

## MEMORANDUM

**TO:** Audit Committee

**FROM:** Paul Navazio  
Director of Finance

Martin Williams  
Controller

**SUBJECT:** Follow-up on District's Final Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2022 as presented to the Board of Trustees at their meeting of December 14, 2022 and filed with the State of Nevada Department of Taxation. (Requesting Staff Member Director of Finance Paul Navazio).

**DATE:** February 7, 2023

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### **I. BACKGROUND**

This agenda serves as a follow-up to the District's Final ACFR for the fiscal year ended June 30, 2022.

- At their meeting of December 5, 2022, the Audit Committee received a presentation on the Draft ACFR and related Audit Reports, presented by the District's independent auditor, DavisFarr, LLP.
- Feedback from the Audit Committee was incorporated into the Final ACFR, presented to the Board of Trustees at their meeting of December 14, 2022 (see Attachment 1).
- Following presentation to the Board of Trustees, the Final ACFR for the fiscal year ended June 30, 2022 was filed with the State of Nevada Department of Taxation, pursuant to NRS 354.624.
- On January 24, 2023 the District received correspondence from the Department of Taxation summarizing their review of the District's Final ACFR (see Attachment 2).

### **II. DISCUSSION**

Since the filing of the Final ACFR the Board of Trustees and Audit Committee have received correspondence from community members related to the document. (See Agenda Item D.4). This agenda item addresses several of the issues raised in these communications.

*Correspondence from Mr. Dobler, dated 1/9/23:*

Statement of Net Position:

- The \$1.7 million referred to is the lease receivable, not capitalized assets. The lease assets capitalized are \$78,537 as listed in Note 5. The \$1.7 million receivable is for the cell tower leases, for which the District receives lease revenue. This is not capital assets, this is the way GASB 87 requires assets being leased out to be recorded.
- Note G, clearly states other receivables are, "service charges to customers and resident for deposits or fees that are earned, but not collected." Earned, but not collected would be they have not been received yet.
- Note H is a description of what a prepaid expense is, not stating there are any prepaid expenses in the financial statements. The difference from FY21 and FY22 is prepaid insurance, which was not paid until July in 2022, therefor it was not prepaid as of June 30, 2022.
- Note 5 has been created following the guidelines provided by GASB and our auditors. Adding another column to show items moved from CIP to capital would not be following these guidelines. This information is available in the CIP reconciliation done each year and can be provided as a public records request.

Statement of Revenues, Expenses and Changes in Net Position:

- The interest earnings in the Statement of Revenue, Expenses, and Change in Net Position is precisely that, the interest earned during the 12 months reported. The Interest listed on the Statement of Cash Flows shows the cash effect of interest received, lease interest, and interest earned. As these two statements are tracking different things, thus the numbers will be different. As for interest allocation, since the Board concurred with management's recommendation to allocate interest based on cash balance, investment income has been allocated by that methodology every month. (See memo to Board, dated April 13, 2022).
- Capital grants \$159,832 are not transfers, but grant funds provided by agencies outside the District. This \$47,926.54 was received from the Incline-Tahoe Foundation (ITF). This grant has nothing to do with the Recreation Center Expansion. Also, no billing for the Recreation Center had been processed by June 30, therefore no grant receivable was processed. A receivable has to be available, and collectable, without a grant claim, otherwise it cannot be a receivable.

Statement of Cash Flows:

- The Statement of Cash Flows takes into account every item in the change in net position, and the statement of net position. There the number shown for cash effect

of these items will never match the number listed on either report, as both reports need to be considered. The cash spent on acquisition of capital assets includes the changes in all the capital assets, plus lease receivables. The \$2,552 for the internal services funds is the change in deferred inflows from FY2021.

NOTE 18:

- The carry-forward amounts referenced in Note 18 include both capital and capital expense items approved by the Board (8/31/22) as well as General Fund carry-over amounts approved as part of the Final Budget (5/26/22). As a Governmental fund, any General Fund carry-overs must go through a more detailed approval process, so these roll forwards are added to the new fiscal year's budget when it is approved.

