million for tax liability and that is a pretty big highlight as that was the agreement in 2020 and it is a big hit in both of these cases so to him it is a highlight. Audit Committee Chairman Tulloch said the refund is outside of his control and that highlights should include the lowlights as well. Appreciative that we have increased the transparency on the transmittal letter. Director of Finance Navazio said the intention of the bullets and highlights is largely to summarize page 20. Audit Committee Chairman Tulloch said he would like to move on to writing off the \$3.1 million in expenses on the pipeline and that Audit Committee At-Large Member

Dobler deserves a lot of credit for highlighting it as every one of us will be happy to put it in the rearview mirror. We have gone through your changes and he still see lots of items under the \$5,000 limit, so perhaps you can give the committee some clarification around the mismatch. Director of Finance Navazio said there is some land and there is no capitalization policy for land and if there are some shared assets within Public Works, they will show up in two places. Audit Committee Chairman Tulloch said are we identifying as two assets or just splitting them? Controller Williams said that the asset depreciation can't be split so we have to split the asset to have the depreciation go to the appropriate department. Audit Committee Chairman Tulloch said that wouldn't account for a meter or a pump. Director of Finance Navazio said that this has been both ways, there is some GASB information coming forward, and it all has to do with how they are being used. There may be some items that need clarification and/or painstaking review and a lot of dialogue was conducted with Ms. Farr and her team. Audit Committee Chairman Tulloch said he understands about aggregating assets. When the Board's policy is very clear and you can't aggregate, assuming your review would take into account the current policy. Director of Finance Navazio said yes, we are using the current policy. Audit Committee Chairman Tulloch asked about the exercise bicycles and if this needed another run through and adjustment? Audit Committee At-Large Member Dobler read from the policy noting that it is to be applied to individual items and not a group of items and that if Staff followed the policy, most of it wouldn't be on there. Director of Finance Navazio said that there is a judgment call – 20 computers versus exercise bicycles. Staff went through this and had a lot of discussion on this and based it on their use. Audit Committee Chairman Tulloch said that the policy is very clear and they should be individual assets. Director of Finance Navazio said we are updating the policy and there is GASB guidance coming out. Audit Committee Chairman Tulloch said these are past items and what is the point of having policies when they are not followed? Director of Finance Navazio said that there is a judgment being made and the committee members may have a different approach to it. Trustee Schmitz said a policy is a policy not a guideline and if we have a Board policy, they should be upheld and if not they should be brought forth and modified. Audit Committee At-Large Member Dobler said you said you are following the policy? Director of Finance Navazio said how we interpret these policies and application. Trustee Schmitz said so even though the policy says you don't group like items, and the policy says you don't do it, etc. perhaps this should be brought before the Board to weigh in. Audit Committee Chairman Tulloch said they are individual items in the asset register. Audit Committee At-Large Member Dobler said when the policy was

re-done in 2016, they put in that threshold so there can be no question, they are to be expensed. Director of Finance Navazio said we went through and clearly identified things that didn't belong and cleaned it up. Trustee Schmitz said how it is cleaning up when grouping items for capitalization? Director of Finance Navazio said we wrote off a significant amount of assets, also expensed significant items that were accumulated in capital in process and there was a lot of them. There were several discrete efforts to clean up fixed assets, what was on the books, depreciated and what was in process and now we have determined items that we thought should remain. We did a significant clean-up of the asset list. Audit Committee Chairman Tulloch said he appreciates that and the concern is that we have applied this effort and it is a half effort, he came up to over \$500,000 that were below the threshold. Under governmental accounting, paid for by capital to make business performance look better and now moving back to Special Revenue Fund. He shares the concern of Trustee Schmitz and that raises the question of what other policies are we applying judgment to. Do appreciate the amount of effort and the concern is Staff has more work to do. Director of Finance Navazio said he would be happy to look at the list and see where the committee may have a different opinion. Audit Committee Chairman Tulloch said he did a simple sort by cost. Snowmaking guns – not split between different budgetary items. Drinking fountains – not split. This sort helps us to understand where it occurred. On the repair to Mountain Golf Course cart path, did you confirm about writing it off when we have done a full re-build? Director of Finance Navazio said when that project is complete, replacement should be capitalized and the first question is did you write off the initial asset? Every one of these is a candidate for discussion and why we provided this information. Trustee Dent said he is very concerned about the interpretation of the policy given that the Director of Finance is responsible for the policies. It should be clear in each policy and if we need examples, do so. This has been an ongoing problem for the past 6 years that should be addressed with a consultant but we haven't done that and he knows that Moss Adams is working on some aspects of this. He appreciates the discussion on the ACFR and we are running a little long. Reminder as a part of our charter, we are to provide a report to the Board and expect the Board to have it before approval. Make sure that is included and not on the agenda unless we have it from the Audit Committee. Four out of the last five years, we have had prior period adjustments that are cleaning up the past; we need to get this figured out. Material weakness and deficiencies – we need a deeper dive and we need to have Davis Farr dive in to a few of these and we need to spend the money so as to clean it up and put it behind us. Audit Committee Chairman Tulloch said if we have specific policies that says shall,

then we have internal controls issues, if the policy says shall then not open to judgment call. Trustee Schmitz said she concurs with Trustee Dent as there is very clear language so this is going to be a significant issue without making these revisions. Part of Ms. Farr's responsibility is that policies are being adhered to and thus she would like to hear her opinion. Ms. Farr said that the adjustments are not material to the audit report, and your prior auditor concluded the same. Trustee Schmitz said because it is not material, we are not going to do the right thing? Ms. Farr said it is not her decision rather the Audit Committee and the Board of Trustees. Audit Committee Chairman Tulloch said he would concur with that and that this is a glaring red flag to him. This is really a Board issue as it becomes non-compliance with Board policy. Audit Committee At-Large Member Dobler said last year when Moss Adams gave their report, it said expensed, GASB Concept 4, we expensed a couple of these preliminary reports and the only two we did. He prepared a memorandum that went to the Audit Committee in May. \$1.2 million and 13 items, most of the stuff for Effluent Pipeline, were pre-planning. He did submit the memorandum and Director of Finance Navazio got a copy and he ignored it. You can't do some but not the other. There is \$1.17 million that needs to be charged off to be consistent with what we have done and to be in agreement with Moss Adams. Audit Committee Chairman Tulloch said he shares the concern about consistency, application, and project pre-planning – much larger recommendation and how they are being presented to the Board and all the costs. All the pre-planning costs are done as an expense. Audit Committee At-Large Member Dobler said that is what the policy says. Audit Committee Chairman Tulloch said he wants to highlight this to both Trustees and make that recommendation. He does appreciate the efforts and we have made great progress. Everyone is relieved that the \$1.3 million on the pipeline is resolved. He is more concerned about consistency and the following of the policies. He has had some very good discussions and asked how does the committee want to move things forward. Trustee Schmitz said we haven't seen the Management Representation letter, we need to assign someone to write our recommendation letter to the Board of Trustees and compliance to the policies and then the appreciation for the work Staff has done on these assets and we will still have an issue to bring before the Board. Audit Committee Chairman Tulloch said points well taken. Trustee Dent said he understands Trustee Schmitz' comments and we are just receiving this presentation and that he has no issue with moving forward. Audit Committee At-Large Member Dobler said what he has seen today and the larger amount of the prior period adjustments which is about \$8 million, he can't see how this report can be recommended. He understands that Davis Farr has given

an opinion, not for recommending that this is satisfactory or even near satisfactory, he never got a phone call and he did most of the work on it. District Clerk Herron said you don't have a motion whoever she will defer to District General Counsel. District General Counsel Crosthwaite said there is no motion that is necessary to be made and clarified that if you want to do a motion you may. Audit Committee Chairman Tulloch asked if they could pass on a recommendation letter? District General Counsel Crosthwaite said yes you can. Audit Committee Chairman Tulloch asked the Audit Committee what they would like to do. Trustee Schmitz said, as one Trustee and one who believes, that her recommendation would be that additional changes be made and that the report be revised. Trustee Dent said it sounded like a motion to him. Audit Committee Chairman Tulloch said there is another alternative - pass that across to the Board with recommendations, allow Staff to do that clean up or pass it across as is – the other option – it gets cleaned up before it goes to the Board or go to the Board with some of the recommendations. Trustee Schmitz said that the area of cleanup is to do some updates in the Management discussion and analysis and she thinks that Director of Finance is on board with that and that we should get clarity there. Director of Finance Navazio said he appreciates the feedback, comfortable as is, are needing to have the report at their next meeting, which is an agenda packet that is going out at the end of this week. If Ms. Farr and her team need to review that, we would need to turn that around quickly, on December 14 and we are approaching the date of December 31 for the report to be filed unless an extension is requested by the Board of Trustees. Audit Committee Chairman Tulloch said are we also required for our report to follow that timeline? Director of Finance Navazio said it is up to the committee. Audit Committee Chairman Tulloch asked with the timeline, District Clerk Herron outlined the timeline. Director of Finance Navazio said that the Board isn't meeting after December 14. Audit Committee At-Large Member Dobler said we are backed into a corner, the Audit Committee report is going to the Board of Trustees, capitalization is a major issue and he doesn't see how we make a recommendation to the Board in one day. It is wrong for us to hide behind it as the capitalization has been an issue for years. He is not going to get backed into a corner, we can ask for an extension, and do our report in a timely fashion. We really need another meeting to discuss what we are going to put into our report. He is done with being shoved around by Management deadlines. Audit Committee Chairman Tulloch said he shares the concerns a bit about the turnaround. Any report we draft to the Board should be circulated to the committee. He would like to seek some guidance from the two Trustees. Trustee Dent said we need some time to draft a letter, don't think it is something that we do

overnight, and that we sign off on a letter, follow Board policy and given the fact that we have some concerns, we don't need to rush and that he is not comfortable and we shouldn't be pushed into a corner. He doesn't see it as a big issue, don't see why we are rushing, don't see why we are here, is our plan wrong, with these deadlines, he doesn't see the rush. The right decision would be to have an extension and do this right and we need the time to do it, have to have a meeting to work through what goes in there, need to discuss that and proceed. We don't have the time to do that and he doesn't think the Board should do that approval and violate Board policy. Trustee Schmitz said she concurs and for all the good work that has gone in to it, disappointed, following Board policy should be a given, disappointed in that, something that the District General Manager and Director of Finance should discuss, and we should work on our recommendation and not following our policy is an internal control. Audit Committee At-Large Member Dobler said we are in violation of GASB and GAAP, we need an extension of time, he took a long time to do that report and we need to be thorough and do our job the best we can and if the Board wants to approve it, they can do whatever they want. Don't like the idea of a gun to his head, never has. Audit Committee Chairman Tulloch said circulate to the committee; District General Counsel Crosthwaite said the direction is that this is a receive and file type of action and that you do have some flexibility to receive and file. Audit Committee Chairman Tulloch said that part of our policy is to provide a report on the AFCR. Trustee Schmitz read the last step of the policy. Audit Committee At-Large Member Dobler said put it on an extension and be done with it. District General Counsel Crosthwaite said the committee should ask Staff to draft the letter. Audit Committee Chairman Tulloch went over a timeline and asked if that was the course of action? Audit Committee At-Large Member Dobler asked how many days do we have to put together a letter? District Clerk Herron went over the timeline. Audit Committee Chairman Tulloch said he will do a draft report to the Board. Trustee Schmitz asked for some clarification on meetings; Audit Committee Chairman Tulloch said he wants to have a meeting on December 17.

E. MEETING MINUTES (for possible action)

E.1. Meeting Minutes of October 26, 2021

Audit Committee At-Large Member Dobler abstained. Audit Committee Chairman Tulloch said that the minutes were approved as submitted.

