

MINUTES

SPECIAL MEETING OF DECEMBER 14, 2021

Incline Village General Improvement District

The special meeting of the Board of Trustees of the Incline Village General Improvement District was called to order by Board Chairman Tim Callicrate on Tuesday, December 14, 2021 at 5:00 p.m. via Zoom.

A. PLEDGE OF ALLEGIANCE*

The pledge of allegiance was recited.

B. ROLL CALL OF TRUSTEES*

On roll call, present were Trustees Tim Callicrate, Matthew Dent, Sara Schmitz, Michaela Tonking and Kendra Wong.

Members of Staff present were Director of Finance Paul Navazio, Director of Human Resources Erin Feore, Director of Golf/Community Services Darren Howard, Controller Marty Williams and District General Counsel Melissa Crosthwaite.

C. INITIAL PUBLIC COMMENTS*

Ray Tulloch said he is a long time Incline Village resident and Chair of the Audit Committee. He is rather surprised and concerned to notice that the Board agenda includes Item E.1. The Audit Committee is tasked with providing a written report to the Board and the Annual Comprehensive Financial Report which we all received and reviewed at the Audit Committee Meeting of December 8. It would be difficult to discuss and prepare the required report within the Open Meeting Laws on this time scale. The Audit Committee appreciates the discussion over the incorrect capitalization of the Effluent Pipeline costs capitalization as they have finally been addressed and they thank Staff for that. The Audit Committee did identify a lot of concerns from the audit which will be addressed in the report however a major concern that he must address, both as a resident and as a member of the Audit Committee, is the revisions by Staff to the capitalization issues identified by the auditors which reduced the levels of the write offs. With regards to capitalization, Board Policy 9.1.0, paragraph 3.0, states "...in no case will the District establish the capitalization threshold less than \$5,000 for any individual item." Also Board Practices for capitalization, Practice 2.9.0., Paragraph 1.2.5, states "...the capitalization threshold is applied to individual items or into group of similar items." From the review of the listing of capital provisions and items returned back to capital by Staff, just an initial review of that, he has identified \$329,000 of items that are under \$5,000 – individual item value which have been added back in by

Staff. The question that should be addressed by the Board, if they do continue this agenda item, is what is the point of having Board policies and practices if they can be violated by Staff in clear contradiction. He would ask therefore that the Board remove Item E.1. from the agenda from tonight until it receives a report from the Audit Committee as per Policy 15.1.0. Thank you.

Chris Nolet said thanks for the opportunity to comment. He will certainly sponsor and endorse Mr. Tulloch's comments. With regard to the audit of 2021 ACFR, he is sure that we are all quite disappointed with the resulting two material weaknesses and two significant deficiencies. He believes that this is the second consecutive year with which we have had two material weaknesses. Just so the resulting conclusion and ramifications of having two MW's are not lost on anyone, this means that District management has not, and he repeats, District management has not maintained an effective system of internal control over financial reporting for two consecutive years. This also puts the Board in a difficult position under Policy 15.1.0, Section 2.6. There are just no circumstances under which this is acceptable. He looks to Chair Callicrate to share the District's remediation plans with the community during a future public meeting. Lastly, the Auditor's report on the ACFR must be corrected as it has a material typographical error. In the emphasis of matters section, the report, first to note, for an explanation of the prior period adjustments, it should be plural in the note and this reference should be to Note 22. Thank you.

Cliff Dobler said his written comments to be included in the minutes of this meeting. A. Please remove agenda item E.1. Try to abide by Board Policy 15.1.0 at least one time. We have not had a chance to prepare a report to the Board. B. Budget preparation. Since all funds, except the General Fund are Proprietary Enterprise Funds, he requests that the budgets for these funds (only 4) be prepared in accordance with GAAP and include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. For the Community Service Fund have columns for each of the 8 venues within the fund. Budgeting in this fashion will allow the Board and citizens to have a clear understanding of what is actually the losses or gains by each venue. All on one page. Budgeting in this fashion will also provide clarity as to the use of facility fees and the unrestricted net position. He suggests that "stabilization reserves" be established. Please read about them or have the management attempt to explain. The District's sheer size of the real estate and weather conditions require emergency funds. The Board and Citizens should be clear on the mythologies used to establish the percentages to determine the amount of reserves required. The budget should not have operating expenses buried in the capital budgets. Before any budget is submitted to the Board, the policy and practice for Central Service Cost allocations should be completed. When the policy was changed two

years ago, the practice was never changed. Discussion and a resolution should be adopted when Facility Fees assessed on properties is not required and has been accumulated with no defined purpose. As a result, the Community Services Fund has almost \$14 million collected for Facility Fees which were not needed over the past seven years. Some amazing facts –

- For fiscal years 2016 to 2021 according the audited financials, \$42 million was budgeted for the Community Service capital projects but only \$24 million was spent. Only 57%
- For fiscal years 2016 to 2021, almost \$12 million of the facility fees allocated to Community Services operations (special revenues Fund) was never needed. During that time Diamond Peak operating income exceeded expenses by almost \$19 million but nothing was ever done to budget revenues properly.
- For the Utility Fund, the opposite was true. All reserves were depleted, effluent pipeline funds were redirected to other projects and the Board and management apparently cannot agree on restricting the pipeline funds. Requirements to line the storage pond was known since 2014, but not one thin dime was appropriated for the project until April 2021 when only \$1,550,000 was augmented to fund the project which will cost almost \$5 million as reported by Jacobs Engineering in September 2021.

Try to be sincere with the new budget. Thank you.