Correspondence from Mr. Dobler, dated 1/14/23:

- The listing of contractual commitments shown in Note 18 is not intended to be an exhaustive listing of contractual obligations. The list provides examples of contractual obligations, selected to include priority projects of community interest.
- Two errors were noted in the table of contractual obligations included in this note. The Avail contract, which was fully spent by June 30, and the Axess America (RFID) contract was executed after June 30, 2022, and the expenditures shown were incurred in the current fiscal year. Corrections are reflected below:

The District has committed to contractual obligations for selected capital improvement projects through contracts, resulting in encumbered funds at year-end. These are included in the appropriations carry-forward to the FY2022/23 budget, and are summarized as follows:

Contractor	Project	Contract Amount	Completed (6/30/22)	Remaining Amount
CORE West, Inc	Burnt Cedar Pool Imp	\$3,845,865	\$3,567,790	\$ 278,075
Avail Enterprises, LLC	Rec Center Lobby	159,832	159,832	
Ward-Young Architects	Rec Center Lobby	36,724	32,724	4,000
Ward-Young Architects	Rec Center Locker Room	91,972	85,904	6,068
Granite Construction	Effluent Pipeline	369,218	190,609	178,609
Axess America	RFID Gates	369,105	105,458	263,647

Attachments:

- Board Memorandum – Presentation of Final ACFR for Fiscal Year Ended June 30, 2022 (meeting of December 14, 2022)
- Correspondence from State of Nevada Department of Taxation, dated January 24, 2023

**MEMORANDUM**

**TO:** Board of Trustees

**THROUGH:** Indra Winqest  
District General Manager

**FROM:** Paul Navazio  
Director of Finance

**SUBJECT:** Transmittal of District's Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2022 and Related Audit Report(s) (Director of Finance Paul Navazio and Jennifer Farr, Partner, Davis Farr, LLP).

**DATE:** December 14, 2022

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**I. BACKGROUND**

This agenda item serves to transmit to the Board of Trustees the District's Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2022, as well as the required Audit Communications provided by the District's Independent Auditor, Davis Farr, LLP.

The final Annual Comprehensive Financial Report being transmitted via this agenda item incorporates the following reports provided by the District's Independent Auditor, DavisFarr, LLP:

- Audit Opinion – Independent Auditor's Report
- Audit Communications (*Attachment 3*)
  - Required Audit Communications
  - Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

**II. DISCUSSION**

This agenda item presents the District's Final ACFR for the Fiscal Year ended June 30, 2022, to include the results of the audit conducted by the District's independent auditor, Davis Farr, LLP, and required Audit Communications.

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**AUDIT RESULTS**

- The District's Independent Auditor has issued an unmodified opinion that the District's financial statements present fairly, in all material respects, the financial position of the District, its governmental activities, business-type activities, and all major funds, as of June 30, 2022.
- In their *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*, the District's Independent Auditor did not note any "material weaknesses"; however the auditor has highlighted three areas that have been determined to be reported as "significant deficiencies". These are summarized as follows:

2022-001 – Journal Entries Detected During the Audit –

This stems from three journal entries that were processed as a result of the audit work performed, and are reflected in the financial statements. These include:

- a) An entry to remove legal settlement liabilities in the General Fund to reflect this liability in the government-wide financial statement rather than in the fund-type statement (\$596,253).
- b) An entry to remove compensated absences from the General Fund because the long-term liabilities are to be recorded in the government-wide financial statements rather than the fund-type statement (\$145,840).
- c) An entry to increase the Due from Other Governments in the General Fund (\$84,340).

2022-002 – Physical Inventory Observation

This stems from the fact that the District did not perform a fiscal year-end physical inventory of assets in the Championship Course Pro Shop. The auditor notes that while the inventory balance is not considered material, they nonetheless highlight the need to perform year-end inventory counts.

2022-003 – Timely Preparation of Bank Reconciliations

The auditors note that the District did not complete the year-end bank reconciliation until mid-October, and recommends that bank reconciliations be completed within 30 days of each month-end.