F. PUBLIC COMMENTS*

There were no public comments made at this time.

G. ADJOURNMENT (*for possible action*)

The meeting was adjourned at 5:37 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.

MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 16, 2021 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, December 16, 2021 at 3:00 p.m. via Zoom.

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) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman) and Matthew Dent (Trustee).

Audit Committee Tulloch offered his apologies for his late publication of the meeting materials and that it was not down to Staff rather it was entirely down to him.

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

Dick Warren said I can't say this any better, so I am quoting Chris Nolet on the particular "**INTENTIONAL ERROR**" in the current CAFR:

"Dear Board of Trustees, District GM and Jennifer Farr - please find attached my email to the Audit Committee yesterday based upon the discussion during the December 8, 2021 Audit Committee meeting. My advice to the Audit Committee in my email is self-explanatory. I would also note the following:

Davis Farr is engaged by, and works for, the Audit Committee (not District management).

All four members of the Audit Committee were clear in their communication on December 8 that Board Policy 9.1 3.0 and Board Practice 2.9 1.2.5 do not allow for "interpretation or judgment" to support capitalization of individual asset additions of less than \$5,000. I have carefully studied both these references and see **NO** latitude therein for the application of judgment or interpretation.

This *very late adjustment* proposed by District management is based upon a completely unsupported assertion made by District management that the relevant guidance does allow for judgment to be made in its application.

Minutes

Audit Committee Meeting of December 16, 2021

Page 2

As the Audit Committee *unanimously disagreed* with that management assertion, and as Davis Farr works for the Audit Committee, it is reasonable to consider this late adjustment to represent a known, **intentional error** under ASC 250 and related SEC guidance (in the absence of any specific GASB guidance concerning error corrections).

Known, intentional errors recorded by management are generally **NOT** evaluated based on **quantitative** materiality. They are generally evaluated through the lens of **qualitative materiality, with a primary focus on management integrity**. Davis Farr surely understands this circumstance. Hence, I fail to see how the Fiscal 2021 ACFR can be approved by the Audit Committee or Board in its current form when it appears to contain 1) this intentional error, and 2) inconsistent application of the Policy and Practice noted above, particularly when compared to the Fiscal 2020 CAFR.”

So give this some thought, the Board approved a CAFR that contained an intentional error, and this CAFR was blessed by Davis Farr, the auditing Firm. What kind of a Board blesses a CAFR with an intentional error? Not a very smart one. Thank you.

Mike Abel said he would first like this opportunity to applaud Trustees Dent and Schmitz for their vote on the ACFR earlier this week. With the Board majority willing to put up with the continual violations of Board policies one must ask themselves, “why even bother to have board policies”. If non-CPA Navazio, who lacks the specified qualifications to be IVGID Director of Finance, cannot follow the GAAP and board policies, why don’t the Trustees look for another DoF. Why, because they are lazy and ignorant of what it takes to hire qualified personnel. It is easier for the board majority to look the other way and “move forward.” Speaking of “moving forward”. As anyone who listens to these meeting learns. The words “moving forward” and “moving on” are nothing more than euphemisms for, “Well we screwed it up this time, but since we do not care about the taxpayer’s money or the integrity of IVGID management, and since we will never put the hammer down on staff to do a better job – let’s just forget this screw up and even probably ignore it next time.” I suggest that when live meetings are resumed that we have like a “swear jar” on the podium, like when kids swear at home or in school. Then every time a Trustee says, the we have to “move forward” or “move on”, they would have to deposit \$5 in the “swear” jar. The money then collected would be donated to a local charity. I bet that it would be over \$1000/year. I would also like to applaud the Farr report on IVGIDs equivocal and virtually non-existent purchasing policies. It is time that the Audit Committee address this shortfall as well as the abuse of credit cards issued by IVGID management. Finally, I would like to address Mr.

Callicrate's stupid, inaccurate and venomous comments targeted at Audit Committee members Cliff Dobler and Ray Tulloch. (Tuesday BoT meeting) The fact that Wong and Tonking voted to give Mr. Tim "kumbaya" Callicrate another year running the zoo demonstrates their lack of consideration for the tax and ratepayers. The same Callicrate that wants to spend district money on a psychologist to promote his goofy "kumbaya" ideas for the Trustees, then does exactly what he opposes. Callicrate has been a disaster for the last year and is certain to be a disaster for 2022. Tuesday was a true Forest Gump moment for Callicrate. *These comments to be included in the permanent record of the meeting*

Diane Becker said she generally listens to the Audit Committee and Board of Trustees meetings and rarely calls in but she feels that the rules and regulations are being lost and compliance is critical for a healthy organization and it has to stop at the top. (Listen to the tape). Very concerned about the ultimate impact ... Compliance is dotting I's and crossing T's, it's an ethical issue. Difficult to define compliance and when we look for ways to game the system we have to follow it to the letter. The reason to do this and who do pay dues, we know what our true financial situation is. Concerned when she reads ...that is not what we need as an entity. Really like and care for IVGID. If we, as management, don't tell ...horrible precedent.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; none were made. The agenda was approved as submitted. District Clerk Herron asked for removal for the meeting minutes of November 17, 2021. The agenda is approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Review, discuss and possibly approve the Audit Committee Report, as required by Policy 15.1.0, on the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 (Requested by Audit Committee Chairman Raymond Tulloch)

Audit Chairman Raymond Tulloch said he has prepared a draft report based on comments at the last Audit Committee meeting; he doesn't claim it is perfect but gives the committee something to work with. Go through the document and see if we agree on what has been prepared and/or make corrections/changes. Audit Committee Chairman Tulloch then went through the document.

Following were questions and answers:

Exhibit 1

Trustee Schmitz: Exhibit 1, Background, go down 4 paragraphs - in light of the Audit Committee receiving the report on the 8th - she thinks on the 8th is when we saw it for the second time and when the capitalization items were brought forward.

Audit Committee Chairman Tulloch: On November 17, the Audit Committee received the draft.

Trustee Schmitz: So we saw the final on December 8.

Audit Committee At-Large Member Dobler: We had two early on so there was actually three of them.

Audit Committee Chairman Tulloch: Will add the clarification on that.

Section 2, 2.1

Director of Finance Navazio: We did sign it between November and December so we will need to figure out how to schedule meetings around that going forward.

Section 2, 2.2

Audit Committee At-Large Member Dobler: It goes beyond repairs, most of the \$3.179 million was a list of things given in the Moss Adams report – feasibility, assessment, engineering, seeking out financing, etc. and this is more of the feasibility studies, master plans, searching for financing, etc. so it needs to be expanded.

Trustee Schmitz: She sees where it talks about different concepts of the project, look at the first paragraph, in 3.1, is that a more accurate description? Page 4

Audit Committee At-Large Member Dobler: Just not repairs so it needs to be changed. We based it on our analysis on June 30, 2019 and have the same activities going on in 2020 and 2021, \$170,000 more, which is nothing more than Staff time and Granite reassessing and figuring out what they were going to be doing.

Audit Committee Chairman Tulloch: Classified it as repairs, treated the \$3.179 million as the work done through June 30, 2019.

Audit Committee At-Large Member Dobler: Still continue to capitalize those charges in 2020 and 2021.

Audit Committee Chairman Tulloch: Covered more generally in the follow on points. And express his thanks to Audit Committee At-Large Member Dobler for his review in all of these. Expressed his thanks to District General

Manager Winqest and Director of Finance Navazio for their reviews and making those changes.

Trustee Schmitz: Did we capitalize efforts for 2020 and 2021? What is the status of that?

Audit Committee At-Large Member Dobler: In the asset construction category.

Trustee Schmitz: She thought one of the findings is that we shouldn't be putting this into construction in progress?

Director of Finance Navazio: Any costs incurred in 2021 would be in construction in progress. The reason why it is currently there is because the main reason for writing off the \$3.179 million is the type of work and work that was done. Costs identified and being done are appropriate to capitalize. More of a timing issue of when the costs were incurred more so than the type of costs as engineering costs are appropriate to be capitalized.

Audit Committee Chairman Tulloch: Covered under Point 9 and will make the change to 2.2.

Section 2, 2.3

Audit Committee Chairman Tulloch: Thanks to Staff for referencing the previous deficiencies and providing an accurate picture for anyone reading it.

Trustee Schmitz: Unless the transmittal letter was changed, it doesn't use the plural for weakness in the letter and doesn't know if Staff used the plural.

Director of Finance Navazio: Staff didn't make that change, we know that there were two weaknesses. Finalized as presented.

Audit Committee Chairman Tulloch: He is ok with the way it was written.

Trustee Schmitz: She doesn't believe it can be changed.

Audit Committee At-Large Member Dobler: Pretty big error, second page of the letter, obligations for the tax refund was completed, hasn't been started, booked as a liability, inferring as being paid, numerous errors and we will never get done.

Audit Committee Chairman Tulloch: What he has tried to capture is the primary points and has written this in a more user friendly and simple form. Hopefully, the committee approves that approach. If not, there is a lot of rewriting to do; he will take the silence as acceptance.

Audit Committee At-Large Member Dobler: The Board has already approved the package in a 3 to 2 vote and we are just telling them about it.

Item 4

Audit Committee Chairman Tulloch: Confirming the clarification and scope of work by Davis Farr as he received several inquiries from the community

about why not digging further and it was looking at the numbers and reviewing the reports. When we go to recommendations, we have made some comments for consideration by the Board.

Item 5

Audit Committee Chairman Tulloch: Just clarification and noting the second year of material weakness.

Trustee Schmitz: Does Management agree this is a correct representation?

Audit Committee At-Large Member Dobler: Why are you asking for agreement from Management?

Trustee Schmitz: Does this accurately reflect what happened as she wants to make sure we are all on the same page.

District General Manager Winquest: No issues.

Audit Committee Chairman Tulloch: He agrees and what we are trying to do is make sure we are working from the same play book here.

Item 2.6.

Audit Committee Chairman Tulloch: Discussed it at previous Audit Committee meetings, discussed with the District General Manager, both in agreement we need to prioritize internal controls and some are relatively straight forward controls.

Audit Committee At-Large Member Dobler: He went through the Audit Committee meeting minutes and internal controls have been brought up 4 or 5 times, there has been no movement, he knows how to get things done and that is setting a deadline as we hired a consultant in March, without deadlines, therefore it is meaningless.

Audit Committee Chairman Tulloch: Asked Staff about adding additional resources.

District General Manager Winquest: He and the Director of Finance have discussed this we will be coming before the Board to hire someone. Do not agree with Item 6. and he would like to have those conversations offline.

Audit Committee Chairman Tulloch: Unanimous view of the Audit Committee that this must become an urgent effort.

Director of Finance Navazio: Staff is committed to bringing it back in January and have committed to tightening up internal controls, regarding signature cards, issue that we brought up to them and that we have accomplished, we are attempting to prioritize, are making progress, and it is incorrect to say that we are not making progress.

Trustee Schmitz: It just says that several concerns and deficiencies were related to internal controls.

Audit Committee Chairman Tulloch: He is just trying to highlighting the key items and tried to keep it brief. Internal controls are going to be a key focus of the committee.

Item 7

Audit Committee Chairman Tulloch: Concern of the committee and the wider community, given so many prior period adjustments, and these prior period adjustments pre-dated the District General Manager and the Director of Finance and they are doing cleanup work. Without accurate information, it is hard for a manager to see how business is operating. Making progress on the cleanup which will help. If that means discussing capitalization more frequently, to get it done before the year end, he thinks it would be helpful.

Capitalization

Audit Committee Chairman Tulloch: Read the capitalization criteria – park this one.

