

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tulloch

FROM: Clifford F. Dobler

SUBJECT: Expensing net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund .

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 3-17-2022

I. RECOMMENDATION

The Audit Committee recommends that \$1,169,230 in costs net of accumulated depreciation for 3 ongoing Utility Fund projects be EXPENSED. The costs are for the fiscal years ending June 30, 2015 to 2021 (Exhibit A). It is recommend that the charge off and expense be incorporated in a revised Annual Comprehensive Financial Report as of June 30, 2021. The amount of accumulated depreciation must be determined.

II. BACKGROUND and ANALYSIS

Several years ago, IVGID established 3 capital projects as follows:

- 1) Adjust Utility Facilities in NDOT/Washoe County Right of Way (Exhibit B)
- 2) Replace Commercial Water Meters, Vaults and Lids (Exhibit C)
- 3) Replace and Reline Sewer Mains, Manholes and Appurtenances (Exhibit D)

The first project is mandated by various state agencies when public streets are being repaved. Normally the paving occurs annually. A contract is entered into with NDOT with estimates of cost of each manhole, vaults, or lid which are less than \$2,500 each and IVGID is responsible to complete the task .

The second project is the maintenance of 85 commercial water meters and 26 pressure reducing valve stations.

The third project is the replacement and rehabilitation of sewer mains , manholes and appurtenances . The District maintains 1,800 manholes, 100 miles of gravity sewer mains, 32 miles of force sewer mains and 79 air release valves. These do not include the Effluent Pipeline..

Some of the repairs and maintenance are accomplished by in house personnel. and larger projects may be contracted out.

The Moss Adams report dated 1-27-2021 - page 27 states: (Exhibit E)

"Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility and are expensed as routine repairs and maintenance. Any outlay that does no more than return a capital to its original condition, regardless of the amount expended should be classified as maintenance and repairs. Since maintenance and repairs provide no additional value, their cost should be recognized as expense when incurred. (GAAFR 23-10)"

In addition, Board Policy 9.1.0 has set a capitalization threshold of \$5,000 based on individual items

Lastly, the current draft Capital Improvement Budget for fiscal year 2022-2023 has listed \$155,000 for the three projects to be EXPENSED.

Exhibit A - Expensing the net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund

Exhibit B - Project Summary 2907DI1401A Adjust Utility Facilities in NDOT/Washoe County Right away

Exhibit C - Project Summary 2299DI1103 Replace Commercial Water Meters Vaults

Exhibit D - Replace & Reline Sewer Mains, Manholes and Appurtenances

Exhibit E - Moss Adams report page 27

BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Additional prior period adjustments except for F/Y 2021

V. ALTERNATIVES

Do not comply with Board approved decisions regarding expensing past capital asset and have inconsistencies in the reporting of the annual financial reports. .

VI. COMMENTS

None

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

Consistency with Board Policies and the Moss Adams recommendations provide for financial statements which are consistent from year to year and are fair and reasonable.

EXHIBIT A

**Incline Village General Improvement District
Expensing Utility Fund Capital Assets for water and sewer items
Fiscal year 2015 to 2021**

<u>Type of Capital Assets to be expensed</u>	<u>Account Num</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Adjust Utility Facilities in NDOT/Washoe County Right of Way	2097DI1401	\$ 3,458	136,548	24,354	71,248	60,027	30,376	21,874	\$ 347,885
Replace Commercial water meters, vaults and lids	2299DI1103	123,149	94,548	68,934	23,278	47,386	10,883	48,818	416,996
Replace & Reline Sewer Mains, Manholes & Appurtenances	2599SS1203	22,779	21,285	103,985	102,351	66,559	18,120	69,270	404,349
Total		\$ 149,386	252,381	197,273	196,877	173,972	59,379	139,962	\$ 1,169,230

Source - Capital Project Reports 2015 to 2021

DOES NOT INCLUDE ACCUMULATED DEPRECIATION



Project Summary

Project Number:	2097DI1401
Title:	Adjust Utility Facilities in NDOT/Washoe County Right of Way
Project Type:	E - Capital Maintenance
Division:	97 - Public Works Shared
Budget Year:	2021
Finance Option:	
Asset Type:	DI - Distribution Infrastructure
Active:	Yes

Project Description

Adjust manholes and valve box covers in public streets in conjunction with Washoe County, RTC and Nevada Department of Transportation (NDOT) projects, including Environmental Improvement Projects (EIP). The scope of annual projects are not known until spring of each year and is based on the Washoe County Public Works, RTC and NDOT preliminary estimates of work. In addition to the valves and manholes within Washoe County's project limits, IVGID will adjust some of the miscellaneous valves and manholes that are out of specifications if discovered. On occasion, NDOT and County projects can require utility relocation of a scope beyond simply adjusting manholes and valve box covers. The budget provided in this data sheet will also be utilized to cover the design costs associated with utility relocation on such projects.

Project Internal Staff

Engineering will do the contract administration, bidding, and inspection. Work is done by outside contractors.