The *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters* includes Management Responses, as required, to findings and recommendations identified by the independent auditor.

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**CHANGE IN ACCOUNTING PRACTICES**

The District's audited financial statements for the fiscal year ended June 30, 2022 reflect two changes in accounting practices from the prior year:

- 1) *Transition from Governmental Fund to Proprietary Fund accounting for the District's Community Service Fund and Beach Fund.* This change was implemented, per Board of Trustees direction, as of July 1, 2021. As a result, prior period adjustments are required to re-state beginning fund balance/net position for each of these major funds.
- 2) *Implementation of GASB 87 – Leases.* Implementation of GASB Statement 87, effective with the fiscal year ended June 30, 2022, requires the recognition of certain leased assets and liabilities for leases that were previously classified as operating leases. This required change in accounting practice impacts the treatment of the District's golf cart lease (as lessee) and cell tower leases (as lessor).

**FINANCIAL HIGHLIGHTS**

Financial highlights based on Government-wide Financial Statements, for the year ended June 30, 2022:

Incline Village General Improvement District Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 2	\$ 17,060,831	\$ 32,480,390	\$ 12,831,060	\$ 32,480,392	\$ 29,891,891
Operating Grants	2,000	18,440	39,138	39,857	41,138	58,297
Capital Grants and contributions	-	88,505	47,927	-	47,927	88,505
General Revenues:						
Ad valorem taxes	1,893,214	1,812,958	-	-	1,893,214	1,812,958
Consolidated taxes	2,049,551	1,888,448	-	-	2,049,551	1,888,448
Facility Fees	-	6,537,641	6,090,681	-	6,090,681	6,537,641
Unencumbered Investment income	(17,188)	73,594	(93,733)	33,681	(110,921)	107,275
Other	1,402	127,897	435,446	-	436,848	127,897
<b>Total Revenues</b>	<b>3,928,981</b>	<b>27,608,314</b>	<b>38,999,849</b>	<b>12,904,598</b>	<b>42,928,630</b>	<b>40,512,912</b>
<b>Expenses</b>						
General Government	3,497,944	2,887,892	-	-	3,497,944	2,887,892
Utilities	-	-	12,399,729	11,449,802	12,399,729	11,449,802
Community Services	-	18,996,222	20,779,505	-	20,779,505	18,996,222
Beach	-	2,186,645	1,784,943	-	1,784,943	2,186,645
<b>Total Expenses</b>	<b>3,497,944</b>	<b>24,070,759</b>	<b>34,964,177</b>	<b>11,449,802</b>	<b>38,462,121</b>	<b>35,520,561</b>
Excess Revenue (Expenses)	431,037	3,537,555	4,035,672	1,454,796	4,466,709	4,992,351
<b>Changes in Net Position</b>	<b>431,037</b>	<b>3,537,555</b>	<b>4,035,672</b>	<b>1,454,796</b>	<b>4,466,709</b>	<b>4,992,351</b>
Beginning Net Position, as reported	82,946,057	79,265,885	76,985,593	78,697,763	159,931,650	157,963,648
Prior Period Adjustment	(75,105,674)	142,617	75,199,871	(3,166,966)	94,197	(3,024,349)
Beginning Net Position, as adjusted	7,840,383	79,408,502	152,185,464	75,530,797	160,025,847	154,939,299
<b>Ending Net Position</b>	<b>8,271,420</b>	<b>82,946,057</b>	<b>156,221,136</b>	<b>76,985,593</b>	<b>164,492,556</b>	<b>159,931,650</b>

- The District's net position as of June 30, 2022 was \$164.49 million and reflects an increase in net position of \$4.47 million over the prior year. Of

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this amount, a total of \$45.44 million (unrestricted net position) is available to meet the District's future obligations, including future planned capital projects.