Audit Committee At-Large Member Dobler: The reversal was \$667,000, we are referring to two policies that are threshold policies, most of the reversals had to do with paving and repair, and they don't fall into the policy, Moss Adams said expensed, most of the reversals that IVGID made fall outside this threshold level. It is \$667,000 of the \$866,000, almost \$400,000 was paving and parking lots. It is the big item that is important and that's not covered by policy.

Item 9

Audit Committee Chairman Tulloch: Addresses concerns by Trustee Schmitz and Audit Committee At-Large Member Dobler – capital in progress account.

Audit Committee At-Large Member Dobler: Talking about financial statements?

Audit Committee Chairman Tulloch: Both.

Director of Finance Navazio: Two concepts there – one of them had to do with recording expenses on construction in progress and their comment was accumulating all year and went through it to see what needed to be expensed and their comment was not to what until year end.

Audit Committee Chairman Tulloch: Absolutely.

Director of Finance Navazio: Agree with comment but not construction in progress.

Audit Committee At-Large Member Dobler: Conflating two different issues, had expenses and knew it and never recorded in the capital in progress fund, and it has nothing to do with a project. Reversing it out is a different

item. Direct violation of GASB and NRS – can't agree with it as it says what it says.

Trustee Schmitz: Agree with the comment that it includes two different issues and they should be separated. As it relates to the project fund containing expenses, that aren't going to be capitalized. She had a conversation with the Director of Finance and contacted Ms. Langley at the State and all capital projects need to be run through the project fund. If there are expenses that are being used for capital maintenance, she wouldn't weigh in, but rather she said take the word of the auditor because if they were all right with that, they weren't going to argue.

Audit Committee At-Large Member Dobler: So she told you that that they just accept information?

Trustee Schmitz: Ms. Langley found it unusual we would do it that way, most wouldn't put in maintenance and that most include that in the operational budget. While it seemed odd, she is just going to defer to the ruling of auditor.

Audit Committee At-Large Member Dobler: He does not agree with this.

Trustee Schmitz: Ms. Langley would recommend that we stop doing it that way and put expenses over in the operating budget.

Audit Committee Chairman Tulloch: Probably conflated two issues, from his reading of the audit report, the only issue was the timing, as he does not recall any comments about inclusion, is that correct?

Director of Finance Navazio: Agree with two issues and the auditors talked about timing. Audit Committee At-Large Member Dobler put forth another issue that the auditors didn't comment on.

Trustee Schmitz: Do we need to ask for the auditors' thoughts on it?

Director of Finance Navazio: He is not going to speak for Ms. Farr however there was a conversation with her. If the Audit Committee Chairman is asking if the auditors raised this as an issue, no. If the committee has an issue with this, that is your prerogative.

Audit Committee Chairman Tulloch: Agree that it is important issue that seems to have a much stronger root cause and that is capital projects going before a full assessment has been done. Assessments and expenses are incurred, done and prior to being passed for approval. Maybe he is missing something but that is what he has observed here. Clean up is changing the process for bringing things up for approval.

Audit Committee At-Large Member Dobler: He has brought this up several times before, they agreed with Moss Adams for over 5 years and it just hasn't been done; he believes Trustee Wong suggested it.

Audit Committee Chairman Tulloch: Violent agreement here.

District General Manager Winquest: This has been a topic of discussion for several years, there are several ways of doing it, so let's all come to an agreement and stick with that. These policies, related to capitalization, are approved by Boards and auditors. He appreciates bringing up the cleanup, think it was how it was done, so let's come to an agreement and move forward.

Audit Committee Chairman Tulloch: Almost external to the capitalization policy and more fundamental review of how we, as a District, are authorizing capital projects. When the project comes forward for capital, all the prior assessment has been done.

Audit Committee At-Large Member Dobler: Look at Policy 13.1, just look at the policy.

Trustee Schmitz: Ask the committee, where you have the recommendations, we should add two recommendations – review the procedure to ensure that the expenses are being removed from construction in progress in a timely fashion and the second recommendation is to place the budget for capital maintenance in operating.

Audit Committee At-Large Member Dobler: Won't have a project fund next year.

Trustee Schmitz: You are correct.

Audit Committee At-Large Member Dobler: It has to be an expense, period.

Trustee Schmitz: Do you want to have it on your list, follow up on it, and track it?

Audit Committee Chairman Tulloch: Does the issue, as identified, disappear when we move to Enterprise Fund accounting?

Audit Committee At-Large Member Dobler: Not necessarily, take a look at your policy, it is pretty simple, and it is an expense – this is complicating something that doesn't need to be complicated.

Director of Finance Navazio: Proposed/updated capitalization would have us set up the phases so we would be tracking costs by phases and then capitalizing the costs in the construction phase. It is an area that we agree needs to be improved upon.

Audit Committee At-Large Member Dobler: Financial statements are just not accurately stated and we can't fight her opinion however, it is not proper to put \$1 million in assets and that is his opinion.

Audit Committee Chairman Tulloch: The fund is just gathering it and we need to make sure the process and practices are accurately reflecting it.

Audit Committee At-Large Member Dobler: It matters how it is reported, it has been reported incorrectly. Do whatever you want, he knows he is correct.

Audit Committee Chairman Tulloch: Put it on a future Audit Committee agenda for further discussion.

Director of Finance Navazio: Perhaps to address Audit Committee At-Large Member Dobler's concern, the last sentence could be a separate item, it then captures Audit Committee At-Large Member Dobler's concern as a standalone item.

Item 10

Audit Committee Chairman Tulloch: Know we have had quite a bit of debate, knows that Audit Committee At-Large Member Dobler and Director of Finance Navazio met to discuss this. Have we reached a resolution?

Director of Finance Navazio: No qualms about how you characterized it in your report, knows that there is still some concern is on this, and in prior statements, don't have any concerns with how you have it characterized.

Trustee Schmitz: Add this to the recommendations list, believes that Director of Finance Navazio, District General Manager Winquest and she were discussing, the General Fund has considerably more investment than the Community Services Fund, and that, perhaps, we could revise our budget to be a more accurate representation. At our last meeting, she thinks that Staff said it was going to be re-adjusted.

Director of Finance Navazio: That is correct and that Staff wants to look at it and bring forward any adjustments.

Trustee Schmitz: Capture as a going forward recommendation?

Audit Committee Chairman Tulloch: Will interest income be allocated based on the daily average basis?

Audit Committee At-Large Member Dobler: We can have separate fund or have to allocate it if it is combined - can do it either way – three funds or it is one fund.

Item 11

Audit Committee Chairman Tulloch: Continue to capitalize design studies and assessments, last year we moved it back to the expenses, is the issue for last year timing? Or is it a case that we failed to be consistent with last year?

Audit Committee At-Large Member Dobler: In 2019, he brought all of this up in January or February, in 2020, decided to start expensing.

Audit Committee Chairman Tulloch: Does Staff agree it is about timing and not being consistent?

Director of Finance Navazio: Staff hasn't had the time to study it therefore his comment on this is that Staff needs to look at it more closely.

E. **MEETING MINUTES** (for possible action) – ***This item was removed from the agenda in its entirety.***

1. Meeting Minutes of November 17, 2021

F. **PUBLIC COMMENTS***

There were no public comments made at this time.

G. **ADJOURNMENT** (*for possible action*)

The meeting was adjourned at 5:37 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.

MINUTES

AUDIT COMMITTEE MEETING OF FEBRUARY 22, 2022 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Tuesday, February 22, 2022 at 6:00 p.m. via Zoom.

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) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman) and Matthew Dent (Trustee).

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

Dick Warren said for the past 6 years the Board has charged excessive facility fees, which were not needed. This resulted in the following funds having excess Cash – General Fund \$6.7M when only \$118k needed, Community Services \$17.6M when only \$2.8M needed, and Beaches at \$5.1M when only \$726k needed. During 2019 & 2020 \$1.1M in interest was earned and the General Fund got \$700k (64% of earnings) but only had 23% of the Cash to invest. On June 23, 2021 Cliff Dobler provided information to the AC showing that \$492k in excess interest was reported in the General Fund but should have gone to the CS & Beaches Funds. The Director of Finance’s Team stated that only \$43k was improperly recorded in the General Fund, but that was based on using bank operating accounts, not investment accounts, and \$43k is too immaterial to correct. On August 10, 2021, the Director of Finance’s Team talked about increases in market values of CD’s but provided no evidence. Then at the October 26th AC meeting, Cliff Dobler asked Director of Finance if an adjustment would be made to put the money in the correct fund, Director of Finance stated “that would not be necessary since we can move money in & out of funds legally, but corrections are a bigger problem”. How about NRS 354.6117 – Limitation on money transferred to certain funds? How about required disclosures on the financials and State Budgets, which was not done? So none of this is illegal? Bull! Nothing was done to correct the 2021 CAFR; however, Director of Finance did assert that the accounting for investment income has been modified beginning with the 2022FY. How stupid can one be? To summarize, IVGID/BOT unfairly took excess Facility Fees from the Parcel Unit Owners, did not use the excess Fees but invested the Fees, and then siphoned off the interest to the General Fund for Administrative Overhead like consultants, legal fees, and services & supplies. That \$492k of

Minutes

Audit Committee Meeting of February 22, 2022

Page 2

excess interest put in the General Fund could have bought a whole lot of equipment & improvements for the Recreational Venues. This is shoddy accounting, and certainly illegal. Thank you.

Ellie Dobler said Director of Finance and District General Manager, would you like your money stolen from you? For the past six years, the Board charged us excessive facility fees which were never needed, building up a cash hoard exceeding the appropriate amount established by Board Policy.

- General Fund \$6.7 million in cash but should have only \$118K
- Community Services \$17.6 million in cash but should have only \$3.8 million
- Beaches \$5.1 million in cash but should have only \$726K

Since there was no need for these excess funds, they were invested in an interest-bearing account. But rather than keep the money separate by activity, they were comingled with the General Fund. Then, the interest earned on the investments substantially went to the General Fund. During 2019 and 2020, \$1.1 million in interest was earned and the General Fund received \$700K or 64% of the earnings but only had 23% of all cash to invest. June 23, 2021, Cliff Dobler provided a memo to the Audit Committee (AC) indicating that based on the average cash held during 2019 and 2020, \$492K was reported in the General Fund which should have been reported in Community Services and Beaches. Director of Finance came to our home, prior to the Oct. 26, 2021, Audit Committee meeting, where Cliff showed him the actual General Journal, with 70 pages of entries. When asked by Cliff if an adjustment would be made to put the money where it belonged, Director of Finance stated "I am not sure we need to do that because as long as it is not illegal to move money from fund to fund, we can do that. Any correction we would want to do is a bigger question." And what is that bigger question? So, was any correction made in the 2021 CAFR? NO. Director of Finance 's response to the AC concerns: "The accounting for investment income has been modified beginning with 2021/2022(current fiscal year)." So, keep the money and we will fix it going forward. That's just Outrageous. \$492,000 could be spent properly repairing the Village Green. This needs to be addressed NOW, not next year. Let's review this. Take someone's money for specific items, don't spend it, invest it and then siphon off the interest to another fund for Administrative overhead, so Trustees and Staff can lavish themselves with consultants, legal fees and spend 3 times more on services and supplies from 2 years ago.

