

D.8. – Review, discuss, and possibly take action related to the following communications that have been received and are included: (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)

b. October 19, 2020 email communication regarding 2018-19 CAFR capitalization, expense notes, and deferred interest received from Audit Committee Member at Large Cliff Dobler

From: [Matthew D](#)
To: [Herron, Susan](#)
Subject: Fwd: Points #22 to 24 of CAFR
Date: Tuesday, November 10, 2020 10:58:06 AM
Attachments: [Defensible Space not a Capital Asset - Pages from CAFR - 2019.pdf](#)
[22 - Utility Fund - Accounting for Effluent Pipeline Set Aside as Deferred Revenues.pdf](#)
[23 - 2019 CAFR errors - Failure to set aside investment income for Effluent Pipeline.pdf](#)
[24 - 2019 CAFR errors - Burnt Cedar Pool - Construction in Progress charges for fiscal 2019 - Should be expensed.pdf](#)

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

From: <cfdobler@aol.com>
Date: Fri, Nov 6, 2020 at 11:28 AM
Subject: Points #22 to 24 of CAFR
To: dent_trustee@ivgid.org <dent_trustee@ivgid.org>
CC: matthewbdent@gmail.com <matthewbdent@gmail.com>

I think these three points may have fell through the impregnable crack in the IVGID communication chain. They are attached.

While there never is a last item, I call your attention the 2019 CAFR Note 1J - Capital Assets. With that Note there is an entire paragraph on page 40 relating to Defensible Space. As stated the Defensible Space costs (expenses) are expensed and have no relationship to Capital Assets. I attach the page of the CAFR -Make that point #25

As an extension of my October 19, 2020 memo regarding the Statement of Activities, I believe that GASB #34 is not being adhered to at all. **Paragraph 39 of GASB #34 clearly states that "should present governmental activities at least at the level of detail required in the governmental fund statement of revenues, expenditures and changes in fund balance" (page 4 of my memo). Applying that GASB requirement then separate line items for the Community Services and Beaches Capital Projects and Debt Service Funds would have to be detailed to be in compliance.** Instead IVGID drifted away from the requirements and combined the Capital Projects and Debt Service funds together with the Special Revenue Funds. I assume the word "function" was IVGID's pivot point to decide to ignore the requirement. As such, there is no gymnastic possible comparison between the Statement of Activities and the Government Funds Statement of Revenues, Expenditures and Changes in Fund Balance (my page 5) and the Statement of Activities (my page 2).

Gain on Sale of Capital Assets, Unrestricted investment earnings and miscellaneous revenues were all classified as General Revenues in the Statement of Activities and did not follow the individual fund revenues in the Governmental fund statement of revenues, expenditures and changes in fund balance.

This should bring us up to speed except for the new one on Pressure Relief values.

I sent the e mail to both places.

--

Matthew Dent

(775) 530-1345

Withdrawn on 10-4-2020

Memorandum

July 14, 2020

To: IVGID Audit Committee

cc: IVGID Trustees Morris and Wong, General Manager Indra Winqest, Director of Finance Paul Navazio,

From: Clifford F. Dobler

Re: Collection of sewer rates from customers for the Effluent Pipeline - Phase II replacement capital project should have been reported as Deferred Inflows of Resources. CAFR's and Budgets errors may have been created for seven years

Since 2013 the IVGID Board of Trustees has been collecting \$2,000,000 per year in sewer rates which was to be set aside for the eventual replacement of the Effluent Pipeline Phase II. Since these funds were collected for a specific purpose of designing and constructing a project in future years, it seems that the \$2,000,000 collected each year should have been recorded as deferred inflows of resources (revenues) rather than current revenues. GASB # 87 analyzes the effect on reporting the Net Position as Deferred inflows of resources must be reported as restricted funds.

The Utility Fund's activities are reported as an enterprise fund. One of the primary objective is to establish pricing policy wherein fees and charges for services are designed to recover its costs (which include depreciation or debt service). GASB #34 paragraph 69(c).

From fiscal years 2013 to 2019 total revenues of the \$78,736,743 were reported in the audited basic financial statements, of which \$14,000,000, was the set aside money for the Effluent Pipeline Phase II project, thus the Utility Fund appeared to have a positive increase in Net Position of \$11,533,692 over the seven year period. (Exhibit A" Reclassifying the \$14,000,000 as a deferred inflow of resources would have a negative effect.

