

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.

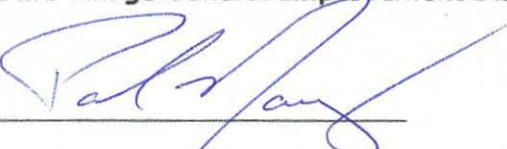
Very truly yours,



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:

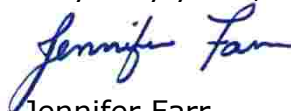
- Known or suspected instances of employee fraud
- Areas in which the internal controls of the District are thought by the Committee to be weak
- Known or suspected misstatements in the accounting records of the District
- Known or suspected use of improper accounting practices by the District
- Any 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