

## MEMORANDUM

**TO:** Audit Committee

**FROM:** Clifford F. Dobler and Sara Schmitz

**SUBJECT:** Inconsistency in the Accounting and Reporting of Facility Fees Revenues in the completed 2020/2021 and the planned 2021/2022 Annual Comprehensive Financial Reports.

**STRATEGIC**

**PLAN REFERENCE(S):** None

**DATE:** May 25, 2022

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**I. RECOMMENDATION**

The Audit Committee makes a motion to request that the Board of Trustees direct IVGID Staff to employ the recommendations provided by Moss Adams as outlined in their report dated January 14, 2021 relating to accounting and reporting of Facility Fees in the Annual Comprehensive Financial Report for the year ended June 30, 2022. The four items to be addressed are:

- A. Disclosure of policy for the Facility Fee revenue in the notes to the financial statements. Currently there is no reference to Facility Fees in the Notes to Financial Statements.
- B. The District should "stick" to the non-exchange classification of the Facility Fee
- C. The Facility Fees should be reported within the **non operating** section in the Statement of Revenues and Expenses and the non-capital related financing activities section in the Statement of Cash Flows for the Community Services and Beach enterprise funds.
- D. The Facility Fees should be reported as program revenue in the government- wide Statement of Activities as opposed to general revenues of the District. Page 64 of Moss Adams report (GASB Cod Sec 2200. 136-140).

## II. BACKGROUND AND ANALYSIS

Since 2015, an inconsistency has existed in the reporting of Facility Fees for Community Services and Beaches in the Comprehensive Annual Financial Reports based on the concept that the Facility Fees are non exchange transactions. On the one hand, the Facility Fees have been reported as a General Revenue in the Government Wide Statement of Activities and on the other hand the same Facility Fees have been reported as an Operating Revenues in the Statements of Revenues, Expenditures and Changes in Net Position.

Moss Adams LLP was engaged in 2020 to review Punch Card Accounting and provided a report on observations and recommendations. During the engagement, the review was extended to incorporate how the annual Facility Fees should be classified and reported in the financial statements. Attached is the Punch Card Accounting Section of the Moss Adams Report which incorporates a section titled ***Applicable revenue recognition guidance applicable to the Facility Fees***. This memorandum ONLY reflects the accounting and reporting of facility fees as determined in the observations and recommendations of item #3 of the Punch Card Accounting Section and DOES NOT ADDRESS ACCOUNTING FOR PUNCH CARDS. Specific paragraphs have been redlined for review.

The historic issue and disagreement between IVGID management and citizens has been whether the Facility Fees are exchange or non-exchange transactions. Moss Adams concludes that the Facility Fees are a non-exchange transaction under guidance provided in GASB Statement No 33 which generally provides for asset recognition when a resource is received or at the time a legal right to resources exist, and revenues recognized when all eligibility criteria are met securing the entity's (IVGID) right to the resource. Since the Facility Fee is collected by Washoe County, secured by liens on property and no requirement is placed on IVGID's right to use the Facility Fees then the Facility Fees are deemed to be non-exchange transactions.

### Recommendations of Moss Adams LLP

*"We find that the classification of the Facility Fees in the government-wide statement of activities since 2015 as a general revenue is inconsistent with GAAP in that the Fees are assessed specifically to finance the District's recreational activities. As such it meets the criteria to be reported as a program revenue in the statement of activities. (GASB Code Sec 22--.137)*

*"We recommend the District include its policy on the classification of Facility Fees in the footnotes to the financial statements."*

*"If the District reports the recreational activities in enterprise funds, we recommend the fee be reported as non-operating revenue."*

Exhibit A - Moss Adams Report - Punch Card Accounting Section regarding accounting and reporting of Facility Fees

**III. BID RESULTS**

*Not required*

**IV. FINANCIAL IMPACT AND BUDGET**

Improper budgeting and reporting has occurred in the past 7 years.

