

NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at **2:00 p.m.** on **September 28, 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 September 28, 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*
Vito Brandle (At-Large Member), Mick Homan (At-Large Member), Raymond Tulloch (At-Large Member), Kendra Wong (Trustee), and Michaela Tonking (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. The Audit Committee may address matters brought up during public comment at the conclusion of the comment period but may not deliberate on any non-agendized item.

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. Introductions – New Committee Membership – **pages 3-50**

- a. Introductions of Audit Committee Members and Staff
- b. Overview of Purpose and Scope of Audit Committee – Policy 15.1.0
- c. Discuss Audit Committee Annual Report (most recent)
- d. Discuss Audit Committee Report on June 30, 2021 Audit
- e. Provide Direction on Meeting Schedule

2. Receive a Verbal Update from Davis Farr (Auditors) on Financial Audit of Fiscal Year Ending June 30, 2022, including the items below – Ms. Jennifer Farr – **pages 51-62**

- a. Schedule/Work Plan for Financial Audit of Fiscal Year Ending June 30, 2022
- b. Communication(s) from Auditor regarding the Financial Audit

3. Receive Verbal Update from Davis Farr (Auditors) on the following Supplemental Engagements – Ms. Jennifer Farr – **pages 63-71**

- a. Purchasing/Contracts
- b. Capitalization

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 September 28, 2022 - Page 2

4. Receive Verbal Updates from IVGID Staff on the following Items – Director of Finance Paul Navazio – *pages 72-99*
 - a. Tyler Financial System Implementation Update
 - b. Finance/Accounting Manual Update
 - c. Purchasing Policies (20.1.0 and 21.1.0)/Purchasing Procedures
 5. Review, discuss and possibly update the Audit Committee Long Range calendar – *page 100*
 6. Written communications from the public (memorandums to the Audit Committee since its last meeting) – *pages 101-109*
 7. Election of Officer of the Audit Committee – Chair – to take effect immediately after this meeting is adjourned
- E. MEETING MINUTES (for possible action)
1. Meeting Minutes of June 16, 2022 – *pages 110-124*
- 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, September 23, 2022 at 9:00 a.m., a copy of this agenda (Audit Committee Session of September 28, 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 three 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.yourtahoepalace.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: Vito Brandle (*At-Large Member*), Mick Homan (*At-Large Member*), Raymond Tulloch (*At-Large Member*), Michaela Tonking (*Trustee*), Kendra Wong (*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.yourtahoepalace.com; go to "Board Meetings and Agendas".**



Accounting, Auditing, and Financial Reporting Audit Committee Charter Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and to provide the highest level of financial accountability and transparency to its parcel owners and other stakeholders (i.e., the State of Nevada).

The Government Finance Officers Association (GFOA) encourages the effective use of an audit committee in the public sector and considers such a committee an integral element of public accountability and governance. An Audit Committee plays a key role with respect to overseeing the integrity of the District's annual financial statements (the "ACFR") by ensuring those responsible for financial management (Management and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting. An Audit Committee is a practical means for a governing body to provide much needed independent review and oversight of the District's financial reporting processes, internal controls, and independent auditors.

An Audit Committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an Audit Committee helps to ensure that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.

An Audit Committee should be formally established by the Board of Trustees, be adequately funded, and be subject to a formally approved Audit Committee Charter.

POLICY: The Audit Committee (the "Committee") is to assist the Board of Trustees fulfill its responsibilities in accordance with Nevada Revised Statutes (NRS), District Policies, Practices, Ordinances, and Resolutions by providing oversight over the District's financial reports, the system of internal controls including the internal audit plans and reports, and the independent auditor's reports within the ACFR.

The Committee shall have open communication with and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and the independent auditor.



Accounting, Auditing, and Financial Reporting Audit Committee Charter Policy 15.1.0

This Committee shall review the Charter annually with any recommended changes submitted to the Board of Trustees for consideration and possible approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by Trustees and three members appointed by the Trustees to serve as qualified At-Large Members. Any recommendations for expanding the number of voting members will be recommended by the Committee and submitted to the Board of Trustees for possible approval. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed, and as approved by the Board of Trustees for financial expenditures.

Members of the Committee should have or shall obtain an understanding of accounting, auditing, financial reporting, and internal controls to be able, with the assistance of an advisor if needed, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for periodic training of the Committee members and an outside advisor to assist the Committee with the independent conduct of its work with the approval of the Board of Trustees. Any advisor so engaged should possess the following qualifications:

- A thorough understanding and experience with Generally Accepted Accounting Principles (GAAP), Government Accounting Standard Board (GASB) statements, and financial reporting
- Experience either preparing or auditing financial statements
- Experience with internal controls
- An understanding of the function of an audit committee

At-large Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District. All members shall not be an affiliated person with the District and at-large members suggested qualifications:

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers. District staff shall be responsible for providing copies of all relevant policies to Committee members.

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. Appointing Trustees to serve successive years increases continuity and allows for knowledge retention. In the event a Trustee is removed or resigns, the Board of Trustees shall agendize to appoint a new



Accounting, Auditing, and Financial Reporting Audit Committee Charter Policy 15.1.0

member to the Committee within thirty (30) days of the vacancy or the next available regular meeting, whichever is later. In accordance with GFOA recommendations, Trustees considered for appointment to the Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.¹

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing, internal controls, and financial reporting expertise. This expertise could include:
 - Hold an active CPA license (preferably in Nevada) or have at least 15 years of progressive financial management experience as evidenced on a resume, CV, or LinkedIn
 - Experience on governing board, either as committee or board member
 - Experience either preparing or auditing financial statements
 - Experience with internal controls
 - An understanding of the function of an audit committee
- At-Large Members will serve staggered two-year terms:
 - For the first appointment, one member will serve a one-year term and the other two will serve a two-year term.
 - For each subsequent appointment the member will serve a two-year term.
- Terms for At-Large and Trustees Members shall commence on March 1st and expire on the last day of February of the applicable year. Committee members appointed to terms originally set to expire on June 30th shall serve until the last day of February after their term was set to expire. Members appointed to fill a vacancy shall serve for the balance of the initial term.

One member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee

¹ “To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee” Source: GFOA Best Practices, Audit Committee



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

members with a written agenda for each meeting. Committee Members may request agenda items for the Chair’s consideration and approval.

The Committee members are limited to two 2-year terms, which may be extended with the Board of Trustees approval in the event there are no interested or qualified applicants to fill any future vacancies. In the event of any regular or unexpected vacancies for At Large Members, staff shall conduct a public process to solicit and receive applications from interested community members for consideration by the Board of Trustees . Staff shall begin this process with sufficient time to ensure the Board of Trustees can make biannual appointments and within thirty (30) days of any unexpected vacancy. Staff shall begin this process with sufficient time to ensure the Board of Trustees can make biannual appointments and within thirty (30) days of any unexpected vacancy.

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor will be engaged by and report directly to the Committee. The Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor is to bring to the attention of the Committee any additional work required (and related fee impact), beyond the scope of work contained in the engagement letter and the audit plan, to fulfill their responsibilities before any such work is undertaken.

2.0 Scope of the Committee’s Authority and Responsibilities

It is the responsibility of the Committee to provide independent review, oversight and feedback on:

1. Financial reporting
2. Internal controls
3. The independent audit of the basic financial statements
4. The ACFR

To fulfill these responsibilities, the Committee shall:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

- 2.2.1 Review and approve the Request for Proposal (RFP) for an independent auditor to be retained by the District. Such engagement should be for no more than five fiscal years in duration.
 - 2.2.2 Make recommendations on the scope of work.
 - 2.2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an independent auditor.
 - 2.2.4 Review and approve the engagement letter (i.e., contract) between the District and the independent auditor
 - 2.2.5 If deemed necessary, identify and recommend additional audit services to be performed.
 - 2.2.6 By March 31st of each calendar year, the Board of Trustees is to formally designate an external independent auditor and inform the Nevada Department of Taxation. (NRS 354.624 item 3).
 - 2.2.7 When appropriate recommend the replacement of the independent auditor and the initiation of the procurement process (2.2.1).
- 2.3 Facilitate the independent audit process.
- 2.3.1 Review and approve, in consultation with the independent auditor, the annual audit plan, the scope of audit activities and schedules by June of each year
 - 2.3.2 Provide an independent forum for auditors to report findings or difficulties encountered during the audit
 - 2.3.3 Review with the District management and the independent auditor all major issues identified by the independent auditor regarding:
 - 2.3.3.1 Accounting Principles.
 - 2.3.3.2 ACFR presentation.
 - 2.3.3.3 Any significant changes in the selection or application of accounting principles.
 - 2.3.3.4 Significant judgments made in the preparation of the ACFR and basic financial statements.
 - 2.3.3.5 The effect of regulatory initiatives.
 - 2.3.3.6 Off-balance sheet structures.



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

- 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor.
- 2.3.3.8 Any restrictions on the scope of the auditor's activities or on access to requested information or managements responses.
- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
- 2.3.5 According to the approved work plan, conduct periodic meetings with the external auditor to review progress, issues identified, concerns and the audit timeline.
- 2.3.6 Review the Management Representation letter by the District's management prior to submittal of the letter to the independent auditor.
- 2.3.7 The Committee shall submit a written report to the District's Board of Trustees in conjunction with the presentation of the ACFR to the Board of Trustees by the end of December.
- 2.4 Post Independent Audit Follow up
 - 2.4.1 Follow-up on any corrective action identified by the independent auditor, if any.
 - 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter.
- 2.5 The Committee may identify a need to engage an external resource to address a specific area of concern.
 - 2.5.1 The Committee shall seek approval from Board of Trustees to obtain appropriate resources.
 - 2.5.2 The Committee shall agree the Scope of Work.



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

- 2.5.3 The Committee is responsible for engaging the resource to perform the scope of work.
 - 2.5.4 The external resource shall report findings to the Committee.
 - 2.5.5 The Committee will provide findings to the Board of Trustees and recommend possible implementation of the findings, if any.
 - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.
- 2.6 The Committee shall review and provide oversight of the internal controls ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.
- 2.6.1 Management will provide an annual schedule for the review of District Financial Practices (internal control) documents. These documents will be provided to the Audit Committee for their review and oversight.
 - 2.6.2 Review the annual internal control audit plan(s).
 - 2.6.3 Review management's annual assessment of their internal controls for prior year audit plan.
 - 2.6.4 Review management's identification of fraud risks, review the implementation of anti-fraud measures.
- 2.7 Annually review the District's Code of Conduct that promotes honest and ethical conduct; full, fair, accurate, timely disclosures in periodic reports including the ACFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.
- 2.8 To annually review and refine as necessary the whistleblower procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud for recommendation to the board of trustees for consideration and possible approval.



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

- 2.8.1 Review and refine as needed the procedures for educating employees on their individual role in ensuring the District's financial integrity.
- 2.8.2 Ensure employees of the District have an anonymous method for concerns to be submitted.

2.9 Reports to Board of Trustees.

- 2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

3.0 Meetings

- 3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241. The Board of Trustees will be emailed a copy of the meeting minutes. Meeting minutes will be posted on the District website.
- 3.2 The committee will hold meetings up to twice per quarter, unless immediate action is needed and no less than four times per year. All members are expected to attend on a regular basis. Any member missing two consecutive meetings without due cause (i.e., illness) will be reviewed for continued membership on the Committee by the Chairs of the Committee and Board.
- 3.3 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.4 The District's management is to provide to copies of all materials which are to be presented by management to a Committee's public meeting in compliance with NRS 241.
- 3.5 The Committee shall review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader. Communicate with the submitter, if known, regarding their submitted concern.



**Accounting, Auditing, and Financial Reporting
Audit Committee Charter
Policy 15.1.0**

- 3.6 The Committee shall review all past correspondence which contains outstanding action items. Ensure responses and/or corrective action is taken in a timely manner.
- 3.7 The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.8 An annual meeting is to be held with the independent auditor, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (ACFR) and the auditor's material written communications with the District.

4.0 Annual Financial Risk Assessment and Risk Management.

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.

MEMORANDUM

TO: Board of Trustees

FROM: Audit Committee Chairman Ray Tulloch

SUBJECT: Annual Audit Committee Report – Fiscal Year 2021/2022

DATE: June 30, 2022

I. RECOMMENDATION

The Audit Committee provide the Board with an annual report of the actions taken by the Committee to fulfil their duties and responsibilities required under Policy 15.1.0. This report will be prepared to cover the fiscal year. The Board is requested to review and accept the Annual report from the Audit Committee.

II. BACKGROUND

Under Policy 15.1.0, Section 2.9, the Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.

The annual report be based on the time period between each fiscal year.

The Audit Committee held 13 meetings between July 13 2021 and June 30, 2022. Two of these were single issue special meetings that were made necessary to meet urgent timelines for submissions. A summary of items discussed and resolved at each meeting is on Exhibit A.

The attached report from the Audit Committee reviews our activities over the past year and provides a short executive summary of achievements and actions fulfilling the duties and responsibilities required during the past 12 months.

Annual Audit Committee Report for 2021-22

During the 2021-22 fiscal year the Audit Committee held 13 meetings Two of these were single issue special meetings that were made necessary to meet urgent timelines for submissions. A summary of items discussed and resolved at each meeting is on Exhibit A.

It is unfortunate that for much of the year the Audit Committee was required to operate with less than its full complement of Committee members. Initially there was only one (of 2) Trustees on the Board as Trustee Dent had stepped down as of 30 June 2021 and the Board was unable to appoint a replacement. The Audit Committee wishes to thank Mr. Dent for stepping back up to fill the position on a temporary basis from September 2021. In addition, At-Large member Mr. Aaron resigned from the Committee as of July 19 due to business pressures. Although the Board interviewed candidates to replace Mr. Aaron they declined to appoint a replacement. As a result, for the majority of the year the Committee operated with only 4 (four) rather than 5 (five) members which increased the workload on these members given that Committee members were responsible for personally preparing agenda memos for the Committee.

In the initial 2020-21 year of operation of the Committee, some concerns were raised that at times the Committee was perceived to be operating outside its defined scope. As a result, every effort was made to ensure the involvement and purview of the Committee was focused on its responsibility to provide independent review, oversight and feedback on:

1. Financial reporting
2. Internal controls
3. The independent audit of the basic financial statements
4. The ACFR

It is the considered view of the Committee that, during 2021-22, it has indeed operated within these parameters.

The Committee, recognizing the lessons learned from the initial 2020-21 year, as well as responding to concerns raised by some Board members, spent significant time during the first half of the year making recommendations for changes in Policy 15.1.0. This proved to be an extended iterative process before the Board finally reached agreement on changes at their February 3, 2022 meeting.

During the year there were instances where the Board declined to accept considered and researched recommendations from the Audit Committee. Most notable concerned the Annual Comprehensive Financial Report (ACFR) where the

Audit Committee was presented with the final version, with changes that had not been previously discussed, on the same day it was provided to the Board for approval. As a result, the Audit Committee had no time to discuss changes and was unable to sign off on the ACFR as presented. The concerns of the Committee were substantively around items being capitalized rather than expensed in compliance with Board policies and practices. As will be understood this unfortunately created some friction between the Board and the Audit Committee. The Audit Committee does also recognize that it bears some responsibility in this area as it has identified for future years that it should schedule more frequent updates with the external auditor and IVGID financial staff during the course of the Audit in order that concerns may be addressed at an earlier stage.

However, the Audit Committee has remained consistent and steadfast in operating in accordance with its charter, which also reflects Government Finance Officers Association (GFOA) guidance, as follows:

“An Audit Committee plays a key role with respect to overseeing the integrity of the District’s annual financial statements (the “ACFR”) by ensuring those responsible for financial management (Management and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting. An Audit Committee is a practical means for a governing body to provide much needed independent review and oversight of the District’s financial reporting processes, internal controls, and independent auditors.

An Audit Committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an Audit Committee helps to ensure that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.”

The Audit Committee recognizes that this may not always be a popular approach. However, it is the unanimous and considered view of the Committee that to operate otherwise or to be influenced by political pressures would be an abrogation of the independence and charter of the Committee. The Audit Committee is not established simply as a rubber stamp but to provide independent and objective oversight of IVGID financial reporting practices, and also leveraging the extensive skills in the community through the at-large members. The Audit Committee fully recognizes that it has a distinctively apolitical and different role from the Board and that, while it can make recommendations to the Board, it is up to the Board to

accept or reject these recommendations and to subsequently be responsible for the decisions reached.

During the year the Audit Committee developed, as directed by the Board, a whistleblower policy. This was presented to the Board but no action has been taken.

Another focus of the Committee has been working with staff on development and implementation of appropriate internal controls. This remains a work in progress and has also been further informed by the external audit findings of Material weaknesses and deficiencies which are being addressed through this process. The Committee notes the additional resources brought in by IVGID management to accelerate this work as previously suggested.

During the year there have been recurring discussions between the Committee and finance staff regarding Capitalization policies. The Committee has been consistent in its approach to this in that capitalization should be consistent applied in accordance with Board policies as well as compliance with GAAP and GASB. This supports consistent financial reporting than can be used for accurate year on year comparisons. This is of particular importance for external financial review that will be necessary for the future bonding of the effluent pipeline.

The Committee also notes the approval of the Board, based upon a joint recommendation from Finance staff and the Audit Committee, to expand the scope of the external audit to include additional review of internal controls and capitalization policies. It is our joint view that this will benefit the District and support more consistent and accurate financial reporting.

Update 6/22/22 – For Information Only

Concerns were raised by the Audit Committee in our report on the ACFR that previously capitalized items such as Master Plan studies, items that should have been categorized as expenses, had not been charged-off.