In addition, my memorandum dated April 27, 2020 indicated that according to Board Practice 13.2.0-2.3 any interest earned on money set aside for a project should also be set aside if "deemed needed for possible project cost adjustments" Approximately \$538,000 of interest should have been set aside as deferred inflows of resources but was not. It was quite obvious that the Effluent Pipeline Phase II estimate of \$23 million was not sufficient as only a 4% inflation factor was used in the estimate.

If the \$14,000,000 from sewer rates collected for the Effluent Pipeline Phase II and the \$538,000 of interest earned on the partial funds collected and set aside from sewer rates, the Utility Fund would indicate a loss from operations of \$3,004,308 and the pricing policy to recover costs had not been met. (See EXHIBIT B)

For the seven year period (2013 to 2019) not only was IVGID staff budgeting excess current revenues but was also budgeting that the collections for the Effluent Pipeline Phase II money would actually be

spent each and every year when no replacement of the pipeline had even began. several million was being redirected on pipeline assessments and other projects.

The Comprehensive Annual Financial Reports issued from 2013 to 2019 includes, as Supplemental information, a Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual for the Utility Fund. Each year, capital expenditures (labeled as Acquisition of Capital Assets) were substantially less than budget giving the impression that actual expenditures were always below budget. During the seven year period, favorable variances of \$12,746.532 was indicated on budgets of \$40.671,676 (31.3% favorable variance. Factually there were many cost overruns if the set aside money for the effluent pipeline had not been budgeted as a capital expenditure.

I respectfully ask the IVGID Audit Committee to review this accounting and reporting of the Effluent Pipeline Phase II set aside funds and the effect on the Utility Fund .

Incline Village General Improvement District

EXHIBIT "A"

Utility Fund Revenues and Operating Expenses

Adjusted for Deferred Revenues collected for Effluent Pipeline and Interest on Pipeline Set Aside Funds

Fiscal years ending June 30, 2013-2019

BEFORE

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Revenues as Reported	\$ 9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	\$ 78,736,743
Adjustment for Pipeline Deferred Revenues								
Adjusted Revenues	9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	\$ 78,736,743
Operating Expenses - as Reported	(8,480,954)	(9,029,675)	(9,415,760)	(9,733,565)	(9,729,775)	(10,113,371)	(10,428,137)	(66,931,237)
Adjusted Operating Income (Loss)	\$ 1,286,521	1,404,443	1,435,363	1,424,554	2,083,394	1,812,186	2,359,045	\$ 11,805,506
Non Operating Revenues (Expenses)								
Investment Earnings	55,666	61,007	81,996	154,162	60,132	77,280	282,484	\$ 772,727
Gain or (Loss) on sale of assets	17,856	25,875	(34,499)	42,764	17,730	50,020	15,066	134,812
Extraordinary Expense		(30,587)						(30,587)
Interest on Bonds	(186,608)	(193,123)	(180,505)	(167,530)	(154,186)	(140,463)	(126,351)	(1,148,766)
Interest on Pipeline Set Aside								
Total Non Operating Revenues (Expenses)	(113,086)	(136,828)	(133,008)	29,396	(76,324)	(13,163)	171,199	(271,814)
Total Combined Income	\$ 1,173,435	1,267,615	1,302,355	1,453,950	2,007,070	1,799,023	2,530,244	\$ 11,533,692

Sources

Comprehensive Annual Financial Report for the Year ended June 30,2013	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2014	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2015	page 26
Comprehensive Annual Financial Report for the Year ended June 30,2016	Page 32
Comprehensive Annual Financial Report for the Year ended June 30,2017	Page 30
Comprehensive Annual Financial Report for the Year ended June 30,2018	Page 31

NOTE: REVENUES FOR FISCAL 2019 WERE INFLATED BY RECOGNIZING HISTORICALLY DEFERRED REVENUES AS CURRENT REVENUES - \$417,402

Incline Village General Improvement District

EXHIBIT "B"

