

MEMORANDUM

TO: Audit Committee

FROM: Martin Williams
Controller

THROUGH: Paul Navazio
Director of Finance

SUBJECT: Investment Allocation Analysis

REFERENCE: Correspondence authored by Audit Committee At-Large Member Cliff Dobler regarding allocation of Investment Income earned on Cash, Cash Equivalents and Investments for the IVGID Governmental Funds ONLY for the fiscal years ending June 30, 2019 and 2020

DATE: July 23, 2021

In responds to the memo dated June 21, 2021 from Cliff Dobler, I have conducted an in depth analysis of the investments and the allocation process. I have learned that historically IVGID tracks investments by the individual fund that purchased the investment, therefore, allocation of interest across funds would not be needed, nor following GAAP and GASB.

Although the Community Services and Beach funds were special revenue, and therefore governmental funds for the last 5 years, through FY2019/2020 the investments were not processed as pooled investments. Rather, each bond purchased or LGIP transfer, was tracked independently and all income generated by said investments were allocated to the fund involved in the investment.

There are two exceptions to this - the interest earned on the money market funds and the Operational Checking account, which were posted to the Interest Income account, in the General Fund. The money market interest totaled \$13,432.63 in FY2019 and \$15,003.87 in FY2020. The interest earned on the operating checking account was \$19,658.12 in FY2019 and \$9,534.91 in FY2020. Although these amounts have not been allocated historically, we agree they should be allocated going forward. The below charts shows how much each fund would have received if we allocate based on balanced as of June 30, 2021.

G/L#	DESCRIPTION	BALANCE	% of MM	FY2019	FY2020
100-00-000-0160	TOTAL	4,401,848.28	30.2281%	4,060.43	4,535.38
200-00-000-0160	TOTAL	4,661,978.53	32.0144%	4,300.38	4,803.41
340-00-000-0160	TOTAL	1,074,928.23	7.3817%	991.55	1,107.54
360-00-000-0160	TOTAL	3,357,273.28	23.0549%	3,096.87	3,459.12
390-00-000-0160	TOTAL	1,066,080.75	7.3209%	983.39	1,098.42
450-00-000-0160	TOTAL	0.00	0.0000%	-	-
		14,562,109.07	100.0000%	13,432.63	15,003.87

G/L#	BALANCE	% of Cash	FY2019	FY2020
100-00-000-0110	4,907,409.66	18.2354%	3,584.75	1,738.73
200-00-000-0110	4,973,750.07	18.4820%	3,633.21	1,762.24
320-00-000-0110	(607,733.26)	-2.2583%	(443.93)	(215.32)
330-00-000-0110	120,690.27	0.4485%	88.16	42.76
340-00-000-0110	7,160,957.98	26.6094%	5,230.91	2,537.18
350-00-000-0110	924,426.05	3.4351%	675.27	327.53
360-00-000-0110	6,346,215.51	23.5819%	4,635.76	2,248.51
370-00-000-0110	(1,282,100.99)	-4.7642%	(936.54)	(454.26)
380-00-000-0110	(54,157.41)	-0.2012%	(39.56)	(19.19)
390-00-000-0110	1,394,493.98	5.1818%	1,018.64	494.08
410-00-000-0110	139,209.92	0.5173%	101.69	49.32
420-00-000-0110	(63,397.57)	-0.2356%	(46.31)	(22.46)
430-00-000-0110	(60,861.27)	-0.2262%	(44.46)	(21.56)
450-00-000-0110	-	0.0000%	-	-
520-00-000-0110	(877,138.82)	-3.2594%	(640.73)	(310.78)
530-00-000-0110	(6,262.04)	-0.0233%	(4.57)	(2.22)
540-00-000-0110	(148,261.99)	-0.5509%	(108.30)	(52.53)
550-00-000-0110	228,464.58	0.8490%	166.89	80.95
560-00-000-0110	92,569.71	0.3440%	67.62	32.80
570-00-000-0110	1,505,322.30	5.5936%	1,099.60	533.35
580-00-000-0110	(780,433.41)	-2.9000%	(570.09)	(276.51)
590-00-000-0110	2,967,191.70	11.0258%	2,167.46	1,051.30
620-00-000-0110	(182,765.24)	-0.6791%	(133.51)	(64.76)
630-00-000-0110	(174,470.22)	-0.6483%	(127.45)	(61.82)
640-00-000-0110	(19,472.03)	-0.0724%	(14.22)	(6.90)
650-00-000-0110	(2,220.01)	-0.0082%	(1.62)	(0.79)
660-00-000-0110	412,747.67	1.5337%	301.50	146.24
670-00-000-0110	(2,960.00)	-0.0110%	(2.16)	(1.05)
680-00-000-0110	(1,284.99)	-0.0048%	(0.94)	(0.46)
690-00-000-0110	1,449.70	0.0054%	1.06	0.51
Totals	26,911,379.85	100.0000%	19,658.12	9,534.91