A copy of the annual CIP Activity by Project report for fiscal year 20-21 was received via a Public Records request on June 21, 2022. From analysis of this report it would appear that in fact there was an additional \$654,750 of such items written off on 20-21. These were primarily items that had been identified by the audit Committee in our ACFR report. However, although these costs had been recorded in prior years, it appears they were in fact considered as write offs against current year (20-21) CIP expense rather than being recorded as prior period adjustments. This appears to be a rather unusual accounting treatment under GASB. It was also not possible for the Committee to identify these items until the

CIP activity report was received and as such it has not been discussed by the Audit Committee.

As a result, this is included here for Information Only. It does appear however that this may have rectified several of the disputed capitalization items previously identified in our AFCR report.

Attachments:

EXHIBIT A

History of Audit Committee Meetings for fiscal year ending June 30, 2022

July 13, 2021

- The Audit Committee Chair outlined expectations for decorum and procedure for the Audit Committee
- The Audit Committee reviewed, discussed and provided recommendations where appropriate on:
 - Whistleblower policy
 - External Auditor performance
 - Annual Audit Committee report to the Board
 - Facilitation of the 2020/21 external audit process including election of a liaison to the Auditor
 - Proposed modifications to Policy 15.1.0

August 10, 2021

- Update to the Audit Committee on work products presented to the Board
 - Whistleblower policy
 - Annual Report from the Audit Committee
- External Auditor, Davis Farr, update to the Audit Committee
- Update presentation on Internal Controls
- The Audit Committee reviewed, discussed and provided recommendations where appropriate on:
 - Proposed modifications to Policy 15.1.0
 - Staff's response on investment income allocation

August 17 2021

- Special additional meeting to finalize 15.1.0 recommendations to Board

October 26, 2021

- Update to the Audit Committee on work products presented to the Board
 - Modifications to Policy 15.1.0
- Update on external audit and review of initial draft of financial statements
- Review of completed Internal Controls updates and prioritized schedule of Internal Control updates to be completed in Fiscal Year 2021/2022
- Update on allocation of Investment Income earned on Cash, Cash Equivalents and Investments for the Governmental Funds ONLY for the Fiscal Year ending June 30

November 17, 2021

- The Audit Committee reviewed and discussed the DRAFT of the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and Results of Audit

December 8, 2021

- The Audit Committee reviewed and discussed the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and recommended changes

December 16, 2021

- The Audit Committee reviewed and discussed the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021
- The Audit Committee agreed to provide a report to the Board detailing their concerns over inaccuracies in the Annual Comprehensive Financial Report and recommending changes

February 22, 2022

- The Audit Committee reviewed and discussed District Management's response to the Audit Committee report to the Board of Trustees on the Annual Comprehensive Financial Report
- The Audit Committee reviewed and discussed 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
- The Audit Committee reviewed and discussed actions taken in response to recommendations in the Moss Adams report on policies and practices
- The Audit Committee reviewed and discussed to determine if action was required in response to memos received regarding:
 - Charge off of expenses which have been included in construction in progress
 - 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
 - Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than Capital Assets
 - Reporting and use of Facility Fees

April 13, 2022

- The Audit Committee reviewed and discussed and provided recommendations as appropriate on
 - draft report to Board of Trustees on the Annual Comprehensive Financial Report and Staff response
 - further action if any on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021
 - further action if any on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets

April 21, 2022

- Special additional meeting to Review, discuss and possibly take action on the Davis Farr draft engagement letter; to include discussion on schedule, reporting, milestones and interim deliverables and to include discussion related to concerns of the Audit Committee and options for expanding annual audit by Davis Farr

May 10, 2022

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
 - the Davis Farr draft engagement letter to include review discussion and approval of supplementing FY2021/22 Independent Audit to Include Additional Agreed- Upon Procedures Related to 1) Capitalization of Assets and 2) Purchasing/Contracts options for expanding annual audit by Davis Farr to include review of internal controls as integrated audit
 - further action if any on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021
 - further action is necessary on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets
 - Review, discuss and determine if any further action is necessary on the expensing of net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund.

June 1, 2022

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
 - further action if any on charges to the Water and Sewer Pump Stations capital projects for 2015 to 2021 which were capitalized but should have been expensed

- further action if any on charges to the Wetlands Effluent Disposal Facility Improvements capital projects for 2015 to 2021 which were capitalized but should have been expensed
- Management's responses to the Annual Comprehensive Financial Report (ACFR) to identify and confirm for which items the Audit Committee requests additional documentation to be presented for the June 16 Audit Committee meeting
- further action if any on Note 22 - Prior Period Adjustment - Annual Comprehensive Financial Report as of June 30, 2021 (ACFR)
- further action if any on Accounting and Reporting of Facility Fees Revenue in the Annual Comprehensive Financial Report (ACFR)
- Verbal review of annual internal controls schedule and update on revisions to internal controls (Policy 15.1.0, 2.6.1,2)
- further action if any on implementation of agreed actions identified from 20-21 Audit Report by the Audit Committee

June 16, 2022

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
 - Follow-up explanatory on Management Responses to Audit Committee report on 2020-21 ACFR
 - Wastewater Treatment Plant Improvements
 - Burnt Cedar Disinfection Water Treatment Plant
 - Schedule / work plan for 2021-22 Financial Audit
 - How revenue is treated for play passes and punch cards
 - Annual Audit Committee report to the Board of Trustees as per Policy 15.1.0

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: Board of Trustees

THROUGH: Paul Navazio
Director of Finance

FROM: Indra Winqest
District General Manager

SUBJECT: Management Comments Related to Audit Committee Annual Report (dated March 9, 2022)

DATE: April 13, 2022

I. RECOMMENDATION

Staff recommends that the Board of Trustees consider management's response(s) to the recommendations included in the Annual Report of the Audit Committee, presented to the Board of Trustees on March 9, 2022, prior to consideration of formal Board action related to the Audit Committee's recommendations.

II. BACKGROUND

The purpose of this memorandum serves to provide management's response to the recommendations presented to the Board of Trustees via the Audit Committee's annual report on the FY2020/21 audit, which was transmitted to the Board on March 9, 2022.

Upon receipt of the Audit Committee's Annual Report, the Board of Trustees deferred action on the specific recommendations being advanced by the Audit Committee, pending review and comment from management (and, where appropriate, the District's external auditor).

This agenda item has been prepared in response to the request from the Board of Trustees.

The Audit Committee's Annual Report, presented to the Board of Trustees at their meeting of March 9, 2022 contained a series of specific recommendations within five general topics, for consideration by the Board.

Staff concurs with recommendations of the Audit Committee related to:

Recommendation #1 - Expanding the scope of audit work for FY21/22 to include enhanced review of internal controls.

Staff has largely implement the recommendation of the Audit Committee related to items to be included in the District's Capital Budget:

Recommendation #5 - 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 preliminary stage activities, repair and maintenance items are separated and included in operating expenses.

In addition, related to Recommendation #4, staff concurs with updating the historical methodology for allocating interest earnings; however, staff wishes to clarify that a change in methodology for allocating investment earnings was implemented for FY2021/22. This revised approach is consistent with best management practices. Staff feels that the Audit Committee's recommendation, as presented in their Annual Report, is based on a misunderstanding of the how investment earnings were allocated in the past, as well as the change in methodology that has been implemented in the current fiscal year.

Staff does not concur with the Audit Committee's recommendations related to the need for additional prior period adjustments. Each of these items were reviewed by the District's external auditors (past and/or present), and the most recent audit of the District's financial statements were determined by the independent auditor to be "fairly represented in all material respects." Therefore, a review and revision of items already audited and deemed appropriate by both management and the District's independent auditor is unwarranted and unnecessary. These Audit Committee recommendations include:

Recommendation #2 - The Audit Committee recommends a prior period adjustment to expense items 2a & 2b for consistency and accuracy of our financial statements. (Related to maintenance and repair activities).

Recommendation #3 - 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. (Application of capitalization threshold criteria).

Recommendation #4 - 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 FY 2018-2019.

III. DISCUSSION

This discussion sections provides more specific responses to each of the recommendations included in the Audit Committee's Annual Report to the Board of Trustees, dated March 9, 2022. The Audit Committee's recommendations are presented herein, verbatim, and *management's responses are presented in italics.*

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 FY 21-22 audit be expanded in scope to include enhanced review of internal controls.

Management Response:

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

Should the Board choose to undertake an audit that goes beyond the standard audit procedures for review of financial statements for compliance with GAAP/GAASB and Generally-Accepted Audit Standards, this should be discussed with the external auditor. Additional audit scope would likely require a separate engagement (and cost) from the specific scope of the annual financial statement audit, for which the District has entered into a multi-year, fixed-price contract.

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 Golf Course 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 FY 2020-2021 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.

Management Response:

All FY2020/21 capital and construction-in-process items were reviewed by management and the auditor and concluded that capitalization was appropriate.

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.

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)

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.

Management Response:

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

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

Staff notes that in following up with both the external auditor and the District’s legal counsel, the comments attributed to both in this Audit Committee recommendation

are taken out of context and should not be viewed as concurrence with the Audit Committee's position.

4. Beginning in FY 2018-2019 investment income was credited to the General Fund instead of other funds which had cash deposits at LGIP. This caused the General Fund's opening balance in the FY 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 FY 2018-2019.

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.

Management Response:

The accounting for investment income has been modified beginning with the 2021/22 (current) fiscal year. This change in methodology is consistent with best management practices and, staff believes, is more closely aligned with the implied goal of the Audit Committee's recommendation.

Staff does not concur with the Audit Committee's recommendation to record prior period adjustments related to past practice of allocating investment earnings.

Simply stated, the District's past practice was to record and track investments in LGIP and the District's investment portfolio "by fund." Accordingly, individual funds were credited with investment earnings based on the interest received by investments held by each individual fund. Under this approach, the General Fund was historically credited with interest earnings from pooled cash within the District's governmental funds.

Beginning July 1, 2021, management modified the methodology for allocating investment earnings. Consistent with best management practices, all available cash on hand is pooled for investment purposes. Individual investments are not recorded, or tracked, by fund, but rather investments are managed under a pooled portfolio, with interest earnings allocated to each of the District's individual funds based on each fund's proportional share of cash balances available for investment.

5. 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 preliminary stage activities, 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 preliminary stage activities, repairs and maintenance is recommended for all funds.** This will allow for cross referencing the expense items budgeted within Services and Supplies.

Management Response:

Management does not concur with the full extent of this recommendation, and this issue warrants Board discussion.

Management concurs, and has implemented, budgeting and accounting practice of reflecting all capital maintenance expenses as operating costs within the District's budget and financial statements. Specifically, items to be capitalized are budgeted as capital outlay within the District's budget, and items that are deemed capital maintenance and repairs (or otherwise do not meet the District's capitalization criteria) are budgeted and accounted for within each fund's operating budget.

However, the presentation of these items within the District's overall multi-year capital plan is not only consistent with current Board Policy 13.1/ Practice 13.2, but also assists in identifying individual projects, with varying levels of funding requirements, all related to the maintenance and replacement of the districts, facilities, infrastructure, and assets.

Notwithstanding, management is developing improved presentation and reporting of the different elements contained in the capital plan for improved transparency and ease of understanding.

Lastly, management does not concur with the recommendation to reflect all of the maintenance and repair items in a separate line item within the District's financial statements (specifically, Statement of Income, Expense and Change in Net Position). While these items are presently reflected in a single account object code (7505) within the budget and general ledgers, these items are more appropriately reflected in the account codes appropriate for the "type" of expenditure (example: computer equipment, professional services, etc.). Moreover, establishing a separate line item within the District's formal financial statements, as recommended by the Audit Committee, is contrary to GAAP/GASP requirements for these type of expenditures.

(Note: In the context of this discussion, it is important to clarify that, with the transition to Enterprise Fund accounting for the District's Community Services and Beach funds, there is no longer any formal distinction between utility and venue "operating budgets" and "capital budgets." All of the revenues and expenditures for each fund are reflected in a single fund (or sub-fund) budget that includes operating, capital and debt line items).

III. ALTERNATIVES

This report recommends that the Board of Trustees consider management's response to each of the Audit Committee's Annual Report recommendations prior to considering formal Board action.

As an alternative to considering each recommendation individually prior to any Board action, the Board could consider:

- 1) Accepting all of the recommendations in the Audit Committee's Annual Report, as recommended by the Audit Committee, or
- 2) Take no action on the recommendations contained within the report, and consider receiving the report and directing the Audit Committee to return to the Board of Trustees with a specific recommendation related to scope and cost of additional audit work to expand the external auditor's review of the District's internal controls.

CALENDAR 2023

JANUARY

SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

FEBRUARY

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

MARCH

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

APRIL

SUN	MON	TUE	WED	THU	FRI	SAT
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

MAY

SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

JUNE

SUN	MON	TUE	WED	THU	FRI	SAT
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

JULY

SUN	MON	TUE	WED	THU	FRI	SAT
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

AUGUST

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

SEPTEMBER

SUN	MON	TUE	WED	THU	FRI	SAT
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

OCTOBER

SUN	MON	TUE	WED	THU	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

NOVEMBER

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

DECEMBER

SUN	MON	TUE	WED	THU	FRI	SAT
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

MEMORANDUM

TO: Audit Committee

FROM: Paul Navazio
Director of Finance

SUBJECT: Verbal Update from DavisFarr, LLP (Auditors) on Financial Audit of Fiscal Year Ending June 30, 2022.

DATE: September 28, 2022

I. BACKGROUND

The Audit Committee is scheduled to receive a verbal update from Jennifer Farr, Partner, DavisFarr, LLP regarding the schedule and work plan for the audit of the District's financial statements for the fiscal year ended June 30, 2022.

DavisFarr, LLP was selected to serve as the District's Independent Auditor and was awarded a five-year contract in March of 2021. This year represents the second year that DavisFarr, LLP will be conducting the audit of the District's financial statements.

Attachments:

- 1) Engagement Letter: Audit of the financial statements for the fiscal year ended June 30, 2022 (May 23, 2022).
- 2) Schedule/Work Plan for the FY2021/22 audit of financial statements (presented to Audit Committee at meeting of June 16, 2022)
- 3) Communication to Audit Committee from Independent Auditor, DavisFarr, LLP.

May 5, 2022

**Incline Village General Improvement District
Attn: Audit Committee
893 Southwood Boulevard
Incline Village, NV 89451**

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide the Incline Village General Improvement District (the "Entity").

The Entity has requested that we audit the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Entity, as of June 30, 2022, and for the year then ended and the related notes, which collectively comprise the Entity's basic financial statements.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and, if applicable, in accordance with Government Auditing Standards, and/or any state or regulatory audit requirements will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Accounting principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information ("RSI") such as management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Employer Required Contributions to Defined Contribution Multi-Employer Plans
3. Budgetary Comparison Schedules

Supplementary information other than RSI will accompany the Entity's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

1. Budgetary Comparison Schedules (Governmental and Enterprise Funds)

Also, the document we submit to you will include the following other additional information that will not be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. Introductory Information
2. Statistical Information

Auditor Responsibilities

We will conduct our audit in accordance with GAAS and in accordance with Government Auditing Standards. As part of an audit in accordance with GAAS and in accordance with Government Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and in accordance with Government Auditing Standards.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the Entity's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Management Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters, including the Entity's Policies, Practices and procedures related to financial reporting;
 - ii. Additional information that we may request from management for the purpose of the audit;
 - iii. Unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence.
 - iv. A written acknowledgement of all the documents that management expects to issue that will be included in the annual report and the planned timing and method of issuance of that annual report; and
 - v. A final version of the Annual Comprehensive Financial Report (including all the documents that, together, comprise the report) in a timely manner prior to the date of the auditor's report.
- d. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by us;
- e. For identifying and ensuring that the Entity complies with the laws and regulations applicable to its activities including the Entity's policies, practices and procedures related to financial reporting;
- f. For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
- g. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;

- h. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
- i. For informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
- j. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management, written confirmation concerning representations made to us in connection with the audit.

Nonattest Services

We agree to perform the following nonattest services:

- Propose adjusting or correcting journal entries detected during the audit, if applicable, to be reviewed and approved by the Entity's management.
- Word process the financial statements using information provided by management.

We will not assume management responsibilities on behalf of the Entity. However, we will provide advice and recommendations to assist management of the Entity in performing its responsibilities.

The Entity's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Our responsibilities and limitations of the nonattest services are as follows:

- We will perform the services in accordance with applicable professional standards
- The nonattest services are limited to the services previously outlined. Our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or assuming management responsibilities, including determining account coding and approving journal entries.

Reporting

We will issue a written report upon completion of our audit of the Entity's basic financial statements. Our report will be addressed to the Board of Trustees of the Entity. Circumstances

may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s) to our auditor's report, or if necessary, withdraw from the engagement. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

In accordance with the requirements of Government Auditing Standards, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

Engagement Fees

We estimate that our fixed fees for the services previously outlined will be \$49,000.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity's records and, where applicable, upon the Entity's personnel providing the level of assistance identified in the "prepared by client" request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with the Audit Committee and management and arrive at a new fee estimate as soon as reasonably practicable.

Other Engagement Matters

During the course of the engagement, we may communicate with the Audit Committee or Entity personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Enclosed, as required by *Government Auditing Standards*, is a copy of the report on the most recent peer review of our firm.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

Jennifer Farr is the engagement partner responsible for supervising the engagement and signing the report.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management or the Audit Committee, either orally or in writing.

The Audit Committee and management agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

We agree to retain our audit documentation or work papers for a period of at least seven years from the date of our report.

At the conclusion of our audit engagement, we will communicate to the Audit Committee and the Board of Trustees the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement is the property of Davis Farr LLP and constitutes confidential information. However, we may be requested to make certain audit documentation available to regulatory agencies pursuant to authority given to it by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of Davis Farr LLP's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to regulatory agencies. The regulatory agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the basic financial statements including our respective responsibilities.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement.

