

## MEMORANDUM

**TO:** Audit Committee

**FROM:** Cliff Dobler  
Audit Committee Member

**SUBJECT:** Allocation of Investment Income earned on Cash, Cash Equivalents and Investments for the IVGID Governmental Funds ONLY for the fiscal years ending June 30, 2019 and 2020.

**DATE:** October 26, 2021

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### **I. RECOMMENDATION**

The Audit Committee and Finance Staff review, discuss and possibly consider changes in the methodology used to allocate interest earned between funds based on average annual cash balances.

### **II. BACKGROUND**

A memo was provided to the 6/21/21 Audit Committee meeting regarding the Allocation of Investment Income earned on Cash, Cash Equivalents and Investments for the IVGID Governmental Funds. In response IVGID Finance staff provided further details on 8/10/21. Subsequently additional questions have been raised regarding the methodology used to allocate interest between funds. The attached memo – Appendix 1 – provides details.

### **III ACTIONS**

To be agreed based on review and discussion.

### **IV. ALTERNATIVES**

Do not move forward with the proposed review.

### **V. FINANCIAL IMPACT**

There is no aggregate financial impact.

## **Audit Committee meeting 10/26/21**

### **Appendix 1 to Agenda Item D5**

October 18, 2021 *Revised*

To: IVGID Audit Committee  
From: Cliff Dobler

cc: Board of Trustees, Paul Navazio and Indra Winquest  
Re: Misallocation of Investment Income earned on Cash, Cash Equivalents and Investments for the IVGID Governmental Funds ONLY for the fiscal years ending June 30, 2019 and 2020

#### **Issue**

IVGID may have not properly allocated the Investment Income of \$563,335 for fiscal year 2019 and \$591,208 for fiscal year 2020 between the governmental funds of IVGID. As such, based on average CASH held in each of the governmental funds, approximately \$532,000 may have been improperly recorded in the General Fund rather than in the three Community Services Funds and the three Beach Funds. See Exhibit A

#### **Background**

Since 2019, the District has been holding in excess of \$20,000,000 in Cash, Cash Equivalents and Investments ("CASH") for the governmental funds (No Utility Fund) most of which have been invested into three main vehicles:

- State of Nevada Local Government Investment Pool (LGIP)
- Wells Fargo Bank - Certificates of Deposits,
- US agency securities

For the past two years, approximately 60% of the CASH has been held in the pooled Nevada State LGIP account. According to the historic distributed interest rates of the LGIP, the annual yields, calculated by month, have been between 1.99% and 2.54% in 2019 and .92% and 2.47% in 2020. The annual yields from certificates of deposits and US agency securities, administered by Wells Fargo Bank, are unknown, however, the yields would probably be in line with the yields produced by the LGIP.

It is not known how IVGID has allocated the Investment Income for both fiscal years between the seven governmental funds. There is no Board Policy or Practice which provided any insight. Based on the lopsided amounts allocated to the General Fund a fair and reasonable allocation was not conducted.

This memo only addresses fiscal years 2018/2019 and 2019/2020 but this issue may have been occurring since, at least, fiscal year 2015.

#### **Analysis - EXHIBIT A**

Exhibit A establishes a fair and reasonable allocation of the Investment Income based on the average CASH held in each of the 7 funds. In order to establish a fair and reasonable allocation of the Investment Income, Exhibit A lists the beginning and ending CASH for the fiscal years 2019 and 2020 and establishes the average CASH for each of the 7 funds.

The average CASH in each fund allocated proportionally to the total CASH held by all funds provides a basis for a fair and reasonable allocation of the Investment Income.

As indicated, the Investment Income allocated to the General Fund was substantially in excess in relation to the overall Investment Income based on the annual average CASH in each governmental fund.

This analysis does NOT include restricted deposits of \$379,577 in 2019 and \$385,160 in 2020 stated on the balance sheet. A determination should be made on where the interest on these deposits were recorded. It is unknown if the cash deposits are held in separate bank accounts or held at the LGIP.

Based on additional public records received after June 21, 2021, three observations are made:

- In January, 2019 interest earned from the LGIP and recorded in the General Fund increased dramatically and at the same time, interest earned in the Community Services Special Revenue Fund (Ski sub fund) ended completely. The LGIP account balances at June 30, 2019 and 2020 were \$8.2 million and \$13.2 million which were far in excess of the General Fund cash positions of \$4.6 million and \$5.5 million for the same dates. It appears that interest earned from Community Services cash was being redirected to the General Fund.
- In 2019 and 2020, Wells Fargo held \$6 million and \$5.8 million in CD's and agency securities in a "Cash Pool Account". All interest earned was recorded in the General Fund. These amounts again exceeded the total cash held in the General Fund.
- IVGID records the increase in market value over the purchase price of a CD as Investment earnings. The amounts recorded as mark to market income for the governmental funds (no Utilities) may have been biased towards the General Fund. A full analysis is necessary of the allocation of the mark to market income. In fiscal 2020 the year end journal entries recording mark to market income had 70% allocated to the General Fund.

It should also be noted that the restricted deposits on the Statement of Net Position do not agree with the Notes to the Financials.

Unless specific amounts of cash and related investment earnings can be identified by Fund, then the averages of cash in each fund could be used to properly allocate investment earnings as described below in Exhibit A.