925-00-000-0110	349,509.41
950-00-000-0110	72,688.78
990-00-000-0110	-

27,333,578.04

This allocation would cause a reduction of the General Funds Investment Income of \$25,445.57 in FY19 and \$18,264.67 in FY20. While we agree that this income should be allocated over the funds based on cash balance in the Wells Fargo Operating account, we do not feel the amounts in the previous years justify a prior year adjustment.

MEMORANDUM

TO: Audit Committee

THROUGH: Ray Tolloch

FROM: Clifford F. Dobler

SUBJECT: Misallocation of Investment Earnings on Cash, Cash Equivalents and Investments - fiscal year 2019 and 2020.

**STRATEGIC
PLAN REFERENCE(S):** None

DATE: 1-13-2021

I. RECOMMENDATION

That the Audit Committee make a recommendation to the IVGID Board of Trustees to have Staff correct and properly allocate Investment Earnings to the various governmental funds apportioned and based on the actual cash, cash equivalents and investments held in each fund.

II. BACKGROUND and ANALYSIS

See Attached memorandum from Cliff Dobler dated June 21,2021

III. BID RESULTS

Not required

IV. FINANCIAL IMPACT AND BUDGET

Proper allocation of the Investment Earnings will substantially reduce the Fund Balance and Net Position in the General Fund and at the same time increase the fund balances and Net Position in the Community Services and Beach Funds.

V. ALTERNATIVES

NONE

VI. COMMENTS

The required adjustments will result in either a prior period adjustment or a restatement of previously issued CAFR's

VII. STRATEGIC PLAN REFERENCE(S)

None

VIII. BUSINESS IMPACT

None.

or

June 21, 2021

To: IVGID Audit Committee

From: Cliff Dobler

cc: Board of Trustees, Paul Navazio and Indra Winquest

Re: Misallocation of Investment Income earned on Cash, Cash Equivalents and Investments for the IVGID Governmental Funds ONLY for the fiscal years ending June 30, 2019 and 2020

Issue

IVGID management did not properly allocate the Investment Income of \$563,335 for fiscal year 2019 and \$482,109 for fiscal year 2020 between the governmental funds of IVGID. As such, based on average CASH held in each of the governmental funds, approximately \$490,000 was improperly recorded in the General Fund rather than in the three Community Services Funds and the three Beach Funds.

Background

Since 2019, the District has been holding in excess of \$20,000,000 in Cash, Cash Equivalents and Investments ("CASH") for the governmental funds most of which have been invested into two main vehicles:

- State of Nevada Local Government Investment Pool (LGIP)
- Wells Fargo Bank - Certificates of Deposits and demand deposits

For the past two years, approximately 60% of the CASH has been held in the pooled LGIP account.

According to the historic distributed interest rates of the LGIP, the annual yields, calculated by month, have been between 1.99% and 2.54% in 2019 and .92% and 2.47% in 2020. The annual yields from certificates of deposits, administered by Wells Fargo Bank, are unknown, however, the yields most probably would be in line with the yields produced by the LGIP.

It is unknown how IVGID staff members allocated the Investment Income for both fiscal years between the seven governmental funds. There is no Board Policy or Practice which provided any insight. Based on the lopsided amounts allocated to the General Fund a fair and reasonable allocation was not conducted.

This memo only addresses the past two fiscal years but improper allocations have been done since, at least, fiscal year 2015.

Analysis - EXHIBIT A

Exhibit A establishes a fair and reasonable allocation of the Investment Income based on the average CASH held in each of the 7 funds.

In order to establish a fair and reasonable allocation of the Investment Income, Exhibit A lists the beginning and ending CASH for the fiscal years 2019 and 2020 and establishes the average CASH for each of the 7 funds.

The average CASH in each fund allocated proportionally to the total CASH held by all funds provides a basis for a fair and reasonable allocation of the Investment Income.

As indicated, the Investment Income allocated to the General Fund was substantially excessive in relation to the overall Investment Income based on the average CASH in each fund.

This analysis does NOT include \$385,160 of restricted cash.