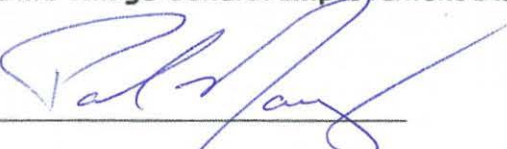
Very truly yours,



Jennifer Farr, CPA
Davis Farr LLP


The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

Incline Village General Improvement District

By 

Paul Navazio, Director of Finance

Date 5/23/22

By 

Ray Tulloch, Chair of Audit Committee

Date 5/23/22

INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
Audit Work Plan
Fiscal Year Ending June 30, 2022

The following work plan is subject to modification but represents the work plan and milestones for the completion of the annual financial statement audit.

Audit Committee Meeting
 IVGID Finance staff
 Davis Farr

Date	Task Assigned To	Task
March 15, 2022	Audit Committee	Meeting #1 with auditors and staff to discuss scope and timing of audit
April 6, 2022	Davis Farr	Draft audit engagement letter delivered
April 24, 2022	Davis Farr	Provide interim audit request list to Finance staff
May 23, 2022	Finance staff	Upload interim audit request items to FTP site
May 23, 2022	Davis Farr	Begin interim audit procedures
May 24, 2022	Davis Farr	Planning meeting with Finance staff
June 17, 2022	Davis Farr	Provide final audit request list and confirmation instructions to Finance staff
June 30, 2022	Finance staff	Due date for returning confirmation requests to Davis Farr
July 30, 2022	Finance staff	Accounts Payable Cut-off
August 30, 2022	Finance staff	Complete capital project closeouts and depreciation entries
Late Aug 2022	Audit Committee	Meeting #2 to discuss progress of year end close, issues identified during interim audit, complex accounting issues, and review final audit timeline
September 30, 2022	Finance staff	Upload trial balance and final audit request items to FTP site
October 3, 2022	Davis Farr	Begin final audit procedures off-site
October 10, 2022	Davis Farr	Continue final audit procedures on-site
October 17, 2022	Davis Farr	Status meeting with Finance staff
October 21, 2022	Finance staff	Draft #1 of financial statements due to Davis Farr (Financial Section only)
October 28, 2022	Davis Farr	Status meeting with Finance staff
October 28, 2022	Davis Farr	Review comments on Draft #1 and draft SAS letters due to Finance staff
November 4, 2022	Finance staff	Draft #2 of financial statements due to Davis Farr (inclusive of Introductory Section, MD&A, and Statistical Section)
Early November	Finance staff	Mailout of draft reports to Audit Committee
Mid of November	Audit Committee	Meeting #3 to review draft reports and results of audit
By Nov 30, 2022	Davis Farr	Finalize audit opinion and reports after Finance staff makes any necessary changes as a result of audit committee meeting
December	Davis Farr	Present final reports to Board of Trustees

September 12, 2022

Audit Committee
Incline Village General Improvement District
Incline Village, Nevada

This letter is provided in connection with our engagement to audit the financial statements of the Incline Village General Improvement District ("District") as of and for the year ended June 30, 2022. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit, including significant risks we have identified.

Our Responsibilities

As stated in our engagement letter dated May 5, 2022, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the entity's Annual Comprehensive Financial Report ("ACFR") includes only the information identified in our report. We have no responsibility for determining whether the Introductory Information, the Statistical Information, and the Continuing Disclosure Section of the ACFR is properly stated. We require that we receive the final version of the ACFR in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Timing of Audit

We performed the interim audit procedures in May 2022 and plan to perform our final audit examination in October 2022. We will present the audit reports and results of the audit to the Audit Committee at the completion of the audit.

Audit Risk Areas

In addition to our standard audit approach, our engagement team plans to expand our testing in the following areas:

- Risk of errors implementing new lease accounting standard: We will review the District's inventory of leases, review a sample of lease agreements, and test the calculations of the lease transactions. We will ensure the District's lease disclosure footnotes are accurate and complete in accordance with the new standard.
- Risk of errors recording capital assets: Due to the materiality of capital asset transactions, we will select a sample of at least 65% of outstanding construction projects and meet with District personnel to determine the status of the project. We will select a sample of project expenses and review the transactions to ensure they meet the criteria for capitalization.
- Risk of errors in fund financial reporting: Due to changing the presentation of certain governmental fund types to enterprise fund types as of July 1, 2021, we will ensure the net position/fund balance at the beginning of the year is correctly stated and material capital assets and long-term liabilities are properly included in the enterprise fund financial statements and removed from governmental activities.

Fraud Inquiries

Professional auditing standards require that, as a part of our audit, we inquire of those in governance to ascertain whether or not the Audit Committee (the "Committee") has knowledge of matters that might have a bearing on the auditor's risk assessment for the annual audit of the District's financial statements.

Examples of these matters are:

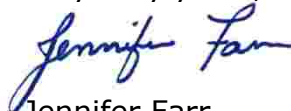
- Known or suspected instances of employee fraud
- Areas in which the internal controls of the District are thought by the Committee to be weak
- Known or suspected misstatements in the accounting records of the District
- Known or suspected use of improper accounting practices by the District
- Any awareness of pressure upon the District or District management with respect to achieving certain financial results
- Matters that warrant particular attention during the audit
- Information about unusual transactions or other matters relevant to the audit

Generally, the scope of the audit is limited to *matters involving amounts that would be significant to the financial statements of the District taken as a whole*. If additional time is required to respond to the concerns of the Committee, we will estimate for the District the costs involved.

This information is intended solely for the information and use of the Audit Committee and Management of the Incline Village General Improvement District and is not intended to be and should not be used by anyone other than these specified parties.

If any member of the committee has information relevant to our audit (matters involving amounts that would be significant to the financial statements of the District taken as a whole), please contact the undersigned at (949) 783-1740 or JFarr@davisfarr.com.

Very truly yours,



Jennifer Farr
Davis Farr LLP

MEMORANDUM

TO: Audit Committee

FROM: Paul Navazio
Director of Finance

SUBJECT: Verbal Update from DavisFarr, LLP (Auditors) on Supplemental Engagements.

DATE: September 28, 2022

I. BACKGROUND

DavisFarr, LLP has been engaged by the Audit Committee to perform two supplemental engagements that fall outside the scope of the audit of the District's financial statements. These include:

- A review of purchasing and contract activity for compliance with applicable policies and procedures, and
- A review of capital asset accounting in relation to applicable policies and procedures.

This agenda item has been prepared to provide the Audit Committee with a verbal update on the status of these two supplemental engagements.

Attachments:

- 1) Purchasing/Contracts: Engagement Letter/Agreed Upon Procedures
- 2) Capitalization of Assets: Engagement Letter/Agreed Upon Procedures

May 5, 2022

Incline Village General Improvement District
Attn: Audit Committee
893 Southwood Boulevard
Incline Village, NV 89451

We are pleased to confirm our understanding of the additional services we are to provide for the Incline Village General Improvement District ("District"). This letter will confirm the nature and limitations of the services we will provide and the various responsibilities and other terms of the engagement.

We agree to apply procedures to the District's vendor contracts for the fiscal year ended June 30, 2022. Management is responsible for complying with the District's Purchasing Procedures ("Policies").

The Audit Committee has agreed to and acknowledged that the procedures to be performed are appropriate to meet the intended purpose of the engagement to assist the District in evaluating compliance with the Purchasing Procedures for the fiscal year ended June 30, 2022. The procedures we will perform may not address all the items of interest to a user of our report and may not meet the needs of all users of our report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

These agreed-upon procedures are included on the attached schedule. These procedures will be applied for the purpose of reporting our findings in regard to the results of the procedures performed as compared to the Policies. The procedures we will perform are for the intended use of the following specified parties: the Board of Trustees, the Audit Committee, and Management of the Incline Village General Improvement District.

We will conduct our engagement in accordance with the attestation standards for agreed-upon procedures engagements established by the American Institute of Certified Public Accountants. The agreed-upon procedures are not designed to constitute an examination or a review of the subject matter. Therefore, we will not express an opinion or a conclusion on the subject matter. We have no obligation to perform any procedures beyond those agreed to as enumerated in this letter of engagement. However, the procedures may be expanded or modified by mutual agreement with the Audit Committee during the engagement. If additional time is necessary as a result of the modified procedures, we will discuss it with the Audit Committee and management and arrive at a new fee estimate as soon as reasonably practicable. If, for any reason, we are unable to complete the procedures, we will not issue a report as a result of this engagement.

At the conclusion of our engagement, we will request certain written representations from management about the subject matter information and related matters. We will issue a written report listing the agreed-upon procedures performed and our related findings. This report will be intended for use by and restricted to the use of the specified parties as identified above, and our report will contain such restricted use language.

We plan to begin our procedures in June 2022. Our fees will be billed at the hourly rates in our proposal for audit services dated December 14, 2020 which range from \$90-\$180 per hour based on the personnel used. We will also bill the District for any travel costs incurred, if

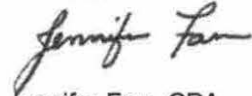
applicable. We estimate the fees for this engagement will range from \$6,000-\$10,000 based on the number of contracts tested.

Jennifer Farr is the engagement partner for the services specified in this letter. Her responsibilities include supervising Davis Farr LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the agreed-upon procedures report.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our engagement including our respective responsibilities. If you have any questions, please let us know.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

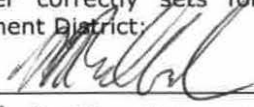
Very truly yours,



Jennifer Farr, CPA
Partner

RESPONSE:

This letter correctly sets forth the understanding of the Incline Village General Improvement District:

By:  _____

Title: AUDIT COMMITTEE CHAIR

Date: 3/23/22

Procedures to be Performed

1. We will obtain an understanding of the District's policies, practices and procedures related to Purchasing and Contracts during the fiscal year ended June 30, 2022 including *Board Policy 3.1.0*, *Board Practice 13.2.0*, and *Policies and Procedures Manual for Accounting & Financial Control*. We will summarize the purchasing policies, practices and procedures in our report.
2. We will obtain general ledger detail of all costs incurred from July 1, 2021 through April 30, 2022. We will summarize transactions by vendor. We will provide statistical information about the population of vendor transactions in our report. We will exclude vendors paid less than \$5,000 from our testing population. We will exclude vendors not subject to the District's purchasing policies (e.g., utility providers, employee benefit providers, insurance providers) from our testing population. We will list those vendors in our report.
3. We will select a sample of 25 vendors for additional testing. We will exclude vendors identified in procedure 2. We will select the top 5 vendors in terms of total amount paid during the period and 20 vendors selected randomly from the list of vendors paid during the year. We will obtain purchasing documentation, contracts, change orders, and a sample of payments for each of the 25 vendors selected.
4. We will test the 25 vendors for the following attributes:
 - a. Competitive bidding was obtained, as required by the policy
 - b. Contract was approved in accordance with the policy
 - c. The Board approved the contract in accordance with the policy
 - d. Total payments made under the contract did not exceed the contract amount (this attribute will include reviewing payments since the inception of the contract through April 30, 2022).
 - e. Change order, if applicable, was approved in accordance with the policy
 - f. Change order, if applicable, was approved prior to the date when the authorized contract amount including Board approved contingencies was exceeded
 - g. We will select five invoices from each vendor and test for the following attributes:
 - i. Invoice was for goods or services provided during the period of performance noted in the contract
 - ii. Invoice was approved for payment by an individual who has the appropriate spending authority
 - iii. Invoice was approved by an individual knowledgeable of the goods or services provided
 - iv. If the individual who approved the invoice is still employed by the District, we will obtain written representations from the employee that the goods or services billed were provided or received
 - v. If the invoice is for a service, we obtained documentation for all statement of work task orders billed
 - vi. Invoiced amounts were consistent with the amounts and terms noted in the agreement
5. We will request written representations from the District's Management stating that the accounting records we examined are accurate.
6. We will prepare a report for the District that summarizes the procedures and results of the procedures. We will include any recommendations for improvements to the District's policies or practices.

7. We will meet with Management and the Audit Committee to report on the results of our procedures prior to finalization of our report.

May 15, 2022

Incline Village General Improvement District
Attn: Audit Committee
893 Southwood Boulevard
Incline Village, NV 89451

We are pleased to confirm our understanding of the additional services we are to provide for the Incline Village General Improvement District ("District"). This letter will confirm the nature and limitations of the services we will provide and the various responsibilities and other terms of the engagement.

We agree to apply procedures to the District's capitalized assets for the fiscal year ended June 30, 2022. The District is responsible for complying with the District's Board of Trustee's Policies and Practices ("Policies").

The Audit Committee has agreed to and acknowledged that the procedures to be performed are appropriate to meet the intended purpose of the engagement to assist the District in evaluating compliance with the Board of Trustee's Policies for the fiscal year ended June 30, 2022. The procedures we will perform may not address all the items of interest to a user of our report and may not meet the needs of all users of our report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

These agreed-upon procedures are included on the attached schedule. These procedures will be applied for the purpose of reporting our findings in regard to the results of the procedures performed as compared to the Policies. The procedures we will perform are for the intended use of the following specified parties: the Board of Trustees, the Audit Committee, and Management of the Incline Village General Improvement District.

We will conduct our engagement in accordance with the attestation standards for agreed-upon procedures engagements established by the American Institute of Certified Public Accountants. The agreed-upon procedures are not designed to constitute an examination or a review of the subject matter. Therefore, we will not express an opinion or a conclusion on the subject matter. We have no obligation to perform any procedures beyond those agreed to as enumerated in this letter of engagement. However, the procedures may be expanded or modified by mutual agreement with the Audit Committee during the engagement. If additional time is necessary as a result of the modified procedures, we will discuss it with the Audit Committee and management and arrive at a new fee estimate as soon as reasonably practicable. If, for any reason, we are unable to complete the procedures, we will not issue a report as a result of this engagement.

At the conclusion of our engagement, we will request certain written representations from management about the subject matter information and related matters. We will issue a written report listing the agreed-upon procedures performed and our related findings. This report will be intended for use by and restricted to the use of the specified parties as identified above, and our report will contain such restricted use language.

We plan to begin our procedures in August 2022 after the year end accruals and accounting entries are recorded to close the fiscal year ended June 30, 2022. Our fees will be billed at the hourly rates in our proposal for audit services dated December 14, 2020 which range from

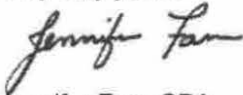
\$90-\$180 per hour based on the personnel used. We will also bill the District for any travel costs incurred, if applicable. We estimate the fees for this engagement will range from \$6,000-\$10,000 based on the number of transactions tested.

Jennifer Farr is the engagement partner for the services specified in this letter. Her responsibilities include supervising Davis Farr LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the agreed-upon procedures report.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our engagement including our respective responsibilities. If you have any questions, please let us know.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Very truly yours,



Jennifer Farr, CPA
Partner

RESPONSE:

This letter correctly sets forth the understanding of the Incline Village General Improvement District.

By:  _____

Title: AUDIT COMMITTEE CHAIR

Date: 5/23/22

Procedures to be Performed

1. We will obtain an understanding of the District's policies, practices and procedures for capitalizing assets during the fiscal year ended June 30, 2022. For purposes of these procedures, Board Policy 8.1.0 updated and approved in January 2022 will be effective for costs incurred or assets received after January 1, 2022. We will include the following policies and practices as exhibits in our report:
 - Board Policy 8.1.0 (updated January 2022)
 - Board Policy 8.1.0 (effective July 2016)
 - Board Policy 9.1.0 (effective July 2016)
 - Board Practice 2.9.0 (effective July 2016)
2. We will compare the Board of Trustee's policies and practices to the District's *Policies and Procedures Manual for Accounting & Financial Control* and provide a listing of any inconsistencies. We will obtain the Government Finance Officers Association capital asset best practice policies and identify any differences with the Board of Trustee's policies and practices.
3. We will obtain detail of all capitalized costs for the fiscal year ended June 30, 2022. We will summarize the expenses by project, type of asset, and transaction amount.
4. For the period July 1, 2021 through December 31, 2021, we will obtain supporting documentation for all capitalized costs less than \$5,000. We will determine if transactions met the capitalization requirements of Board Policies 8.1.0 and 9.1.0 and Board Practice 2.9.0 as follows:
 - a. Amount capitalized agreed to supporting documentation
 - b. Initial useful life was more than two years
 - c. Capitalized item met the \$5,000 capitalization threshold
 - d. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
5. For the period January 1, 2022 through June 30, 2022, we will obtain supporting documentation for all capitalized costs less than \$10,000. We will determine if transactions met the capitalization requirements of Board Policy 8.1.0 as follows:
 - a. Amount capitalized agreed to supporting documentation
 - b. Initial useful life was three years or more
 - c. Capitalized item met the \$10,000 capitalization threshold (\$25,000 for certain assets)
 - d. If capitalization threshold was applied to a network or group of items:
 - i. Asset was part of a group purchase for similar assets (example: golf cards when they are components of a fleet; banquet facility furnishings)
 - ii. Item is a component of a system or network (components of a computer/telephone network; snow-making system)
 - iii. District documented justification for grouping the assets
 - e. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
6. We will select a random sample of 30 transactions greater than \$5,000 for the period July 1, 2021 through December 31, 2021 and greater than \$10,000 for the period January 1, 2022 through June 30, 2022 (15 transactions for each period). We will determine if transactions met the capitalization requirements as follows:
 - a. Amount capitalized agreed to supporting documentation

- b. Initial useful life was two (or three) years or more, as applicable to the period
 - c. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
 - d. Item was not a feasibility study for purposes of determining whether or not to move forward with a project
 - e. Transaction was not related to master plan costs that are not specific to a capital project
7. For projects exceeding \$50,000 for the fiscal year ended June 30, 2022, we will perform the following procedures:
- a. Review the Board approved capital project including any capital project summaries to obtain information about the project including the approved budget, the nature of the project, and the expected completion date of the project.
 - b. Meet with the project manager to obtain additional information about the nature of the project
 - c. We will determine if the capital project met the capitalization requirements as follows:
 - i. Initial useful life is three years or more
 - ii. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
 - iii. Item was not a pre-planning activity or feasibility study
 - iv. Transaction was not related to master plan costs that are not specific to a capital project
 - d. If the project is a replacement project, determine if the replaced asset was removed from the accounting system
8. We will request written representations from the District's Management stating that the accounting records we examined are accurate.
9. We will prepare a report for the Audit Committee that summarizes the procedures and results of the procedures. We will include any recommendations for improvements to the District's policies, practices or procedures.
10. We will meet with Management and the Audit Committee to report on the results of our procedures prior to finalization of our report.