Utility Fund Revenues and Operating Expenses

Adjusted for Deferred Revenues collected for Effluent Pipeline and Interest on Pipeline Set Aside Funds

Fiscal years ending June 30, 2013-2019

AFTER

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Revenues as Reported	\$ 9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	\$ 78,736,743
Adjustment for Pipeline Deferred Revenues	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(14,000,000)
Adjusted Revenues	7,767,475	8,434,118	8,851,123	9,158,119	9,813,169	9,925,557	10,787,182	\$ 64,736,743
Operating Expenses - as Reported	(8,480,954)	(9,029,675)	(9,415,760)	(9,733,565)	(9,729,775)	(10,113,371)	(10,428,137)	(66,931,237)
Adjusted Operating Income (Loss)	\$ (713,479)	(595,557)	(564,637)	(575,446)	83,394	(187,814)	359,045	(2,194,494)
Non Operating Revenues (Expenses)								
Investment Earnings	55,666	61,007	81,996	154,162	60,132	77,280	282,484	\$ 772,727
Gain or (Loss) on sale of assets	17,856	25,875	(34,499)	42,764	17,730	50,020	15,066	134,812
Extraordinary Expense		(30,587)						(30,587)
Interest on Bonds	(186,608)	(193,123)	(180,505)	(167,530)	(154,186)	(140,463)	(126,351)	(1,148,766)
Interest on Pipeline Set Aside	(19,000)	(38,000)	(51,000)	(106,000)	(45,000)	(54,000)	(225,000)	(538,000)
Total Non Operating Revenues (Expenses)	(132,086)	(174,828)	(184,008)	(76,604)	(121,324)	(67,163)	(53,801)	(809,814)
Total Combined losses	\$ (845,565)	(770,385)	(748,645)	(652,050)	(37,930)	(254,977)	305,244	\$ (3,004,308)

Sources

Comprehensive Annual Financial Report for the Year ended June 30,2013	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2014	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2015	page 26
Comprehensive Annual Financial Report for the Year ended June 30,2016	Page 32
Comprehensive Annual Financial Report for the Year ended June 30,2017	Page 30
Comprehensive Annual Financial Report for the Year ended June 30,2018	Page 31
Comprehensive Annual Financial Report for the Year ended June 30,2019	Page 31

NOTE: REVENUES FOR FISCAL 2019 WERE INFLATED BY RECOGNIZING HISTORICALLY DEFERRED REVENUES AS CURRENT REVENUES - \$417,402

Memorandum

April 27, 2020

To: IVGID Audit Committee - Chair Dent, Trustee Schmitz and Callicrate

cc: Trustee Wong and Morris

cc: Interim General Manager - Indra Winquest

cc: Director of Finance - Paul Navazio

From: Cliff Dobler

Re: Violation of Board Policy 13.1.0 (Exhibit "A") and Board Practice 13.2.0 ("Exhibit B") - Investment Earnings from Effluent Pipeline Phase II accumulated resources should be set aside and restricted but have not been.

As normal Board Policies and Practices are seldom adhered to and continues to perpetuate the lack of internal controls. Here is another non compliance item which needs to be addressed.

According Board Practice 13.2.0 (2.3) (Exhibit "B" page 2)

"Investment earnings on a project's financing resources shall accrue to the project to the extent they were included in the Capital Improvement Project Data Sheet or are deemed needed for possible project cost adjustments".

Of course, Project Data Sheets do not exist but are actually titled a Project Summary. Nowhere in any Project Summary produced by IVGID staff would the source of monetary resources be indicated. This is consistent with inaccurate information provided on a continuing basis.

It would seem quite clear that a "cost adjustment" for the Effluent Pipeline Phase II ("Pipeline") is evident since in January, 2020, the citizens became aware that the Pipeline costs estimates increased from \$23,000,000 to \$35,000,000. As such, any investment earning obtained on the money collected annually and set aside (other than amounts used for other projects) for the Pipeline should restricted and set aside for the additional \$12,000,000 in "cost adjustments"

Estimated Investment earnings (interest) of \$538,000, which should have been set aside as restricted funds for the Pipeline, is calculated based on the ratio of the cash, cash equivalents, short term and long term investments applicable to the Pipeline to the total of all cash, cash equivalents, short term and long term investments as reported at the end of each fiscal year from 2013 to 2019 (Exhibit "C").