**V. ALTERNATIVES**

None

**VI. COMMENTS**

IVGID Staff has concluded that reporting of Facility Fees as General Revenue in the Statement of Activities is proper because the Facility Fees are non exchange transaction. This conclusion has no bearing on how the Facility Fees should be reported. The key factor of reporting facility fees as program revenue in the Statement of Activities is based on the nature of the restricted use of the Fees. The Facility Fees are appropriated annually via a resolution by the Board of Trustees for the sole purpose of providing resources specifically for the Community Services and Beaches and not for use by the entire District.

**VII. STRATEGIC PLAN REFERENCE(S)**

None

**VIII. BUSINESS IMPACT**

Proper reporting to users of the ACFR.



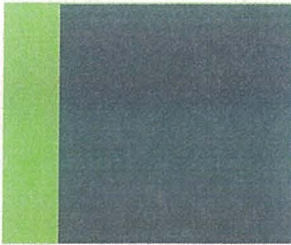
## Punch Card Accounting

Based on input gathered from interviews, documents reviewed, and our evaluation of existing practices compared to applicable accounting standards and best practices, we have the following observations and recommendations.

1	<b>Observation</b>	The District's current punch card accounting methodology attempts to recognize the value associated with the benefits of the Facility Fees within the activities by fund where the picture passes and punch cards are presented for use. Further, we found that the District estimates the usage of picture passes and punch cards and the budgeted revenues by fund are consistent with that estimate.
	<b>Recommendation</b>	While we find there is a reasonable purpose behind the contra revenue methodology that is not inconsistent with GAAP and the budget requirements of the State, we recommend ceasing the use of the current accounting methodology. This methodology complicates revenue estimates to use for budget purposes, is confusing to stakeholders, and requires a significant amount of staff time during the year to administer. The time, cost, and complexity involved appears to outweigh the benefits perceived to be achieved.

2	<b>Observation</b>	The Board has the authority to, or not to, assess Facility Fees in support of Beach and Community Service venues, as well as to determine the allocation of the Facility Fees to fund operations, capital asset acquisitions, and/or debt service of both Community Services and Beach. The allocation in any particular year can address the immediate needs of the District as determined by the Board.
	<b>Recommendation</b>	The District should record revenues from charges for services and Facility Fees within the different activities and funds according to the net cash collected from rates charged and the allocation of Facility Fees determined by the Board at the time of the budget adoption.

3	<b>Observation</b>	Management has been classifying Facility Fees as a non-program related general revenue and therefore resulting from a non-exchange transactions since 2015 but has not specifically disclosed its policy on its revenue classification in the notes to the financial statements.
	<b>Recommendation</b>	Whether the District continues to report its recreational activities within governmental funds or switches to enterprise funds, its policy on the



classification of the Facility Fee revenue should be disclosed in the notes to the financial statements. We recommend the District stick to the non-exchange classification of the Facility fees, and if the decision is to switch to enterprise fund reporting, to report the fees within the non-operating section in the statement of revenues and expenses and the non-capital related financing activities section in the statement of cash flows.

### Observation of current punch card accounting.

Board Policy 2.1.0.2.4 provides for the reporting of the annual recreation and beach Facility Fees and the allocation of these fees to the District's various recreational activities, capital projects, and debt service. The policy provides that the Board will authorize the assessment and allocation through the budget process.

Policy 16.1.1 provides the authority for charging the Facility Fees and the basis for which it will be assessed, the method and manner of the assessment and collection of the fees, and the benefits the fees provide residents through certain uses and rates at the District's various recreational facilities. The Board approved Ordinance 7 provides for the establishment of the uses and rates, rules and regulations for recreation passes and punch cards which are presented by residents at the recreational facilities to obtain the benefits and privileges provided to them in exchange for payment of the fees.

By Resolution and through the budget adoption process, the Board determines the assessment of the Facility Fees among the different recreational activities reported in Community Services and Beach funds, as well as amounts allocated for capital asset acquisitions and debt service benefitting the activities within these two funds.

To take advantage of the privileges provided by Ordinance 7, members have the option of receiving a picture pass or punch cards to present when utilizing the various recreational activities and facilities that, among other benefits, allow for reduced pricing compared to rates charged the general public.