Diane Becker Heirshberg said she is calling in following some items that she has heard on the most recent on some of the items on the ACFR and just some thoughts she would like to give you from the public. She is not an accountant and don't have an accounting background. What she wants is to know, as member of the public, is what we are actually spending and that accounting policies and procedures are being followed. That we follow the recommendations from our outside consultants to keep our accounting clearly informative to the public. She would really like to ask you to think about the dispute that is going on as to whether or not you can or cannot capitalize smaller items by adding them together. The Board policy itself that says you cannot capitalize the items together is very specific and it is there for a reason. And the reason that's in GAAP, even if you don't have to follow GAAP, is so that we have real transparency in our financial statements. As a member of the public, if she was told that we were losing money and that maybe our assessments need to go up by a very small amount, she would understand that. But what she cannot understand is if a lot of items are glupped together and they are capitalized and she doesn't actually know what the expenditures are, that is troubling to her. So she asks, in setting up the budgets in the future, that Staff stick with what are generally accepting accounting principles

and that you not try to get very interpretive, different interpretations of what policies mean and that you really let all of us in the public know what we are spending. She really appreciates IVGID and she loves the Recreation Center, Diamond Peak and she likes the golf courses as well as appreciates everything that the District does but she does ask that the Staff be very careful on full disclosure on the accounting and financial documents that you send to the public. Thank you.

D. APPROVAL OF AGENDA (for possible action)

Board Chairman Callicrate asked for changes to the agenda; none were submitted so the agenda was approved as submitted.

E. GENERAL BUSINESS (for possible action)

E.1. Receive and discuss the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and related audit reports (Presented by Director of Finance Paul Navazio and Jennifer Farr, Partner, Davis Farr, LLP)

Director of Finance Navazio gave an overview of the submitted materials. Ms. Farr gave a brief presentation which is incorporated herewith by reference. Trustee Schmitz said she really appreciates Ms. Farr doing another presentation and asked that Ms. Farr please bring up slide #9 which Ms. Farr did. Trustee Schmitz said that while Ms. Farr is doing that, she just wanted to bring the Board of Trustees up to date – the Audit Committee reviewed a draft of the ACFR and it had some capitalization that was written off and some that was not. Based on the direction from the Board of last February where the Board unanimously agreed to move forward with the recommendations from the Audit Committee which included the write off of some of the effluent pipeline expenses. When that was added in, the second version of the ACFR that the Audit Committee reviewed, just last Wednesday she believes, had those things taken into account however it had some items that had been on the original ACFR been expensed and suddenly it came back in as being capitalized. And right here, Ms. Farr's last bullet point, where it says "write off of assets under capitalization threshold", these things that were, some of the things but not all of them, the majority of the things that were shown to the Audit Committee last week as being removed were those items that were below the capitalization threshold so she is wondering how that was handled and why was that an acceptable change when they were under the capitalization threshold? Ms. Farr said that when they provided their original listing of items to write off, they had provided them to Staff and asked them to review them and to let them know

if they disagreed with any of the write offs because we had limited information and so on the first path, they just recorded all the write offs and since we went back and looked at all the pipeline, there was an effort to really go through and make sure that we were making the right decisions on those items. Director of Finance Navazio said that Staff did go through the original list of candidates for write offs and provided back up to Ms. Farr and her team that should be left as capital items. There were a number of land items on the list that don't have a capitalization threshold so those were removed. There are some items that are split between funds so the asset looks like it is below the threshold but it is actually not and meets the threshold. We did go back and forth with the auditors and there are some items that did get written off because the auditor requested it and then there are items that didn't because Staff felt they shouldn't be. Management probably should have done that more thorough review in the draft document but we did it when the time was right. Trustee Schmitz said, as a follow up question to Ms. Farr, as it relates to the Management Representation letter, and even your letter, there is not any sort of a reference that Management is making a statement that they are abiding by Board policy and so she is wondering when Ms. Farr is doing your review, do you consider Board policy as being an internal control document and, if so, did you review Policy 9.1 and also Practice 2.9 as part of reviewing these additional assets that were grouped as we discussed? Ms. Farr responded that the items that might be in a gray area, as to whether they conform to a Board policy, are not material to the financial statements and so when it comes to evaluating the statements to the policy we can have, during an audit, an absolute test because audits would be cost prohibitive if we were to audit every single transition to prove, in an absolute fashion that policies were being adhered to but obviously we think the policy is important for internal controls and did review the policy when we were looking at these items. Trustee Schmitz said, as far as the Management Representation letter, there is nothing in it that she sees anywhere that talks about compliance with policy so is that just not a standard practice when you are producing these Management Representation letters? Ms. Farr said it is a standard letter that is produced by the American Certified Public Accountants and so she would say that policies are included in those phrases. Trustee Schmitz said, just to follow up, what you are saying is that you did review the Board policy and the Board practice but from an Auditors' perspective, the issues didn't rise to the level of materiality so therefore it was something that you have just basically given a pass on? Ms. Farr said like Director of Finance Navazio explained, we did have a lot of back and forth about our interpretation versus Staff's interpretation of the policy and felt that we came to a good conclusion. Ms. Farr said she can respect that there are different people who can look at a

policy and come to a different conclusion so we felt comfortable certainly that there is not a material error. It wasn't that we saw something and decided to pass on it knowing that it was wrong, we actually thought it was correct. Trustee Schmitz asked if they also reviewed Practice 2.9 in addition to the policy? Ms. Farr asked for a reminder on which one that is. Trustee Schmitz said the practice that is the more detailed version of the capitalization and in that practice it specifically states "...the capitalization threshold is applied to individual items rather than to groups of similar items example desks and tables." So she is wondering if Ms. Farr was provided with this practice along with the Board Policy? Ms. Farr said that they certainly reviewed those practices and policy when they were making their decision. And again just feel that the items that are in the potentially grey areas are not material to the financial statement which allows us to express an opinion. But she can certainly appreciate a difference of opinion and she just believes it is in a controllable materiality threshold for us, from an Auditors' standpoint. Trustee Schmitz said that she can understand it from the Auditors' perspective and as a Board and as a Trustee, compliance with Board policies, practices, ordinances and resolutions are something that is an expectation so while she can understand your perspective as it relates to materiality, from her perspective as a Board member, it is a requirement for these things to be abided by and if there is some reason why they can't, then we need to, as a Board, make modifications to the language going forward but as it stands here today we need to abide by what the policy and practice states and she thinks there are some things that were brought forward in that adjustment that were below the threshold and they were grouped in order to meet the threshold and the Practice 2.9 clearly states that it is applied to individual items rather than groups and she feels pretty adamant that this is something that the Board and the District needs to abide by because it's our practice and it's our policy. Trustee Tonking said that she wants to push back on Trustee Schmitz' point as we did not say that we approved all of the recommendations that came out of that audit report rather we said that we accept it; the Audit Report and that it was delivered to us and that we accepted it. She just went back to our meeting minutes as well to make sure that this was not the case so she would like to make sure that this is clarified for the record and if her understanding as to what she was voting for on a 5-0 basis. Trustee Tonking continued that she thinks she has a couple of questions for Ms. Farr but that she first wanted to thank Ms. Farr and Staff for all the work that they have done as she knows how time consuming it is, how much had to be learned and how many different types of things that all of you had to do and that she really appreciates all that you and Staff had to do as well as the time and energy that you put into this effort. So this issue had been brought to her from the Audit Committee and