MEMORANDUM

TO: Audit Committee

FROM: Paul Navazio
Director of Finance

SUBJECT: Verbal Update from IVGID Staff – Internal Controls

DATE: September 28, 2022

I. BACKGROUND

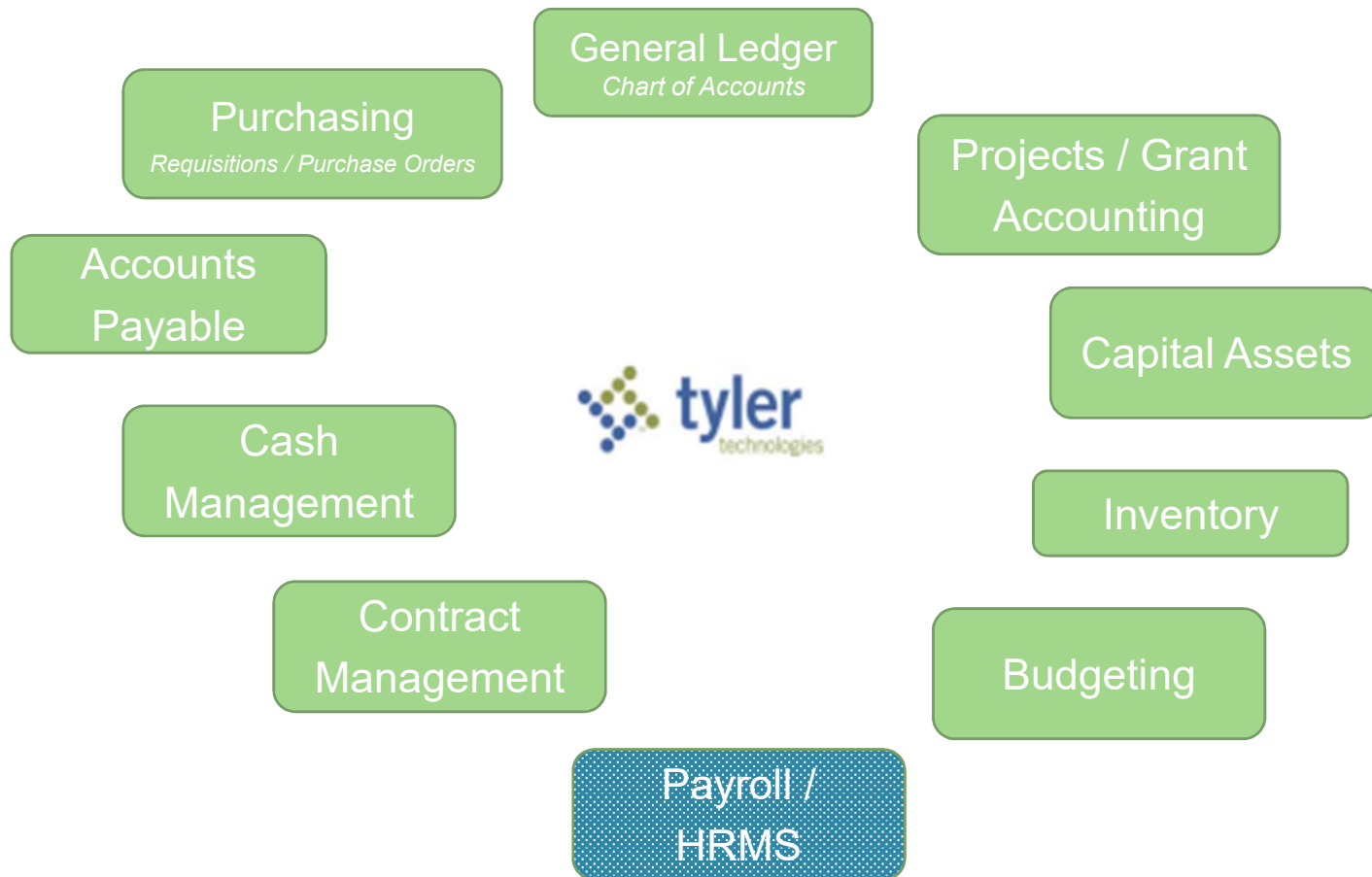
This agenda item has been prepared to provide the Audit Committee with a verbal update on the status of selected ongoing initiatives aimed at enhancing internal controls. These include:

- Implementation of the entity-wide Tyler/Munis Financial System,
- Update of the District’s internal Accounting and Finance Manual, and
- Adoption of formal District Purchasing Policies and update of related purchasing procedures.

Attachments:

- 1) Tyler/Munis Financial System Overview
- 2) Excerpt - Draft Accounting and Finance Manual (Table of Contents)
- 3) Purchasing Policies
 - a. Purchasing Policy Matrix
 - b. Policy 20.1.0 – Purchasing Policy; Goods and Services (7/27/22)
 - c. Policy 21.1.0 – Purchasing Policy: Public Works Contracts (7/27/22)

Tyler/Munis Financial System Overview



Incline Village General Improvement District **DRAFT** Accounting and Finance Manual _____ 2022



4.5	Arrangement of Accounts	25
4.6	General Ledger Activity	26
4.6.1	Posting Monthly Activity to the General Ledger	26
4.6.2	Documentation of Entry	26
4.6.3	Authorization of Entries	26
4.7	Adequate General Ledger Maintenance	27
4.7.1	Performance of Reconciliations	27
4.8	Financial Information Adequacy	27
5	Investments	28
5.1	Investment of Idle Funds	28
5.1.1	Investment Policy	28
5.1.2	Authorization of Investment Vehicles	28
5.1.3	Authorization of Investments	28
5.1.4	Investment Purchases	29
5.1.5	Investment Sales	29
5.1.6	Investment Sales Gain or Loss	29
5.1.7	Investment Sales Proceeds	29
5.1.8	Investment Results Reports	29
5.1.9	Reconciliation of Investment Accounts	29
5.1.10	Investment Account Balances Agreed to Bank/Broker Statements	29
5.2	Safeguarding of Investments	30
5.2.1	Investments Held by Authorized Agent	30
5.2.2	Investment Certificate or Safekeeping Receipt	30
5.2.3	Physical Safeguards	30
5.2.4	Investment Storage Facility	30
5.3	Return on Investment	30
5.3.1	Interest Income	31
5.3.2	Premium/Discount on Bonds and Notes Receivable	31
5.3.3	Investment Income Schedule	31
5.4	Cash Management	31
5.4.1	Maximizing Return on Idle Funds	31
5.4.2	Expediting Cash Receipts	32
5.4.3	Collection Practices	32

5.4.4	Disbursements	32
5.4.5	Cash Budgets.....	32
6	Liabilities	33
6.1	Accounts Payable	33
6.1.1	Establishment Of Accounts Payable.....	33
6.1.2	Return of Goods to Suppliers.....	36
6.1.3	Purchase Cut-Off	37
6.1.4	Petty Cash Program.....	37
6.1.5	Disbursement from Bank Accounts	40
6.1.6	Electronic Payment Systems	41
6.2	Accrued Liabilities	43
6.2.1	Monitoring of Accrued Liabilities	43
6.2.2	Reconciliations And Accuracy	44
6.2.3	Deferred Revenue as a Current Liability	45
6.3	Notes Payable and Long-Term Debt	45
6.3.1	Financial Resource Requirements.....	45
6.3.2	Assumption and Authorization of Debt	47
6.3.3	Safekeeping Of Debt Agreements.....	47
6.3.4	Record of Debt	48
6.3.5	Timely Interest Expense Accruals	49
6.3.6	Debt Payments.....	49
6.3.7	Bond Discounts and Premiums	49
6.3.8	Current and Long-Term Debt Summary.....	50
6.3.9	Debt Covenants.....	51
7	Payroll	52
7.1	Payroll... ..	52
7.2	Wages and Salaries	53
7.2.1	Changes in Payroll Data	54
7.2.2	Authorization of Changes in Payroll Data	54
7.2.3	Comparison of Payroll Data to Personnel Files.....	54
7.2.4	Check Run Process	54
7.2.5	Out-of-cycle Checks	54
7.3	Timekeeping.....	54

7.3.1	Maintenance of Time Records	54
7.3.2	Overtime Approval.....	55
7.3.3	Reconciliation of Payroll to Supporting Records.....	55
7.3.4	Payroll Calculations.....	55
7.4	Payment To IVGID Employees.....	55
7.4.1	Distribution of Payroll	55
7.4.2	Receipt Log for Payroll Checks	55
7.4.3	Comparison of Employee Check Endorsements to Signatures on File	55
7.4.4	Reconciliation of Payroll Bank Accounts.....	55
7.5	Payroll Deductions	55
7.5.1	Recording of Payroll Deductions.....	56
7.5.2	Independent Check of Payroll Deductions.....	56
7.5.3	Review of Payroll Deduction Payments to Third Parties	56
7.6	Quarterly And Year-End Reports.....	56
7.6.1	Quarterly and Year-end Reports.....	56
8	Purchasing	57
8.1	Determination Of Needs.....	57
8.1.1	Methods to Determine Needs	57
8.1.2	Preparation of Requisitions for Routine Goods and Services.....	57
8.1.3	New Vendors.....	57
8.1.4	Purchase Order Processing	58
8.1.5	Bid Processes.....	58
8.2	Placement Of Orders.....	59
8.2.1	Establishment of Purchasing Guidelines.....	59
8.2.2	Entering Into Purchase Commitments.....	59
8.2.3	Preparation of Purchase Orders	60
8.2.4	Multiple-Copies of Purchase Orders.....	60
8.2.5	Review of Unmatched Purchase Commitments	60
8.3	Cellular Telephone Use	60
8.3.1	Establishment of service	60
8.4	Receipt And Acceptance of Purchases.....	61
8.4.1	Inspection of All Goods and Services	61
8.4.2	Proper Communication Between Departments	61

8.4.3	Receiving Documentation Sent to Accounting to be Filed	61
8.4.4	Inspection and Approval of All Services Received	61
8.4.5	Storing and Controlling of Goods.....	61
8.4.6	Recording month-end inventory.....	61
8.5	Return Of Goods to Suppliers	62
8.5.1	Shipment of Goods Back to Vendor	62
8.6	Tipping.....	62
8.6.1	Limitation of food tips.....	62
8.7	Bulk Purchases	62
8.7.1	Office Supplies	62
8.7.2	Janitorial Supplies	62
8.7.3	Fuel Purchases	62
8.7.4	Printers and copiers	62
8.7.5	Software licenses	62
9	Revenue Cycle.....	63
9.1	Customer Returns and Allowances.....	63
9.1.1	Written Authorization.....	63
9.1.2	Count and Examination of Returned Goods	63
9.1.3	Recording Returned Goods.....	63
9.1.4	Authorization of and Conditions for Allowances	63
9.1.5	Review of Returned Goods	63
9.2	Other Revenues	63
9.2.1	Deferred Income	64
9.2.2	Taxes and Assessments.....	64
9.3	Revenue Recognition	64
9.3.1	Revenues.....	64
9.3.2	Revenues Journal Review.....	64
9.3.3	Revenues Journal Posting to the General Ledger	64

PURCHASING POLICY MATRIX
Per Board Policy 20.1.0

	Under \$10,000	Between \$10,000 and \$50,000	Between \$50,000 and \$100,000	Over \$100,000
		<i>Informal Bid Solicitation</i>	<i>Formal Bid Solicitation</i>	<i>Formal Bid Solicitation</i>
Solicitation Method	<p>A competitive solicitation process is not required for the purchase of goods and/or general services estimated to cost \$10,000 or less in a single transaction.</p> <p><i>Nothing shall preclude District staff members from conducting price comparisons to ensure the best overall value is obtained.</i></p>	<p>May be procured by soliciting a minimum of two price quotations from sources capable of meeting the District's requirements under a resultant contract, <i>unless a more formalized method such as the use of a standard bidding template is prescribed by the General Manager or designated authorized representative</i></p>	<p>A competitive solicitation for goods and/or general services anticipated to cost between \$50,000.01 and \$100,000.00 shall be solicited as follows:</p> <p>Responses MUST be solicited from two or more prospective sources capable of providing the required goods and/or general services under a resultant contract.</p>	<p>A competitive solicitation for goods and/or general services anticipated to cost more than \$100,000 shall be solicited as follows:</p> <p>Responses MAY be solicited from two or more prospective sources capable of providing the required goods and/or general services under a resultant contract.</p>
Advertising			<p>The solicitation MAY be advertised in the manner prescribed in Section 2.1.2, Advertisement of Solicitation Opportunity.</p>	<p>The solicitation MUST be advertised in the manner prescribed in Section 2.1.2, Advertisement of Solicitation Opportunity.</p>
Contract Award				<p>If an invitation to bid is the solicitation method used to procure goods and/or general services anticipated to cost more than \$100,000, the following requirements shall apply.</p> <p>The contract must be awarded to the lowest responsive and responsible bidder. Such determination shall be made in accordance with the determining factors specific in NRS 332.065(2).</p> <p>An awarded contract must include a notice of written certification required pursuant to and in the manner prescribed by subsection 4 of NRS 332.065 (Boycott of Israel).</p>
Professional Services	<p>Professional services procured through a competitive solicitation process may be conducted by request for proposals, request for statement of qualifications, or other method allowable by NRS Chapter 332, so long as responding offerors are evaluated on their qualifications, experience and demonstrated competence.</p> <p>Competitive solicitations for professional services shall be conducted in a manner prescribed by the General Manager in the implementing administrative procedures. Such procedures shall be guided by the competitive solicitation and contract award thresholds prescribed in this policy.</p> <p>Professional services procured without a competitive solicitation process shall follow the requirements set forth in Subsection 3.2.1, Documentation and Approval Requirements for Purchases Excepted from Competitive Solicitation</p>			
Presumption of Competitive Solicitation	<p>In order to demonstrate the District's commitment to fair and open competition, it shall be presumed that competitive solicitations will be conducted whenever possible for goods or services that are otherwise exempt from bidding under NRS 332.</p> <p>Pre-approval by the authorized representative is required before any goods or services can be procured without a competitive solicitation process. Such authorization shall be prescribed in the implementing administrative procedures.</p>			



Purchasing Policy for Goods and Services Policy 20.1.0

1.0 Policy

This policy is cited as the “Incline Village General Improvement District Purchasing Policy” and is hereafter referred to as the “Purchasing Policy” or “policy.”

1.1 Purpose

The purposes of the Purchasing Policy (policy) are to define the purchasing system that is used for the procurement of goods and services (general services and professional services, unless specified) as authorized by the Nevada Revised Statutes; to provide for the fair and equitable treatment of all parties involved in the purchasing process; to obtain the highest possible value in exchange for public funds; to exercise positive financial control over purchases; and to safeguard the quality and integrity of the purchasing system.

1.2 Enabling Statute(s)

The Purchasing Policy is adopted pursuant to Chapter 332 of the Nevada Revised Statutes (NRS), cited as the Local Government Purchasing Act. Any purchase of goods and/or services as defined herein shall be made in compliance with the Local Government Purchasing Act or more restrictive requirements as may be adopted by the Incline Village General Improvement District Board of Trustees.

For goods and services purchases that utilize federal grant funding, the procurement standards required by Title 2, Subtitle A, Chapter II, Part 200, Subpart D, sections 200.318 to 327 (2 CFR 200.318 to 327) shall apply.

With the exception of Sections 1.3, 1.4, 1.5, and where specifically noted elsewhere, this policy shall not apply to the procurement of public works construction projects, which shall be governed by NRS Chapter 338.

1.3 Definitions

For the purposes of this policy and implementing administrative procedures, the following definitions shall apply:

- A. Authorized representative. Unless otherwise designated, the authorized representative is the person/position designated by the Board of Trustees (governing body) to be responsible for purchasing functions described or referenced herein. The



Purchasing Policy for Goods and Services Policy 20.1.0

- authorized representative of the District is the General Manager, who may delegate purchasing roles and responsibilities as allowed by and in accordance with this policy.
- B. Awarding body. The awarding body is the Board of Trustees or its authorized representative as defined and prescribed herein.
 - C. Competitive solicitation. A written statement that sets forth the requirements and specifications of a required purchase that can include an invitation to bid, request for proposals, request for statement of qualifications, request for quotations, or other acceptable methods in compliance with NRS Chapter 332.
 - D. Contract. A mutual, written understanding between two or more competent parties, whereby one party agrees to perform as defined in the contract and the other party agrees to compensation for the performance rendered in accordance with the contract conditions. Contract and agreement may be used synonymously, and a purchase order can be a legally binding contract if issued with the terms and conditions of a purchase transaction.
 - E. Contract amendment. An agreed upon modification to an existing and properly awarded contract. Contract amendments shall be approved by the appropriate awarding body based on the aggregate total of the contract, i.e., the initial contract plus each amendment.
 - F. Contract change order. A modification to an existing contract to add or deduct work or materials that does not increase the approved contract amount.
 - G. Contract contingency. A percentage amount, typically ten percent, which is recommended for approval to the awarding body at the time of contract award that is reserved for unforeseen conditions encountered during project delivery. A contract contingency cannot be used to increase the scope of a project (see contract amendment).
 - H. General services. Work performed or services rendered by independent contractors such as custodial services; building, equipment or other maintenance not classified as a public work; and machinery and equipment rental. General services are typically associated with operational work and involve physical skills.
 - I. Goods. Equipment, materials and supplies to be furnished or used by any department of the District, including items to be purchased by the District and furnished to contractors for use in public works projects.
 - J. Governing body. The governing body shall be the Board of Trustees.
 - K. Implementing administrative procedures. Written instructions and procedures approved by the General Manager that implement the prescriptions and requirements of this policy.
 - L. Lowest responsive and responsible bidder. A responsible bidder/proposer who submits a bid/proposal that is responsive to the solicitation requirements.



