June 1, 2021

To: IVGID Audit Committee

cc: Board of Trustees, Indra Winquest, Paul Navazio

From: Cliff Dobler

Re: Improper reporting and use of Facility Fees

Beginning on July 1, 2015, the District management determined that the Facility Fee was a special revenue and as such, the reporting and accounting of the Community Service venues and the Beaches would be done using separate governmental funds on a modified accrual basis . The funds established were a special revenue fund, a capital projects fund and a debt service fund. The intent as described in the 2015 CAFR Notes #19 - Subsequent Event was: "***The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide resources for capital expenditures and debt service cannot be displayed in a readily understandable fashion for its constituents.***" (Exhibit A)

The annual facility fees , thereafter, were assessed by the Board of Trustees as one amount but clearly indicated how much would be specified for operations, capital projects and debt service. Operating revenues and expenses would be accounted for in a Special Revenue fund, capital projects expenditures in a capital project fund and debt services in a debt service fund.

Qualifying for Special Revenue Accounting -

GASB stated conditions to form a Special Revenue fund requires two elements:

- The special revenue, determined to be the operating portion of the Facility Fee, must represent a "substantial portion" of all revenues which has been established as a benchmark at "around 20%" concluded by the Governmental Finance Officers Association.
- Facility Fees committed to be used for capital projects and debt service CANNOT be included as revenues in a Special revenue fund nor could the Facility Fees specified for operations be used for capital projects or debt service (GASB #54).

Both of these conditions were never satisfied in reporting the operations of the Community Service venues in a Special Revenue Fund since the Special Revenue, Capital Projects and Debt Service were established.

The Facility Fee committed for operations of the Beaches did represent a substantial portion of all revenues and did qualify as a special revenue fund as calculated in Exhibit C.

Improper accounting to meet conditions to qualify as a Special Revenue Fund for the Community Services

In order to circumvent both conditions, IVGID management would include as revenues in the Special Revenue Fund the Facility Fees specified for capital projects and debt service and in turn transfer out the amounts to the capital projects and debt service funds. The Moss Adams report dated 1-21-2021 (Exhibit B) clearly stated that such accounting and reporting was not in compliance with GAAP.

The probable intent of this improper accounting was to satisfy the condition that the facility fees (which included the capital project and debt service portions) would reach 20% of revenues in order to have a substantial portion. Had the portion of the facility fees specified for capital projects and debt service been property recorded as revenues in the respective funds, the portion of the facility fees for operations was never adequate to never reached the suggested threshold of 20% . As calculated on Exhibit B the past five year average of facility fees used for operations as a percent of total revenues was only 10.67%. (Exhibit C)

Current IVGID staff believes that the last page of resolution 1838 which established the new governmental funds which provided an inappropriate accounting treatment, somehow overshadowed GASB statements, NRS definitions and common sense and as such, the past accounting and reporting was correct. GASB is the generally accepted accounting principles not a concoction contrived by management.

Material overstatement of Revenues and the excess of revenues over expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services Special Revenue Fund for the five year period 2016 to 2020

By improperly recording Facility Fees specified for capital projects and debt service in the Community Service Special Revenue fund, material misstatements in the 2016 to 2020 Comprehensive Annual Financial Reports have occurred. By violating requirements of GASB and NRS the revenues were overstated by an average of 17.5% over the five year period. More important the Excess of Revenues over Expenditures were overstated by a massive 63.4% (Exhibit D). Any reader of the Statement of Revenues, Expenditures and Changes in Fund Balance for the Community Services venues would be led to believe that operations were more profitable than actually was the case.

Misappropriation of Funds - Community Services Special Revenue Fund

During the past five years from July 1, 2016 to June 30, 2020, Revenues (other than the Facility Fee) for all recreational venues and related administration exceeded expenses by $1,513,639 (Exhibit D). As a result the annual Facility Fee committed for operations, was ***NEVER NEEDED***. Since the Facility Fee is considered a "standby service charge" and was not needed then all amounts are "standing by" to be used for operating activities. The total amount collected from property owners over the five year period was $9,807,950 (Exhibit D). Since the portion of the facility fees for operations could NOT be used for capital projects or debt service as required by GASB and NRS , the $9,807,950 could either be returned to the owners whose properties were assessed or would have to be used ONLY for operations expenses which exceeded revenues in the future.