she had talked to the Director of Finance Navazio and she understood the Audit Committee's interpretation and how she is feeling is very similar to Ms. Farr's point in how she is understanding it and she feels similar and that is that she doesn't think there is a right or wrong interpretation to this point. She is viewing that a lot of those groupings would count as an asset because you just don't have a recreation facility with a bike in it and you don't have a point-of-sale system for one venue. She did go back through and she did look through all of those assets and she looked at the ones that have been brought up and that fell below the threshold and that were grouped. Some of them were land so you are not taking that in any way so she removed those. Some of them, like she said, you have to group them like a BPN system and that has to be in the case and then the others, and she did take apart every one of the machines, and she did take away all of the snowmakers and it comes out to such a low amount of money that it definitely does not fall into material and she actually agrees with Staff's interpretation of how they interpreted the policy. Maybe we need to make it clearer, if that's the desire of the Board, she is completely fine with that and we can talk about that during our policy discussion. The other thing that she thinks we need to think about is we, as a Board, create governance policies for all of us to look at. It is then the General Manager's job to hire highly qualified employees to implement those policies and we have to trust those experts to do that and she thinks to Ms. Farr's point, it was in the grey area and it's not a material issue and it is in the grey and that was their decision they made when they thoroughly reviewed. She can understand their decision and she can agree with it and that is how she feels personally. There are issues in this audit that she does want to talk with Director of Finance Navazio about and she apologizes for not asking them yet but she can wait until we finish asking Ms. Farr's her questions. But she is concerned with some of the material findings and how we can make sure that this is something that does not continue year to year and those are some of the bigger issues that she sees within this audit. The other thing that, and that she does agree, that this is her question is to the Audit Committee – when we created a timeline, she does agree that we should see an audit report, but she a little concerned about why it wasn't fit into this timeline and to make sure that it was filed on time. So she is a little confused on that as well as why you all approved an audit timeline with Davis Farr and that it didn't meet the needs for you to file your report. Trustee Wong said she just wants to thank Ms. Farr and her team for all the work that they put in. She knows that a first year audit is a lot of work and it is sometimes fun getting to know the operations of a new business and a new client but it is definitely a lot of work so she definitely respects the amount of time and energy that you had to put into this audit report. She is very impressed that you have internal control

recommendations by way of material weaknesses and significant deficiencies but you were also able to issue a clean opinion on the financial statements. So she thinks that it speaks a lot to our finance team and the District's ability to listen to our independent auditors and work with them to resolve those issues. Judging by your internal control report, it seems as though a lot of the issues are resolved already and/or will be resolved going forward except maybe fire suppression because the whole building doesn't have it and the whole building is an issue anyways. Really does want to thank Ms. Farr for your time and that she will just ask the question – were there any unadjusted audit differences that you felt Management should have booked and do you have any concerns regarding material weakness and significant deficiencies going forward? Ms. Farr said she doesn't have any concerns about management corrective actions related to the internal controls issues so as long as Management follows through with their plans, there should not be any issues with that. And a lot of our issues ended up being historical issues and being here at time when there was clean up was happening so a little bit of what you see, as you mentioned, are things that were already cleaned up. As to your question on uncorrected adjustments, there was a small net pension liability that has never been recorded in the financial statements which is in immaterial amount to record that net pension liability and we had uncorrected adjustments to increase accrued payroll and to adjust a legal liability amount. In total, those amounts were very insignificant so we keep track of them and if they are all combined and they become significant we would record them but for one reason or another there was some ambiguity about recording those amounts or they are just so insignificant that we did not make adjustments to them this year and she believes that other than the net pension liability the others will reverse out so they won't have an effect on future years. Trustee Wong says it sounds like some of those are related to timing and thank you as she appreciates that. As an accountant, as a CPA and even as an auditor, she thinks materiality is a very important concept and if there aren't going to be adjustments that would change how someone would interpret the financial statements then, quite frankly, she agrees with Trustee Tonking and that they fly under her radar to be honest and so she agrees wholeheartedly with Trustee Tonking's comments as well. Thank you and she appreciates Ms. Farr pointing out the materiality threshold. Trustee Schmitz said if we are going to start applying materiality to compliance to Board policies, we, as a Board, on a very slippery slope. Board policies are to be abided by and materiality should never come into play as it relates to compliance with Board policy. Trustee Dent said he appreciates the opportunity to work with your firm and to you for sitting through the process with the Audit Committee this year. His concern is the fact that we did not meet Board Policy 15.1.0