Purchasing Policy for Goods and Services Policy 20.1.0

- M. Professional services. Services performed by a person or firm engaged in a profession based on highly specialized and/or technical knowledge or skill such as accountants, attorneys, architects, engineers, and physicians. Professional services are most closely associated with consultants who produce reports, studies and plans/specifications.
- N. Sole Source. Sole source procurement means that only one source (vendor/supplier) exists to purchase the equipment, goods or supplies.
- O. State Contracts – Contracts entered into by the State of Nevada Purchasing Division which are located at <https://nevadaepro.com/bso/>. These contracts are eligible for use by the District pursuant to NRS §332 and §333.
- P. Surplus Personal Property. Equipment, materials and supplies that is no longer used or has become obsolete, to be sold, exchanged or donated in accordance with NRS Chapter 332.

1.4 Procurement Responsibilities

This section sets forth procurement responsibilities of Incline Village General Improvement District (IVGID or District) staff members.

1.4.1 General Manager

The General Manager, as the Board of Trustee’s authorized representative, or his/her designee, is responsible for the following procurement activities and functions:

- A. Adopting and keeping current administrative procedures that implement this purchasing policy and subsequent updates for consistency with NRS Chapter 332, or other changes in the law or revisions desired by the Board of Trustees.
- B. Overseeing and facilitating compliance with this policy, including:
 - 1) Exercising financial control over purchase transactions.
 - 2) Conducting competitive bidding and other forms of solicitation in the manner prescribed by [Article 2, Competitive Solicitation Requirements](#) of this policy.
 - 3) Awarding, recommending the award, and executing contracts in the manner prescribed by [Section 1.5, Contract Award Authority](#) of this policy.
 - 4) Staying informed of public procurement and market trends for effective procurement management.
 - 5) Prescribing and maintaining such forms as are necessary to conduct procurement processes compliant with this policy.
 - 6) Recommending updates to the purchasing policy for Board approval, as needed.



Purchasing Policy for Goods and Services Policy 20.1.0

- 7) Maintaining purchasing records and tracking expenditures associated with goods and services purchases.
- 8) Approve the sale, donation, or trade-in of surplus personal property as prescribed in NRS Chapter 332.

1.4.2 Department Directors

Each department director shall be responsible for ensuring that all departmental purchases are made in compliance with this policy and implementing administrative procedures, including:

- A. Preparing competitive solicitations appropriate to the procurement.
- B. Developing a good faith cost estimate of each procurement, planned or otherwise, to determine the appropriate solicitation procedure(s) whether competitively bid or sourced.
- C. Ensuring that the proper solicitation method is followed.
- D. Evaluating bids, proposals or price quotations received in accordance with the selection procedures appropriate to the method of solicitation.
- E. Ensuring that any contract or purchase order resulting from a solicitation process is approved and executed by the appropriate Awarding Body as defined herein.
- F. Ensuring that sufficient funds are appropriated to pay for a purchase.
- G. Ensuring that a contractor, consultant or vendor has met all District requirements pertinent to the purchase before goods are provided or services rendered. Such requirements may include, but are not limited to:
 - 1) Payment and/or performance bonds,
 - 2) Insurance certificates listing IVGID as an additional insured with incorporated endorsement pages, or
 - 3) Appropriate permits and/or licenses.
- H. Inspecting goods received to determine conformance with product specifications.
- I. Monitoring the performance of contractors, consultants and vendors to ensure compliance with contract requirements.
- J. Recommending and preparing contract amendments and change orders as necessary, and ensuring that such instruments are approved by the appropriate Awarding Body and that sufficient funds are appropriated to pay for the contract modification.
- K. Ensuring that due diligence is performed before determining that a purchase can proceed without a competitive solicitation process, provided that:
 - 1) The exception to a competitive solicitation is allowable under NRS Chapter 332 and is not otherwise excluded from exception by this policy.



Purchasing Policy for Goods and Services Policy 20.1.0

- 2) The exception is properly documented and approved by the authorized representative.
- 3) A resultant contract or purchase order is appropriately funded and approved by the appropriate awarding body.
- L. Keeping sufficient records of all departmental procurement process documentation, contracts and expenditures thereof, and ensuring that documentation is properly stored and filed in accordance with required recordkeeping procedures.
- M. Recommend the disposal of surplus personal property in accordance with NRS Chapter 332.

1.5 Contract Award Authority

The authority to approve and execute contracts that legally bind IVGID to the purchase of goods and/or services shall be vested in the Board of Trustees, or its authorized representative, as prescribed in this policy, subject to mandatory requirements of NRS Chapter 332 that may be adopted and which supersede IVGID policy prescription.

1.5.1 Board of Trustees

The Board of Trustees shall be the awarding body for any purchase of goods and/or services. For operational effectiveness and efficiency, business necessity or other purpose, the Board of Trustees, in its capacity as the governing body, may delegate the authority to award and execute contracts of any amount to the authorized representative. Such authority shall only be delegated as prescribed by this policy.

Until such time that economic conditions or other factors require a modification, the Board of Trustees shall approve any purchase for which the single transaction as defined herein exceeds \$100,000.

1.5.2 Delegation of Contract Award Authority

The following subsections establish the dollar threshold amounts and other requirements associated with the delegation of contract award authority.

1.5.2.1 Delegation by the Board of Trustees to the General Manager

To ensure efficient and effective business operation of the District, the General Manager, as the authorized representative of governing body, may award and



Purchasing Policy for Goods and Services Policy 20.1.0

execute contracts for the purchase of goods and/or services for which a single transaction does not exceed \$100,000.

Nothing in this section shall preclude the General Manager from requesting Board approval for contracts below this amount if deemed to be in the best interest of the District.

1.5.2.2 Delegation by the General Manager to District Staff Members

To ensure the efficient and effective business operation of the District, the General Manager may delegate contract award and/or execution authority granted by the Board of Trustees to the authorized representative. Such delegation shall be in writing and shall be reported to the Board of Trustees as an information item at the next regularly scheduled Board meeting.

1.5.2.3 Award Authority Determined by Single Transaction

For the purpose of determining the appropriate award authority, contract amounts shall be defined by what constitutes a single, or one transaction, as follows:

- A. One-time Purchase. Each discrete, one-time purchase that will not be duplicated in a fiscal year or fiscal years is a single transaction.
- B. As-needed or On-call Contracts. The contract term of an as-needed or on-call contract that may be required for recurring goods or services throughout a fiscal year, coupled with the total estimated value to be spent during the contract term, shall be considered a single transaction.
- C. Contract Amendments. A single transaction associated with a contract amendment shall be the sum total of the original contract amount of the amendment.
- D. Multi-year Contracts. A single transaction associated with a contract awarded for more than one year shall be the estimated sum total of the contract term, subject to the annual budget appropriation required specified in subsection 1.5.2.4.

1.5.2.4 Annual Budget Appropriation Required

For the purpose of complying with this policy, no contract for goods and/or services needed shall be awarded unless there exists an underlying budget appropriation in



Purchasing Policy for Goods and Services Policy 20.1.0

the fiscal year in which the contract is awarded, or an exception under NRS 354.626 or other law applies.

Contracts awarded in a fiscal year that are anticipated to extend into a subsequent fiscal year or years may be awarded by the appropriate awarding authority but shall be subject to the appropriation requirement specified herein. The appropriation requirements specified herein shall be incorporated in District contract templates.

For construction projects adopted pursuant to IVGID's five-year capital improvement program (CIP), annual appropriations shall be presumed for the anticipated duration of a project.

2.0 Competitive Solicitation

2.1 Competitive Solicitation Requirements

Any competitive solicitation required by this policy shall follow the requirements contained and referenced in this section.

2.1.1 Required Contents

Each competitive solicitation issued by IVGID shall include the following content:

- A. The minimum requirements that a successful responding offeror must meet for contract award.
- B. The method by which a contract will be awarded, i.e., to the lowest responsive and responsible bidder or based on factors in addition to price.
- C. Notice of the written certification required pursuant to subsection 4 of NRS 332.065 (Boycott of Israel), if applicable (see [Subsection 2.2.6.1, Additional Solicitation Requirements When Using an Invitation to Bid](#)).
- D. The period during which a notice of protest of a contract award may be submitted, if applicable (see [Subsection 2.2.6.1, Additional Solicitation Requirements When Using an Invitation to Bid](#)).

2.1.2 Advertisement of Solicitation Opportunity

When required by this policy, the advertisement of a solicitation opportunity shall be published as follows:



Purchasing Policy for Goods and Services Policy 20.1.0

- A. In a newspaper of general circulation in Washoe County at least once and not less than 7 days before the due date and time of the solicitation response.
- B. Posted on a secure website every day for not less than 7 days before the due date and time of the solicitation response, as applicable and required.

The advertisement must state:

- A. The nature of the contract to be awarded.
- B. Where plans and specifications are available, if any.
- C. The date and time which responses must be received by and opened, as applicable.
- D. Whether the written certification required by subsection 4 of NRS 332.065 is applicable.
- E. Other information pertinent to a contract to be awarded.

2.2 Competitive Solicitation Methods

Competitive solicitation authorization and methods required by this policy are established as follows.

2.2.1 Authorization to Issue Competitive Solicitations

The General Manager, as the District's authorized representative, shall be responsible for conducting competitive solicitations and ensuring compliance with the procurement methods required by this policy.

To ensure efficient and effective business operations, the General Manager may assign responsibilities associated with competitive solicitations to subordinate staff members. Depending on the complexity and/or the sensitivity of the procurement, the General Manager may request approval of the solicitation by the Board of Trustees prior to issuance, when in the best interests of the District.

2.2.2 Competitive Solicitation Dollar Thresholds

The Local Government Purchasing Act does not establish competitive solicitation thresholds below \$50,000. As a matter of prudence and best practice, this policy establishes such requirements in subsections 2.2.3 and 2.2.4 below.



Purchasing Policy for Goods and Services Policy 20.1.0

2.2.3 Purchase of Goods and General Services Up To \$10,000

A competitive solicitation process is not required for the purchase of goods and/or general services estimated to cost \$10,000 or less in a single transaction. However, nothing shall preclude District staff members from conducting price comparisons to ensure the best overall value is obtained.

2.2.4 Purchase of Goods and General Services Between \$10,000.01 and \$50,000.00 (Informal Solicitation Methods)

The purchase of goods and/or general services estimated to cost between \$10,000.01 and \$50,000.00 in a single transaction may be procured by soliciting a minimum of two price quotations from sources capable of meeting the District's requirements under a resultant contract, unless a more formalized method such as the use of a standard bidding template is prescribed by the General Manager or designated authorized representative.

2.2.4.1 Less Than Two Price Quotations Received in Response to Informal Solicitation

If at least two price quotations are solicited, and only one is received, the authorized representative may recommend approval of the purchase to the awarding body provided that appropriate written documentation is presented with the purchase request that justifies the selection.

2.2.4.2 No Preclusion for Advertisement of Solicitation Opportunity

Nothing in this section shall preclude the authorized representative from advertising a competitive solicitation opportunity for a goods and/or general services purchase within the dollar thresholds specified in this section if in the best interest of the District to do so.

2.2.5 Purchase of Goods and/or General Services Between \$50,000.01 and \$100,000.00 (Formal Solicitation Methods)

A competitive solicitation for goods and/or general services anticipated to cost between \$50,000.01 and \$100,000.00 shall be solicited as follows:

- A. Responses must be solicited from two or more prospective sources capable of providing the required goods and/or general services under a resultant contract.



Purchasing Policy for Goods and Services Policy 20.1.0

- B. The solicitation may be advertised in the manner prescribed in [Section 2.1.2, Advertisement of Solicitation Opportunity](#).

2.2.6 Purchase of Goods and/or General Services Greater Than \$100,000 (Formal Solicitation Methods)

A competitive solicitation for goods and/or general services anticipated to cost more than \$100,000 shall be solicited as follows:

- A. The solicitation must be advertised in the manner prescribed in [Section 2.1.2, Advertisement of Solicitation Opportunity](#).
- B. Responses may be solicited from two or more prospective sources capable of providing the required goods and/or general services under a resultant contract.

2.2.6.1 Additional Solicitation Requirements When Using an Invitation to Bid

If an invitation to bid is the solicitation method used to procure goods and/or general services anticipated to cost more than \$100,000, the following requirements shall apply.

- A. The contract must be awarded to the lowest responsive and responsible bidder. Such determination shall be made in accordance with the determining factors specific in NRS 332.065(2).
- B. An awarded contract must include a notice of written certification required pursuant to and in the manner prescribed by subsection 4 of NRS 332.065 (Boycott of Israel).
- C. The District shall give preference to the use of recycled products, as applicable and as specified in NRS 332.066.

2.2.6.2 Use of Solicitation Methods Other Than an Invitation to Bid

A competitive solicitation method other than an invitation may be used so long as the minimum requirements for a responding offeror are met ([Subsection 2.1.1, Required Contents](#)) are met.

2.2.6.3 Protest of Contract Award

A person or company who has submitted a response to a solicitation may submit a notice of protest regarding the award of contract in accordance with the requirements



Purchasing Policy for Goods and Services Policy 20.1.0

prescribed in NRS 332.068 or a successor provision or provisions. The General Manager, as the District's authorized representative, shall develop procedures for evaluating and responding to the protest of a contract award.

2.2.6.4 Rejection of Response(s) Received

A response to a competitive solicitation may be rejected if it is determined that any of the following circumstances apply:

- A. A submittal is non-responsive, or a responding offeror is non-responsible.
- B. The quality of goods or services offered does not conform to District requirements.
- C. The public interest would be served by such rejection.

The General Manager, as the District's authorized representative, shall be responsible for determining whether to reject a response or responses to a competitive solicitation in accordance with NRS 332.075 or successor provision(s). Depending on the nature of the rejection(s), the General Manager, in consultation with District counsel, may request Board authorization to reject a submittal or submittals.

2.2.7 Purchase of Professional Services

Contracts for professional services where highly specialized knowledge or technical know-how is required are not always adapted to award by competitive solicitation. District staff shall evaluate each purchase of professional services to determine whether a competitive solicitation process would serve the best interests of IVGID or whether such a process would be impractical.

2.2.7.1 Professional Services Procured Through a Competitive Solicitation Process

Professional services procured through a competitive solicitation process may be conducted by request for proposals, request for statement of qualifications, or other method allowable by NRS Chapter 332, so long as responding offerors are evaluated on their qualifications, experience and demonstrated competence. Competitive solicitations for professional services shall be conducted in a manner prescribed by the General Manager in the implementing administrative procedures. Such procedures shall be guided by the competitive solicitation and contract award thresholds prescribed in this policy.



Purchasing Policy for Goods and Services Policy 20.1.0

2.2.7.2 Professional Services Procures Without a Competitive Solicitation Process

Professional services procured without a competitive solicitation process shall follow the requirements set forth in [Subsection 3.2.1, Documentation and Approval Requirements for Purchases Excepted from Competitive Solicitation](#).

2.2.8 No Responses Received to Competitive Solicitation

If a competitive solicitation process is conducted and no responsible responses are received, the authorized representative may let a contract without a competitive solicitation provided that:

- A. A notice is published for not less than 7 days stating that no responses were received and that the contract may be awarded without further solicitation.
- B. The authorized representative considers any response received during the noticing period.
- C. The contract is awarded by the appropriate awarding authority.

3.0 Exceptions to Competitive Solicitation

3.1 Exceptions to Competitive Solicitation Requirements

As defined in NRS Chapter 332, certain contracts by their nature are not adapted to award by a competitive solicitation. Such contracts can only be exempted from a competitive solicitation in accordance with the requirements prescribed in this section.

Contracts that the District may exempt from a competitive solicitation include:

- A. Emergency contracts required to mitigate or prevent the imminent loss of life or property, or the imminent disruption of business operations.
- B. Sole source purchases, as defined.
- C. Contracts not adapted to award by competitive solicitation including:
 - 1) Professional services as prescribed herein.
 - 2) Repair and maintenance of equipment that may be more efficiently serviced by a certain person.
 - 3) Instances where compatibility with existing equipment is an overriding consideration.



Purchasing Policy for Goods and Services Policy 20.1.0

- 4) Perishable goods.
 - 5) Standardized computer hardware and peripheral devices and software, and the maintenance and support thereof.
 - 6) Insurance.
 - 7) Computer hardware and associated peripheral equipment and devices; and software.
 - 8) Goods or services available pursuant to an agreement between a vendor and the General Services Administration (GSA) or other federal government agency.
 - 9) Items for resale through a retail outlet operated in state by a local government or the State of Nevada.
- D. Contracts awarded pursuant to solicitation by other government entities or cooperative purchasing organizations.
 - E. Personal safety equipment as determined by the authorized representative.
 - F. Contracts with carriers.
 - G. Purchase or acquisition at auction, closeout and bankruptcy sales.
 - H. Failure to receive responses to a competitive solicitation as prescribed in [Subsection 2.2.8, No Responses Received to Competitive Solicitation](#).
 - I. Other exceptions authorized by NRS Chapter 332 with approval of the awarding body.