Project Justification

As a requirement of our use of public rights-of-way for Utility improvements the District must adjust our structures to comply with the requirements of public infrastructure projects. Washoe County's CIP includes money for road and EIP work in Incline Village and Crystal Bay generally every year. In May 2021 Washoe Co. is expected to begin work on their Lower Wood Creek EIP likely affecting IVGID utilities. In 2021 NDOT anticipates extensive work along both SR28 and Mount Rose Highway. In prior years, the District has spent between \$30,000 and \$70,000 each year to complete this work. Certain projects can include complete relocation of sewer and water mains to avoid conflict with the infrastructure to be installed by the County or NDOT.

Forecast			
Budget Year	Total Expense	Total Revenue	Difference
2021			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Year Total	25,000	0	25,000
2022			
Internal Services	10,000	0	10,000
NDOT projects	60,000	0	60,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	95,000	0	95,000
Year Total	180,000	0	180,000
2023			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000

2024			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2025			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2026			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2027			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2028			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2029			
Internal Services	10,000	0	10,000
NDOT projects	100,000	0	100,000
Raise Manholes & Valve Boxes	5,000	0	5,000
Washoe County projects	100,000	0	100,000
Year Total	215,000	0	215,000
2030			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2031			
Internal Services	10,000	0	10,000

Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2032			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2033			
Internal Services	10,000	0	10,000
Raise Manholes & Valve Boxes	15,000	0	15,000
Washoe County projects	35,000	0	35,000
Year Total	60,000	0	60,000
2034			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
2035			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
2036			
Internal Services	10,000	0	10,000
Washoe County projects	50,000	0	50,000
Year Total	60,000	0	60,000
	1,200,000	0	1,200,000

Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Senior Engineer	



Project Summary

Project Number:	2299DI1103
Title:	Replace Commercial Water Meters, Vaults and Lids
Project Type:	E - Capital Maintenance
Division:	99 - General Administration - Water
Budget Year:	2021
Finance Option:	
Asset Type:	DI - Distribution Infrastructure
Active:	Yes

Project Description				
The District owns and maintains 85 commercial water meters installed in heavy duty meter vaults and 26 pressure reducing valve stations. This project will continue the replacement of these commercial water meters and PRV vaults and or lids. Current useful life of a commercial meter is 20-50 years dependent on use, pressure and flows. Vault life can be approximately the same time period depending on location, traffic and the elements. These meters, vaults and lids have been put on our replacement list by priority but the list can change from year to year depending on the needs. These meters are in various configurations ranging in size from 4 to 10 inch. In coming years there will be continued replacement needed for meters, vaults and lids.				
Project Internal Staff				
Public Works staff will order and purchase the meters, vaults and lids, and bid and oversee the installations. Contractors will install the meters and replace vaults and lids.				
Project Justification				
Replacement of the commercial water meters will increase accuracy in meter reading and increase revenue. As meters age, they become less accurate and will measure water usage below actual, as is required by AWWA standards. Commercial water meters can last 20-50 years. Typically old meters are not worth repairing because parts are unavailable and newer meters meet the water demand profiles of our customers. Many meter vaults and lids are also in disrepair and need replacement for public and crew safety reasons and ease of accessibility for testing. This project allows for radio reading of all the commercial and residential meters combined. This project is programmed to replace the meter, vaults and lids using a just-in-time approach to maximize use prior to failure. In 2020-21, the District will be replacing all the large meter transponders from radio transponders to cellular transponders to improve data collection, enhance customer service and provide rel water usage tracking for these large revenue meters. Staff has received a quote of \$38,000 from Badger Meter for the materials. Staff would install during meter calibration and testing of these meters.				
Forecast				
Budget Year	Total Expense	Total Revenue	Difference	
2021				
Transponder and Register Head Replacement	40,000	0	40,000	
Trimble Unit	10,000	0	10,000	
Vaults, structures and lids replacement	5,000	0	5,000	
Year Total	55,000	0	55,000	
2022				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	40,000	0	40,000	
2023				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	40,000	0	40,000	
2024				
Vaults, structures and lids replacement	40,000	0	40,000	
Year Total	40,000	0	40,000	
	175,000	0	175,000	
Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Collection/Distribution Supervisor	



Project Summary

Project Number:	2599SS1203
Title:	Replace & Reline Sewer Mains, Manholes and Appurtenances
Project Type:	E - Capital Maintenance
Division:	99 - General Administration - Sewer
Budget Year:	2021
Finance Option:	
Asset Type:	SS - Sewer System
Active:	Yes

Project Description

This project includes the replacement and rehabilitation of sewer mains, manhole and appurtenances. Sections of sewer line, manholes and air relief valve rehabilitation have been identified for replacement. A priority list has been developed by Public Works staff. In addition to regular maintenance, sewer rehabilitation projects help the District to stay in compliance with Nevada Department of Environmental Protection (NDEP) permits and avoid sanitary sewer overflows. The District maintains approximately 1,800 manholes, 100 miles of gravity mains, 32 miles of force main and 79 air relief valves.

Project Internal Staff

Public Works staff will perform design, bid, contract administration and inspection. Larger projects will be contracted out while smaller projects will be performed by Public Works staff.