We found that the District has been utilizing a contra-revenue accounting methodology that tracks the location where picture passes and punch cards are presented for use at the various recreational venues, as well as to recognize the value of the punch cards between the Community Services and Beach venues. From inquiries of management, we learned that the budgeted revenues by fund as adopted contains an estimate of the relative values of the benefits members obtain from usage of the punch cards at venues within Community Services and Beach.

In our interviews with various stakeholders, we heard that the initial purpose of the contra-revenue accounting methodology was developed in an effort to better align the values associated with the punch cards with the venues where presented for use. However, we heard from many stakeholders the current revenue recognition practice is complicated, confusing, requires significant staff time, and seems inconsistent with the authority of the Board to assess the Facility Fees to fund the various recreational activities and related capital acquisitions and debt service pursuant to their discretion.

We understand that some District stakeholders have raised the question as to whether the contra-revenue accounting methodology ends up with a reallocation of the Recreation Facility Fee revenues



paid by certain residents that don't have beach privileges away from the Community Services Fund and records them as revenues within the Beach Fund. From inquiries of management and the observations of documents provided to us, we did not find that resources from the Fees paid by members without beach privileges were reallocated and transferred out of the Community Services Fund. Nor did we find actual revenues reported for a year to be inconsistent with the intent of the adopted budget.

From review of past comprehensive annual financial reports, we find that management has been inconsistent in the classification of the Facility Fees revenue within the financial statements, and not currently following GAAP. Prior to 2016 when the District was reporting its recreational activities within enterprise funds, the Facility Fees were classified as 'operating revenue' consistent with exchange or exchange-like accounting guidance. After 2016 the District classified the fees as 'general revenues' which is consistent with the non-exchange transaction accounting guidance, and only appropriate when the fees are unrelated to funding specific programs or activities of the District.

### **Applicable revenue recognition guidance applicable to the Facility Fees.**

A governmental accounting system must make it possible to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and to determine and demonstrate compliance with finance related legal and contractual provisions. Governing bodies, by definition, exercise the "power of the purse" by their responsibility to authorize the entity to raise and spend public money. This authorization in Nevada comes through the adoption of the annual budget. (GASB Cod Sec 1100.101, GAAFR 4-2, NRS 354.596-598)

The use of funds is the established mechanism to meet the objective noted above. A fund reports financial resources which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions, or limitations. The particular use of a fund can be dictated by laws, regulations, or often as determined at the discretion of the governing board. (GAAFR 4-1&2)

GAAP provides for revenue recognition based on the classification of the underlying transactions which generally falls into two classifications of exchange or exchange-like, and non-exchange. Exchange transactions generally result from fees charged to users for goods or services where the fee is commensurate with the value received by the user. Greens fees at a golf course or the day-use fee at a gym are examples. Non-exchange transactions result when the provider of the resources does not necessarily receive something of equal value in return. Examples include the payment of taxes to fund general government services like community planning and public safety. The classification of the underlying revenue has significant implications on the timing of recognition of a resource (an asset or reduction of a liability) and revenue. It also has implications on the fund-type to be used for the underlying activity. (GAAFR 8-1&2)

There are instances the parties to the services may be willing to receive or pay amounts that are similar, but may not be same, as the value of the underlying goods and services. These transactions are classified as exchange-like transactions. The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics are strong enough to justify treating the transaction as exchange for accounting purposes. (GASB Cod Sec N50.503)



Exchange and exchange-like transactions are to be recognized as, or over the period when, the underlying service is provided. Non-exchange transaction accounting guidance is provided by GASB Statement No. 33 which generally provides for asset recognition when a resources are received or at the time a legal right to resources exist, and revenues recognized when all eligibility criteria are met securing the entity's right to the resources.