The following observations based on the Exhibit A analysis can be seen:

- The investment income of all funds for fiscal year 2019 was \$563,325 and produced an annual yield of 2.75% based on the average CASH of \$20.5 million held during the fiscal year. The average cash for the General Fund **was only \$3.9 million** representing only 19% of total CASH, however, received \$327,817 or 58% of the investment income. Properly allocating the investment income based on average CASH held during the year, only \$107,168 should have been allocated to the General Fund. **An overstatement of approximately \$220,647.**
- The investment income for fiscal year 2020 was \$482,109 and produced an annual yield of 2.022% based on the average CASH of \$23.8 million held during the fiscal year. The average cash for the General Fund was only \$5.1 million representing only 21% of total CASH but received \$372,676 or 77% of the investment income. Properly allocating the investment income based on average CASH held during the fiscal year, only \$102,389 should have been allocated to the General Fund. **An overstatement of \$270,287.**

Conclusion - Serious material misstatement of the General Fund's financial condition

An outside investigation and subsequent report on the proper amounts of investment income which should have been allocated to each of the seven governmental funds must be accomplished as soon as possible. Based on the report, an adjustment to the various accounts must be made.

This recorded allocation of investment income for 2019 and 2020 substantially favored the General Fund by almost \$500,000 in additional Revenues and is a GROSS and MATERIAL misstatement of the financial conditions of the General Fund.

- The Balance Sheet in the 2020 CAFR indicates the General Fund has assets of only \$6.2 million thus the overstatement of almost \$500,000 in CASH overstates the General Fund assets by over 8%.
- The Balance Sheet also indicates the Unassigned Fund Balance was only \$3.1 million thus the overstatement of almost \$500,000 in CASH overstates the Unassigned Fund Balance by 16%.
- According to the CAFR's, the Excess of Revenues over Expenditures for fiscal year 2019 was overstated by 29% and for fiscal year 2020 the excess was overstated by 23%.

According to Davis Farr, LLP, the District auditors, any misstatement which exceeds 1% of any of the three bullet items above is a MATERIAL MISSTATEMENT which should require a restatement of the financial statements for fiscal years 2019 and 2020.

Together with the other recommended and approved corrections of accounting errors in the 2019 and 2020 CAFR's, especially the expensing of the costs which were improperly capitalized in the Utility Fund may, in the aggregate, constitute a restatement of the CAFR' for 2019 and 2020. These recommended and approved corrections are to be addressed in the 2021 CAFR.

Exhibit A - Analysis of Allocation of Investment Income - fiscal years 2018/2019 and 2019/2020

Incline Village General Improvement District

EXHIBIT A

Analysis of Allocation of Investment Income Fiscal years 2018/2019 and 2019/2020

Governmental Fund ONLY - Does not include Utility Fund

Sources - CAFR Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances

	General Fund	Community Services SR Fund	Beaches SR Fund	Community Services CP Fund	Beach CP Fund	Community Services DS Fund	Beach DS Fund	Total
Fiscal year ending June 30, 2019								
6/30/2018 Cash, Cash Equivalents, Investments	3,174,585	11,689,289	1,539,550	2,610,032	101,701	51,553	4,606	19,171,316
6/30/2019 Cash, Cash Equivalents, Investments	4,619,435	14,751,053	1,945,888	372,676	109,433	-	-	21,798,485
AVERAGE Cash, Cash Equivalents, Investments	3,897,010	13,220,171	1,742,719	1,491,354	105,567	25,777	2,303	20,484,901
Investment Income for Fiscal year 2019 (As reported)	327,815	199,322	36,188	-	-	-	-	563,325
Investment Income return (yield) for Fiscal Year 2019	8.41%	1.51%	2.08%	0.00%	0.00%	0.00%	0.00%	2.750%
Proper Allocation based on AVERAGES	107,168	363,555	47,925	41,012	2,903	709	54	563,335
Estimated Adjustment	(220,647)	164,233	11,737	41,012	2,903	709	54	0

Fiscal year ending June 30, 2020								
6/30/2019 Cash, Cash Equivalents, Investments	4,619,435	14,751,053	1,945,888	372,676	109,433	-	-	21,798,485
6/30/2020 Cash, Cash Equivalents, Investments	5,505,558	17,724,284	2,646,405	-	-	-	-	25,876,247
AVERAGE Cash, Cash Equivalents, Investments	5,062,497	16,237,669	2,296,147	186,338	54,717	-	-	23,837,366
Investment Income for Fiscal year 2020 (As reported)	372,676	109,433	-	-	-	-	-	482,109
Investment Income return (yield) for Fiscal Year 2020	7.36%	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%	2.022%
Proper Allocation based on AVERAGES	102,389	328,407	46,440	3,769	1,105	-	-	482,109
Estimated Adjustment	(270,287)	218,974	46,440	3,769	1,105	-	-	(0)