Mike Abel said his comments echo Mr. Warren and Ms. Dobler's to a great extent with some difference. He has been attending IVGID meetings for 12 years. In that time, he has seen corrupt bidding practices, mismanagement, foolish waste of

funds (like Dr. Bill the shrink), concealment of public records, and now misappropriation of funds. A couple of years ago, we finally got rid of our former Director of Finance and brought in our current Director of Finance to “straighten out” our books. And, last year we got an Audit Committee to oversee the mish mash that was IVGID’s finances. Plus, we got the bonus of having Moss-Adams to review and make recommendations on IVGID’s financial reporting and practices. Hope springs eternal for the small klatch of folks who are “IVGID watchdogs”. Sadly, the recommendations of Moss-Adams that were approved of by the Audit Committee and the Board of Trustees, are not being implemented by IVGID upper management. When we look closely at IVGID’s finances, we see the same old pattern of deception and mis-appropriating. Specifically, Mr. Dobler has ascertained that IVGID management has taken approximately \$492,000 of investment earnings from the State of Nevada investment fund. Then they allocated 100% of it to the General Fund rather than allocating most of this money to the Community Services Fund and Beach Fund where it directly benefits the recreation users in Incline Village and Crystal Bay. For the unschooled, the General Fund should be renamed the IVGID slush fund. This is the fund where our GM hires his favored consultants, pays bloated legal fees, \$100 lunches, and approves pet projects like the shrink – Dr. Bill. The bulk of that +\$400K could pay for a lot of improvements to our recreational venues rather than this nonsense. In a further act of impropriety, none of the above action was reported in the CAFR for 2021 or the annual budget. Now he does not know if the tomfoolery that he refers to here is the result of Director of Finance’s work, or it is being done under the tutelage of the District General Manager, but he does know that the practice outlined above is illegal, dishonest and represents a misappropriation of the public’s funds that should benefit the recreational assets of IVGID rather than IVGID management.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; Trustee Schmitz said tonight’s General Business Items D.5.a., D.5.c., and D.5.d., and this question is directed to Audit Committee At-Large Member Dobler and District General Counsel Nelson, are elements that she believes have been incorporated into the letter from the Audit Committee and if that is correct, then she thinks those 3 things should be incorporated into the discussion of General Business Item D.1. if that is possible. Audit Committee At-Large Member Dobler said that Trustee Schmitz is correct regarding D.5.a. and D.5.b., we have incorporated those into our memorandum to the Audit Committee but we rarely if ever have talked about the charges to the golf course that we think should be expensed. They have not been included in our report so we might just want to brush on those. Trustee Dent said he does not

have any concerns with the agenda as he is fine with how it is written nor with the comments. He just wanted to comment that at the last Board of Trustees meeting, he brought up the fact that we are running a member short and he asked Staff and the Chair to move forward with the process to solicit potential members from the community to sit on the Audit Committee and he just wanted to let the Audit Committee members know that he did make that request and that he followed up with District General Manager Winquest and also our Chair today. Audit Committee Chairman Tulloch said that he believes it is the role of the Board to solicit applications for that, is that correct? District General Counsel Nelson said that is correct. Audit Committee Chairman Tulloch said he assumes it will be on the next Board agenda? District General Manager Winquest said he did forward this request onto the District Clerk who we hope will return full time to the office next Monday and working on this process. We won't have anything ready to bring forward to the Board to appoint anyone but as far as getting the process started, we expect to get it going no later than the end of next week. We will move through the process as quick as we can and get it before the Board for formal appointment. Audit Committee Chairman Tulloch said that he was slightly confused about the process as if this is about filling the position vacated by Mr. Aaron and in that case, that post would be up for re-election in May, is that correct? District General Manager Winquest said that this was one of the items that he wanted to follow up with the District Clerk and District General Counsel Nelson. We need to ensure that it is worth going through the process right now knowing that there are going to be appointments this coming June so we can certainly follow up. District General Counsel Nelson said he would have to double check Mr. Aaron's term and that if expires at the end of May, that would be correct but we need to confirm. Audit Committee Chairman Tulloch said he thinks it is him that has misspoken as he thinks that Mr. Aaron's term would run for another year past that; he was incorrect there and was thinking of the wrong schedule. Trustee Schmitz said that the terms are from July 1 through June 30. Audit Committee Chairman Tulloch said that he would suggest that for General Business Items D.5.a. and D.5.b. which appear to also be covered under General Business Item D.1. and that we include them with General Business Item D.1. as necessary and if we haven't covered them, then we can review them when we get to General Business Item D.5. District General Counsel Nelson confirmed that was satisfactory. Trustee Schmitz said she wanted to be clear that it was General Business Item D.5.a. and, if she understands Audit Committee At-Large Member Dobler, it is General Business Item D.5.d. and that perhaps she had misheard Audit Committee Chairman Tulloch and that he had said General Business Item D.5.b. so she just wanted to be clear that we are all on the same page. Audit Committee Chairman Tulloch said good catch Trustee Schmitz as yes he did say General Business Item D.5.b. as he thought that's what he heard and he asked Audit Committee At-Large Member Dobler if it was General

Business Items D.5.a. and D.5.d.; Audit Committee At-Large Member Dobler said General Business D.5.a. and D.5.d. when we discuss General Business Item D.1. Audit Committee Tulloch said ok and that was his mistake on that one. The agenda was approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

- D.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) – *revised to include D.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); a. Charge off of expenses which have been included in construction in progress and d. Review reporting and use of Facility Fees (carried over from the June 9, 2021 Audit Committee meeting)***

Audit Committee Chairman Tulloch gave an overview of the submitted materials. Audit Committee At-Large Member Dobler asked if the Audit Committee could handle these items in the order they are listed and go one-by-one. Audit Committee Chairman Tulloch agreed to that format. Director of Finance Navazio gave a brief overview of Staff’s response which was included in the Audit Committee packet.

Management Representation Letter

The following questions were asked and answered:

Audit Committee Chairman Tulloch: Do the changes in the Board policy of February 3, 2022, was that change so that the Management Representation letter was independent of the Audit Committee?

Director of Finance Navazio: He doesn’t have the policy in front of him but he does still believe that the policy has language in it that the Audit Committee is responsible for review of the Management Representation letter prior to Management signing it. The only thing he thinks that was changed was to approve the letter. Staff will be working with Davis Farr to produce a draft of the letter so people can see it. He would also highlight

that it is really a form letter that they produce; we will make every effort to share the letter with the committee.

Trustee Schmitz: She went out to the website to pull up the revised language and the website is not updated so she couldn't help Director of Navazio out but that she thinks it might be worthwhile and a good suggestion to be clear to the Board that you perhaps right after your acknowledgement statement, make a statement that you and your Staff will be following Policy 15.1. and this situation won't occur in the future.

Audit Committee At-Large Member Dobler: His only comment on the statement is that we are supposed to review and approve formal reports and letters and the very first line of the representation letter says it's a letter and to go on and say it is impractical, or more importantly, inappropriate; why would that be inappropriate if that is what the policy says?

Trustee Dent: Had no comments.

Audit Committee Chairman Tulloch: He agrees with Audit Committee At-Large Member Dobler that Staff should go by the policy that is enforce at the time and that he doesn't agree with looking for retrospective changes to the policy.

Scope of Independent audit (of financial statements)

The following questions were asked and answered:

Audit Committee Chairman Tulloch: The reason he points this out is because a past Board member stated that because the auditors had passed it, everything was wonderful with our finances. The auditor does give us a perfect financial bill of health and that quite frankly all this audit does is confirm that the numbers add up and that there are no apparent mismatches. We had a very strong recommendation that the scope of the audit be expanded beyond the bare bones of it and extend it to include review of internal controls.

Audit Committee At-Large Member Dobler: If you look at the reports given by Davis Farr, when it comes to internal controls, they do only certain limited tests and they do not give an opinion on it. But when we got into the details, they only looked at 7 contracts and had problems with 3 so that's like a 40% error factor on a very limited test sample. So, therefore, he doesn't know how anybody on this Audit Committee would be comfortable that Contract Administration is being done particularly well so therefore expand your audit, and that is what happened when he was an auditor, they would come to us and say we have got a great big error factor here and could you expand our audit to do a larger sample. They did their test and 3 out of 7 were wrong

and that's a high error factor. We should expand the audit in the areas where we know there are substantial weaknesses.

Audit Committee Chairman Tulloch: That is his experience in corporate audits as well.

Trustee Dent: He would agree with that and we have had a very general audit the last 7 years or 6 years or even longer but since he has been on the Board and it is time to spend a little bit more money and dive in a little bit deeper and see if there are any additional issues and put those to bed. He thinks a lot can be done to create a better work environment and create the trust that the public had and this is one way that we can help expand the services and just show everyone that we are taking it seriously and diving into it a little bit deeper.

Trustee Schmitz: She is thinking that again it would be helpful if Director of Finance Navazio adds something here because Staff has retained outside management consultants to help facilitate and to move this effort forward a little bit more expeditiously. Again, it might worth at least noting that and it is one thing to say we have the controls and it is another thing to say we are going to have processes in place to ensure they are being adhered to.

Audit Committee Chairman Tulloch: He can also comment from his own professional background in his former career doing management audits there is certainly a lot more comprehensive and in depth audits. This is part of our recommendation to the Board and he is sure that Trustees Dent and Schmitz will support it.

Material Weaknesses

Audit Committee Chairman Tulloch said that you concur on this one.

Internal Controls

Trustee Schmitz: Apologizes and said that her comment, that she just made, was relevant to this item so she apologizes as she was speaking out of turn and asked Staff to take that feedback and relate it to internal controls.

Audit Committee Chairman Tulloch: No issue as he thinks it applies to both and a lot of our other comments were focused on internal controls as well.

Director of Finance Navazio: All the internal controls mentioned by Davis Farr have been addressed.

Audit Committee Chairman Tulloch: Can you please give the committee an update on your timeline on completing internal reviews?

Director of Finance Navazio: Staff is going through internal finance procedures and we have engaged the assistance of a consultant, Management Partners, who is assisting with the review of our updates,

identifying gaps, and also help align where there are opportunities to align them with best practices. He would note that the major focus of the consultants' work is going to be, broadly in the entire area of procurement, and specifically review and update the District's purchasing policy which is a prerequisite to updating procedures for procurement such as bidding, purchasing, payment processing, and reporting. In your report, you recommended Staff get this done by April and our contract, while we are working as quickly as we can, is slated for May and our goal is to update as many as we can as we go and then as we go into the new fiscal year to have all the procedures and documentation updated particularly if we transfer to a new financial system which will also warrant an additional review because of the workflows we are building into that system.

Audit Committee Chairman Tulloch: Perhaps you can clarify, as he already had the discussion with the District General Manager, when he reviewed the contract with Management Partners that it seemed to be focused almost entirely around procurement and the references to internal controls were used fairly sparse.

Director of Finance Navazio: They are reviewing the entire library of accounting and finance procedures and that is a matrix that we shared with the committee, heard comments from the committee, in the two or three times that it came before you, and that was why is it taking so long and can you do it quicker so the District General Manager urged us to seek out assistance that will help us move that project forward with the urgency that it needs.

Audit Committee Chairman Tulloch: With regards to best practices and having worked with the big 4 firms, he is curious as to whose best practices they are using?

Director of Finance Navazio: You may have to ask them but he will tell you that they are not looking at corporate/private sector best practices rather they are looking at general industry and specifically local government best practices which is what IVGID is as an entity and any requirements that go with NRS and Board policies, etc.

Audit Committee Chairman Tulloch: So it's local government best practices rather than best practices and he thinks that is important as Staff is aware of the correspondence that we get from the community.