- The investment income of all funds for fiscal year 2019 was \$563,325 and produced an annual yield of 2.75% based on the average CASH of \$20.5 million held during the fiscal year. The average cash for the General Fund **was only \$3.9 million** representing only 19% of total CASH, however it received \$327,817 or 58% of the investment income. Properly allocating the investment income based on average CASH held during the year, only \$107,168 should have been allocated to the General Fund. **An apparent overstatement of approximately \$220,647.**
- The investment income for fiscal year 2020 was \$591,208 and produced an annual yield of 2.480% based on the average CASH of \$23.8 million held during the fiscal year. The average cash for the General Fund was only \$5.1 million representing only 21% of total CASH but it received \$436,643 or 74% of the investment income. Properly allocating the investment income based on average CASH held during the fiscal year, only \$125,550

should have been allocated to the General Fund. ***An apparent overstatement of \$311,093.***

The overstatements described above may exceed the threshold of Materiality of the General Fund's financial condition.

A review and subsequent report on the appropriate amounts of investment income which should have been allocated to each of the seven governmental funds should be performed as soon as possible. Based on the report, an adjustment to the various accounts may require to be made.

This recorded allocation of investment income for 2019 and 2020 substantially favored the General Fund by almost \$532,000 in additional Revenues and may be constitute a misstatement of the financial conditions of the General Fund.

- The Balance Sheet in the 2020 CAFR indicates the General Fund had assets of only \$6.2 million thus the overstatement of almost \$532,000 in CASH overstates the General Fund assets by almost 8.6%.
- The Balance Sheet also indicates the Unassigned Fund Balance was only \$3.1 million thus the overstatement of almost \$532,000 in CASH overstates the Unassigned Fund Balance by 17.2%.
- According to the CAFR's, the Excess of Revenues over Expenditures for fiscal year

Based on the threshold of materiality provided to the Audit Committee by Davis Farr, LLP, the District auditors, these estimated errors may rise above the threshold of materiality for fiscal years 2019 and 2020 and, if this is the case, should be addressed in the 2021 CAFR.

#### **IVGID Staff response to inquiry on the June 21, 2021 memo to Audit Committee by Cliff Dobler**

On August 10, 2021, Staff of IVGID provided details of errors in recording earnings from investments for money market and checking accounts only. All interest earned was recorded in the General Fund. A proper allocation would have reduced investment earnings in the General Fund by \$25,445 in fiscal year 2018/2019 and \$18,264 in 2019/2020 and then increased investment earnings in other governmental funds. The analysis did not address the Certificate of Deposits, Agency Securities or the State LGIP account.

#### **Exhibit A - Analysis of Allocation of Investment Income - fiscal years 2018/2019 and 2019/2020 Revised**

**Incline Village General Improvement District**

**EXHIBIT A**

Analysis of Allocation of Investment Income Fiscal years 2018/2019 and 2019/2020

Governmental Fund ONLY - Does not include Utility Fund

Sources - CAFR Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances

	General Fund	Community Services SR Fund	Beaches SR Fund	Community Services CP Fund	Beach CP Fund	Community Services DS Fund	Beach DS Fund	Total
<b>Fiscal year ending June 30, 2019</b>								
6/30/2018 Cash, Cash Equivalents, Investments	3,174,585	11,689,289	1,539,550	2,610,032	101,701	51,553	4,606	19,171,316
6/30/2019 Cash, Cash Equivalents, Investments	4,619,435	14,751,053	1,945,888	372,676	109,433	-	-	21,798,485
<b>AVERAGE</b> Cash, Cash Equivalents, Investments	<b>3,897,010</b>	<b>13,220,171</b>	<b>1,742,719</b>	<b>1,491,354</b>	<b>105,567</b>	<b>25,777</b>	<b>2,303</b>	<b>20,484,901</b>
Investment Income for Fiscal year 2019 (As reported)	327,815	199,322	36,188	-	-	-	-	563,325
Investment Income return (yield) for Fiscal Year 2019	<b>8.41%</b>	1.51%	2.08%	0.00%	0.00%	0.00%	0.00%	<b>2.750%</b>
Proper Allocation based on AVERAGES	107,168	363,555	47,925	41,012	2,903	709	54	563,335
<b>Estimated Adjustment</b>	<b>(220,647)</b>	<b>164,233</b>	<b>11,737</b>	<b>41,012</b>	<b>2,903</b>	<b>709</b>	<b>54</b>	<b>0</b>

<b>Fiscal year ending June 30, 2020</b>								
6/30/2019 Cash, Cash Equivalents, Investments	4,619,435	14,751,053	1,945,888	372,676	109,433	-	-	21,798,485
6/30/2020 Cash, Cash Equivalents, Investments	5,505,558	17,724,284	2,646,405	-	-	-	-	25,876,247
<b>AVERAGE</b> Cash, Cash Equivalents, Investments	<b>5,062,497</b>	<b>16,237,669</b>	<b>2,296,147</b>	<b>186,338</b>	<b>54,717</b>	<b>-</b>	<b>-</b>	<b>23,837,366</b>
Investment Income for Fiscal year 2020 (As reported)	436,643	126,143	28,422	-	-	-	-	591,208
Investment Income return (yield) for Fiscal Year 2020	<b>8.63%</b>	0.78%	1.24%	0.00%	0.00%	0.00%	0.00%	<b>2.480%</b>
Proper Allocation based on AVERAGES	125,550	402,694	56,944	4,621	1,357	-	-	591,167
<b>Estimated Adjustment</b>	<b>(311,093)</b>	<b>276,551</b>	<b>28,522</b>	<b>4,621</b>	<b>1,357</b>	<b>-</b>	<b>-</b>	<b>(41)</b>