Since investment earnings related to the Pipeline were not restricted, the Unrestricted Net Position of the Utility Fund should be reduced and the amount of carryover commitments for the Pipeline reported in Note 19 of the Comprehensive Annual Financial Report as of June 30, 2019 should be increased by the estimated \$538,000 of interest earned on the money set aside for the Pipeline.

In order to be fair and honest with the citizens of Incline Village and Crystal Bay and to have this Board of Trustees actually comply with the established Policies and Practices, I respectfully request that this correction be made as soon as possible and be brought to the attention of citizens by an agenda item at a future Board meeting.

Exhibits

A - Board Policy 13.1.0

B - Board Practice 13.2.0

C - Calculation of Investment Earnings applicable to Pipeline



**Capital Planning
Capital Project Budgeting
Policy 13.1.0**

POLICY. The District will prepare and adopt a formal capital budget as part of their annual budget process. The capital budget will be directly linked to, and flow from, the Multi-Year Capital Improvement Plan. It may be necessary to modify projects approved in the capital plan before adopting them in a capital budget. Modifications may be necessary based on changes in project scope, funding requirements, or other issues. If these modifications are material, the District will consider the impacts these may have on its multi-year capital and financial plans. The capital budget should be adopted by formal action of the Board of Trustees, either as a component of the operating budget or as a separate capital budget. It will comply with all state and local legal requirements.

- 1.0 Preparing and Adopting the Capital Budget. The capital budget will include the following information:
 - 1.1 A definition of capital expenditure for the District.
 - 1.2 Summary information of capital projects by fund, function, venue/service or activity.
 - 1.3 A schedule for completion of the project, including specific phases of a project, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, pre-design, design, and construction or acquisition activities and transition to complete operation.
 - 1.4 Descriptions of the general scope of the project, including expected service and financial benefits to the District.
 - 1.5 A description of any impact the project will have on the current or future operating budget.
 - 1.6 Estimated costs of the project, based on recent and accurate sources of information.
 - 1.7 Identified funding sources for all aspects of the project, specifically referencing any financing requirements for the upcoming fiscal year.
 - 1.8 Funding authority based either on total estimated project cost, or estimated project costs for the upcoming fiscal year. Consideration should be given to carry-forward funding for projects previously authorized.

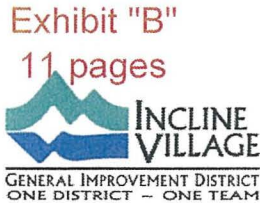


**Capital Planning
Capital Project Budgeting
Policy 13.1.0**

- 1.9 Any analytical information deemed helpful for setting capital priorities.

The District needs a greater level of detail and information for non-routine capital projects than for routine projects. For non-routine projects, the capital budget should thoroughly describe the impact on the operating budget, number of additional positions required, tax or fee implications, and other financial or service impacts.

- 2.0 Reporting on the Capital Budget. The District recognizes the importance of timely and accurate reporting on projects adopted in the capital budget. Management, Trustees, and citizens should all have the ability to review the status and expected completion of approved capital projects. Periodic reports will be issued routinely on all ongoing capital projects. The reports will compare actual expenditures to the original budget, identify level of completion of the project, and enumerate any changes in the scope of the project, and alert management to any concerns with completion of the project on time or on schedule.



**Capital Planning
Capital Expenditures
Practice 13.2.0**

RELEVANT POLICIES: 1.1.0 Strategic Planning, 9.1.0 Establishing Appropriate Capitalization Threshold for Capital Assets, 12.1.0 Multi-Year Capital Planning, and 13.1.0 Capital Project Budgeting

1.0 AUTHORITY

Decision-making responsibilities and duties on capital projects shall be allocated by the General Manager to specific members of the IVGID staff as provided herein. The staff member so assigned may delegate "duties" to another, but shall remain "responsible" for their actions pertaining to the project.

A Project Manager will usually be a representative of the IVGID department which will acquire or construct the project. The Project Manager may seek the input or assistance of a representative of the IVGID department that will utilize the capital asset. A planner, analyst, designer, or construction representative usually reports to the Project Manager as an employee or through a contract for services.

