

MEMORANDUM

TO: Audit Committee

THROUGH: Matt Dent

FROM: Clifford F. Dabbler

SUBJECT: Review, discuss and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress

STRATEGIC

PLAN REFERENCE(S): None

DATE: 5-31-2021

I. RECOMMENDATION

That the Audit Committee make a recommendation to the IVGID Board of Trustees to charge off as expenses certain costs which had been accounted for as construction in progress as outlined in the 5-31-2021 memorandum from Clifford F. Dobler (Exhibit A). The Audit Committee makes a recommendation that separate accounts be established for the three stages of a newly planned improvement project.

II. BACKGROUND

Historically, IVGID had been accounting for all costs incurred on a rehabilitation or new construction replacing an existing asset as a capital asset and subsequently began depreciating the costs when the asset was placed into service. Over several years, citizens raised issues regarding whether certain costs, primarily incurred on the Effluent Pipeline Phase II Project, had any future value or whether such costs should be expensed rather than being capitalized.

In the spring of 2020, the Audit Committee engaged Moss Adams LLP to review the IVGID capitalization policies and practices and make recommendations to ensure best practices are being followed. On January 14, 2020 Moss Adams LLP provided guidance on the proper accounting of costs which would be incurred on large construction projects. As stated in the report:

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. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.

The Board of Trustees accepted the Moss Adams LLC recommendations on February 10, 2021.

SUBJECT

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DATE

Over the past five years, through considerable research, public records requests and familiarity with projects initiated by IVGID a list of projects and related costs that should be expensed in order to comply with Moss Adams recommendations have been assembled and is outlined in Exhibit A.

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Unless these charge off of costs are considered Prior Years adjustments, then the budget may require amendment.

V. ALTERNATIVES

Do nothing

VI. COMMENTS

None

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

None.

or

EXHIBIT A - 4 pages

May 31, 2021

To: Audit Committee for meeting on June 9, 2021

CC: Indra Winquest, Paul Navazio

From: Clifford F. Dobler

Re: Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated 1/14/2021.

Background

In 2020, Moss Adams was engaged by the Audit Committee to review the capitalization policies and provide best practice accounting guidance. As outlined in the final report: "***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. Cost incurred in the preliminary stages are expensed as costs in this stage are not directly connected with creating service capacity of a particular asset.***

Over several years, IVGID staff did not distinguish or establish separate accounts for the three phases of a project and only one project account was established. As such, ALL costs of a project were considered a future capital assets and were accounted initially in Construction in Progress and once the project was placed into service, ALL of the costs were transferred to a capital asset account and depreciated.

In the 2020 CAFR, IVGID management only expensed two projects which had preliminary stage activities. The expense was treated as a prior year adjustment (Note 22 of 2020 CAFR). The two projects were \$212,044 related to the development of a Parks Master Plan (Plan was actually called the Community Services Master Plan) and \$77,216 related to preliminary designs for the High School Ball Fields but stated in Note 22 of the 2020 CAFR as the Incline Village Ball field. It should be understood what the reason was for preliminary design of the High School Ball Fields.

IVGID management either overlooked or did not address expensing other preliminary stage activities on several projects and the costs remain in the Construction in Progress account as of June 30, 2020. A short description of the projects and estimated costs to be expensed are listed below:

Burnt Cedar Pool

In 2019, IVGID incurred **\$119,498** to repair waterlines at the Burnt Cedar Pool. Since a new pool has been started, these repairs have no future value, have been abandoned and must be expensed. See my memo to Audit Committee dated August 24, 2020.

In 2020 two contracts were awarded to TSK architects for conceptual design (**\$32,200**) and for schematic design (**\$68,104**) to develop a new swimming pool at Burnt Cedar Beach and the amounts should be expensed. In addition, all IVGID staff charges and third party cost estimates should also be expensed. A final design contract and a CMAR contract were approved by the Board of Trustees on December 9, 2020.

Utilities - WRRF Aeration System

In March 2018, a contract was issued to CH2M- Hill for conceptual design (\$40,000) for improvements to the WRRF Aeration System which should be expensed together with all related IVGID staff charges from March to December, 2018 when the final design for the project was authorized.

Utilities - Waterline Leak Study

In March 2019, a contract was issued to Pure Technologies for \$52,500 to provide a conditions assessment of a 4,200 foot long alternate water transmission line from Water Pump Station #2 to a water reservoir located on Lariat Circle. The line was taken offline in 2001 because of recurring leaks. The total costs of the assessment as of June 30, 2020 was \$78,506 which may have included IVGID staff time and other costs. These costs should be expensed.

Utilities - Effluent Pipeline Phase II

This project involves several items. In violation Board requirements to keep individual projects separate, the General Manager decided in 2018 that any costs associated on or for the effluent pipeline from the Wastewater Treatment Plant to the wetlands in the Carson city area would be reported within this project.

On January 29, 2020, IVGID Staff provided a presentation to the Board of Trustees which indicated the accumulated costs were \$5,146,100 through June 30, 2019, however the CIP report for the same date indicated only \$4,864,275 had been accumulated on the project. It is unknown what is the difference between the two reports. The requested reconciliation of the air pressure relief valves reported as \$643,400 but public records documented only \$567,409 and the difference has not been explained by Staff. A reconciliation of the meters and valves installed in three different areas and reported as \$86,500 in costs. However, public records documented only \$77,687 in costs and the difference has not been explained.

On 2/10/2021, the Audit Committee by a unanimous vote approved the Audit Committee Report to the Board of Trustees which included the recommendation to expense \$3,179,600 which was capitalized in fiscal year 2019 as "**Placed in Service**". Exhibit C of the Audit Committee report describes the items which should be expensed. According to minutes of the Board of Trustee meeting held on February 10, 2021, the Board of Trustees approved the Audit Committee recommendation.