3.2 Presumption of Competitive Solicitation

In order to demonstrate the District's commitment to fair and open competition, it shall be presumed that competitive solicitations will be conducted whenever possible for goods or services that are otherwise exempt from bidding under NRS 332.

3.2.1 Documentation and Approval Requirements for Purchases Excepted from Competitive Solicitation

Pre-approval by the authorized representative is required before any goods or services can be procured without a competitive solicitation process. Such authorization shall be prescribed in the implementing administrative procedures.



Purchasing Policy for Goods and Services Policy 20.1.0

4.0 Prohibitions and Associated Penalties

4.1 Overview

To assure and maintain public confidence in the integrity of the IVGID purchasing system, the following prohibitions and associated penalties are adopted that apply to any District elected official or employee involved in procurement processes.

4.1.1 Prohibition on Financial Interest in Contracts

As included in Board of Trustees Policy 3.1.0, the District and its Board shall avoid all prohibited personal financial interests in contracts.

4.2 Prohibition on Splitting

Purchases of goods and services cannot, under any circumstances, be split or separated into smaller components to avoid the District's competitive solicitation or contract award requirements.



Purchasing Policy for Public Works Contracts Policy 21.1.0

1.1 Purpose

The purpose of this Public Works Contracts policy is to summarize IVGID policy requirements for competitively bidding and awarding of contracts solely for the purpose of constructing public works.

1.2 Enabling Statute(s)

This section of the Purchasing Policy is adopted pursuant to Chapter 338 of the Nevada Revised Statutes (NRS 338), cited as Public Works. All contracts awarded for the construction of public works shall be made in compliance with NRS 338 or more restrictive requirements as may be adopted by the Incline Village General Improvement District Board of Trustees.

1.3 Public Works Defined

Any project for the new construction, repair, or reconstruction of a project financed with public money in whole or in part for public:

- Buildings,
- Highways, roads, streets and alleys,
- Utilities, water mains and sewers,
- Parks and playgrounds,
- Convention facilities, and

All other publicly owned works and property.

1.4 Applicability of Purchasing Policy Provisions

The following sections of the District's Purchasing Policy (20.1.0) shall apply to this Purchasing Policy for Public Works Construction Contracts:

- Applicable definitions contained in Section 1.3, Definitions.
- Referenced provisions in Section 1.4, Procurement Responsibilities.
- Section 1.5, Contract Award Authority.



Purchasing Policy for Public Works Contracts Policy 21.1.0

1.5 General Provisions

In addition to any other requirements established in NRS 338, the following general provisions apply to procurements related to public works construction.

1.5.1 Inapplicability of Policy to Contracts for Maintenance or Emergencies

The requirements of this section and NRS 338 do not apply to the following procurements:

- A. Contracts awarded in compliance with NRS 332 that are directly related to the normal operation of the District or the normal maintenance of IVGID property.
- B. Contracts awarded to meet an emergency which results from a natural or artificially created disaster that threatens the health, safety, or welfare of the public.

If the Board or its authorized representative determines that an emergency exists, a contract or contracts necessary to address the emergency may be let without complying with the competitive bidding requirements of NRS 338 unless otherwise required for federal or state reimbursement funding.

If such emergency action is taken by the authorized representative, the authorized representative shall report the contract or contracts to the Board at its next regularly scheduled meeting.

1.5.2 Prevailing Wage Required

The payment of prevailing wages, in the manner specified in NRS 338, is required for all contracts for public works construction that exceed \$100,000.

1.5.3 Use of Recycled Materials

Public works projects associated with the construction, reconstruction, improvement, maintenance or repair of a public road or public highway must provide for the use of recycled aggregate, recycled bituminous pavement and recycled rubber from tires. Such provision shall be included in the project bidding documents.



Purchasing Policy for Public Works Contracts Policy 21.1.0

The District must ensure that such recycled products are specified in the construction contract unless use of such products is scientifically proven to compromise the soundness of the project.

1.6 General Requirements by Dollar Threshold

The following requirements apply to all public works construction projects and contracts, unless otherwise specified.

1.6.1 Construction Projects Greater Than \$100,000

Construction projects estimated to be greater than \$100,000 shall adhere to all applicable provisions of NRS 338 and as specified below.

- A. Projects shall not be divided into segments to avoid competitive bidding or contract award requirements.
- B. Solicitations must be advertised in a newspaper of general circulation.
- C. Plans and specifications must be on file by the date of advertisement and available to all interested parties.
- D. The advertisement must indicate how to obtain the plans and specifications, and the date, place and time bids will due/opened.
- E. The advertisement must include a provision that sets forth contractor qualification requirements.
- F. Contracts up to \$250,000 must be awarded to the lowest responsive and responsible bidder.
- G. Contracts greater than \$250,000 shall be awarded to the contractor that submits the best bid.
- H. Contractors and subcontractors must be appropriately licensed by the State of Nevada.
- I. Bids shall be submitted with a 10% bid bond.
- J. Contracts shall be awarded by the Board of Trustees.
- K. NRS 338 quarterly reporting requirements must be followed.

1.6.2 Construction Projects \$100,000 or Less

Construction projects estimated to be \$100,000 or less shall adhere to all applicable provisions of NRS 338 and as specified below.

- A. Bids may be advertised in accordance with required procedures.



Purchasing Policy for Public Works Contracts Policy 21.1.0

- B. Bids must be solicited from at least three properly licensed contractors for projects estimated to be greater than \$25,000.
- C. If the estimated cost is \$25,000 or less, at least one bid from a properly licensed contractor must be solicited.
- D. Contracts must be awarded to the lowest responsive and responsible bidder.
- E. Contractors and subcontractors must be appropriately licensed by the State of Nevada.
- F. Bids shall be submitted with a 10% bid bond.
- G. Contracts shall be awarded by the General Manager.
- H. NRS 338 quarterly reporting requirements must be followed.

1.6.2.1 Construction Projects Performed by District Forces

Construction projects estimated to \$100,000 or less may be performed by District staff members under the following conditions:

- A. If bids were submitted and then rejected in accordance with Section 1.6.3 below, the District may proceed with constructing a public work itself.
- B. If constructing a public work itself, the District must adhere to the attestation requirements contained in NRS 338.

1.6.3 Bid Rejection

Any bids received in response to an advertisement or direct solicitation may be rejected by the Board of Trustees or its authorized representative if it is determined that:

- A bidder is not qualified pursuant to NRS 338.
- A bid is non-responsive.
- A bidder is not responsible.
- The quality of the services, materials, equipment, or labor offered does not conform to the approved plans or specifications.
- The public interest would be served by such a rejection.



Purchasing Policy for Public Works Contracts Policy 21.1.0

1.6.4 Bid Protests

A contractor that submits a bid in response to a solicitation may file a notice of protest of contract award in accordance with this section and applicable provisions of NRS 338.

1.6.4.1 Protest Submittal Requirements

A contractor that submits a bid in response to a solicitation who wishes to file a notice of protest must do so within five business days after the date of District issuance of the intent to award a contract.

The notice of protest must include a written statement setting forth the specific reasons for the protest, including the relevant provisions of NRS 338 or other provisions in law purported to be violated.

1.6.4.2 Authorized Representative to Consider Initial Bid Protest

The General Manager, as the authorized representative of the Board of Trustees, shall receive and evaluate a properly filed protest submitted by a bidding contractor.

To ensure the efficient and effective business operation of the District, the General Manager may delegate the authority to receive and evaluate bid protests to other IVGID staff members in accordance with the delegation procedures specified in Subsection 1.6.2.2 of the Purchasing Policy (Delegation by the General Manager to District Staff Members).

1.6.4.3 Final Determination of Bid Protest

The authorized representative shall evaluate the protest and make a recommendation to the awarding body to uphold or deny the protest. A contract cannot be awarded until the awarding body makes its determination.



Purchasing Policy for Public Works Contracts Policy 21.1.0

1.7 Contractor Qualification and Preference Requirements

In constructing any public work, the District must comply with all applicable contractor qualification and contractor preference requirements specified in NRS 338.

1.8 Alternative Bidding Methods

Pursuant to NRS 338, the District may use bidding methods to award construction contracts to qualified contractors based on best value rather than lowest responsive and responsible bid, including Construction Managers at Risk and Design-Build methods. These bidding methods are used for large construction projects that present unique and complex construction challenges.

1.8.1 Construction Managers At Risk

Use of the construction managers at risk method requires entering into separate contracts with the selected contractor for preconstruction services and for constructing the public work.

A construction manager at risk must meet the qualification requirements specified in NRS 338

1.8.1.1 Competitive Solicitation, Selection and Contracting Methods

Construction managers at risk contracts require the use of a request for proposals (RFP) process in strict accordance with the solicitation, evaluation, selection and contract award provisions specified in NRS 338.

1.8.2 Design-Build Teams

Contracts for construction projects where the estimated cost of design *and* construction exceeds \$5,000,000 may be let using the design-build method. Use of the design-build method requires a two-step RFP process in strict accordance with the solicitation, evaluation, selection and contract award provisions specified in NRS 338.

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
PARKING LOT					Internal controls Whistleblower – Future date to be determined DavisFarr Work Plan review DavisFarr monthly meeting with the AC to update them on the audit process Dillon’s Rule on DPSEF contract Annual report to the Board of Trustees related to Policy 15.1.0 (Dobler)

June 30, 2022

To: Ray Tulloch Chairman IVGID Audit Committee

CC: Paul Navazio, Susan Herron

From: Clifford F. Dobler

Re: Final AC Report to Board of Trustees dated March 9, 2022 - ***To be included as correspondence in the next AC meeting***

Within the above referenced report, on page 19 on Appendix 1, the AC stated that \$182,023 charged to the Effluent Pipeline Project for the two year period from July 1, 2019 to June 30, 2021 should be reclassified as expenses from the Construction in Progress accounts .

On June 29, 2022, I received a listing of all charges to the Effluent Pipeline Project t # 2524SS1010 for the two year period which is attached as EXHIBIT A

HISTORY

A brief history of actual events indicates that from July 1, 2019 to January 29, 2020 nothing much had been accomplished. A large presentation to the Board of Trustees was done on January 29, 2020 about major cost increases. Subsequently in March, 2020, Staff requested the Board to approve design contracts to replace 5,000 feet of the pipeline and to begin design on Pond #1. The Board rejected both requests and directed management to proceed with the projects under a CMAR contract. On May 6, 2020, a draft of RFQ requirements for CMAR services was completed and on February 1, 2021 a contract for \$369K was finally issued to Granite Construction to perform Pre Construction analysis. On May 3, 2021, Granite released their findings on the analysis.

In June , 2020, HDR was issued a contract to design critical repairs which was later cancelled on July 13, 2020. Also a contract was issued to Jacobs Engineering to develop alternatives for lining Pond #1 which was delivered in September, 2021.

A SUMMARY OF COSTS

- \$93,300 in IVGID staff engineering - The largest component was preparing the January 29, 2020 presentation to the Board.
- \$28,730 - paid to complete IVGID's share of the EIS for the Forest Service sponsored by the Tahoe Transportation District Prior cost of \$270K were charged off as a "prior period adjustment" in 2021
- \$23,643 - paid to NDOT for the final paving in SR 28 over repairs completed in 2017 and 2018
- \$3,797 - paid to HDR for final analysis of the conditions assessment conducted by PICA in 2018
- \$5,870 - paid to HDR to design critical repairs. This project was cancelled.
- \$9,618 - paid to Granite Construction for assessment
- \$14,905 - paid to Jacobs Engineering for the Pond which should be reclassified to the proper account
- \$2,163 - paid for a work order (assumed to be the installation of a big bully)

CONCLUSION

From the information above with the exception of the \$14,005 paid to Jacobs Engineering for the Pond project, all costs incurred in 2022 and 2021 should be EXPENSED as pre development costs. \$167,118,20. Also the costs associated with the pond should be expensed.

EXHIBITS

Exhibit A - Effluent Pipeline Project Costs incurred from July 1, 2019 to June 30, 2021

EXHIBIT A

2524SS1010 Effluent Pipeline Project							
EFFECTIVE DATE	DESCRIPTION	VENDOR	VENDOR INVOICE#	PROJECT	DEBIT	CREDIT	BALANCE
	Capital Improvements			Balance Forward			0.00
07/31/2019	CIP Work Order Charges - July 2019			2524SS1010	745.57		745.57
09/03/2019	Effluent Export Line co-alignment project. Board-awarded November 12, 2014	Tahoe Transportation District	SI12333	2524SS1010	2,386.30		3,131.87
09/11/2019	Custom Insulated ARV Cover with Velcro Enclosure	Big Bully Enterprises	1833	2524SS1010	720.00		3,851.87
09/30/2019	CIP Work Order Charges - September 2019			2524SS1010	692.93		4,544.80
09/30/2019	CIP Engineering Charges - Sept. 2019			2524SS1010	4,100.00		8,644.80
10/10/2019	Effluent Export Line co-alignment project. Board-awarded November 12, 2014	Tahoe Transportation District	SI12367	2524SS1010	2,008.48		10,653.28
10/10/2019	Effluent Export Line co-alignment project. Board-awarded November 12, 2014	Tahoe Transportation District	SI12368	2524SS1010	24,335.87		34,989.15
10/15/2019	Effluent Export Pipeline Interlocal Agreement R475-17-015, Board-awarded August 22, 2017.	Nevada Dept. of Transportation	03671J3803	2524SS1010	23,643.78		58,632.93
10/31/2019	CIP Engineering Charges - October 2019			2524SS1010	500.00		59,132.93
11/30/2019	CIP Engineering Charges - November 2019			2524SS1010	2,800.00		61,932.93
12/31/2019	CIP Engineering Charges - December 2019			2524SS1010	1,500.00		63,432.93
01/31/2020	CIP Engineering Charges - January 2019			2524SS1010	16,300.00		79,732.93
02/29/2020	CIP Engineering Charges - February 2020			2524SS1010	5,500.00		85,232.93
03/31/2020	CIP Engineering Charges - March 2020			2524SS1010	2,000.00		87,232.93
06/30/2020	Accrue Granite Construction estimate			2524SS1010		16,000.00	71,232.93
	TOTAL				87,232.93	16,000.00	71,232.93
					Balance	Forward	71,232.93
07/08/2020	ASA 36 - Effluent Line condition assessment data analysis.	HDR Engineering, Inc.	1200278764	2524SS1010	2,437.00		73,669.93
07/30/2020	ASA 36 - Effluent Line condition assessment data analysis.	HDR Engineering, Inc.	1200289156	2524SS1010	1,359.91		75,029.84
10/31/2020	CIP Engineering Charges - October 2020			2524SS1010	2,000.00		77,029.84
11/30/2020	CIP Engineering Charges - November Estimate			2524SS1010	2,000.00		79,029.84
12/01/2020	CIP Engineering Charges - November Estimate			2524SS1010		2,000.00	77,029.84
12/01/2020	CIP Engineering Charges - November			2524SS1010	3,000.00		80,029.84
12/31/2020	CIP Engineering Charges - December			2524SS1010	6,500.00		86,529.84
01/31/2021	CIP Engineering Charges - January			2524SS1010	5,000.00		91,529.84
02/28/2021	CIP Engineering Charges - February			2524SS1010	7,000.00		98,529.84
03/31/2021	CIP Engineering Charges - March 2021			2524SS1010	7,200.00		105,729.84
03/31/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-P1	2524SS1010	812.60		106,542.44
04/02/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-E1	2524SS1010	3,544.80		110,087.24
04/30/2021	CIP Engineering Charges - April 2021			2524SS1010	9,100.00		119,187.24
05/28/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-P3	2524SS1010	1,049.80		120,237.04
05/28/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-E3	2524SS1010	4,199.20		124,436.24
05/31/2021	CIP Engineering Charges - May			2524SS1010	5,500.00		129,936.24
06/21/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-P2	2524SS1010	1,553.80		131,490.04
06/26/2021	Effluent Export Pipeline Project; Project management, critical pipeline repair ID, etc., per Contract awarded by Board on June 9, 2021.	HDR Engineering, Inc.	1200362785	2524SS1010	5,869.86		137,359.90
06/30/2021	CIP Engineering Charges - June			2524SS1010	8,000.00		145,359.90
06/30/2021	CIP Engineering Charges - June			2524SS1010	7,300.00		152,659.90
06/30/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-E4	2524SS1010	1,205.80		153,865.70
06/30/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-E5	2524SS1010	4,549.20		158,414.90
06/30/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-P4	2524SS1010	60.20		158,475.10
06/30/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-P5	2524SS1010	2,538.30		161,013.40
06/30/2021	Effluent Export Pipeline and Pond Lining Project; pre-construction CMAR services. Project bid per NRS 338. Board awarded 1/28/2021.	Granite Construction Co.	1120427-E2	2524SS1010	6,104.80		167,118.20
06/30/2021	Effluent Storage Pond - Phase 1, Pond Lining Alternatives, per contract awarded by Board on 6/9/2021.	Jacobs Engineering Group Inc	W8Y12900-01	2524SS1010	14,904.63		182,022.83
	TOTAL				112,789.90	2,000.00	110,789.90
	GRAND TOTAL				200,022.83	18,000.00	182,022.83

July 10, 2022

To: Ray Tulloch - Chairman of Audit Committee

From: Clifford F. Dobler

Re: Wastewater Treatment Plant Improvements #259922102 - Potential charge offs of prior costs which may have been capitalized as an asset rather than expensed as repair and maintenance.