Project Justification

Line blockages and ground water intrusion increases the District's operating costs and puts the District at risk of violating its (NDEP) permit and potentially incur fines. Typically older clay sewers exhibit poor performance and are likely candidates for blockages and increased maintenance activities mainly due to root intrusion. There are manholes throughout the service area that require rehabilitation to prevent groundwater intrusion, which can also cause the concrete structure to deteriorate and to possibly collapse. By keeping close track if line blockages, customer complaints and closed circuit television (CCTV) inspection results, a priority list has been established for replacement or relining of sewer mains and manholes. The priority is based on a score, flow, proximity to streams and/or the lake. Older air release valves (arv's) can be difficult to access and unsafe to work on. Parts for these valves are obsolete. By repairing faulty mains and manholes, we also reduce the potential for sewer overflows in storm events while reducing the flows to the wastewater treatment plant. This works in conjunction with a strong preventative maintenance program of line cleaning and CCTV work. Extensive sewer main rehabilitation work was done in 2014 by CIPP lining and future projects are planned for anticipated failures as pipes age. ARV replacements are ongoing by IVGID crews.

Forecast			
Budget Year	Total Expense	Total Revenue	Difference
2021			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	75,000	0	75,000
Year Total	80,000	0	80,000
2022			
Internal Services	10,000	0	10,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	60,000	0	60,000
2023			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000

2024			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	105,000	0	105,000
2025			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2026			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Sewer Main Rehabilitation	500,000	0	500,000
Year Total	555,000	0	555,000
2027			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2028			
Construction Inspection & Testing	5,000	0	5,000
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	100,000	0	100,000
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	160,000	0	160,000
2029			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2030			
Internal Services	5,000	0	5,000
Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2031			
Internal Services	5,000	0	5,000

Manhole and Wet Well Rehabilitation	50,000	0	50,000
Year Total	55,000	0	55,000
2032			
Construction Inspection & Testing	5,000	0	5,000
Internal Services	5,000	0	5,000
Sewer Main Rehabilitation	100,000	0	100,000
Year Total	110,000	0	110,000
2033			
Construction Inspection & Testing	40,000	0	40,000
Internal Services	50,000	0	50,000
Manhole and Wet Well Rehabilitation	150,000	0	150,000
Sewer Main Rehabilitation	1,000,000	0	1,000,000
Year Total	1,240,000	0	1,240,000
2034			
Manhole and Wet Well Rehabilitation	150,000	0	150,000
Sewer Main Rehabilitation	1,000,000	0	1,000,000
Year Total	1,150,000	0	1,150,000
2038			
Replace Air Relief Valves and Appurtenances	50,000	0	50,000
Year Total	50,000	0	50,000
	3,840,000	0	3,840,000

Year Identified	Start Date	Est. Completion Date	Manager	Project Partner
2012	Jul 1, 2020	Jun 30, 2021	Senior Engineer	



Moss Adams Report

machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets including roads, bridges, tunnels, drainage water and sewer systems. (GASB Cod Sec 1400.103)

Accepted practice includes recognition of the different stages of a project including preliminary, construction, and post-construction. Preliminary stage activities include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies, and development of financing alternatives. Construction stage includes the engineering and design work on the chosen alternative, actual construction costs, direct payroll of employees working on the project along with certain overhead, and ancillary charges necessary to get the asset in working condition. Post construction stage includes, among other costs, training of employees on use of a particular asset. (GASB Cod Sec 1400.143-149)

Costs incurred in the preliminary and post-construction stages are typically expensed as they are not directly connected with creating service capacity of a particular asset. A project is not considered to enter the construction stage until an actual project alternative has been selected, it is determined the selected alternative will meet the intended needs and objectives, financing for the project has been identified, and the entity establishes in some meaningful way it is committed to proceed with the project such as, for example, including the financing sources and necessary expenditures in the budget. (GAAFR 23-7 to 9)

Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility and are expensed as routine repairs and maintenance. Any outlay that does no more than return a capital asset to its original condition, regardless of the amount expended, should be classified as maintenance and repairs. Since maintenance and repairs provide no additional value, their cost should be recognized as expense when incurred. (GAAFR 23-10)

Best practices to consider for inclusion in policies and practices include:

- The different stages of a project and the types of costs incurred in the different stages.
- The accounting treatment of costs incurred in the different stages.
- What elements or criteria need to be met for expenditures associated with a repair project to be eligible for capitalization based on the concept of service capacity in addition to the extension of useful life of an asset.
- Provide for a different dollar threshold for the different classifications of capital assets. (GFOA best practices)

Evaluation of the District's current capitalization practices.

We find that the District's practice of capitalizing expenditures incurred in what would meet the definition of the preliminary stage of a project as noted above is inconsistent with the accepted practice. Examples include payments to external consultants and internal staff payroll costs to develop master plans, feasibility studies, and related engineering and overall system planning. Current established practice includes the capitalization of certain costs incurred in a preliminary stage such as engineering, architectural, and design for projects that are actually constructed to the extent those costs would have been necessary for the project in any event.