It is recommended that all charges made to the Effluent Pipeline Phase II project be reviewed and separated into the various subprojects to provide an accurate accounting for capitalization and expenses. In the past, the Board of Trustees has recommended that individual projects be reported rather than "lumped" into one project.

Mountain Golf Course

In 2012/2014 contracts were issued to Global Golf Advisors and BRG Architecture for a facility assessment and future needs recommendations and to develop conceptual designs on 5 options for a new clubhouse. Costs incurred as of June 30, 2020 were \$132,203. These costs should be expensed as no recommendations were enacted.

In the summer of 2018, a fire occurred in the Clubhouse kitchen area. In November 2018, Smith Design was issued a design contract for the rehabilitation of the Clubhouse which included a large expansion of the deck area. The intent was to fast track the rehabilitation for completion prior to the opening of the golf course in May 2019. Subsequently it was determined that the

rehabilitation could not occur in time for the season and would be postponed until the season ended. In order to provide services, fire damage repairs were completed for temporary use during the 2019 season. The costs incurred was \$150,751 (may include the design fees of Smith which should not be expensed). An unknown portion of the temporary repairs were abandoned when the extensive rehabilitation started at the end of the 2019 season. Certain of the temporary repair costs should be expensed.

In 2020 a contract was issued to Lumos and Associates for schematic design (\$27,500) of the Mountain Golf Course cart path replacements which should be expensed together with all IVGID staff charges of \$18,500 from July, 2020 to February 2021 when final design was approved by the Board of Trustees.

Tennis Center

In 2015 and 2016, a contract and change order was issued to LLOYD Design for \$42,120 to evaluate the Tennis Center. This assessment should be expensed together with IVGID staff charges.

In 2018 a contract was issued to BJK Architecture and Engineering to develop conceptual design (\$26,501) for the rehabilitation of the Tennis Center. These costs should be expensed together with all IVGID staff charges from 2018 to the Board approval of the final design on 6/19/2019.

Incline Park - Ball fields

In July, 2017, a contract was issued to LPA Inc. for \$41,000 to develop conceptual design for improvements to the three ball fields at Incline Park. In December, 2017 a contract was issued to Lloyd Consulting Group, LLC for \$58,500 to provide engineering design services including a survey, site planning, schematic design, construction documents and permitting. In November, 2018 an additional contract for \$15,430 was issued to LLOYD to modify the design to lower the estimated costs. A project called Incline Park Improvements (#4378BD1801) was set up but a budget was never established. The total costs as of June 30, 2020 was \$120,268 which includes other unknown costs beyond the three contracts. Another project called Incline Park Facility Renovation (#4378LI1803) was established for construction of improvements to only one ball field. A review of both project accounts should be conducted as the total costs as of March 31, 2021 for the Park Facility Renovation is \$1,550,570 which is in excess of the Incline-Tahoe Foundation grant made to IVGID of \$1,328,001. The two Lloyd contracts mentioned above were for final design and subsequent modification. The actual payments made were \$75,458 (\$59,563 & \$15,430) and should be transferred from the Incline Park Improvements project to the Incline Park Facility Renovation project.

Incline Beach Building

In May 2016, a contract for design of the Incline Beach Building was issued to Bull, Stockwell and Allen for \$221,891. The contract consisted of two main phases 1) community outreach, program concepts, and schematic design for \$81,745 and 2) final design and construction documents. A large portion of the work was authorized based on the Beach Recreation Enhancement Opportunity Plan approved by the Board of Trustees in February 2016. After phase 1 of the contract was substantially completed, two cost estimates were conducted resulting in estimates between \$3.9 million and \$5.2 million which included site improvements never addressed in the design contract. More importantly the design was a replica of the building at Sand Harbor which is six times larger than the existing building at Incline Beach. Sand Harbor has between 800,000 to 1,000,000 visitors while Incline Beach has annual visits of about 130,000.

The total costs in the construction in progress account is \$216,131 which includes IVGID staff time, estimates and unknown other costs. The entire amount should be expensed as expenditures were for only the first phase of the contract.

Diamond Peak

In 2014, IVGID Board decided to develop a master plan for summer activities and expansion of the winter activities by issuing an assessment contract on 9/12/2014 (\$152,000) to the SE Group which was approved by the Board of Trustees in 2015. Accumulated costs through 6/30/2020 is \$156,030. This work was concept only, community steering and financial models which should all be expensed.

In October, 2015, the Board of Trustees approved expenditures to submit a plan for Phase 1a of the approved master plan to TRPA, USFS and Washoe county for environmental clearances. Contracts were issued in 2015 to SE Group for \$29,000 for permit submittals and in 2019 to Hauge Brueck Associates for \$32,800 to perform biological resources surveys of rare plants, California Spotted Owl and the Northern Goshawk required in advanced of environmental documentation. The submittals, if made, by the SE Group are almost six years old and are probably would need to be re submitted. Currently the Board of Trustees have removed Phase 1a and 1b of the master plan from the 5 year capital plan. With the Forest Service special use permit on 361 acres expiring on December 31, 2023 and the lack of interest in continuing the Phase 1a summer activities, these costs are conceptual submittals and should be expensed.

Conclusions and Recommendations

IVGID management has historically assigned only one project number for a future construction project. In order to avoid the consolidating costs, components two separates accounts should be established for each project. First an expense account which will include all concepts, community outreach, schematics designs, assessments, and financing options. After the Board of Trustees accept the inputs and accepts other conditions and decides to move forward with final plans then a CIP account should be established for the final design, construction and in house staff time to complete the project.

The Audit Committee recommends that IVGID Staff establishes separate accounts as prescribed in the Moss Adams report for the three main phases of a project. This should eliminate recording of expenses in the CIP accounts.