THIS CORRESPONDENCE IS TO BE MADE PART OF THE NEXT AUDIT COMMITTEE PACKET.

At the Audit Committee meeting held on June 16, 2022, the committee reviewed all of the charges accounted for under one n project #259922102 which amounted to \$1,197,757 for the 7 year period from July 1, 2014 to June 30, 2021 (**EXHIBIT A**).

The AC asked to receive more information on the 15 internal "work orders" amounting to \$41,937. A public records request was made and the 15 work orders are attached as **EXHIBIT B**. The work orders provided minimal information and consisted of charges for labor and equipment usage, presumably for trucks. NO MATERIALS WERE INCLUDED IN THE WORK ORDERS.

It was quite disappointing to find that of the 15 work orders, 7 were not related to the Sewer Treatment Plant. There was one for Sewer Pump Station #4, one for Sewer Pump Station #5, and two for Sewer Pump Station #1. There were two for the DWSP#3, one for Reservoir Access Safety Improvements (part of the water system) and the remaining is not identified. One work order on 4/30/20216 plant had \$61,924.52 in material costs with no disclosure on who it was paid to nor what it was for.

According to the Project Summary for Fiscal year 2022-2023, this account will involve over 5 treatment processes requiring four different types of equipment. In addition, six different facilities to control other aspects.

According to the Project Summary (**EXHIBIT C**) that over the next six years, \$1.125 million will be spent on four large projects and the remaining \$375K is listed as Equipment Improvements. This is assumed to be a catch all for repairs and maintenance.

Since the AC was unaware if the costs specified in EXHIBIT A have been allocated into separate components and then capitalized according to Board Policies and Practices, it becomes impossible to determine what amount of costs should have charged off as expenses. There obviously is no internal controls over what costs should be charged to what project. It would seem that the project account may have been established as a "catch all" for many items.

EXHIBIT A - Listing of historical charges to project # 259922102

EXHIBIT B - Listing of Work Orders.

EXHIBIT C - Project Summary Report fiscal 2022-2023

August 15, 2022

To: Audit Committee and Paul Navazio

CC: Ray Tulloch, IVGID Board of Trustees and Indra Winquest

From: Clifford F. Dobler

Re: Charge off of capital assets or cost held in construction in process which should have been expensed as PRIOR PERIOD ADJUSTMENTS FOR FISCAL YEAR ENDING JUNE 30, 2021

With the creation of the Moss Adams report regarding expensing pre development designs and assessments on potential capital projects, the Audit Committee engaged members to determine what historical costs which were capitalized as an asset or held in the construction in progress accounts should be expensed. Any costs subject to expensing and which occurred in a prior year would be reported as a "Prior Period Adjustment".

In the June 30, 2020 CAFR, IVGID Staff determined that \$212,044 and \$77,216 relating to the community services master plan and the high school ball field held in the CIP account were applicable to predevelopment concept designs and were expensed. These charge offs were reported as "Prior Period Adjustments" in the CAFR. The Audit Committee then realized that IVGID staff had not done the necessary research on predevelopment design and assessments on other potential projects most of which were in the CIP account.

On May 31, 2021, I provided a memorandum of pre design and assessment costs on 10 projects which should NOT have been retained in the CIP account or capitalized as an asset. The total estimated costs were \$4,469,712. (Exhibit A)

In the June 30, 2021 ACFR, Staff only addressed \$3,100,110 for pre design and assessments on Phase II of the Effluent Pipeline which was expensed from the capital asset account and reported as a "Prior Period Adjustment". Four other projects indicated in my May 31, 2021 memo, namely, a water line leak study (\$78,506), the Incline Beach Building concept designs (\$216,131), the Tennis Facility Study (\$40,143), and the Diamond Peak Master Plan (\$156,030) were charged off from the CIP account but were NOT reported as prior period adjustments but instead reduced the current year capital additions to the CIP account. An additional \$95,628 for the Diamond Peak Master Plan was charged off in the same fashion but was not included in my memo.

Charging off expenses incurred in prior years against current year capital costs is unheard of and a complete contradiction when compared to the pipeline charge off. The costs were incurred in the prior years and should have been reported as a prior period adjustment NOT a reduction against current year capital costs.

Another 10 items for 110,061 (not covered in the May 31, 2021 memo) was charged off from the CIP account but not reported as a prior period adjustment and again reduced current year costs. These items were true expenses or the amounts failed to meet capitalization thresholds.

Not only did Staff fail to charge off, as a prior period adjustment, \$120,268 for pre design and assessments on the Incline Park ball fields but remarkably **ADDED \$120,268 to the ball field costs prior to transferring the total to the capital project account thus leaving a NEGATIVE balance in the CIP account.** This transaction is unacceptable and a manipulation of costs.

In fiscal year 2020, \$1,591,983 in costs for the Mountain Golf Course Clubhouse rehab was transferred from the CIP account to a capital asset account. Included in the transfer was \$282,954 for conceptual designs and temporary repairs which should have been expensed but was not. Also \$46,000 in pre design costs for cart paths was not expensed and

remain in the CIP account. There is no logical reason why these amounts were not charged off as a prior period adjustments.

Lastly, \$219,802 for temporary repairs and conceptual design on the Burt Cedar Pool and \$40,000 for concept design on the WRRF Aeration System were not charged off as prior period adjustments and remain in the CIP accounts as of June 30, 2021.

The inconsistency in reporting for essentially the same type of costs in the June 30, 2021 ACFR is unacceptable and created a material misrepresentation in reporting the 2021 ACFR.

To recap this mess

- A total of \$4,675,401 should have been recorded as prior period adjustments in fiscal 2021
- Only \$3,110,110 of the recommended \$3,179,600 pipeline costs were charged off as a PRIOR PERIOD ADJUSTMENT
- \$698,476 was charged off from the CIP accounts to current year capital project costs rather than properly being recorded as a prior period adjustment
- \$746,547 in costs primarily for the Burnt Cedar Pool repairs and concept designs and the Mountain Golf Course Clubhouse concept designs remained in the CIP account or were transferred to capital assets and not expensed as a prior period adjustment.
- \$120,268 for the Baseball fields was actually transferred TWICE to the capital asset accounts leaving a negative \$120,268 in the CIP account

Subsequent to the end of June 30, 2021 additional studies by me were completed on potential charge off of costs as prior period adjustments for the following projects: Water and Sewer Pump Stations, Wastewater Treatment Plant, Wetlands, Adjust facilities in NDOT right away, Burt Cedar water plant, Pond # 2 lining abandoned design and irrigation, tees, greens and bunkers at the two golf course. The extent of these required charge offs have not been quantified by IVGID Staff .

THIS NOCENSE MUST STOP AND BE CORRECTED. THESE CHARGE OFFS ALONG WITH OTHER CHARGE OFFS DISCOVERED OVER THE PAST SIX MONTHS WILL RESULT IN OVER \$7 MILLION DOLLARS OF PRIOR PERIOD ADJUSTMENTS WHICH IS MATERIAL AND THE 2021 ACFR MUST BE RESTATED TO PROPERLY REFLECT CAPITAL ASSETS AND EXPENSES.

Exhibit A - May 31, 2021 memo from Clifford F. Dobler to the Audit Committee and Indra Winquest and Paul Navazio.

EXHIBIT A

May 31, 2021

To: Audit Committee for meeting on June 9, 2021

CC: Indra Winqest, Paul Navazio

From: Clifford F. Dobler

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

Background

In 2020, Moss Adams was engaged by the Audit Committee to review the capitalization policies and provide best practice accounting guidance. As outlined in the final report: "**Accepted practice includes recognition of the different stages of a project including preliminary, construction and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.**"

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

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

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

Burnt Cedar Pool

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

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

Utilities - WRRF Aeration System

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

Utilities - Waterline Leak Study

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

Utilities - Effluent Pipeline Phase II

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

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

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

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

Mountain Golf Course

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

In the summer of 2018, a fire occurred in the Clubhouse kitchen area. In November 2018, Smith Design was issued a design contract for the rehabilitation of the Clubhouse which included a large expansion of the deck area. The intent was to fast track the rehabilitation for completion prior to the opening of the golf course in May 2019. Subsequently it was determined that the

rehabilitation could not occur in time for the season and would be postponed until the season ended. In order to provide services, fire damage repairs were completed for temporary use during the 2019 season. The costs incurred was **\$150,751** (may include the design fees of Smith which should not be expensed). An unknown portion of the temporary repairs were abandoned when the extensive rehabilitation started at the end of the 2019 season. Certain of the temporary repair costs should be expensed.

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

Tennis Center

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

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

Incline Park - Ball fields

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

Incline Beach Building

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

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

Diamond Peak

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

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

Conclusions and Recommendations

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

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

MINUTES

AUDIT COMMITTEE MEETING OF JUNE 16, 2022 Incline Village General Improvement District Updated

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Thursday, June 16, 2022 at 4:01 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), Raymond Tulloch (At-Large Member, Chairman) and Sara Schmitz (Trustee). Trustee Matthew Dent joined the meeting at 4:25 p.m.

B. PUBLIC COMMENTS

Linda Newman read from a prepared statement that is attached hereto.

Frank Wright said that he mirrors everything that Ms. Newman said but he would also like to compliment the workability, commitment, professionalism and the absolute uncovering of all the things that members of this community have been suspecting for a long time. It is almost sad that we have to lose this talented group of people and go forward with some of the remnants of the disaster we have had in the past but you know it is going to be quite evident after a couple of meetings. Luckily, Mr. Tulloch will be there to guide and correct and maybe encourage some educational values/ethical values of those who are joining the Audit Committee. This is our community and the things that have been going on with the finances, money, waste, way things were done, shuffling of money between accounts, the financial irregularities, filling out of financial statements that were improperly filled out and omitted – it's just horrible. To have an Audit Committee as good as the one we have right now, which is our last meeting of talent and now we are going to go into the dark ages again – it is just sad. You have to wonder where did all of this come from? Why would you take someone off who has served so eloquently on the Audit Committee and not put that person back on? Hopefully, Trustee Schmitz, you will come back. Hopefully, you won't be frustrated by the powers that be. Who is behind it? Why would anybody want to take off talent and replace it with the failure that has served before. Why would you put somebody in there that has no idea of what they are doing? They can't even balance their own checkbook and who has basically screwed up this whole community in their past performance both as an Audit member and as a Trustee. Luckily, we are going to have a new chain of command coming in here in November/December/January and the old guard is

going to be gone somewhat but you know what, you have got to wonder why the things have happened and why we see the Audit Committee members that are coming on – who orchestrated that? We all know. But you know what, why are they doing it? Because they are afraid, they are tired of being exposed for being incompetent, they are tired of having the finances exposed to the world and they are trying to shut it down. But it is not going to work, we already know. The cat's out of the bag. So he would like to thank you Audit members that have served and done such a wonderful job, he will miss you, miss your eloquence and he guesses we are going to have to suffer through a couple of years of total disaster. You know what, it is going to come around and there are people who are watching so we will see what happens. Thank you guys so much; you have done a great job.

Yolanda Knaak said that she is a 2022 IVGID candidate and that she thanks everyone for their hard work on the Audit Committee; everyone has done a great job.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for changes; Trustee Schmitz would like to move General Business Item D.9 to the beginning because she thinks it is important for the public to hear our closing remarks. Audit Committee Chairman Tulloch and At-Large Audit Committee Member Dobler are ok with that change. The agenda is approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

D.0. Audit Committee Chairman's closing remarks for retiring Audit Committee Members (was General Business Item D.9.)

Audit Committee Chairman Tulloch said first and foremost he's very grateful for the public comment. He thinks it's recognized the work that has been done by the Audit Committee. He would like to thank Trustee Schmitz, Trustee Dent and At-Large Audit Committee Member Dobler for their very professional work and the amount of effort that has gone in. Most of the public is probably not aware but basically all the Audit Committee materials that are submitted by the Audit Committee and all the agenda items are prepared by the Audit Committee members themselves and there is extensive research that goes on behind that so he thinks that's something that is well underestimated in the community. He thinks every member of the committee has made a terrific contribution here and he will come back to that at the end. First, he would like to generally talk about the role of the

Audit Committee. The role of the Audit Committee, if he was to quote from our charter, 15.1.0, and this comes from the GFOA guidance *“An Audit Committee plays a key role with respect to overseeing the integrity of the District’s annual financial statements by ensuring that those responsible for financial management meet the responsibilities for maintaining an effective system of internal controls over financial reporting. An Audit Committee is a practical means for a governing body to provide much needed independent review and oversight of the District’s financial reporting processes, internal controls, and independent auditors.”* And if he could provide another quote from 15.1.0 *“The scope and authority of the committee’s responsibilities. It is the responsibility of the committee to provide independent review, oversight, and feedback on financial reporting, internal controls, independent audit of the basic financial statements and the annual comprehensive financial report.”* He reads these excerpts from 15.1.0 because he thinks they are very important in terms of the role of the committee. First and foremost, the committee is not a political body, it is not designed to be a political body. Certain members of the community and sometimes Board members seem to think it’s a political organization. The Audit Committee is not responsible for how IVGID spends money, that is not part of our role, that is the role of the Board to decide on that. If the Board wants to decide to spend \$60,000 on a psychologist to make decisions for them, that is very much a Board decision. It is not up to the Audit Committee and it is not the role of the Audit Committee to question that. However, it is the role of the Audit Committee to ensure that all of that expenditure is properly accounted for and accounted for in the proper way. We must be able to ensure that we are reporting accurately both to our stakeholders and our primary stakeholders for the Audit Committee is our community at large and the residents that pay their taxes here. Our stakeholders, our role is not just to unquestionably support anything that the Board wants to do, that is not the role of the committee. He hears candidates and he hears Board members say we will sort out the Audit Committee, the Audit Committee is a blocker, the Audit Committee should be looking after stakeholders and supporting Management – that is not the role of an Audit Committee. The role of the Audit Committee is to provide independent and equitable oversight and why is it so important that we provide accurate financial reporting? It is important because we need to make sure that where money is being spent it is being properly accounted for and properly looked after. Particularly important when we are moving into a situation where we are going to have to borrow or bond probably somewhere of upwards of \$40 million to replace the Effluent Pipeline. If anyone thinks that possible lenders or bond holders will not look very closely at our financial statements they are

probably smoking from NuLeaf. He thinks all of those that have been involved in bonding, or major borrowing, know that this will involve basically a colonoscopy of our financial statements. So it is absolutely critical that we are reporting accurately. He wants to thank all of the members of the committee and he will make a final remark after that but he would like to pass it across to the members of the committee.

Trustee Schmitz read the following:

It has been an honor and a privilege to have been a member of the Board of Trustees that spearheaded a new audit committee charter and reformed the audit committee. This was a bold and important strategic change for the betterment of the District and the community. It is this committee that can bring confidence, integrity and transparency to the District's financial reporting and internal controls; areas of long-standing and broad community concern. The prior board had an Audit Committee that didn't meet the minimum requirements of GFOA by meeting only once per year and had little, if any, oversight of the audit process. I encourage all of you to obtain the GFOA handbook on Audit Committees and Internal Control as they are great guides for you going forward. One thing I want to bring to your attention page 20 of the AC handbook where it highlights the importance of training for the AC members. They highlight that the training for the AC members "should underscore the duty of committee members to exercise an appropriate degree of professional skepticism in dealing with management." I feel having clarity and an understanding of this concept is important for the committee and management in furthering the value of the Audit Committee. While this AC didn't have formal training, I encourage the new members to formalize a training program for AC members. The Audit Committee is chartered to assist the Board of Trustees with their responsibilities for oversight of financial reporting and internal control. Over the past couple of years there has been some criticism regarding some of the topics taken up by the AC. I'd prefer to identify those topics and highlight how the AC has helped to facilitate Board decisions related to policies.

- 1. The Audit Committee took up the subject of pricing policies of the District which originated out of a complaint filed by a community member related to Dillion's rule and the monetary authority of the District staff. The Audit Committee initiated what is now the first ever District pricing policy approved by the Board of Trustees. This is a huge success for all, including staff because now there is clarity related to pricing of products and services. While this topic wouldn't*

come before the Audit Committee today, it is an example of the Audit Committee, staff and the Board of Trustees collaborating for the betterment of the District.

- 2. As the Audit Committee (AC) began receiving emails from Rec Fee and tax paying property owners, it became clear the District needed a means to facilitate and track anonymous complaints from anyone, employees, property owners and even non-IVGID passholders. This is a responsibility that GFOA identifies of the AC. The AC took on the task, began drafting proposed language for such a policy to be incorporated into the AC Charter. We finished our work, however the BOTs deferred taking action until Policy 15.1 was revised. This has been completed by the BOT, so I encourage this new AC to review what was drafted, revise it if needed and present it to the BOT for implementation before the end of 2022. The District needs to have such a process to demonstrate its openness and transparency.*
- 3. Another accomplishment and positive working relationship between the AC, staff and the Board of Trustees is the currently being discussed Resolution 141 to further address concerns related to the District's authority with regard to Dillion's Rule. District Legal Counsel has changed past policy related to cash donations and is in the process of reviewing with the BOT further revisions to ensure compliance with Dillion's Rule.*
- 4. We worked together and engaged Moss Adams to resolve long-standing financial reporting issues. I encourage you to familiarize yourself with this report and managements commitments for changes to be made. As a committee, we have documented our remaining concerns and haven't been provided the documents management committed to revise. I encourage you to take our baton and finish this important work.*

This outgoing Audit Committee has made progress for the betterment of the District and the property owners. I welcome your talent and commitment to further the value provided by the Audit Committee. Please know that I will be supportive of your efforts and available should you ever have questions regarding what or why we were doing one thing or another. Thank you for your willingness to serve on this committee and assist the BOT with our responsibilities of oversight.

