

MEMORANDUM

TO: Board of Trustees

FROM: Sara Schmitz
Trustee/Audit Committee Member

Paul Navazio
Director of Finance

SUBJECT: Consider Supplementing FY2021/22 Independent Audit to Include Additional Agreed-Upon Procedures Related to 1) Capitalization of Assets and 2) Purchasing/Contracts; Authorize the Audit Committee Chair to Execute Individual Engagement Letters Covering Supplemental Audit Services, and Authorize Additional Task Orders to the District's Existing Contract with DavisFarr, LLP, in a Cumulative Amount Not-to-Exceed \$20,000.

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2 - Finance

DATE: May 11, 2022

I. RECOMMENDATION

It is recommended that the Board of Trustees:

- 1) Authorize the Audit Committee Chair to execute supplemental Engagement Letters, with the District's Independent Auditor, DavisFarr, LLP for additional audit services related to capitalization of assets and purchasing/contracts, to be performed in conjunction with the firm's audit of the District's FY2021/22 financial statements;
- 2) Authorize additional contract authority for the recommended supplemental audit services, in an amount not-to-exceed a cumulative cost of \$20,000;
- 3) Authorize associated Task Orders (#3 and #4) under the District's existing multi-year professional services contract with DavisFarr, LLP covering specified supplemental audit services

II. BACKGROUND

At their meeting of March 10, 2021, the Board of Trustees approved a five-year professional services contract with DavisFarr, LLP to provide independent audit services related to the annual audit of the District's financial statements. The contract provides for a fixed fee to cover the costs of annual audit of the District's financial statements, and also

provides a fee schedule by which additional audit services could be provided, at the request of the District, to be billed on a time and materials basis.

Under the existing professional services contract for independent audit services, the District would, on an annual basis, issue a task order covering the scope and deliverables related to the audit of the District's financial statements. The contract specifically provides that additional audit services may also be provided via separate task orders related to each specific audit topic.

The independent auditor's opinion and report related to the District's FY2020/21 Annual Comprehensive Financial Report (ACFR) was presented to the Board of Trustees at their meeting of December 14, 2021. Consistent with the requirements of Board Policy 15.1.0, the Audit Committee submitted its report on the FY2020/21 Audit to the Board of Trustees at the Board meeting of February 9, 2022, and was again on the Board agenda for discussion at the meeting of March 9, 2022.

Among the recommendations included in the Audit Committee's Annual Report was a specific recommendation as follows:

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

At their meeting of April 21, 2022, the Audit Committee discussed, in consultation with Ms. Jennifer Farr, Partner, DavisFarr, LLP, areas of particular interest for development of possible supplemental "agreed upon procedures" to be performed by DavisFarr. The Audit Committee identified two primary areas of interest for review of internal controls by the independent auditor:

- 1) Capitalization of Assets
- 2) Purchasing/Contracts

At the conclusion of the Audit Committee's discussion, the Committee authorized Trustee Schmitz to work with management and Ms. Jennifer Farr to develop the specific scope of audit services covering these two topics, to be performed under separate engagement letters and fee estimates, to supplement the audit of the District's FY2021/22 financial statements.

Provided via attachment to this Board memo are the proposed engagement letters and agreed-upon procedures covering the additional audit services to be performed by DavisFarr, as requested by the Audit Committee. The additional audit services are to include:

Capitalization of Assets:

- Review of applicable Board Policies, Practices and internal accounting procedures. (Note: New Board Policy 8.1.0 (Capitalization) to be deemed effective 1/1/22; prior capitalization policy effective 7/1/21 through 12/31/21).
- Review of all capitalized costs under \$5,000 (through 12/31/21) and under \$10,000 (from 1/1/22) to assess compliance with policy.
- Review of 30 transactions (15 over \$5,000 in the period of 7/1/2021 through 12/31/2021 and 15 over \$10,000 in the period of 1/1/2022 through June 30, 2022) to determine if transactions met requirements for capitalization.
- Review of all capital project costs exceeding \$50,000 to determine whether project met applicable capitalization criteria
- Report and recommendations to be provided to the Audit Committee and management

Purchasing/Contracts

- Review of applicable Board Policies, Practices and internal accounting procedures
- Review of transactions for 25 vendors (top 5 in dollar of transactions; 20 randomly selected)
- For each vendor, review of procurement process, contract authority, change order authority, deliverables and payments
- Report and recommendations to be provided to the Audit Committee and management

Management concurs with the recommendation to provide expanded contract authority to DavisFarr, and authorize the Audit Committee to execute the required engagement letters.

Should this procedure identify issues for additional consideration, it will be brought to the attention of management and the Audit Committee for potential expansion of scope. Should such work cause an estimated cost above the amount the Board of Trustees has approved, the issue and recommendations will be brought to the attention of the Board of Trustees.

III. FINANCIAL IMPACT AND BUDGET

The District's current five-year contract with DavisFarr, LLP for independent audit services establishes that the audit of the District's FY2021/22 financial statements is to be performed for a fixed fee of \$49,000. These funds are included in the District's FY2022/23 budget, subject to Board approval on May 26, 2022.

The additional audit services recommended to be performed via this agenda item would be billed on a time and material basis, under the fee schedule provided in the existing contract, and have been estimated to be in the range of \$12,000-\$20,000.

It is recommended that the Board of Trustees authorize additional contract authority, as well as additional FY2022/23 budget authority not-to-exceed \$20,000 for supplemental audit services to be performed in conjunction with the audit of the District's FY2021/22 financial statements.

If approved by the Board of Trustees, funding will be included in the District's Final FY2022/23 budget through a supplemental General Fund budget appropriation.

IV. ALTERNATIVES

The Board of Trustees could choose not to authorize one or both of the supplemental engagement letters to perform additional audit services at this time. This alternative would result in audit services being limited to the audit of District's FY2021/22 financial statements, at no additional cost.

V. CONCLUSION

It is recommended that the Board of Trustees:

- 1) Authorize the Audit Committee Chair to execute supplemental Engagement Letters, with the District's Independent Auditor, DavisFarr, LLP for additional audit services related to purchasing/contracting and capitalization of assets, to be performed in conjunction with the firm's audit of the District's FY2021/22 financial Statements;
- 2) Authorize additional contract authority for the recommended supplemental audit services, in an amount not-to-exceed cumulative cost of \$20,000;
- 3) Authorize associated Task Orders (#3 and #4) under the District's existing multi-year professional services contract with DavisFarr, LLP covering specified supplemental audit services

Attachments:

1. Engagement Letter – Independent Audit of District's FY2021/22 Financial Statements (informational).
2. Proposed Engagement Letter – Agreed-Upon Procedures Related to Capitalization of Assets
3. Proposed Engagement Letter - Agreed-Upon Procedures Related to Purchasing and Contracts

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 _____

By _____

Ray Tulloch, Chair of Audit Committee

Date _____

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 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: _____

Date: _____

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 capital projects with costs 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.

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: _____

Date: _____

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.