

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra Winqest
General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: Review, discuss and possibly take all or part of the following six (6) actions related to the District's Fund Balances

DATE: July 30, 2020

I. RECOMMENDATIONS

That the Board of Trustees make separate motions on all or part of the following six (6) actions related to the District's Fund Balances.

- a. Acknowledge receipt of an update on Unaudited Fund Balances as of June 30, 2020.
- b. Authorize additional reservation of \$1,912,767 in unexpended utility rate revenue collected during Fiscal Year 2019/2020 in support of the District's Effluent Export Pipeline Project.
- c. Authorize commitment of \$1,360,000 in available fund balance in the General Fund for anticipated settlement of the property tax dispute filed against Washoe County et al, Nevada State Board of Equalization and the Department of Taxation by the Village League to Save Incline Assets, Inc. (Case No. CV03-06922)
- d. Authorize the District's General Manager to direct the District's Director of Finance to reflect allocation of estimated FY2019-20 year-end Community Services Special Revenue Fund fund balances as follows:
 - i. Reflect commitment of \$5,594,546 in support current year FY2020-21 Capital Improvement Projects, and
 - ii. Affect transfer of additional \$1,100,000 in Community Services Special Revenue fund balance to the Community Services Capital Fund(s) in support of future priority capital improvement projects.
- e. Outline and possibly set future agenda items in order to designate additional available fund balances in support of specific future Capital Improvement Projects in conjunction with the Board's ongoing refinement of the District's Capital Improvement Plan priorities for Fiscal Year 2020/2021 through 2024/2025.

II. BACKGROUND

Staff is currently in the process of processing the year-end close for Fiscal Year 2019-2020 (ended June 30, 2020) and as a result the actual revenue and expenses and resulting year-end fund balances have not yet been finalized. Preliminary fund balance estimates based on unaudited results for fiscal year FY2019-20 are as follows:

Governmental Fund Types	General Fund	Community Services Fund	Beach Fund	Total Governmental
Unaudited Net Sources & Uses	801,889	1,562,184	621,957	2,986,030
Fund Balance, June 30, 2019	3,765,586	12,261,649	1,774,846	17,802,081
Unaudited Fund Balance, June 30, 2020	4,567,475	13,823,833	2,396,803	20,788,111

Proprietary Fund Types	Utility	Internal Srvices Fund	Total Prprietary
Unaudited Net Sources & Uses	2,814,760	(172,502)	2,642,258
Add Capital Expenditures	1,669,605		1,669,605
Add Principal Payments	523,988		523,988
Deduct Depreciaton	(3,370,510)	(12,561)	(3,383,071)
Unaudited changes in net position	1,637,844	(185,063)	1,452,781
Unrestricted Net Position, June 30, 2019	12,442,309	240,037	12,682,346
Unaudited Unrestricted Net Position, Jun	14,080,153	54,974	14,135,127

The Board of Trustees has expressed a desire to discuss possible designation of available fund balances in support of priority capital projects included in the District's Five-Year Capital Improvement Plan beyond FY2020-21 as well as, potentially, other District obligations.

Utility Fund – Reservation of Funds for Effluent Export Pipeline Project

At its meeting of March 3, 2020 the Board took action to restrict \$9,656,890 in Utility Funds for the expressed purpose of earmarking the funds for the Effluent Pipeline Project. While this funding was included in the FY2019-20 capital budget for the project (CIP #2524SS1010), these unexpended funds will again revert to fund balance and will remain restricted until re-appropriated and expended for the intended purpose.

At the same time, the District continues to collect \$2.0 million per year in utility rate revenue collected specifically for the Effluent Pipeline Project. Of the new \$2.0 million appropriation included in the FY2019-20 budget, expenditures of \$87,233 was expended, leaving an unexpended balance of \$1,912,767 that would be appropriate to add to the cumulative "restricted" funding being collected in support of the Effluent Pipeline Project.

Staff recommends that the Board make a motion to "restrict" an additional \$1,912,767 for the Effluent Pipeline project, which will result in a cumulative amount of restricted funding of \$11,569,657.

General Fund – Commitment of Funds for Property Tax Settlement

Staff is recommending that of the estimated \$4,567,475 in available year-end unassigned fund balance within the District's General Fund, a total of \$1,360,000 be "committed" by the Board to cover the District's obligation under the terms of settlement of the property tax dispute filed against Washoe County et al, Nevada State Board of Equalization and the Department of Taxation by the Village League to Save Incline Assets, Inc.