by jumping the gun with this meeting and receiving this presentation when it comes to this year's Annual Financial Comprehensive Report and he brought that up at the Audit Committee meeting and he thinks that was a miss for the Audit Committee. He thinks that the Audit Committee and Staff can do a better job next time on hitting that and allowing enough time for the Audit Committee to actually meet and put together their thoughts in a meeting that abides by the Open Meeting Law and actually have time to put that report together so we, as a Board, can review that. So this is the second time in a row that this has happened and that this time we could have postponed having this presentation until next month and it would have allowed us to meet like we are on Thursday and had our report given to the Board of Trustees prior to receiving the financial report presentation. Secondly, he would like to say that he agrees with Trustee Schmitz and how she summarized Practice 2.9.0. and he believes she spoke about what develops for the last 20 minutes or so of the Audit Committee meeting and he thinks there is some concern there. He also believes that Board policy, he understands our auditors view he guesses on Board policy but he thinks we, as a Board, when it comes to Board policy and complying with Board policy, it is not really materiality, rather it is yes, we comply with Board policy or no, we are not complying with Board policy and that it is pretty straightforward so those are his thoughts, thanks. Board Chairman Callicrate thanked Ms. Farr and her colleagues again and that he would like to express something that has been somewhat overlooked and that is the fact that some comments that have been made by members of the public and one individual on the Audit Committee and that he went back and reviewed. He is concerned about the impugning of Ms. Farr's abilities and her character and her colleagues firm. He thinks it is absolutely unconscionable and he knows that emotions can run high at meetings and he has said some things in the past that he regrets but when it comes to the professionalism and the fact that the entire Audit Committee chose Ms. Farr's firm to do this audit and set the timeline that they set and then to have, and he is not saying this about his colleagues on this Board, but to have comments made by some members of the Audit Committee that we didn't get the information in time or try to impugn the character of our Director of Finance or our Controller who is a CPA and who does know his business. He just thinks it is very unprofessional and he really takes offense at that because it was the Audit Committee that chose and was agreed upon by the entire Board for Ms. Farr and her group and she was given glowing remarks and he thinks that they were absolutely well founded. Her reputation and her firms' reputation has been stellar among her colleagues and those in the industry and he thinks that hearing some comments that have been bandied about by certain members of the community and of the Audit Committee especially implying

that she didn't do her thorough job or come up with what they expected. Well, that's why it is an audit by an independent group and since there hasn't been anything illegal, immoral or unethical, he thinks that speaks highly of the work that she has done with her firm. And again, he just cautions those who want to try and impugn her character or that of her colleagues. You need to go back and take a good long, hard look at things. As far as the timeline goes, it did get crunched and to Trustee Dent's point, this is 2nd year we have had this and it seems that every year we have these up and downs with our audits. He doesn't know why that has been the case but that has been the case since he has been on the Board for over 6 years. So he is hopeful that as we move forward, we can finally get this nailed down. He hopes that Ms. Farr and her group are retained because they have done what they were asked to do in the scope of the work that they were hired to do. He thinks they did an excellent job and if there are disagreements, we need to get those taken care of. He thinks there is an opportunity for the Audit Committee to file its report, asking for extensions to accept and put forth the ACFR, he thinks that the Department of Taxation has probably had enough of the extension asking from this District. We seem to get ourselves embroiled in unnecessary problems. To Trustee Schmitz' point, he agrees we do have Board policies and procedures that need to be adhered to. He thinks as we have been going through this year to year and half to 2 years or longer, we need to get them all into a compliance situation that makes sense and that we can abide by because it seems like we have these Board policies and procedures and we either circumvent them or throw them by the wayside. He thinks that it is time and he knows that this work has been done on these. In defense of Ms. Farr, she and her group have been maligned by a few people that have no business doing that and they themselves need to quit projecting on Ms. Farr and her group. Trustee Wong said that she just wants to say thank you because she really appreciates his comments. Do want to address our policies and the claims that we are violating our policies and procedures as this is where she does have a very different opinion about policies and procedures than some of her colleagues in that yes, we have policies and procedures and we need to follow them. However, she doesn't believe that we should have policies that you can't use your professional judgment to do your job and so, quite frankly and she will see it very clearly, she doesn't think we violated any policies or procedures and she thinks that our professional staff used their professional judgment in an appropriate manner. Board Chairman Callicrate then turned the item back over to Director of Finance Navazio. Director of Finance Navazio asked Trustee Tonking if she has some additional questions on the audit report? Trustee Tonking said she apologizes for not getting this to Staff before this meeting and the first one is on page 98, when we are looking at

Management's response to the construction in progress, and you were talking about using the transition to new software and using it, is it something that can easily be done and make sure that it won't be an issue next year? Director of Finance Navazio said it will be better in our new financial system, we are transitioning the new software on July 1 so that will be for the 2022/2023 fiscal year but we will pay close attention to this issue in the current fiscal year with the system we have. Trustee Tonking said, on page 97, can you talk to me a little bit about what happened with the negative cash balance? Director of Finance Navazio said that this is as of June 30 in our Community Services Capital Fund. We did have a negative cash balance, we concurred with the adjustment as it is appropriate. His only note on that is that as the Board knows we transitioned from governmental fund accounting to enterprise fund accounting as of July 1 and therefore all of our special revenue capital and debt funds for Community Services and Beach collapsed as of July 1 and so when we made that transition this negative balance got addressed but upon review by the audit that should have been booked as of June 30. He doesn't want to minimize the issue but we have addressed it and we just had to book it as of June 30 as opposed to waiting for the funds to naturally collapse on July 1. Where that comes from is the fact that we budget for the capital projects in the capital projects funds. Some of the carryovers that came over from prior year led to expenditures that brought us into a negative cash position. Trustee Tonking said that the answer was really helpful. Trustee Schmitz said this is a request of the Board Chairman and potentially of Legal Counsel, she and Trustee Dent are receiving a text message from the Audit Committee Chair requesting to respond to the comments that were made relative to the Audit Committee and she doesn't know if that is acceptable or not and she is just asking the question. Board Chairman Callicrate deferred over to District General Counsel Crosthwaite who said she was not sure of the question. Board Chairman Callicrate clarified that our Audit Committee Chair wants to respond to the comments made about Ms. Farr and Trustee Schmitz was asking if it is appropriate for Audit Committee Chairman Tulloch to respond. District General Counsel Crosthwaite said it is legally required, public comment, at beginning and end of the meeting, and that the decision is up to the Board but she would note that there is an opportunity later in this meeting to comment. Board Chairman Callicrate said he doesn't have a problem with Audit Committee Chairman Tulloch speaking and that he would like to give him the opportunity. District General Counsel Crosthwaite said that was ok and asked that it stayed within the topic. Board Chairman Callicrate said he wants to make it clear that he is not opening this item up to public comment and that this is specific to the Audit Committee Chair and wants that made clear. District General Counsel Crosthwaite said it must be