District General Manager Winquest: This is going down a path that we can discuss offline. We hired Management Partners, they specialize in governmental agencies, we are a governmental agency and as the Director of Finance said by no means are they overlooking overall industry best practices. His concern with the former consultants that we have worked with is that most of those consultants had 0 experience with governmental

accounting and what we really wanted to focus on with our internal policies and procedures was hiring someone that understood GAAP, GASB and everything else and also understood how government agencies work in practice. He doesn't want any reference that this is not a thorough review of our internal policies and procedures and once this effort is finished, we will be able to move on to other more traditional and significant internal controls. We want solid internal policies and procedures that can be implemented and practiced by Staff.

Audit Committee Chairman Tulloch: He was simply clarifying and every time he hears references to best practices he thinks it can be used for a variety of matters but thank you for the clarification on that topic.

Trustee Schmitz: None of you have access to the updated Policy 15.1. so just bear with her here but she thinks we should have on our long range calendar, paragraph 2.6, which she read, so perhaps what the deliverables are, with the engagement, so she is asking the Audit Committee Chairman to look at this policy along with the Director of Finance and see what needs to be on our long range calendar.

Audit Committee At-Large Member Dobler: First, Davis Farr is not expecting an opinion on internal controls and they only looked at the expenditure side but him having tremendous knowledge on the business side of activities like golf courses, ski resorts and things – nobody is focusing on the revenue side as we are always talking about the spending. There has been no focus on that and he has 3 or 4 restaurants where he has been a partner on and there needs to be a focus on food and beverage. Odds are that your internal controls on revenue are not too good.

Audit Committee Chairman Tulloch: He agrees that the focus on internal controls has been on the macro level and that he is sure that the District General Manager and Staff will turn their attention to the micro level on internal controls; your raise a good point. At this point, these people work for the District General Manager and that it is up to him and the Director of Finance to ensure there are adequate controls in place for these.

Director of Finance Navazio: If the Audit Committee thinks that the auditors only looked at expenditures, Staff provided you with a list of items tested by the auditors and that included several revenue items.

Prior Year Adjustments

Audit Committee Chairman Tulloch: The ownership is yours Director of Finance Navazio.

Director of Finance Navazio: Ownership accepted.

Audit Committee At-Large Member Dobler: Keep in mind that we asked Moss Adams to take a look at four areas and one of those areas was the

capitalization of the assets and that is most of the prior period adjustments. Everybody participated and this is what you should do. He did all the hard work to turn it around and the way this is referenced is that the Audit Committee is standing in the way here and he doesn't like the way it is written.

Audit Committee Chairman Tulloch: He would concur with that and just because something has been passed by the auditor, they may not be as familiar with Board policy and he too would take exception to that. The Audit Committee is providing oversight, which it is tasked with, and ultimately, the Board has the ultimate responsibility for oversight and all we can do is recommend to the Board.

Trustee Schmitz: She too didn't care for how this was ending as it wasn't necessarily a request from the Audit Committee, it was due to the Audit Committee's work. We were doing our jobs and because we were here and doing our jobs, we were working collaboratively with Staff and these things were addressed. The way this is written and she read it and the way in which is this stated it doesn't share that we have been working together and resolving issues and we might want to look at it for revision.

District General Manager Winquest: That wasn't the way it was written and Staff will look at it.

Capital Asset Write-off

Audit Committee Chairman Tulloch: Asked if this was fixed assets?

Director of Finance Navazio: Staff uses this term interchangeably and if an asset has wheels it is still an asset.

Audit Committee Chairman Tulloch: When the Audit Committee reviewed this, it was about compliance with the Board policies and practices.

Trustee Schmitz: This statement contradicts and after Audit Committee Chairman Tulloch provided Practice 9.2. to Ms. Farr, she wrote that there isn't any latitude of interpretation (page 9 of the current Audit Committee packet) and we shouldn't have a document and another document that contradicts as there wasn't an idea that there shouldn't be an interpretation and then she read the language about the threshold of a capital asset being \$5,000 and noted that there was no mention about a grouping of assets and its capitalization.

Audit Committee Chairman Tulloch: Read aloud the last line of the submitted memorandum for this item and said that he wasn't aware of any of these items being retrospective?

Director of Finance Navazio: No, but that the sentence right before it states that Management does not believe that our treatment of the capital asset write-off violated Board Policy 9.1. or Practice 9.2. and that if there is some

confusion about the interpretation then the goal of the new policy was to clarify that.

Audit Committee At-Large Member Dobler: He is not going to talk about the individual component because that is crystal clear within the policy because you don't capitalize them if they are less than \$5,000. So for you to make that statement is absolutely 100% incorrect. What he is more concerned about is big tickets items as the idea is that Moss Adams did their report that everybody participated in when it came to be what you should be charging off as expenses and one of the biggest items was all this paving that we were doing at all these facilities. So, in 2019, based on what was in the CIP and not yet capitalized individual assets, we turned around and wrote off 38 projects that were paving of \$435,000. The other thing that we wrote off was the idea of the assessments so when you are assessing the project and you don't know whether we are going forward with just like the Diamond Peak Master Plan and the Community Services Master Plan that we would turn around and expense those. The District, in 2020, turned around and expensed off the high school baseball field and the Community Services Master Plan so we did that in 2020. What he did immediately is he went to the CIP and took look at what projects in process that should have been expensed and that you obviously missed and he did a report to you and the District General Manager that there was a \$1,170,000. of these assessments that needed to be charged off and that was on June 9 and you did get the memorandum. The idea is forgetting about and we are not complying with what Moss Adams told us we should be expensing. Now in getting back to the paving, in 2019, you wrote off 38 projects for \$435,000 and then in 2020 you wrote it off but these paving projects that occurred in 2020 you didn't write off. Then it was an item that Davis Farr looked at and they said yeah, write that off and then you turn around and say let's put it back in thus you are not being consistent. If we decide to write it off in 2019, you don't turn around in 2020 and say we were going to write off and now we are going to keep it back in and what is even worse is that in 2022 and 2023 you have the small paving projects in the capital asset budget. There is no consistency here and that is \$677,000 so whatever Davis Farr might have wanted to concur with is that they don't care one way or another because there is no specific GASB statement that says you will expense this or you will capitalize this because it boils down to a judgment, we got that clarified from Moss Adams, so let's follow it but you don't do it one way in one year and then the next year don't it and the real deal is that you had to write-off \$677,000 that was reversed with what Davis Farr did and there was another \$1,170,000 of assessments that should have been written off also and we didn't do it and that is \$2 million bucks.

Audit Committee Chairman Tulloch: He fully supports having consistency.

Director of Finance Navazio: We will be discussing this more with the Board next week, they will be expensed, and they are in the capital budget and unless they deal with reconstruction and extending the life of the pavement, they will be expensed.

Audit Committee At-Large Member Dobler: You are talking about the current budget and he is talking about 2 years in the past. He is talking about all these assessments that our previous District General Manager and our current District General Manager wanted to get done and these are assessments. A lot of them aren't moving forward and what is the difference between an assessment and doing a Master Plan on Diamond Peak and doing a Master Plan just on Community Services and you write off the Community Services but you don't write off Diamond Peak.

Director of Finance Navazio: To Audit Committee Chairman Tulloch's question earlier, we are clear on the concept of when we were doing this work and however done is appropriate to expense. Staff believes we have gone through and done that expensing.

Audit Committee Chairman Tulloch: He would echo consistency and would agree with Trustee Schmitz' comments. Frankly, he is shocked and doesn't know of an ala carte option in the Board policy.

Trustee Schmitz: We are not seeing the facts through the same lens because the Audit Committee has been very clear and we were unanimous in our opinion and judgment as it relates to the policy so to say it is factual incorrect is factual incorrect. In addition, when Ms. Farr was consulted and changed her opinion on it, and in addition she agrees with Audit Committee At-Large Member Dobler as she too went through the list and there were many things that were paving, repairs, and cart path repairs and those things we had decided that they were to be expensed. So if those projects, in that list, perhaps were incorrectly labeled, then maybe that should be corrected so that we can all get on the same page and be looking through the same lens because we clearly aren't and she understands that Management has told her there is nothing against GAAP or GASB with doing this grouping. That isn't the point, the point is the Board policy is extremely clear, it is a one sentence, very clear and the Audit Committee hasn't been given anything, in writing, that is an explanation to know how Management is perceiving of a very simple sentence that things can be handled very differently. To word it and begin with a statement that is factually incorrect is again sort of an affront to a unanimous decision and a unanimous sentiment from the Audit Committee.

Audit Committee Chairman Tulloch: Add to that while Board policies should not contradict GAAP or GASB but they could layer on top of it or add to it but not contradict it.

Director of Finance Navazio: It is also helpful to clarify Board policies so that it is not internally inconsistent because that same policy has language in it that talks about capitalization thresholds applying to groups; no need to argue.

Audit Committee Chairman Tulloch: Perhaps you can send us that reference as he is not aware of it and if he has missed it in the policy, he will be the first to apologize.

Timing and Accounting of expensing of CIP Budget items

Audit Committee Chairman Tulloch: He has not worked with or is familiar with other organizations where expense items are put into the capital budget and he is interested to hear Staff's comments.

Director of Finance Navazio: This has to do with two things – timing on review of items and the auditors recommend that we do when we are recording these items and not at year's end so that has been addressed and the second part, which has been discussed at length, for fiscal year ending June 2021, those items were still in special revenue funds and then he referred back to the memorandum.

Audit Committee Chairman Tulloch: Addressed means recorded as they are incurred?

Director of Finance Navazio: Correct.

Audit Committee Chairman Tulloch: Violation of GAAP and GASB, need to check it, but it does violate common sense and it is not a leading practice.

Audit Committee At-Large Member Dobler: It does violate GAAP and GASB and he explained his theory.

Investment income

Audit Committee Chairman Tulloch: Said it remains a significant concern as evidenced by public comment and that it has been modified for 2021/2022 so if there is something further here, please so state.

Director of Finance Navazio: It has been discussed, folks are welcome to their opinion on what was done and why, historically it was credited to the fund that made the investment but it will change for this year going forward.

Audit Committee Chairman Tulloch: What he takes from that is that this was the practice and that you have changed the practice.

Director of Finance Navazio: We have changed the practice, we don't believe what was done before was incorrect, but we have changed the practice.

Audit Committee Chairman Tulloch: So if he is hearing him correctly, you have changed the practice twice, you changed it and now you have changed it back.

Director of Finance Navazio: No, we are now allocating all interest earnings to funds based on available cash under accrual cash concept.

Audit Committee At-Large Dobler: Read from Board minutes and said he knows that a correction has to be made and he doesn't like that \$500,000 went to the General Fund because you don't know what the accounting is but he wants to know about the bigger question and that is that Staff is making a false statement because you can't justify that you allocated that interest properly. There is no rhyme or reason and he showed you all the General Ledger accounts, you set in my home, and we went through it all. He doesn't know if it is legal or not but the reality is that you didn't do it right so what is the problem doing it right as that is what he wants to understand. Do you want to get more money into the General Fund because the District General Manager needs a raise – he doesn't know. What he does know is that this interest was earned by revenue in the Community Services and Beaches and that is where it belongs and there is no reason that we can't make that adjustment.

Audit Committee Chairman Tulloch: Asked that the last remark about the District General Manager's raise be struck.

Audit Committee At-Large Member Dobler: That is just sarcasm.

Audit Committee Chairman Tulloch: Understood and perhaps the Director of Finance can clarify as he actually heard two different things – what he heard was previously the interest was applied based on the money within the funds and that you thought it was better divvying it up differently but now it has been changed back for 2021/2022 – is that correct or did he hearing that incorrectly?

Director of Finance Navazio: He hopes you heard it incorrectly; all he is saying is that historically, prior to this fiscal year, the District purchased investments and each fund that bought that investment was credited with those interest earnings. Funds that were not invested, were not credited with investment earnings. What we are doing now is we are making investments irrespective of fund or funding source so that all of the pooled cash available to invest is credited interest and allocated based on each fund's contribution to the pooled cash. So that is the change that has been made, that's the way he has always allocated interest earnings in local government for 28 years and had never seen it done the way the District has previously done it.