At-Large Audit Committee Member Dobler read the following:

Thanks Chairman Tulloch. First I would like to thank you, Sara and Matt for the concerted effort we have made over the past two years to bring forth the deficiencies in financial reporting and internal controls and recommending corrective actions. It has truly been a pleasure to exchange ideas and seek advice from other sources to draw acceptable solutions. In 2014, Linda Newman and I and began investigating IVGID's financial reporting and its compliance or noncompliance with NRS, GAAP, and GASB. We worked hard, wrote several memorandums on deficiencies and never received a response. We spoke at Trustee meetings about the deficiencies and never received feedback. We saw the previous Audit Committee as nothing more than a rubber stamp of Staff decisions. When the CAFR for June 30, 2019 was brought forth, we saw so many errors and misstatements that we prepared a listing of points. We were pleased when Trustees Dent, Callicrate, and Schmitz realized the value of our reporting, realized enough was enough and decided to accept the CAFR but not approve it. They sent their reasons to the Department of Taxation. Their first priority was to form a legitimate Audit Committee with a defined set of responsibilities and a substantive Board Policy. The policy provided for three at large members and two Trustees. It was required that the At-Large Members would be independent. Trustee Schmitz developed a new policy which was Board approved in the spring of 2020 on a 3-2 vote with Wong and Morris dissenting. Ray Tulloch, Derrek Aaron and myself were appointed by the Board as at large members in July, 2020. Trustee Dent and Schmitz were the other trustee members. The first order of business was to get up to speed on the June 30, 2020 audit in process with Eddie Bailly. When the audit was completed, we were informed that there were material weaknesses in internal controls over financial reporting with findings that several accounts were materially misstated and there were material errors in the presentation of the CAFR. We knew at that time, we needed to drill down further especially as to internal controls and extensive capitalization of expenses. The second order was to resolve the 14 points of concerns and opinions on the June 30, 2019 CAFR which was prepared by Linda Newman and myself. In August, 2020, Paul Navazio provided a presentation on the 14 points and disagreed with all of them. The audit committee realized that the only resolution was to seek recommendations from Moss Adams, a regional CPA firm, on 4 major points and suggestions on the remaining 10 points and an additional 7 points discovered during the process. It was agreed by all involved that the recommendations would be accepted and all would live by those recommendations. The report was thorough and informative. During the process Moss Adams discovered several other irregularities and made recommendations. During the first year, Sara Schmitz sponsored

developing a Whistleblower Program which we debated and completed, but was never approved by the Board of Trustees. We took on citizens' concerns about violating NRS Dillion's Rule on free community programming, free services for the Diamond Peak Ski Racing Team, providing below market facility rents to Non Profits and extent of employee benefits. I personally did extensive research and provided an in depth review of the 3 items. IVGID's outside council provided an opinion. I did not accept the opinion that everything was incidental and therefore was allowed. By definition, incidental are items not planned. We were required to prepare a new RFP to select a new audit firm. We used the Washoe County RFP as a guideline. As a result, the new RFP is well defined on what is expected of audit firms. We were then required to select Davis Farr as the new auditor. We were required to review and modify an engagement letter and work plan with Davis Farr. After a citizen did considerable public record requests on internal controls and the material weaknesses reported by the auditors, we determined that the Director of Finance would continue to report progress on establishing new internal controls. At several meetings, we only received verbal reports but never received any actual internal control documents. We believed one of the largest challenges before us was an extensive review of capitalizing expenses as capital assets. This aggressive approach vastly understated operating expenses over the past 5 years. Moss Adams had concerns that, depending on the amounts involved, a potential restatement of prior CAFR's might be required. The Moss Adams report regarding capitalization was explicitly clear that preliminary project costs, such as, conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives should be expensed. In 2020, Staff charged off to expense capital costs of only \$803,514, however, did not address over \$3.1 million of preliminary costs on the effluent pipeline. We were unsuccessful in having the Board restate the 2020 CAFR based on statements that time had ran out, but with the promise that the charge off would occur in 2021. We immediately reviewed the construction in progress accounts and found an additional \$1.2 million which should have been expensed. These additional charge offs were ignored by Staff and not reported in the 2021 CAFR. We worked diligently in reviewing other capital projects and found that some of the historical costs would require expensing and clarification was needed on establishing components. We were excluded from participating in developing new policies. At this stage nothing has been resolved. The two most remarkable and truly unbelievable events were Board Chairman Callicrate and General Manager Winquest seeking Board approval of both the 2020 and 2021 CAFR's before the Audit Committee was able to provide

a report to the Board on the committee findings. This was uncalled for and violated the Board's own Policy. As an independent member of the committee, I was charged with a fiduciary responsibility to provide citizens with proper financial statements. I believe the entire committee took that responsibility seriously. I suggest that the entire committee is disappointed in the lack of cooperation by the Director of Finance in bringing to closure the material weaknesses in financial reporting and solving the capitalization issue. There was no leadership by the General Manager. The District will probably now have three consecutive years of material weaknesses in financial reporting and millions in prior period adjustments. The citizens will bear the costs of these weaknesses when they pay the higher than normal costs to secure bonds for the effluent pipeline and storage pond. I was honored to serve on the Committee. I will always be available to assist and answer any questions the new audit committee members may have. I will continue to provide public comments on outstanding unresolved issues.

Trustee Dent said thank you to Audit Committee Chairman Tulloch, he appreciates the way he has run the meetings. Thank you to At-Large Audit Committee Member Dobler and Trustee Schmitz for their participation. Thank you to the community and the Board of Trustees for this appointment. There was a lot of progress made and it is not perfect but the Audit Committee has made a step forward in the right direction and that everyone took it very seriously. He hopes that the future Audit Committee will do their due diligence, oversight, and bring things to the Board and whether the Board takes it, that's a different matter. Thank you for taking it seriously as this is a huge change from how things were done in the years past. A lot of things were left unanswered and that was an area of weakness with the concerns of the Board members, etc. That is why the outlet is here and he is definitely excited to see how the new members contribute and build upon what we have started.

Audit Committee Chairman Tulloch said he will just take a couple of minutes to close out as well. Like the rest of the committee, he is very honored and humbled to have served and been able to serve the community on this audit committee. He looks forward to continuing going forward. He thinks the works of the committee has undoubtedly improved the financial reporting and he is particularly pleased that we have started to progress on internal controls as well and he thinks it is recognized by the General Manager and the Finance Director. He has also heard it stated, at a recent candidate forum, that really the Audit Committee was unnecessary because we have an excellent Finance Director. As any excellent Finance Director would tell

you, any Finance Director always welcomes the work of the Audit Committee because the Audit Committee helps keep the Finance Director straight and it also helps keep the Board straight. It makes sure there is ethical and professional and consistent reporting. So, particular thanks to all of you. He knows that everyone here has had to take both the slings and arrows from both sides of the community. He thinks if we are upsetting both sides of the community and going down the middle track we are probably hitting the mark almost correct. To take some of that blow back just as well as volunteers is remarkable and he thanks you all for that. So he looks forward to working with the new Audit Committee and will continue to work as before with the key guiding principles being transparency, accountability, and value. Thank you all for your efforts.

D.1. Receive, review and discuss follow-up explanatory on Management Responses to Audit Committee report on Fiscal Year 2020-21 Annual Comprehensive Financial Report (ACFR) (Director of Finance Paul Navazio)

At-Large Audit Committee Member Dobler went over the submitted materials and the outcome was that all present agreed that they didn't want to rehash this topic, there are disagreements and that the Director of Finance is taking this information and going forward.

D.2. Receive, review and discuss Wastewater Treatment Plant Improvements (Audit Committee At-Large Member Cliff Dobler)

At-Large Audit Committee Member Dobler went over the submitted materials and the outcome is that it is the District's hope, that with the new financial system that is being implemented, that the process will improve.

D.3. Receive, review and discuss Burnt Cedar Disinfection Water Treatment Plant (Audit Committee At-Large Member Cliff Dobler)

At-Large Audit Committee Member Dobler went over the submitted materials and the Audit Committee had a discussion with no direction being provided to Staff.

D.4. Review, discuss and agree to Schedule/Work plan for Fiscal Year 2021-22 Financial Audit (Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted materials. Audit Committee Chairman Tulloch said he doesn't see the final report being submitted to the Audit Committee – we need that. He would like to see more regular reporting and some check in from the auditor in July and more regular reporting either 1-on-1 or to the committee. Director of Finance Navazio said the final report is due by the end of November and he did talk to Ms. Farr about regular check-ins. Ms. Farr's point was that if you look at the schedule, beginning the final audit in October, onsite the second week of October, and until they complete that work, it is unclear on the update they would be providing. If there is a desire to check in after third week of October and mid-November, we can try that. Audit Committee Chairman Tulloch said he thinks it would be helpful to have some more regular check-ins as this schedule looks very compressed. Director of Finance Navazio said look to that meeting in late August as being the check in and that's the idea. We are having some conversations about the Staff deadlines and will circle back. Trustee Schmitz said she has the same concerns about year-end and that it is important that the Audit Committee review the report because there were significant changes. It is an election year and we will have different people on the Board. The ACFR doesn't need to be submitted the day after it is presented because the governing body has 30 days to review that document before it is due to the Department of Taxation. Because this is an election year, we need to be very clear on the timing and how it is going to be carried out and that it doesn't need to be submitted right away. This all needs to be figured out and noted on the long range calendar. Director of Finance Navazio said yes, the final report doesn't need to be filed right after, the Board has to receive it and it is filed by end of December. It is presented to the Board and it is the final report. If the Board doesn't want to submit it, they don't have to. That is the report and how the Board wishes to discuss it and comment on it. Trustee Schmitz said she does recall that the Department of Tax said if after it is presented, the Board of Trustees has 30 days for modifications. It might be simple things like footnotes and it is important to get this timeline mapped so there aren't surprises for Audit Committee or Board of Trustees. At-Large Audit Committee Member Dobler said what is real strange is that major public companies can get out a report in 75 days and posted in 90 days, and that we are just pushing it out. You can get a report done in 90 days. The Audit Committee has got to have the final financial statements that the auditor is willing to put an opinion statement on. The financial statements are prepared by Management and we need that window and the auditor gets the representation letter and if the Audit Committee doesn't agree, that final statement has to be agreed upon. We are preparing the financial statement to get to them and they provide

their opinion. There is no reason this should take 6-months and Staff knows we can do better. There is no reason to stretch it out for 6 months and it shows a total inefficiency. Audit Committee Chairman Tulloch said he concurs as that is how it is in the corporate world. This was jammed through to the end of November so we need to have some discussions with Staff and the Audit Committee to clear this up. He doesn't know when the election is. At-Large Audit Committee Member Dobler said it should be done in October. Audit Committee Chairman Tulloch said it certainly seems strange so let's discuss these comments with Davis Farr and get this a bit more logical otherwise will find ourselves in the same position as last year. At-Large Audit Committee Member Dobler said we should be approving our Management's statement and then it goes to the Auditor as we have to be on the same team to begin with. Audit Committee Chairman Tulloch said that this is Davis Farr's work plan and we have to add in the internal dates. Director of Finance Navazio said it is important, in the context of the audit and preparing financial statements, the role of the Audit Committee and it is Management's duty to provide them to the Auditor and that the Audit Committee shouldn't be telling us how to do that. At-Large Audit Committee Member Dobler said he wasn't suggesting that and using the auditors as a shield doesn't work for him. Audit Committee Chairman Tulloch said it becomes basically a fait accompli and both of you are correct here. Let's look at it, revise it and do what can be done to improve it. Trustee Dent had nothing further to add.

D.5. Receive, review and discuss presentation regarding how revenue is treated for play passes and punch cards (Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted materials. At-Large Audit Committee Member Dobler said he would like to have a discussion about the punch cards and Director of Finance Navazio explained it. Trustee Schmitz said she understands what he explained and her concern is, with the punch card, it has a value that stems from two different fees – community services and beach fee. The beach fund and the Community Services fund are not to be co-mingled because of the situation with Crystal Bay and she gave an example where the punch card is used 100% at the beaches, the portion that is being allotted for Community Services, and she has a concern about them being intertwined. When we are assigning these values, it is one-fifth of the total combined, but the components are broken down to capital, debt and operations, so to assign a value that has capital and debt, there are issues that need to be examined as it relates to the separation of the Community Services and Beach Funds.

Audit Committee Chairman Tulloch said a lot of it is interesting, not sure how it came on the agenda, not sure it is an Audit Committee item and he does recognize that our revenue system is complicated and maybe it shouldn't be. District General Manager Winquest said that this subject has been discussed so many times and that Trustee Schmitz brings up good points, however one of the main drivers, last time it was discussed, was that the golf season crosses over fiscal years, so the question is do you recognize all the revenue in May, when a play pass is purchased, and then what do you do when it gets used in another fiscal year? Most agencies defer the revenue to the date the program starts and there are several different ways to skin the cat and he agrees with consistency being the goal. Every product is not the same and he hopes this explanation helps. Trustee Schmitz said that this was very helpful about the revenue recognition. As a Trustee, she is concerned about the legality and having these monies represented on one card and she has worked hard to understand this and all of a sudden the light bulb went on. District General Counsel Nelson said he can work with Staff to determine the appropriate place to have this discussion. At-Large Audit Committee Member Dobler went over his suggestion about how the revenue should be accounted for. Director of Finance Navazio responded that it is the Board that allocates the facility fee through the budget. It really gets at the business model and you have to look at the whole picture. Trustee Dent had no comments.

D.6. Review, discuss and approve Annual Audit Committee report to the Board of Trustees as per Policy 15.1.0 (Audit Committee Chairman Ray Tulloch) *(was General Business Item D.1.)*

Audit Committee Chairman Tulloch gave an overview of the submitted report. Trustee Schmitz made suggestions for some changes on page 164, near the bottom, and page 165 she stated some concerns about adherence to the policy at it relates to capitalization and concerns with the newly created capitalization policy. At-Large Audit Committee Member Dobler stated that at the bottom of page 163, you may want to include Moss Adams report information. Trustee Dent had no changes but thanked Audit Committee Chairman Tulloch for doing this report. Audit Committee Chairman Tulloch said he will make the changes and submit the report so we don't have to have another meeting.

D.7. Review, discuss and possibly update the Audit Committee Long Range calendar

Audit Committee Chairman Tulloch went over the submitted document. Trustee Schmitz said she thought she had asked for a review of the capitalization policy, add a training plan for the Audit Committee members, and give a specific target date on the Whistleblower policy so as to have it approved by the end of this calendar year. Trustee Schmitz continued that she would like to suggest that they send it to the Board of Trustees in October as it is a policy we need to get implemented. Audit Committee Chairman Tulloch said that there was a POOL/PACT training on Tuesday. Trustee Schmitz said that she was suggesting more of an Open Meeting training and that she recommends checking into using Washoe County as a resource. District General Manager Winquest said we can reach out to Washoe County and see what they do. At-Large Audit Committee Member Dobler asked about the look back time period and Audit Committee Chairman Tulloch said he needs to think about it a little bit. Trustee Schmitz said putting something about consistency onto the Long Range Calendar is a valid request. Trustee Dent had no comments.

D.8. Review, discuss and determine if any further action is necessary on any correspondence received by Audit Committee

Audit Committee Chairman Tulloch said no correspondence was received.

D.9. Audit Committee Chairman's closing remarks for retiring Audit Committee members (was moved to the start of the agenda)

E. MEETING MINUTES (for possible action)

E.1. Meeting Minutes of June 1, 2022

Audit Committee Chairman Tulloch asked for changes, none were received so the meeting minutes were approved as submitted.

F. PUBLIC COMMENTS*

District General Manager Winquest thanked the Audit Committee for their work.

G. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:32 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 Linda Newman – June 16th, 2022 IVGID Audit Committee Meeting
Public comment

June 16th, 2022 IVGID Audit Committee Meeting Public Comment

By: Linda Newman – to be included with the Meeting Minutes

I appreciate and commend this Committee for your outstanding efforts to serve our Board and our community. Your commitment to financial transparency and accountability is evident in your relentless determination to improve the District's financial accounting and reporting. Each of you have volunteered your time, talent and experience to mentor our Board, Staff, one another as well as providing a platform for our citizens to express their compliments and their concerns.

After two years, Trustee Schmitz, you have a great many accomplishments to be proud. Just to name two, your extensive research and outreach produced an effective Audit Committee Policy and much needed Whistleblower Practices. Facing impasses and conflicts, you took a stand on providing solutions. As an active and engaged Trustee, you still found the time, energy and resources to communicate and work with other Trustees, Committee members, Staff, concerned citizens and independent consultants. As a pioneer of change for the better, you suffered your share of arrows and obstacles. Despite this, you stood strong and stood up for what was right. We will all miss your participation on this Committee and hope that a new Board will value your contributions and reappoint you next year.

Trustee Dent, you served as the first Chair of the new Committee and set the right tone for taking long overdue corrective action. You shared your construction and project management expertise and showed great respect for your fellow members and citizens. You, too, will be missed.

At large member, Mr. Dobler, your comprehensive research, prolific communication, outreach and diligent efforts to restore the integrity of the District's financial statements, construction and project management, budget process, and compliance with GAAP, Nevada State Law, as well as Board policies and practices have been unparalleled in the 30 years I have resided here. All of your contributions have been exceptional. Thank you for doing all the heavy analytical lifting and always upholding the correct principles even in the face of great adversity. Your presence, perseverance and extraordinary intellect will be missed.

Chair Tulloch, I am gratified that you will be continuing as Chair and will further strengthen the impact of this Committee. I am hopeful that you will also be elected as Board Trustee this November. You have set a new standard for well organized, comprehensive and respectful public meetings that make a big difference in exercising oversight.