2.0 CAPITAL PROJECT FINANCING RESOURCES

Financial management of capital projects is controlled through a system including the Multi-Year Capital Improvement Plan and each fiscal year's Capital Improvement Project Budget. The ability to pay for the costs of a project will be based on identifiable and predictable financing resources at the time of acquisition.

2.1 Establishment. A capital project's financing resources may be established by action of the Board of Trustees by the adoption of a Capital Project Report. Financing resources may be established for each fund; for each program; or for each project or group of projects. The preference is on each project to facilitate calculating the affects of each project on the Multi-Year Capital Improvement Plan.

2.2 Status. All financing resources identified and received for a Capital Improvement Project shall be held in cash or



**Capital Planning
Capital Expenditures
Practice 13.2.0**

investments and shall constitute an element of fund balance or net position until expended or released by an action of the Board of Trustees.

2.3 Interest. Investment earnings on a project's financing resources shall accrue to the project to the extent they were included in the Capital Improvement Project Data Sheet or are deemed needed for possible project cost adjustments. In any project where part of the financing resources came from bond proceeds, the investment earnings must be attached to the project in order to determine and comply with IRS arbitrage regulations.

2.4 Expenditures. Funds identified as financing resources may only be expended by action of the Board of Trustees according to the District's Capital Improvement Project Budget. Projects carrying over from one fiscal year to another are expected to be identified during each budget process to extend spending authority and facilitate completion of the construction or acquisition of the capital assets. The General Manager has the authority to redirect the design or specifications affecting up to an aggregate of \$50,000 if it does not exceed the total approved cost of the project.

2.5 Exclusivity. All financing resources identified for a project, are considered exclusively for expenditures related to that project. No expenditures or obligations shall be made related to that project which cumulatively exceeds the available balance in identifiable and predictable financing resources.

2.6 Changes. The amount of funds in identifiable and predictable financing resources may be increased or decreased by action of the Board of Trustees, provided that no decrease shall occur which causes the unexpended financing resources for any project to fall below the cumulative total of obligations outstanding pertaining to the project.



Capital Planning Capital Expenditures Practice 13.2.0

- 2.7 Close-out.** Upon completion or termination of a project, the unexpended financing resources for that project may be closed out by the General Manager, except when a previous action by the Board of Trustees, designates where the unexpended amount, if any, shall be transferred.

3.0 PROJECT LIFE CYCLE

Projects shall be managed in relation to the following typical project life cycle:

- 3.1 Definition.** The process of developing a document which describes a specific project, in terms of location, function, cost, and other parameters. Approval of a Capital Project Data Sheet means the project has been "**defined.**"
- 3.2 Planning.** The process of developing documents which identify the location and function of projects, in relation to other projects and existing facilities. Approval of a project plan document within an approved Capital Project Summary means the project has been "**planned.**"
- 3.3 Feasibility.** The process of analyzing the practicality of a project, in terms of capital financing and cost, operating revenue and cost, environmental and permit conditions, and other factors. Acceptance information stated on the Capital Project Data Sheet as a feasibility report, means the project has been "**justified.**"
- 3.4 Scheduling.** The process of developing an outline identifying the cost, timing and financing of the capital project. All capital project expenditures shall be evaluated through a Multi-Year Capital Improvement Plan and authorized for expenditure through a specific fiscal year's Capital Improvement Plan Budget. Inclusion of a project within an approved Multi-Year Capital Improvement Plan means the project has been "**scheduled.**"



**Capital Planning
Capital Expenditures
Practice 13.2.0**

- 3.5 Funding Identified.** The process by which funds are identified, as either planned or set aside to underwrite capital costs. Identification of predictable financing resources for inclusion of a project in a specific fiscal year's Capital Improvement Plan Budget means the project has been "**funded.**"
- 3.6 Design/Specification.** The process of determining the size, specifications, acquisition/construction methods, and other factors prerequisite to construction or acquisition, including the selection of the designers. Approval of final design means the project has been "**designed.**"
- 3.7 Construction/Acquisition.** The process entails constructing or acquiring a project's assets, including the selection of contractors or vendors. Approval of final payment means the project has been "**completed.**"
- 3.8 Requirements.** All projects may not be subject to all phases, or be phased in the same order. However, all capital projects shall be defined. All capital projects shall be scheduled and have funding identified, prior to design/specification. All construction projects shall be planned. All construction projects shall be justified, prior to design/specification.