germane to the agenda topic in order to be allowable and it is at the discretion of the Chair as to whether or not to allow it. Audit Committee Chairman Ray Tulloch said thank you to both Staff and Chair Callicrate. He made this unusual request to respond because frankly, Mr. Callicrate, he is ashamed that you would make such slanderous remarks in a public forum. He suggests that you go back and look at the start of the Livestream meeting and if you also look at the Audit Committee meetings, he can vouch that you will not find any unprofessional remarks or denegation of Ms. Farr's work. In fact, he thinks you will find to the contrary. He does believe that given the remarks you have made that they must be clarified for the public. He has made no slanderous remarks or anything like that unlike yourself. He thinks you should be ashamed of yourself as a Chairman making remarks like that. He should also report that other matters of fact that you misstated – Davis Farr was not selected by the entire Audit Committee. He had no involvement in that and the Audit Committee had no involvement in that. The Audit Committee Chair and he believes one of the members was involved in that not selected by the entire Audit Committee. Also the timeline for review of these documents and things were set by Staff and not set by the Audit Committee. So frankly Mr. Callicrate he thinks he deserves a public apology for your remarks and he thinks, in fact, you should review withdraw from your position as Chair if you care to make remarks like that about a member of the community that volunteers their time for this and their professional time for this. He thinks you should be ashamed of yourself and he expects a public apology. Thank you. Board Chairman Callicrate said that he never accused Mr. Tulloch of anything as he said a member of the Audit Committee and after he has reviewed several of the Audit Committee videos and whatnot, there has been an individual who has made cursory remarks that could be interpreted as such and it is all about interpretation. As far as being ashamed, he is not ashamed whatsoever. He thinks that the situation from this one individual has been a bone of contention since being put on the Audit Committee and he did support this individual and he has supported the Audit Committee and its independence from the very beginning. He has never called for anything to be shut down. As far as the timeline, there was a timeline presented to the Board from the Audit Committee on when they wanted to do the reviews and what not. So if this is a misinterpretation there, he will apologize for that Mr. Tulloch because he was under the impression as we voted at the Board level on what was going to take place in a timeline that would fit with what the Audit Committee wanted and that's what we did. There has been issue where it hasn't been met, ok, we are going to move on. We have rectified things in the past but he was never impugning your character and if you took it that way, he does apologize for that because he certainly was not talking about you on the Audit Committee and he also

exempted the two members who are here on the Board. So, with that being said, he thinks there has been comments being made in the public arena and as he mentioned, and he prefaced it with primarily that, that are unconscionable in a community of this caliber to go after someone who has impeccable records and the emails that he has received that you may not have been privy too are disgusting and aren't worth repeating in public so he is not going to withdraw as the Chair. He knows that there is a small group of people that would like that; it's not going to happen. Audit Committee Chairman Tulloch said thank you for that and if you care to go back and review your remarks from the tape you made these remarks about the Chair of the Audit Committee when you were making your remarks. You may protest that that is not what you intended; go back and review the tape and you will find out that was what was said. Board Chairman Callicrate said he will do that and Mr. Tulloch is if that is how it was interpreted then please forgive him because that is not what he had stated. He did not mean to state that and he apologizes if that is how it came out because in his mind he was saying that there was a member of the Audit Committee excluding the two members that are on the current Board. He will go back and review it so if you took it or it came across that way, Mr. Tulloch, that was not what he meant. And he is sorry about that if that is how it came across and he can understand you being upset because he doesn't want to be accused of something that he is accusing somebody else of. Audit Committee Chairman Tulloch said please do so because if you go back and review your remarks, you will hear that you were ashamed of the remarks made by the Chair of the Audit Committee and he is happy to stand by that. Board Chairman Callicrate said you are absolutely right and if that is what he said please accept his apology, it is well intended, he is sorry. Now that we have had our opportunity to air our concerns and go back and forth, he wants to thank his colleagues at the Board for putting up with this unnecessary clarification because that was not his intention as stated so he misspoke and he is the first to admit that and he will go back and review exactly what he said but he remembered it differently. Director of Finance Navazio said he would echo what was said earlier, a lot of corrections and adjustments were clean up from the past and don't want to minimize the recommendations and findings in the audit report as they are the utmost importance and any recommendations that will come from the Audit Committee. Comment made about a clear and more robust plan to addressing the recommendations from this report and he will ensure that it works its way through the Audit Committee and Board.

Trustee Wong moved to receive the District's final Annual Comprehensive Financial Report for the Fiscal Year ended June 30,

2021 as well as the required audit communications provided by the District's independent auditor Davis Farr LLP and request that those items be transmitted to the State in accordance with NRS. Trustee Tonking seconded the motion.

Trustee Schmitz said we shouldn't be taking this action tonight because we have not received the final report from the Audit Committee and that we do not need to take this action tonight. We need to receive it from Davis Farr and she understands that but we do not need to take the step forward and she would suggest that we defer making this decision until after the Board receives the report with the details from the Audit Committee. Trustee Dent said he agrees with Trustee Schmitz and that we should just pause because we haven't received the Audit Committee report. Board Chairman Callicrate asked what are the legal ramifications of receiving the Audit Committee report – ask for an extension? Director of Finance Navazio said that the NRS simply has a timeline for completing the audit which he went over. Should the Board, as a whole, wish to hold off filing – he would recommend that we file for an extension and that this is entirely a Board call. Board Chairman Callicrate asked how many extensions has the District filed for? Director of Finance Navazio answered that last year we filed for more than one. Board Chairman Callicrate asked Ms. Farr if we are not seeing any cataclysmic items, and knowing that the Audit Committee is having a meeting this Thursday, if we were to receive this and send it to the State with the addition of the report from the Audit Committee, what are the ramifications of changing any of the materiality if we accept and receive tonight or receive the report? Ms. Farr said she doesn't think any of the issues to be brought up will not cause any adjustments to the financial report. Director of Finance Navazio said that the report from the Audit Committee is an internal document.