Again, IVGID management, ignoring the purpose and intent of separate and specified funds, chose to TRANSFER every year, a portion of the facility fee committed ONLY for operations to the capital project fund. For the five year period $3.3 million was improperly transferred and utilized for capital projects violating the specific intent of the Board of Trustees and GASB requirements. At the end of June 30, 2020 about $6.5 million of unspent facility fees committed for operations remained in the special revenue fund (Exhibit F).

The budget for fiscal year 2020/2021 properly accounted for and reported the specific portions of the Facility Fees committed for operations, capital projects and debt service in the respective funds. However, $5,594,546 of the $6.5 million prior years unused Facility Fee committed for operations and "standing by" was transferred out of the Special Revenue Fund to the capital project fund. Unfortunately this transfer was not in compliance with GASB #54 or the intent of the Board of Trustees when adopting the annual resolutions assessing the Facility Fees for specific purposes.

This improper use of funds is similar to the funds raised for the Effluent Pipeline Phase II project which was to be set aside to replace only 6 miles of the Effluent Pipeline but instead a portion was used for other projects. In order to circumvent this misuse of fund, in 2018. the District management renamed the project the "Effluent Pipeline Project" and considered any costs associated with the ENTIRE 21 mile pipeline from the Treatment Plant to Wetlands could be funded from the set aside money for only the 6 mile project. This change was not the intent or commitment provided to the customers using the sewer facilities when the money was collected annually.

It was quite apparent that in the fiscal year 2019/2020 budget, Mr. Gerald Eyck, former Director of Finance , realized that GASB and NRS were being violated by using Facility Fees for capital projects committed for operations. In a last ditch effort to circumvent the situation, he stated in his May 23, 2019 message within 2019/2020 State Budget, that the Capital Projects and Debt Service funds would become inactive as of July 1, 2019 and used only in the event the District issues bonds for a specific construction project. Apparently he assumed that when the budget was approved, his message became the new accounting for capital projects. Thereafter any capital project or purchase which was not funded by borrowing money would be an operating cost and accounted for in the Special Revenue Fund. This was quite odd, because at the same time, the Board of Trustees had approved the Facility Fee and committed specific amounts to operations, capital projects and debt service. This was pure folly, as the action was a blatant attempt to continue misappropriating funds specified for one purpose to another purpose (Exhibit G). In 2020, that accounting folly was overturned.

Why does all this matter now?.

1)Financial Statement are to be presented in accordance with GAAP and other accepted guidance.

2) One of the very top principles of accounting and reporting is Consistency which has not been the case for several years.

3) Since the Facility Fees specified for Community Services operations never reached the substantial portion threshold of 20% of all revenues, then accounting for the operations in a Special Revenue was inherently wrong.

4) Reporting ALL of the facility fees as revenues in the special revenue fund did not comply with GASB and provided an inaccurate representation that the operations of the Community Services venues were extremely profitable.

Conclusion

Over the past five years, the extent of the material misrepresentations regarding the improper use of a Special Revenue fund, the material weakness in capitalization of costs which should have been expensed, the material weakness in internal controls over financial reporting and missing disclosure in the financial statement notes which were prevalent in the 2019 CAFR would lead many professionals to consider a restatement of the past five years of IVGID's financial statements. The accounting and reporting of the Facility Fees in the 2019 CAFR which was not in compliance with GAAP, was "passed on" by the external auditors based on a representation letter from senior management that all accounting and reporting was in accordance with Generally Accepted Accounting Principles.

It is important to review all of the accounting issues with the past CAFR's and engage Davis Farr, the new auditors, to review the extend of materially and whether the previous financial statements should be restated or disclosures should be made in the 2021 CAFR.

EXHIBITS (continues on next page)

A - Note 19 - Subsequent Events - CAFR for the year ending June 30, 2015

B - Excerpt of the 1-21-2021 Moss Adams report regarding Special Revenue Fund reporting

C - Facility Fees - Calculations of "substantial Portion" for the Community Services and Beaches Special Revenue Funds

D - Analysis of improper reporting Facility Fees specified for Capital Projects and Debt Service in Special Revenue Funds

E - Community Services - Special Revenue Fund by Venue - Operating Revenues and Expenditures 2016-2020 exclusive of Facility Fees

F - Summary of Facility Fees transferred to the Capital Projects and Debt Service Funds which were in excess of Facility Fees improperly recorded in Special Revenues Funds - Fiscal years 2016-2020

G - Excerpt from Budget Message - May 23, 2019 by Gerald Eyck - Budget for fiscal year ending June 30, 2020 regarding ending the use of Capital Projects and Debt Service Funds