Audit Committee Chairman Tulloch: Forgive him if he is being still slow on this, he just wants to be sure because it is a topic of extreme interest based on public comment, so if he is hearing you correctly this time, up until this year, it has always been divvied up in various different ways and not divided up proportionally to the funds that have been providing the investment funds but now to be clear, and be clear to the community, now the investment income will be credited to the based on the holdings in the funds which he would have thought was a normal best or leading practice but he just wanted to clarify that so in the past it has always been divvied up by however the Finance Team or District General Manager in the past how it should be divvied up and is that correct?

Director of Finance Navazio: Well not that but the Golf Fund owns an investment, the Utility Fund owns an investment, and the General Fund owns an investment, those funds got the interest. What we are doing now is we are investing based on pooled cash, there is no fund assigned to the investment, and when we get the interest, all the District funds benefit proportionally from the earnings on dollars invested.

Audit Committee Chairman Tulloch: Said based on the investment so if he invests \$2 million and you invest \$100,000 then we pool our investment, he would expect to get the interest based on the \$2 million so perhaps you can explain why this didn't happen in the past year?

Director of Finance Navazio: What happened in the past is that there are funds sitting in an operating account receiving next to no interest and there are funds that are buying securities and bonds and investments that are earning interest. So the interest that was earned was only applied to the funds that "purchased" the investments not funds that were not invested.

Audit Committee Chairman Tulloch: So the working capital sitting in the operating fund wasn't attracting investment income, is that correct? Or was it attracting interest earned by the funds that actually had funds invested?

Director of Finance Navazio: To the extent we are earning interest, yes and correct.

Audit Committee Chairman Tulloch: Said he is sorry for dragging this on but he wanted to make sure that he understood it correctly based on multiple public comment and various notes he has been getting privately.

Trustee Schmitz: Well, actually after that discussion, she is going to belabor it a little bit more. So she just wants to make sure she is understanding and asked the Director of Finance to bear with her as she is just trying to understand. In the past, we had investments that were by fund. So, if the Utility Fund had a few million dollars, the interest income went to the Utility Fund, if Golf did then Community Services, it went there. When did that change? When did that methodology change?

Director of Finance Navazio: It changed this fiscal year and we did a year to date true up, for all investment earnings earned this year, effective July 1, interest earned this year is being allocated to those funds based on investments by those funds.

Trustee Schmitz: Ok so she still didn't get an answer to the question she doesn't think – so what she understood you to say is that was until our prior fiscal year was just audited until that fiscal year each of the funds were receiving their proportion of investments income that only this last fiscal year is when it changed. That is what she heard you say but she is not sure that is correct.

Controller Martin Williams: So what was going on historically, a fund would have \$5 million sitting in its operating fund.

Trustee Schmitz: No, we understand it and we just want to know when did it change? When did it change?

Controller Williams: We changed it from that methodology to a pooled investment methodology as of July 1. It had not changed for as back as we can tell.

Trustee Schmitz: So why is it, if that's the case, then why in the ACFR that we just audited, we had an investment income going to the General Fund that was disproportionate to the funds that the General Fund had compared to Community Services?

Controller Williams: Because the General Fund had invested a greater portion of its cash therefore was no longer an operating account.

Audit Committee At-Large Member Dobler: That is absolutely untrue.

Trustee Schmitz: So here is what she is trying to get at and here is the bottom line of where she is going with this questioning – all she wants to understand is what is the magnitude of the number of years if we wanted to true this up and get this squared away, how many years is that it is spanning? It sounds like it is only the last ACFR and if it is something more than that, then the answer isn't that it was that and it is this ACFR that was the first time it was ever done that way. So all she wants to know is what is the magnitude and what is the impact of getting this trued up retroactively?

Controller Williams: He doesn't know that number, he can't tell you how many years they did it historically in the other method, he can look that up for you if you want as he doesn't have that answer for you right now. But he can tell you that if they went back and did the research, he took Audit Committee At-Large Member Dobler's research and went through it and did any analysis of it and he noticed that the difference between how we did it and how a pooled investment that following the same logic, was not a material adjustment.

Audit Committee At-Large Member Dobler: You only did it on the Operating Accounts and you didn't do on the Investment Accounts. You cannot sit there and say you have one account at the State with \$13 million in it and all of that return is going back to the General Fund and say you are allocating it properly; he means enough of this as it is absolutely nuts. You don't understand your accounting or whatever but there is one account at the State, not including the Utilities and two other accounts for TRPA and the other one is the Forest Service, and you have one account with \$13 or \$14 million in it and every dime that is earned on that account is being dumped into the General Fund and it is impossible that all that interest that is earned is the General Funds because they only have a quarter of money. Enough of this, this is a dance and he thinks we have better things to do and it was incorrect, improperly recorded, and you are sitting there saying you did a true up and you did that on your bank accounts, not on the investment account and we have got it in the minutes and we have got it in the Board packet. So knock this off, please.

Trustee Schmitz: May I ask one follow up question that she didn't get to ask the Controller or the Director of Finance? The fund balance in the Utility Fund is very concerning and as it relates to this issue about investments income, did the Utility Fund always get its proportionate and its adequate interest income as a fund because if the Utility Fund investment income was going somewhere else, that's a problem that we need to fix for the Utility Fund.

Audit Committee At-Large Member Dobler: There is a separate account at the State for the Utility Fund so that's not an issue.

Director of Finance Navazio: Actually that's not where all of the Utility Fund is so it's more complicated.

Trustee Schmitz: So you understand my question and understand my concern.

Audit Committee Chairman Tulloch: Something that Controller Williams said leaves him rather confused; when Controller Williams said that this year you are pooling all the funds so you are pooling funds, where there is working capital, and so basically it is what should be in the General Fund, rather than investment funds so funds that aren't actually investing are receiving interest income because that is a little bit concern and that's what seems to be happening. He too, from Director of Finance Navazio's first statement, that the investment income is going back only to the funds that are investing.

Controller Williams: We are taking all investments as District-wide investments. They are not investments for the Utility Fund, they are not investments for the General Fund, and they are not investments for the

Recreational Fund. It is District level investments and we are allocating the interest generated on those District level investments based on the cash that fund has. Be it investments, cash or LGIP; their total cash amount, a percentage of that for the District-wide cash is the amount of interest they are getting. That is the methodology that we are using for the current year.

Audit Committee At-Large Member Dobler: For the current year, not the past year.

Controller Williams: Historically, that is not the methodology that was used for past years.

Audit Committee Chairman Tulloch: So this problem that was addressed in public comment has gone on for multiple years?

Controller Williams: Again, he cannot tell you for how long it has been going on but that he can look it up for you as he doesn't have that number for you.

Audit Committee Chairman Tulloch: If Staff could have that for the next Audit Committee meeting as we have spent a lot of time on this as it is obviously a point of contention and that basically what we have highlighted with the public comment is the unfairness of the allocation in the terms of that and regardless of what it was for.

Director of Finance Navazio: He wants to come back to Trustee Schmitz' because this came up before and we made an adjustment, in the Utility Fund, and adding to the money that the Board had reserved and adding interest to that reservation. He will go back and just confirm how far back we went with that interest earning allocation and it is his sense that we actually allocated, in that context, is that we credited for the pipeline it's "proportionate" share. He is going to go back and look at that to determine how far back Staff went as he thinks it was around \$700,000 that was added to the fund balance and reserves.

Audit Committee Chairman Tulloch: That was as a result of a Board motion?

Audit Committee At-Large Member Dobler: Let's stop conflating two different issues.

Controller Williams: That interest was based off the money, the \$2 million that was collected each year, towards the Effluent Pipeline.

Review of items capitalized in the FY2020/21 financial statements

Audit Committee Chairman Tulloch: This item seems to overlap with item 9 (*Timing and accounting of expensing of CIP budget items*).

Trustee Schmitz: May she back up for a second? The Director of Finance brought up a really good point and what she is remembering was that this

interest was transferred into the Utility Fund because we had a policy that said funds that were allocated for a project/reserved for a project, and weren't the expense, that any of the interest got credited to that fund. We have a policy that says that. Do we need to have a policy that explains how investment income is allocated? She doesn't recall that the Board has one. Is that something that should be drafted so there is clarity and consistency?

Director of Finance Navazio: It could very well be however he would say that if there is a policy or policy language that is related to investment earnings it would be most important to incorporate that into the District's Investment Policy. He needs to check it to see if it speaks to the allocation of interest.

Audit Committee Chairman Tulloch: Please check on that to make sure that we are contributing to another policy.

Audit Committee At-Large Member Dobler: He would like to know if we are going to make a recommendation to the Board on this and Item 9 because we would like to get this stuff cleaned up and to what it is now. It is about time to get it cleaned up. At what point does it end and why don't we just do it right?

Audit Committee Chairman Tulloch: Right.

Recording of Facility Fees in the Statement of Activities

Audit Committee At-Large Member Dobler: This is inferring that a member of this Committee made that decision and no, no, no, no, we got it right out of the Moss Adams report. And again, the Moss Adams report was to clarify all these issues that have been outstanding for years, Moss Adams came back, we agreed with it and it says in the report that the Facility Fees are considered enough of an exchange transaction that it should be as charges for services in the Statement of Activities. That came exactly from Moss Adams and the inference that this came from the Audit Committee, we are not making that action, that's what Moss Adams said.

Audit Committee Chairman Tulloch: He would agree with that. So the Facility Fee is a non-exchange transaction so the community gets nothing in exchange for the Facility Fee?

Director of Finance Navazio: That's not the definition of a non-exchange transaction.

Trustee Schmitz: When we decided to spend the money as a Board and as an Audit Committee, on Moss Adams 1, it was a big decision, it was an important decision. This particular issue relative to Facility Fees was Moss Adams 1 and in Moss Adams 1 we did receive a recommendation but what was important, to her anyway, is that as an Audit Committee and as a Management Team, we all sat down and agreed before we ever engaged

with Moss Adams for Moss Adams 1 that we were all going to accept what their recommendations were and we were going to take their recommendations, issues were going to be put behind us, and we were going to move forward. What has happened is that this is one of the recommendations that came out of it and, Director of Finance if she is wrong, please correct her, but she guesses that she is a person of her word and that if she says that if this is what Moss Adams recommends that she is going to implement it, she is going to be a person of her word and there has been a couple of items, and this being one of them, that was in the Moss Adams 1 report and it isn't being incorporated. For her, that is a little bit of the rub. We had a lot of issues and Audit Committee At-Large Member Dobler had issues and he was willing to accept Moss Adams 1 and he let things go. That was the purpose of it. We have things that they have recommended and Management has chosen not to adopt them and she thinks that's what's causing the underlying tension, she feels anyway.

Audit Committee At-Large Member Dobler: Let's put it this way – he thinks that Moss Adams covered four areas and this was one of them. We got an expensive report that was well thought out where community was involved, many meetings on it, working on it for the better part of 6-7 months, and a very well written report that defines it. We were satisfied with it, as a citizen as he wasn't on the Audit Committee at that point in time, and we had expected it to get done. It was brought forward to the Audit Committee, he guesses at the time he might have been on it, we accepted that and he just has a problem that we want to play yo-yo bookkeeping here. The idea of doing the report was to satisfy and get these off the table that has been an issue for 4 or 5 years. Then what do we do, we do something different. Now, you can say all you want that the previous auditors said this, that doesn't matter because there is nothing specific about GAAP there, it is a judgment call again and the judgment call was made final by Moss Adams so he thought but here we go; we aren't going to agree with that because we don't want to.