Hearing no further comments, Board Chairman Callicrate called the question – Trustees Callicrate, Tonking and Wong voted in the favor of the motion and Trustees Dent and Schmitz voted in opposition. The motion was passed. Trustee Schmitz commented that this action was not in compliance with Board policy.

At 6:19 p.m., Board Chairman Callicrate called for a break; the Board reconvened at 6:30 p.m.

E.2. FY2022/2023 Budget Workshop #1: Review and discuss the following:

Part I: Board Policies Related to Budgeting and Fiscal Management

Part II: Internal Services

Part III: Central Services Overhead Cost Allocation

(Presented by District General Manager Indra Winquest and Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted materials.

Following are the questions, comments, and answers:

Trustee Schmitz: Based on tonight's decision with the AFCR, it appears as though we need to have included in our capitalization policy a materiality definition. We didn't hear from Staff how this capitalization policy was being followed.

Director of Finance Navazio: Staff will deal with individual versus group item and materiality is more of a financial item, we will make sure comments are incorporated.

Trustee Schmitz: Clearly had items that were below and misinterpreted about grouping, remove ambiguity and unfortunate we moved forward with that action.

Director of Finance Navazio: Agree on how we apply can be important.

Trustee Schmitz: Just want to clarify for her fellow Board members, she provided detailed feedback and spent an hour and a half reviewing those with Director of Finance Navazio so she is a little bit puzzled as to what feedback should be shared with the Board as she is sure that feedback is coming from all of us.

Director of Finance Navazio: What is most helpful is broad brush feedback and the most helpful feedback is on are we heading in the right direction and are there some areas where we need to have some serious discussions.

Board Chairman Callicrate: How is Trustee Schmitz able to share her feedback with her other Board members and within the perimeters of the OML as she did a lot of work and want to make others aware.

Trustee Schmitz: Her feedback is as one individual Trustee and understands about asking for Board input, she has already provided it and it is up to Staff on how to incorporate and what they want to do. What is it that you are specifically asking of us tonight?

District General Manager Winquest: All in agreement with what was discussed and we are going to track all the changes made however it is just important to get this feedback whether it is here or elsewhere. It makes sense to not regurgitate all that and get feedback from others and track it and then discuss all that was submitted by the Board of Trustees. This is a new policy and really urge all of the Trustees to do their homework and provide us as much feedback because sometime in the next month or so we are looking to adopt this and it impacts the budget with all the activities around the District. Once adopted, it will be something that we all have to adhere to.

Trustee Tonking: This is really helpful and she believes we are headed in a good direction. She has small edits or changes and she would like to send them to the District Clerk.

Director of Finance Navazio: Yes, send them on and we will track it, etc. We want to make sure the Board is comfortable with the policy.

Trustee Schmitz: One thing she would like to share with her fellow Trustees is one of the things that we discussed was using consistent language that was within the Strategic policy and when we got into the details, it is good to have a pricing policy for non-profits or community groups and then for community programming. Those components are presently in different sections and if we brought those four terms (customer, pass holder, non-profit and community group) together it would be specific but tie back to those four different groups.

Board Chairman Callicrate: He agrees with those four terms.

Trustee Schmitz: Make it clearer and more specific.

Trustee Wong: Most of her feedback is incorporated as she has been working on this with Staff and interested in the feedback provided by other Trustees.

Trustee Dent: Has nothing to add at this time and he is thinking of additions and any unintended consequences.

Board Chairman Callicrate: Agreed with this process.

Trustee Schmitz: Internal Services – are they charged a Central Services Charges allocation?

Director of Finance Navazio: Common practice is they are not. Typically, it is because of a circular calculation. As called out in our policy, we don't charge General Fund because it is already included and don't charge Internal Services for the reasons he stated.

Trustee Schmitz: Nothing for janitorial so how are these interrelating with one another?

Director of Finance Navazio: In the current budget, on page 43, as you will recall, we switched from in house to contracting out. Cost of those contracts moved from Internal Services and charged to the venues that each contract covers. Another example, nothing charged for fuel in Fleet. It is assigned to the venues and the cost for fuel is charged out to the venues. Not in the Fleet budget and in the operating budget.

Trustee Schmitz: Don't have pages separate for Fleet and Engineering?

Director of Finance Navazio: Yes, you do – will come back to you. Page 235 and had intended to include three more pages and will confirm that he included them.

Trustee Schmitz: Would think that Engineering should be charged for janitorial because as you said it gets charged to the facilities.

Director of Finance Navazio: Will be under Public Works Shared.

Trustee Schmitz: Her feeling, as a Board and a Staff, we are doing a good job of planning rolling stock and managing Fleet and looking at five-year plan - doing a pretty good job of doing it. Her concern about establishing another fund, and we seem to have excess fund balance, and we shouldn't have another fund where we are having excess fund balance and that we need to get our policies in line before establishing another fund.

Minutes

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Director of Finance Navazio: He could make a point that it is a replacement fund and if we deferred and delayed them, we have the monies. Hear that and want to make sure we are managing them well. It is a common practice to set facility fees up and down to cover this as opposed to \$800,000 for vehicle needs in the Community Services Fund so your point is well taken and don't want this to be misplaced in the long run.

Trustee Schmitz: Heard you ask a lot of questions, so how are you going to do it? (in reference to Slide 50 – Engineering)

Director of Finance Navazio: Default is when we set a target, the charge back rate would have a rate to cover the unbillable time. Is the Board ok with that? Billing for 80 to 90% of their time? We want to be able to respond correctly.