There is diversity in practice in the application of existing guidance with transactions that are not pure exchange or non-exchange. As a result, GAAP requires management to set a policy to be consistently applied as to the nature of transactions considered program revenues for its governmental activities, and operating revenues for its business-type activities and to disclose the policy in the footnotes to the financial statements. From review of past CAFR's, we did not find a disclosure specific to the revenue classification of the District's Facility Fees. (GASB Cod Sec 2300.106)

In the government-wide statement of activities, revenues are to be classified as either program or general. Program revenues are defined as those directly associated with the function or program and would disappear if the function or program were eliminated. Examples include fees and charges paid by those who purchase, use, or otherwise directly benefit from the service, program-specific grants and contributions restricted to financing the underlying function or activity, and interest earnings on investments restricted to use by a specific function or activity. General revenues are defined as those not directly related to financing a specific function or activity. Examples are taxes, grants and contributions that are not restricted to a specific function or activity, and interest on invested resources not restricted to specific functions or activities. (GASB Cod Sec 2200.136-140)

### **Evaluation of the District's current Punch Card accounting methodology**

We find that the District's Board has the authority to assess the Facility Fees in support of activities and venues reported within the Beach and Community Services as provided in the Board Policies and Ordinances as well as NRS 318.197. Further, the Board has the authority to determine the allocation of the fees in support of operations, capital expenditures and debt service which is memorialized in Board Resolutions and the District's adopted budget. As noted above, the budgeted revenues by fund have included revisions for the District's estimated usage of punch cards among the various recreational activities prior to adoption by the District's Board.

In addition, we find that the District's current contra-revenue accounting methodology results in revenues recognized by the various activities and funds in accordance with the intent of the approved budget, as well as the accounting literature for reporting revenue within the various funds of an entity at the discretion of the governing board.

Further, based on existing guidance available today and on the diversity in practice in the application of revenue classification criteria for certain transactions, we can understand why management has not been able to come to a definitive conclusion on the classification of the District's Facility Fees presumably resulting in the switch in classification after 2015. While the fee is not 'pure' in the same sense as the payment of greens fees for a round of golf, the fee does provide specific rights and privileges to residents to the District's recreational activities along with the District's policy of using the fee, in addition to user charges, to directly finance recreational activity operations, capital needs, and debt service.



One factor that would seem to support management's current classification as 'non-exchange' is the fact that the assessment and payment of the fee lacks the mutual assent of the parties. Residents do not have a choice on the payment of the fee unlike the decision to play golf and incur greens fees. GASB's new revenue and expense recognition project currently under deliberation provides for four criteria to be met for a transaction to be considered exchange or exchange-like including the concept of 'mutual assent' of the parties. This concept is not included in current accounting standards and is being discussed, in part, to provide clearer guidance on what constitutes an exchange transaction. (GASB Revenue and Expense Recognition Preliminary Views Ch 3, par 3)

We find that the classification of the Facility Fees in the government-wide statement of activities since 2015 as a general revenue is inconsistent with GAAP in that the fees are assessed specifically to finance the District's recreational activities. As such, it meets the criteria to be reported as a program revenue in the statement of activities. Further, the fees meet the criteria to be included in the charges for services column in the statement. (GASB Cod Sec 2200.137)

### **Recommendations.**

We recommend ceasing the use of contra-revenue accounting currently applied to the value received for the payment of Facility Fees attributed to the use of picture passes and punch cards. We question the benefits derived compared to cost incurred by the District to administer this approach especially given the Board's authority to allocate the resources they deem appropriate to best meet the needs for the ensuing year through the adopted budget. In addition, eliminating the use of contra revenue accounting will eliminate the variability that results when picture passes and punch cards are utilized differently from preliminary estimates included in the budget thereby providing management more certainty as to actual resources available to finance each activity during the year, and should significantly reduce staff time and effort required to perform the daily and monthly accounting.

We recommend the charges for services revenues be reported within the activities and funds at the net rates collected at each venue, and Facility Fees reported within each fund be consistent with the assessment and allocation initially set by the Board during the budget adoption process.

We recommend the District include its policy on the classification of Facility Fees as either program or general revenue, or, either operating or non-operating, in the footnotes to the financial statements. If the District continues to report its recreational activities within governmental funds, we recommend ~~the fees be classified as program revenues and reported in the charges for services column and on~~ the appropriate lines for the portions related to Community Services and Beach activities. If the District reports the recreational activities in enterprise funds, we recommend the fee be reported as non-operating revenue.