Audit Committee Chairman Tulloch: Said it was his understanding that this was what Moss Adams did and the way it was carried out, with input from all different parties, that would normally fit his definition of best practices. This appears to be a best practice that has been rejected. He shares the confusion.

Trustee Schmitz: She did misspeak as she has the report in front of her - Moss Adams 1 was the contract evaluation, she misspoke as Moss Adams 2 was for all the accounting things from the Audit Committee so she was incorrect when she was referring to Moss Adams 1 previously.

Controller Williams: He is looking at the Moss Adams report and he sees nothing about the Facility Fees.

Director of Finance Navazio: It is on pages 61 and 62. It is in the punch card accounting because there was an issue about the slop of the punch card allocation and they made a comment on page 62 which he then read.

Audit Committee At-Large Member Dobler: He thinks it is really pages 23 and 24 of the report and that the numbers you are quoting is the packet pages but in their actual report it is 23 and 24.

Director of Finance Navazio: Confirmed he was looking at the Board packet.

Audit Committee At-Large Member Dobler: You will find that it is very crystal clear, very well thought out, well described and there should be no issue here but we are making an issue out of it because of, he guesses, stubbornness. He doesn't see any reason why it would make a difference other than doing it properly.

Audit Committee Chairman Tulloch: We agreed to accept them and that is not up for debate here and if that is a case of politics and this is a clear message to the community, with primary elections coming up, making sure that when candidates are promising things that they actually live up to what they are promising. Take that as a public service message.

Compliance with Board Policies

Audit Committee Chairman Tulloch: It is binary or non-binary; if you are not complying with company policy, you have a choice.

District General Manager Winquest: We are doing everything we can to ensure compliance with Board policies and yes, there has been a few issues. Have been able to clarify to ensure there is no little to no ambiguity. Don't think it is a good idea to not have a negative conversation here.

Audit Committee Chairman Tulloch: Understand that the Board has delegated that responsibility to you.

Maintenance Expenses reflected in Capital Budget

Director of Finance Navazio gave an overview of this issue. Audit Committee At-Large Member Dobler refuted the overview. District General Manager Winquest asked that this conversation be stopped as it is a false statement. Audit Committee Chairman Tulloch asked if there is a project in the CIP is the \$1 million for operating being added to their budget? Director of Finance Navazio said if there is a project that has a budget of \$10 million and \$1 million we are going to expense and \$9 million to be capitalized and at the end \$9 million would be capitalized when construction. It is tracked separately but you may see some combined. Audit Committee Chairman

Tulloch said the question wasn't answered. Director of Finance Navazio said the answer is that it depends. Audit Committee Chairman Tulloch asked his question another way. Director of Finance Navazio answered the question and that maintenance and repair is covered Board Policy 12.1.0 and the practice has been consistent with Board Policy. Trustee Schmitz said she asked this same question during the Budget Workshop; what she was told was that the reason budgets have increased for services and supplies is because the expenses are being budget there. That's why services and supplies is looking so much larger. What she would suggest that we have one budget that is truly capital improvement and another budget that is capital maintenance. This would make it transparent. Director of Finance Navazio said that was mostly accurate and added further explanation. Trustee Schmitz suggested calling them something different for clarity and transparency. District General Manager Winqest said that all Staff are aware of this change. Trustee Schmitz said this explains to her why the services and supplies budgets increased significant across the board. Audit Committee At-Large Dobler said you need to look at capital maintenance and that is the wrong terminology. Trustee Schmitz said that our memorandum should include an executive summary so the Board knows where to focus and so they know where we need their direction. Trustee Schmitz asked if we covered the items that were moved up; Audit Committee At-Large Member Dobler confirmed that yes, mostly.

Audit Committee Chairman Tulloch called for a break at 8:04 p.m. and the Audit Committee reconvened at 8:10 p.m.

D.2. Review and discuss status of implementing recommendations made by the Auditor (Davis Farr) 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)

Audit Committee Chairman Tulloch asked the Director of Finance Navazio and Controller Williams to provide a brief overview of the submitted materials. Audit Committee Chairman Tulloch asked, if on item 2, was this being done on a monthly basis? Controller Williams said we are doing some every month and making sure we are getting through everything once a quarter. Audit Committee Chairman Tulloch asked if this covered CIP's? Director of Finance Navazio said yes. Audit Committee Chairman Tulloch asked what changes have been made on Item 3? Director of Finance

Navazio said we have made some updates to our procedures against NRS and our policies. This was discussed with our auditors and noted that the NRS has a long list of exceptions. Part of what Management Partners is looking at is further modification of our policies which might lead to a competitive bidding scenario even if the NRS does not. We have worked hard to match up with the NRS and policy. Audit Committee Chairman Tulloch said so this is an example of where Board policy can impose tighter restrictions than the NRS? Director of Finance Navazio said yes. Trustee Schmitz said, to bring closer to that discussion, as it relates to vendor contracts, Moss Adams had recommended a year and a half ago or so that the District develop policies for professional services and she thinks this ties in with that as well. Categorically, she doesn't want to go into it tonight, but categorically could the Audit Committee please review these updates as part of our activities again going back to Board Policy 15.1, paragraph 2.6, which we talked about at the beginning of the meeting and that is when we have things that are being updated to allow the Audit Committee the opportunity to just review those and she thinks that is something that Staff has updated for 2, 3 and perhaps for 4 and 6. She would assume that there are HR procedures that are executed instantaneously upon a change of someone leaving in both the signature card and the systems. She understands that this is a separate quarterly review to make sure those things are happening but she thinks it would be important to see that we have HR procedures that when employees depart or Trustees depart that things are identified and are part of the exit process so to speak. The other comment she has, in 2, is isn't the other exception, besides the General Fund, Internal Services? Director of Finance Navazio said those are proprietary funds as they are business activities. Controller Williams said Internal Service is a proprietary fund but it is not a business activity. Trustee Schmitz said so we have this investment income and she did quickly review the investment income policy and practice and it does not have any language that she could see that talked about allocation of interest income so that might be an enhancement that we want to incorporate but on 7, this is talking about environmental controls, and she doesn't know if it is acceptable to add it but it might be worth saying that even though we don't have a fire suppression system, she does believe that we have offsite back up of a number of things and it might be worth adding that as a little bit of comfortable to the fact that we are saying we are not going to be putting the fire suppression system. Controller Williams said he sees the point being made and he explained that this comment, by the auditors, was actually more directed to the servers rather than the data. Director of Information Technology Mike Gove said we do have a mirror image at another location; we do have a hardware and data

backup however it will not be instantaneous. Trustee Schmitz said that she feels that would be important to add for comfort and note that it is not instantaneous. Audit Committee Chairman Tulloch said that was his understanding and that servers are inexpensive and certainly less expensive than a fire suppression system. Audit Committee At-Large Member Dobler added his opinion and summarized that these are just words and that they don't mean anything. Audit Committee Chairman Tulloch said he would ask Staff if there has been some pricing work done on this item? Director of Information Technology Gove said he can't speak to that question rather it would be a question for our Buildings Team and noted that the entire building would likely need a fire suppression system as it presently has none. Director of Finance Navazio, Trustee Schmitz and District General Manager Winqest made follow up comments and Audit Committee Chairman Tulloch closed this item. Audit Committee Chairman Tulloch said on 4, he thought we talked about doing that more regularly? Director of Finance Navazio said the auditors made the recommendation of at least annually and that there are only a few people that have signature authority on our bank accounts. Audit Committee Chairman Tulloch said on 5, this one kind of disturbs him and it is regarding the temporary meter. Director of Finance Navazio said Staff is looking at this from a cost benefit analysis perspective and noted that our process is similar to other like agencies. Audit Committee Chairman Tulloch said charge them and the developer should be responsible for all the costs. Director of Finance Navazio said there has been no issue with this in the past. Trustee Schmitz asked why don't we charge them? Director of Finance Navazio said we do charge them and it is a security deposit; Staff is looking at what makes sense given the very few transactions that occur and the 100% return rate. The auditors were worried about the checks going stale. Controller Williams said that at the time of the audit, there were 4 checks and those people were called and the meters were returned so there are no checks being held. Trustee Schmitz asked what was the outstanding issue for the auditor? Director of Finance Navazio said it was about the check going stale and they were suggesting the checks be deposited and that when the meter was returned, a check be generated for the deposit. Audit Committee Chairman Tulloch asked what the charge was for? Director of Finance Navazio said Staff will double check. Controller Williams said the check was security to ensure return of the meter but they were being charged for usage. Audit Committee Chairman Tulloch said on 8, which he read, and summarized that funds are getting credited for working capital. Audit Committee At-Large Member Dobler asked if all checking accounts were interest bearing? Controller Williams said yes and explained how things were invested. Director of Finance Navazio said he will follow up with

the Audit Committee Chairman offline. Trustee Schmitz reiterated that the policy and practice need to be reviewed to incorporate all of this. Director of Finance Navazio added a couple of other items where changes need to be made. Trustee Schmitz asked if this was going to be reported to the Board? Director of Finance Navazio said the Board is probably due for another update on investments.

D.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)

Audit Committee At-Large Member Dobler said this was the report on 4 items; he has nothing to say here because he doesn't know what the policy looks like. Audit Committee Chairman Tulloch said that there were changes in the policies that don't align with the Moss Adams report and asked Staff to explain. Director of Finance Navazio said the material included in the packet is the Moss Adams report and it is financial accounting report and the matrix that is on agenda packet pages 77-81; two items on this agenda and the capitalization policy is on agenda packet pages 71-74. Audit Committee At-Large Member Dobler asked if these policies were approved by the Board without the Audit Committee seeing them as isn't that part of our charter to have some oversight – kind of confused. Director of Finance Navazio said we have been working on policies with the Board for over a year and shared with the Board as a result of the Moss Adams report, specifically 1.0, we needed to update some policies and shared with the Board, on 3 separate occasions, the approach on updating the capitalization policy which Staff took the lead on. We did ask Moss Adams to review and provide feedback on the capitalization policy, they did that, and incorporated modifications that were brought back to the Board. Came up with some additional language that was shared with Moss Adams and now included in this packet is the approved policy by the Board. Audit Committee Chairman Tulloch asked a question about the golf carts and them being grouped and capitalized? Trustee Schmitz said that is how you explained it to her. Audit Committee Chairman Tulloch said look at 7.3; the Controller can decide. Director of Finance Navazio identified that specific old policies and a procedure was woeful inadequate therefore this capitalization policy used a template that followed GFOA best practices. Staff went through and looked at the specific sections and the thresholds along with other sections which Director of Finance Navazio cited. Staff took into consideration items from Moss Adams. Audit Committee Chairman Tulloch asked if offline he could