Trustee Schmitz: If we did it differently, would we be able to get better data?

Director of Finance Navazio: Have pretty good data on hourly's and intent on demonstrating that through this process.

Trustee Schmitz: Is it accurate or is it potentially skewing numbers?

Director of Finance Navazio: No pressure, we acknowledge that when a person walks in, they aren't billing their time to a project but rather 80% of their time and we all need to be comfortable with how the 10-20% is not being charged.

Trustee Schmitz: Is this a best practice of how we are doing it?

Director of Finance Navazio: Best practice is that we are moving towards tracking the time and what is not being worked on a project and how the overhead is covered. The best practice is to be clear on how we are covering that.

Trustee Schmitz: Would like to request that Village Green be removed from the list in good condition as she thinks that Village Green is in needed of attention.

Director of Finance Navazio: Need to clarify what this applies to and will do so.

Trustee Schmitz: Just clarify that please.

District General Manager Winquest: Comment on Village Green – the condition of actual field is not in good condition and the restrooms are fine. There is money in the budget to look at it and that he is not in favor of putting a lot of money in there until we determine the dog park.

F. MEETING MINUTES (for possible action)

F.1. Meeting Minutes of November 10, 2021

Board Chairman Callicrate asked for changes; none were received so the meeting minutes of November 10, 2021 are approved as submitted.

Board Chairman Callicrate said that he and Audit Committee Chairman Tulloch have been in contact during the meeting and he is going to review the tape and notes that he didn't vote on Davis Farr and that he was not accusing Audit Committee Chairman Tulloch of doing anything harmful towards Davis Farr.

G. FINAL PUBLIC COMMENTS*

Chris Nolet said we had a spirited discussion earlier tonight about a number of audit issues and he fears we might have crossed the Rubicon on one or two of them but he will just make the following two observations: first, there are accounting principles and practices that clearly state that significant judgment should be rendered by the preparer in the application of the standard and he is hoping that's the case here. Policy 9.1 is very succinct and simple and it says "in case will the District establish a capitalization threshold of less than \$5,000 for any individual item". He is not finding the peripheral text that encourages or allows the District Management to interpret, apply judgment or leverage materiality under the grey circumstances. The other observation he would make is that in his 41 years, 39 years as a practicing auditor and 2 as a Board member on a number of Audit Committees, he can't say that he has ever seen the audit firm disregard the unanimous consensus of the Audit Committee members and side with Management on an issue like this so that's so rare that he can't say generally anything and we will all need to take a look at auditor independence this spring as we consider who does the 2022 fiscal audit. Thank you.

Cliff Dobler said these written comments are to be made part of the meeting minutes. This public comment is addressed solely to Chairman Tim

Callicrate. During tonight's Board meeting you jumped on comments by an AC member regarding disparaging comments made about the audit firm Davis Farr and in particular Ms. Farr. Since my public comments had no such remarks about Davis Farr, it could only be determined that your statement was directed at Mr. Ray Tulloch. Mr. Tulloch was able to respond to your accusations and, as such, you somewhat apologized to him and then searched for another person to prey upon to justify your false statements. Through a process of elimination, you stated that comments were made by an AC member which was not a trustee and not Mr. Tulloch. Thus only he was left. You rambled on about seeing texts, and e mails and heard public comments and statements at Audit Committee meetings made by him making disparaging comments about Davis Farr and the firms' associates. You even went as far as saying these communications were unconscionable and disgusting. This is factually incorrect and you should be ashamed of yourself. So please provide any proof that he disparaged Davis Farr and or the firms' associates. Once you look back you will find nothing. You simply decided to put a hit on his reputation and he will not allow you to get away with it. He will give you two weeks to provide any evidence you might have that he wrote or said anything disparaging about Davis Farr. He will probably turn this over to my attorney. He does not like to be slandered especially by your outrageous statements about what you decided fictitiously what he wrote or said. You will find NOTHING. He will require a public apology from you.

Aaron Katz said first he wants to talk about the Audit Committee meeting on December 8 – did you Board members listen to that meeting? Both Ms. Farr and the Director of Finance admitted that the Rec Fee does not represent revenue from exchange transactions. Fees are paid per exchange transactions. Both individuals that parcels which are charged receive nothing special in consideration of the charge. The Director of Finance admitted that without receiving special benefits, the Rec Fee is an invalid tax. Ms. Farr said that the Rec Fee is an assessment and she states that prior auditors agree. Well, Ms. Farr was wrong and he is going to show you how. If Ms. Farr had read the minutes of the May 26, 2021 meeting, she would have seen that the Rec Fee was adopted pursuant to NRS 318.1971 but that provision states “the Board may adopt rates, tolls and charges other than assessments” thus the Rec Fee cannot be the assessment Ms. Farr represents. So what is it? Just like the Director of Finance told the committee – an invalid tax. So now that you all know the truth what are you going to do about it? He assumes you will perpetuate the fraud but you were elected to do that. Let's go to the budget workshop, he listened to all of it and this is another wasteful dog and pony show in his opinion. Staff is free to spend on

anything even if not budgeted. If they claim it is “related” to expenditures budgeted. Rec fees are related to recreation and beach expenses. Utility rates are related to utility services so any expense Staff concocts that is related in any way shape or form to recreation, beaches, or the utilities is possible. Time and time again, and we have uncovered expenses, not budgeted, yet related to recreation, beaches, and utilities and they are then affirmed. So why go through this whole process of budgeting anything other than the global amounts that Staff may spend? What an incredible waste. Thank you.

H. ADJOURNMENT (for possible action)

The meeting was adjourned at 8:03 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.

Submitted by Chris Nolet

Susan A. Herron

From: Chris Nolet <cnolet99@gmail.com>
Sent: Tuesday, December 14, 2021 9:39 AM
To: Herron, Susan
Subject: Fwd: Report from the Audit Committee on the Fiscal 2021 ACFR

Susan, please include this email string in the formal record for today's Board meeting.