- The net position of the District's governmental activities increased by \$0.43 million (to \$8.27 million) and the net position of the District's business-type activities increased by \$4.04 million (to \$156.22 million).
- The District's General Fund unassigned fund balance increased to \$5.25 million. This compares favorably to the District's fund balance policy of 15% of annual expenditures (or \$0.52 million).
- The District's Utility Fund ended the fiscal year with a net position of \$77.57 million, which represents an increase of \$0.58 million from the prior year. The Community Services Fund ended the year with a net position of \$64.72 million, reflecting a decrease of \$0.75 million from the prior year; the Beach Fund ended the year with a net position of \$13.93 million, reflecting an increase of \$4.21 million from the prior year.
- As of June 30, 2022 the District had total bond debt outstanding of \$3.43 million including Utility Revenue Bonds outstanding of \$2.99 million and Recreation Bonds outstanding totaling \$0.39 million. The District retired \$0.93 million in bond principal during the fiscal year.

### *Audit Committee Review*

The Audit Committee received a copy the District's initial draft ACFR on November 16, 2022, concurrent with staff's transmittal of same to the Independent Auditor. At their meeting of December 5<sup>th</sup>, the Audit Committee received an updated draft ACFR, a report from Jennifer Farr, Partner, Davis Farr, LLP, on the audit as well as drafts of the Audit Opinion and Audit Communications.

Based on the Audit Committee's review and comments, final revisions have been incorporated into the Final ACFR being presented to the Board via this agenda item. In addition, the Independent Auditor has updated its *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters*, as included the Compliance Section of the ACFR.

Revisions incorporated into the Final ACFR as a result of the Audit Committee's review include:

- *Statement of Net Position* - Reclassification of the amount reflected in the draft ACFR related to Claims Payable from "restricted" to "unrestricted." As

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a result of the liability reported for this item, it should not have been included as a restricted amount in the Statement of Net Position.

- *Note 2 – Cash and Cash Equivalents, and Investments.* The dollar amounts shown in the text of the Note were updated to match the figures shown in the table (as of June 30, 2022). The draft document had not been updated from the amounts reported as of June 30, 2021.
- *Supplementary Information:* Utility Fund Statement of Revenue, Expenses and Change in Net Position. This is a new supplementary schedule added in this year's ACFR at the request of the (former) Audit Committee. A formula error as noted in the "variance" column (Net Position), and has been corrected.
- Various, non-substantive edits were made in the Notes to the Financial Statements to clarify certain explanations and acronyms.
- In its review of the Management Representation Letter, the Audit Committee noted a reference to an attachment related to Adjusting Journal Entries that were passed on by Management due to the fact that they did not meet the auditor's threshold for materiality. The auditor has provided this attachment that was included in the executed Management Representation Letter.

### *NEXT STEPS*

Per Nevada Revised Statutes (NRS) requirements (354.624), the District is required complete the audit within five months of the end of the fiscal year (November 30<sup>th</sup>), and present it to the governing Board within 30 days (December 30<sup>th</sup>). Immediately following presentation to the governing board the Annual Comprehensive Financial Report, audit report, and management representation letter are to be filed with the State Department of Taxation.

Pursuant to Policy 15.1.0 the Audit Committee is charged with submitting a report to the Board of Trustees in conjunction with the presentation of the Annual Comprehensive Financial Report.

Website Link to Policy 15.1.0: [https://www.yourtahoepace.com/uploads/pdf-ivgid/15\\_1\\_0\\_Audit\\_Committee\\_Charter\\_Eff\\_06-29-2022.pdf](https://www.yourtahoepace.com/uploads/pdf-ivgid/15_1_0_Audit_Committee_Charter_Eff_06-29-2022.pdf)



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Attachments:

1. Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2022.
2. Audit Opinion (Davis Farr, LLP)
3. Required Audit Communications (Davis Farr, LLP)
4. Management Representation Letter, dated December 5, 2022



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DEPARTMENT OF TAXATION

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January 24, 2023

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

Re: Annual Audit Report – Fiscal Year 2022

Dear Mr. Navazio:

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

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

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

Sincerely,

A handwritten signature in cursive script that reads "Kellie Grahmann".

Kellie Grahmann  
Budget Analyst  
Local Government Finance