show him the meeting minutes. Trustee Schmitz said that she and Trustee Dent expressed concern at the Board meeting and shared those concerns raised. She found some of the examples from Moss Adams to be very detailed and good policies and had the Audit Committee been involved, she would like to have seen included. There are some things that Moss Adams suggested and there still seems to be some vague language. This is a really good start but there are some additional enhancements that are needed to meet what Moss Adams had chartered us to do. Audit Committee At-Large Member Dobler said that Moss Adams was to help us create policies on capitalization, we have the policy in here and have a lot of red in it, on agenda packet page 76, Moss Adams said you didn't put a lot of stuff in the draft; don't get the redline – what the hell is it? Was this a late arrival? Trustee Schmitz said that this is the version of the policy that the Board approved at our meeting, red to identify the changes were made, she feels remiss because in December, she and Trustee Dent should have recommended it come to the Audit Committee for review. Audit Committee At-Large Member Dobler said then reviewed agenda packet page 76 – are we going out and play the pick and choose game with the consultant as that is what it looks like to him. Director of Finance Navazio said Moss Adams got the draft in August and then he recapped the timeline forward and explained what the redline was. Staff incorporated the changes recommended by Moss Adams and also shared with accounting procedures for disposal of assets, etc. Staff walked Moss Adams through where in the accounting procedures these items are included. Audit Committee At-Large Member Dobler asked if there were references included in the policy; Director of Finance Navazio pointed out the references. Staff worked to include all the information from Moss Adams in the policy or pointed out the procedure document to them. Audit Committee Chairman Tulloch said so you have accepted the Moss Adams recommendation in totality or partial? Director of Finance Navazio said we took all of their recommendations and we may have revised the wording as we did not ask them to write the policy. Trustee Dent said that the draft that Moss Adams saw was very preliminary and that Moss Adams didn't see this draft and he feels like if we are paying a consultant, they should see the final version. He didn't vote in favor of this and he feels like he could have handled this differently by having Moss Adams involved all the way through. Audit Committee Chairman Tulloch said that would have been best practices in his client recommendation. District General Manager Winqest said that the statement about that they only reviewed the preliminary draft is false as they were very involved with the process. It is true that Moss Adams didn't review the final final and they reviewed most of what was in there. Trustee Dent said what it comes down

to is that we have to trust what you are saying and that's what it comes down to. Trustee Schmitz said and the biggest language that we have is this 2.1 and 2.1 was added very late and that is the problematic language that was incorporated. Director of Finance Navazio said and that was reviewed by Moss Adams and this is language that they gave us feedback on. Trustee Schmitz said that they said they never say this so it is he said, she said and in reality, as an Audit Committee, she just wants to know that we are doing the right thing and that when we hire consultants to give us advice that we are actually incorporating it and that this is an area that has been concerning and, in hindsight, it would have been great to have the Audit Committee participate in the review of the drafts of this and it is unfortunate that it hasn't happened because there is value that could have been added to improve things and at this point, it has already been approved by the Board and this is the policy. But, as an Audit Committee, she thinks it creates a challenge for us because she doesn't know how we will use this policy to ensure that our financials are being reported consistently as it relates to how things are decided to be capitalized. Audit Committee At-Large Member Dobler said that this seems like a rush, rush and the whole idea of expanding the Audit Committee to get at-large members that have good business experience to help the District in doing things better and when we run into a collision course of \$4 or \$5 million or \$5 or \$6 million that gotten written off, maybe we should have had a little discussion on it because he thinks that the Audit Committee Chairman and he are pretty smart guys so at any rate, he doesn't get and that is all he has to say. District General Manager Winqest said this has been literally a 3-hour interrogation of his Staff and he understands why Trustees Dent and Schmitz aren't very happy that Moss Adams didn't get to do a review of this document and Staff will ensure that a review is included in the scope of work and moving forward if you are willing to work with Staff and listen to our point of view, we are happy to bring these policies to the Audit Committee for their review. Audit Committee Chairman Tulloch said if you think this is an interrogation then he can assure you that you have never experienced a full on Audit Committee. Yes, Staff would love the Audit Committee to work with it but to be fair if Staff just says we don't disagree without having backup documentation, it is quite difficult so he understands that you should be looking after your Staff which is what you should be doing equally the Audit Committee functions as an Audit Committee and it has a role to play as well. All we are doing is asking questions and yes, we have concerns about things and we should all be working together. The Audit Committee can't control what the Board does. The Audit Committee can only perform its duty of oversight and if the Board wishes to dispense with oversight then there is not a lot the Audit Committee can do about it but we

would be failing in our duties if we didn't provide these recommendations to the Board. Trustee Dent said one other reason that he was not in support of it is that Legal Counsel had not reviewed the policy prior to it coming to the Board for approval. He did ask that question of Legal Counsel and it is in the meeting minutes from January 12 and that is what he said on the record and that was that he had not reviewed the policy prior to it going into the packet. Director of Finance Navazio said he would add that when Staff asked him if he needed to review it, this is not a legal matter. Audit Committee At-Large Member Dobler said everything is a legal matter when you are handling people's money. Audit Committee Chairman Tulloch said we can't relitigate the past and said, on 3.2, like you, he is not a CPA but on recording an asset you are showing a balancing entry. Controller Williams said yes, you are recording a donation entry. Audit Committee Chairman Tulloch said on 5.4, he would strongly object to the title and he has one other issue in 6.1, can you clarify the last sentence which he read? Director of Finance Navazio said after a project has been defined, have scope, cost and a funding plan and costs going forward will be capitalized and not feasibility study. Audit Committee Chairman Tulloch said maybe a cleanup of the language would be appropriate here. Trustee Schmitz asked what are we trying to accomplish here as this policy has been Board approved so what is the Audit Committee requesting and accomplishing? Audit Committee Chairman Tulloch said it is about clarifying ambiguity. Trustee Schmitz said we can discuss it and say something should be clarified and if Management isn't interested, this is a waste of our time. Rather say as Audit Committee this is going to create a challenge for us and move forward. Audit Committee Chairman Tulloch said he would ask the Audit Committee how it would like to move forward. District General Manager Winquest said there are two options – work with this for a year and see how it goes and that we have to find a way to work together. Audit Committee Chairman Tulloch said his personal view is that there are few things that should be cleaned up and put it forward to the Board as the Audit Committee has no authority to do so. District General Manager Winquest said cleaned up so it works for everyone. Audit Committee At-Large Member Dobler said he has a 5-year history of capital projects side by side comparison and one exhibit will cover 90% of the situation as you are buying the same stuff over and over again. Audit Committee Chairman Tulloch said he will defer to the committee for action. Audit Committee At-Large Dobler said he would like to define capital assets better and get a list of them and say you will capitalize this and you won't capitalize that. Audit Committee Chairman Tulloch asked if that was a general agreement? Trustee Schmitz said that one of the policies she reviewed defined capital asset as an intangible asset and some of these

other policies had good definitions and substance and she would really like for all of us to take a minute and review those. She did share it with her fellow committee members and make some recommendations. She doesn't know how interested the Board is, we can go through the effort as it is probably our responsibility to that to put forward some things that we would like to see enhanced but she is just 1 member of the committee. Trustee Dent said he would tend to follow whatever his fellow colleagues on the committee bring up on modifications or recommendations or suggestions to go to the Board of Trustees on a way to move forward. There were a couple of other things that he in the language like typically and maybe where we can clean up this policy to make it a little more concrete. Audit Committee Chairman Tulloch said he will work with the Director of Finance to review some of the wording over the next few weeks and then we can review with a preferred recommendation coming jointly from the Audit Committee and Staff.

D.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)

Audit Committee Chairman Tulloch said he thinks we have already covered this item.

D.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)

- 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*)

Audit Committee Chairman Tulloch said 5.a. and 5.d. has already been covered. Audit Committee At-Large Member Dobler gave an overview of the remaining items. Trustee Schmitz said that Audit Committee At-Large Member Dobler did a lot of hard work and that she did try to understand and found a couple of things so it is good to know that once in a while that Audit Committee At-Large Member Dobler can be human. She understands this is in the past but when she reviewed this, there were a couple of things that just jumped out at her. The first thing was that there was a change order that was executed prior to the contract being executed. Well, you can't have a change order to a contract before you have a contract so that is a contract administration situation/mistake. What she was noticing was what was the management cost of managing the project and it seemed like there wasn't a clear handle on the costs of the project; it was found that \$75,000 was charged to a different project code so she thinks that her recommendation is that out of the Moss Adams 2 report, actually this is Moss Adams 1, it was that we needed to have project closures and to have a clear project closure report. She thinks for this project it would be worth the time to do that because Audit Committee At-Large Member Dobler has already got things laid out and the reason for doing that is, first of all, ensure that the proper projects were charged for all of the costs because that was an issue and to understand what truly was the total cost of the project because now you have additional charges and how much was billed and potentially if there is anything that the District needs to go and do additional billing for. She appreciates Audit Committee At-Large Member Dobler's efforts and the amount of detail and information put together here and in reviewing it, she thinks that this is one where it is worth it because the District is potentially due some additional funds and she thinks it would be good for our current Staff to go and do a project closure so they can understand how things were done in the past and ensure that our new procedures would never allow a change order to come before a contract and that truly projects are being managed and costs are being charged to the proper bucket so that really, in a nutshell, is her recommendation and that we do a project closure report. Audit Committee Chairman Tulloch said that the purpose of these correspondences is not a witch hunt or anything rather just to see what we can learn from it. District General Manager Winquest said he has gone through everything with Staff to ensure that we have gotten everything that we have spent and it is really hard to go backwards but we can try. On the change order, he does agree that should it have been handled differently and our previous District General Manager did authorize a conceptual design which was authorized under his authority. There was item about

underground analysis which was not paid for by the donor. There were 3 or 4 items that were charged off to Parks that weren't in the original scope that the District decided to pay for. There is plenty to learn from this project. For the Recreation Center Expansion project, he has emphasized the need to be really tight. He has seen that we have been reimbursed for every dollar that was due. Trustee Schmitz said that she is not arguing with the District General Manager but that she still feels that this whole concept that Moss Adams, in their recommendation, was to do project closure reports. She does think that doing things in writing and doing a project closure report on this is not a very time consuming activity and that it is very important because then you actually have the paper trail to show that we do everything according to what we said we would do and this is well laid out and verified by her by adding the numbers. District General Manager Winqest said he has looked at this, he will work with Staff and it does take more time than you think. Trustee Schmitz said she is willing to help and she will be write a 1-page Executive Summary. District General Manager Winqest said it is a very confusing project as we went out to bid, too high, went out again and then had to value engineering the project. He hasn't seen anything to indicate that we haven't been reimbursed. Audit Committee At-Large Member Dobler said that we are over by about \$400,000 and it is a pretty snapshot of how weak we are in internal controls and the Board that rubber stamps everything needs to see it. District General Manager Winqest said that the donor was in the know on everything on this project. Audit Committee Chairman Tulloch said it is the process that has been highlighted and not asking to go to the Board as an item. A project closure is a standard process and as long as a project closure report is on your agenda, that's the point.

Audit Committee At-Large Member Dobler gave an overview of Item 5.c. Audit Committee Chairman Tulloch said it goes back to the capitalization project. Trustee Dent asked Staff, as it relates to the upcoming budget workshop, are we bringing down the services and supplies; break them apart for maintenance? Director of Finance Navazio said what we are in process of doing is establishing a separate account code to distinguish these items from what had previously been in that budget. There will be a specific line item that we can point it but not bringing a line item budget on March 1 as that is further down in the process. Trustee Dent said so it will be differentiated? District General Manager Winqest said so you are asking about repairs and maintenance – yes, we will be separating that out. Audit Committee At-Large Member Dobler said that is a dangerous thing to do because you are mixing them as there is no reason to put them together.

District General Manager Winquest said we are going to separate them out. Audit Committee At-Large Member Dobler said they are repairs and maintenance and shouldn't be in the capital budget. They are two different things. Audit Committee Chairman Tulloch said he would concur as that is how every business has worked that he has worked with and asked that all committee members funnel long range calendar items to him so that he can added that to the next agenda. Audit Committee At-Large Member Dobler asked about his Burnt Cedar memorandum; Audit Committee Chairman Tulloch said he has it and was being respectful to the length of the meeting.

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

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

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

F. **PUBLIC COMMENTS***

There were no public comments made at this time.

G. **ADJOURNMENT** (for possible action)

The meeting was adjourned at 9:55 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.