As the terms of the settlement are finalized, this amount will be required to be booked as a liability of the District's General Fund, however, given the timing of the settlement agreement, it is likely that this liability may not be recorded until this current fiscal year. Staff is seeking Board approval to reflect these funds as "committed" as of June 30, 2020, thus reducing the unassigned fund balance to be reported through FY2019-20.

Once the liability is officially recorded on the District's financial statements, the commitment of fund balance is off-set. Should the District's Independent Auditor recommend that the liability be recorded as of June 30, 2020, the commitment of funds by the Board becomes unnecessary; however, staff is seeking Board action on this item to ensure that these funds are excluded from unassigned fund balance regardless of whether the liability is recorded in fiscal year 2019-20 or fiscal year 2020-21.

Re-establishment of Capital Funds for Community Services and Beach Funds.

In adopting the Final Budget for FY2020-21, the Board took action to re-establish separate Capital (and Debt) funds for its Community Services and Beach activities. As a result the adopted budget thus included a transfer of \$5,594,546 of fund balances from the Community Services Special Revenue fund to support appropriations included in the FY2020-21 capital budget for Community Services capital projects. This transfer of Community Services Special Revenue fund

balance will be recorded from available year-end fund balance in the Community Services Special Revenue fund as of June 30, 2020.

In order for the FY2019-20 financial statements to reflect this commitment of fund balance to projects included in the FY2020-21 budget, staff is recommending that the Board authorize the "commitment" of these funds, as of June 30, 2020. This will assist in reflecting the fact that these funds are considered obligated for capital projects and not available for other purposes.

Staff is recommending that the Board authorize Staff to take the additional step of transferring an additional \$1,100,000 in available Community Services Special Revenue Fund balance to the Community Services Capital Fund in support of future capital projects, beyond those projects for which appropriations are provided in the FY2020-21 approved capital budget.

This recommendation stems primarily from the fact that in approving the District's FY2018-19 budget, the Board specifically allocated \$440 of the Community Services Facility Fee for capital projects, yielding \$3,609,320 in revenues earmarked for capital projects for that year. However, since the District only expended funding requiring \$2,508,528 in Facility Revenue for capital projects, \$1.1 million of Facility Fee revenue was never transferred to the Community Services Capital Fund. Board action is now being sought to authorize reflecting these dollars within the Community Services Capital Fund, assigned solely for future capital project commitments.

It should be noted that, with the Board's action to re-establish separate capital and debt funds within our Governmental Special Revenue funds, all revenues designated in the budget for capital expenditures will be collected, tracked and retained within these funds ensuring that capital project fund balances remain in their respective capital funds.

Future Consideration of Designating Additional Fund Balances

As the Board works to refine its multi-year capital improvement plan along with the funding plan required to implement the capital plan, the Board has also express a desire to continue to identify specific projects and Board-priority projects. Moreover, to ensure that Board-priority projects can be implemented according to desired timelines, the Board could take the additional step of designating specific funding in support of specific projects in advance of a project receiving formal budget appropriations for design and construction.

Generally-accepted accounting principles (GAAP) provide for specific classifications for fund balances within Governmental Funds. These include the following categories:

- **Restricted** – funds that are restricted for specific purposes through restrictions of external parties or by enabling legislation
- **Committed** – amounts constrained for specific purposes imposed by formal action of the government’s highest decision making authority. Committed funds cannot be used for any other purpose absent the government taking the same action (resolution/ordinance) that established the original commitment.
- **Assigned** - amounts constrained by the government’s intent to be used for a specific purpose, but are neither restricted nor committed. Assignment of fund balances may be made by an officer who has been delegated such authority.
- **Unassigned** – fund balances that are the residual classification for amounts that are not constrained as reported in the other classifications.

For Proprietary Funds GAAP establishes that “net positions” should be identified as

- Net Investment in capital assets
- Restricted (distinguishing among categories of restriction)
- Unrestricted

In this context, “restricted net positions” arises if either:

- 1) Restrictions are externally imposed by creditor, grantor, or laws/regulations of other governments; or
- 2) Restrictions are imposed by law through constitutional provisions of enabling legislation

According to GASB, it is important to note that “earmarking” of an existing resource or revenue for specific use by the reporting government does not result in the reporting of restricted net positions from the earmarking. Earmarking may also be referred to as “designation” of the government’s intent, but does not have the same legal restriction established at the time the revenue was created.