Thanks

----- Forwarded message -----

From: Chris Nolet <cnolet99@gmail.com>
Date: Tue, Dec 14, 2021 at 9:33 AM
Subject: Fwd: Report from the Audit Committee on the Fiscal 2021 ACFR
To: Tim Callicrate <callicrate_trustee@ivgid.org>, Michaela Tonking <tonking_trustee@ivgid.org>, <wong_trustee@ivgid.gov>, <jfarr@davidfarr.com>, <isw@ivgid.com>
Cc: Matthew D <matthewbdent@gmail.com>, Sara Schmitz <trustee_schmitz@ivgid.org>, Ray Tulloch <raytulloch@munrotulloch.com>, Cliff Dobler <cfdobler@aol.com>

Dear Board of Trustees, District GM and Jennifer Farr - please find attached my email to the Audit Committee yesterday based upon the discussion during the December 8, 2021 Audit Committee meeting.

My advice to the Audit Committee in my email is self explanatory. I would also note the following:

Davis Farr is engaged by, and works for, the Audit Committee (not District management).

All four members of the Audit Committee were clear in their communication on December 8 that Board Policy 9.1 3.0 and Board Practice 2.9 1.2.5 do not allow for "interpretation or judgment" to support capitalization of individual asset additions of less than \$5,000. I have carefully studied both these references and see **NO** latitude therein for the application of judgment or interpretation.

This *very late adjustment* proposed by District management is based upon a completely unsupported assertion made by District management that the relevant guidance does allow for judgment to be made in its application.

As the Audit Committee *unanimously disagreed* with that management assertion, and as David Farr works for the Audit Committee, it is reasonable to consider this late adjustment to represent a known, **intentional error** under ASC 250 and related SEC guidance (in the absence of any specific GASB guidance concerning error corrections).

Known, intentional errors recorded by management are generally **NOT** evaluated based on **quantitative** materiality. They are generally evaluated through the lens of **qualitative materiality, with a primary focus on management integrity**. Davis Farr surely understands this circumstance. Hence, I fail to see how the Fiscal 2021 ACFR can be approved by the Audit Committee or Board in its current form when it appears to contain 1) this intentional error, and 2) inconsistent application of the Policy and Practice noted above, particularly when compared to the Fiscal 2020 CAFR.

Best

----- Forwarded message -----

From: **Chris Nolet** <cnolet99@gmail.com>

Date: Mon, Dec 13, 2021 at 2:50 PM

Subject: Report from the Audit Committee on the Fiscal 2021 ACFR

To: Sara Schmitz <schmitz61@gmail.com>, Ray Tulloch <raytulloch@munrotulloch.com>, Cliff Dobler <cfdobler@aol.com>, Matthew D <matthewbdent@gmail.com>

Dear AC Members - great work during the December 8 meeting. I am providing some thoughts that you may wish to adopt and include in your report to the Board. And by the way, I agree that with the late FINAL close of the accounts by District staff, and the unsupported adjustment which violates both a Board Policy and Board Practice to capitalize individual asset purchases with a cost below \$5K, that you have every right if needed be to request an ACFR filing extension to complete your report and submit it for Board and public review and comment.

Hopefully you will find the following comment quite useful for inclusion in your report to the Board:

The District staff explanation of them having gone back in late November to capitalize expenditures previously expensed was not adequately supported. It also appears to be inconsistent with the prior year treatment (recall that GAAP requires consistent application of accounting practices) and the Board Policies and Practices. I did not hear any case made to suggest that the Policy/Practice was open to "interpretation or judgment." Why did they do this, when as noted in the written audit materials, management did not do the historical analysis with resulted in the prior period adjustment write-offs at year end, rather I understand that they abdicated their responsibility and effectively delegated that project on Davis Farr (even though management knew it was a topic of keen interest throughout Fiscal 2021).

Based on the above observations, the late adjustment proposed by management is what is considered under GAAP (and SEC guidance by analogy - see text below) as an "immaterial but **intentional** error." Contrary to what Jennifer Farr stated, materiality is rarely a valid consideration for waiving the correction of a known, **intentional** error. Those matters are always corrected. Plus, as was noted during the meeting on the 8th, the ramifications on internal control over financial reporting of management intentionally recording a **known error** must be considered.

The final, signed auditor report on the ACFR contains an error which **must be corrected**. In the Emphasis of Matters section, the report refers to Note 21 for an explanation of the prior period adjustments. The reference should be to Note 22.

I also fail to understand how, recognizing the Emphasis of Matter narrative in the Davis Farr report, that they did not require a "special representation" from management that the prior period adjustments do not materially misstate the Fiscal 2021 ACFR, or any impacted prior period. They should explain to the AC why they did not require such a representation (this question speaks to the quality and thoroughness, **or not**, of their audit).

The existence of material weaknesses and significant deficiencies in 2 consecutive years, and prior period adjustments being recorded in the past 4 of 5 years, is simply **UNACCEPTABLE** under any circumstances. I think you should ask management for a detailed internal control remediation plan for Fiscal 2022. You should also ask about penalties or other probation like plans to be added to mid-year to the personal performance plans

for our CFO and Controller. You should state that the existence of ANY MWs during Fiscal 22 is completely unacceptable.

Lastly, I completely agree with your consensus to slow down the process and consider whether this current ACFR is something you can endorse.

Happy to answer any question you may have.

Best

SAB Topic 1.M, Assessing Materiality 250-10-S99-1 2.

Immaterial Misstatements that are Intentional Facts: A registrant's management intentionally has made adjustments to various financial statement items in a manner inconsistent with GAAP. In each accounting period in which such actions were taken, none of the individual adjustments is by itself material, nor is the aggregate effect on the financial statements taken as a whole material for the period. The registrant's earnings "management" has been effected at the direction or acquiescence of management in the belief that any deviations from GAAP have been immaterial and that accordingly the accounting is permissible. Question: In the staff's view, may a registrant make intentional immaterial misstatements in its financial statements? Interpretive Response: No. In certain circumstances, intentional immaterial misstatements are unlawful.