3.8.1.0 Definition

3.8.1.1 Trustees Responsibility: Relate District needs identified through the Strategic Plan to capital projects placed on the Multi-Year Capital Improvement Plan. **Duties:** Consider project definitions as part of Capital Improvement Project Budget submittal.

3.8.1.2 General Manager Responsibility: Ensure capital projects developed for consideration by the Board of Trustees relate to strategies and actions



**Capital Planning
Capital Expenditures
Practice 13.2.0**

developed under the District's Strategic Planning Process. **Duties:** Approve capital project definitions.

3.8.1.3 Staff Duties: Prepare an accurate and up to date Capital Project Data Sheet, containing statement of project cost, schedule, location, financing, and other factors.

3.8.2.0 Planning

3.8.2.1 Trustees Responsibility: Ensure adequate planning basis for capital improvement projects. **Duties:** Define general goals, constraints, and directions. Award and execute planning contracts according to Nevada Revised Statutes. Establish public input process. Review and approve final plan.

3.8.2.2 General Manager. Responsibility: Ensure all issues are addressed and plans are coordinated with the Multi-Year Capital Improvement Plan. **Duties:** Review and approve planning scope. Approve requests for proposals on consulting contracts. Approve planning methods and planning team. Provide guidance to Project Manager during planning.

3.8.2.3 Project Manager. Responsibility: Administration, quality and accuracy. **Duties:** Define specific objectives, alternatives, criteria, and scope. Prepare requests for proposals and administer selection process for planning team. Prepare planning contracts. Recommend approval for and executing planning contracts. Coordinate project with, public, staff, and General Manager. Review and approve progress reports, make substantive and procedural decisions during planning process, and



Capital Planning Capital Expenditures Practice 13.2.0

recommend preferred alternatives and final plans to the General Manager and Board of Trustees.

3.8.2.4 Engineering and Staff. Duties: Provide input to planning scope, methods, analysis, conclusions, and recommendations.

3.8.2.5 Planner Duties: Conduct analysis and produce planning documents and reports, for review by Project Manager.

3.8.3.0 Feasibility

3.8.3.1 Trustees. Responsibility: Ensure feasibility of capital improvement projects prior to design and construction. **Duties:** Determine when feasibility studies are required. Identify issues to be addressed. Award and execute consulting contracts according to Nevada Revised Statutes.. Review and accept the final "Capital Improvement Project Budget" as a basis for decision-making.

3.8.3.2 General Manager. Responsibility: Ensure critical issues are addressed and conservative approach to feasibility is applied. **Duties:** Review and approve study scope. Approve requests for proposals on consulting contracts. Approve study methods and team. Provide guidance to the Project Manager during study.

3.8.3.3 Project Manager. Responsibility: Administration, quality and accuracy. **Duties:** Define specific concerns, alternatives, criteria, and scope. Prepare requests for proposals and administer selection process for study team. Prepare study contracts. Recommend award and execute study contract. Coordinate project with, staff and General



Capital Planning Capital Expenditures Practice 13.2.0

Manager. Review and approve progress reports, make substantive and procedural decisions during study process, and approve conclusions and recommendations.

3.8.3.4 Finance, Engineering, and Staff. Duties: Provide input to study contract, scope, methods, analysis, conclusions, and recommendations.

3.8.3.5 Analyst. Duties: Conduct analysis and produce study documents and reports for review by the Project Manager.

3.8.4.0 Scheduling

3.8.4.1 Trustees. Responsibility: Prioritization and prudent investment of capital assets. **Duties:** Review and approve Multi-Year Capital Improvement Plan considering financing programs, priorities and needs and validity to proceed as scheduled. Approve project amendments and substitutions according to District purchasing policies.

3.8.4.2 General Manager. Responsibility: Validate scheduling in terms of sound financial planning and the ability to construct or acquire the capital assets. **Duties:** Review, revise and recommend capital improvement projects to the Board of Trustees.

3.8.4.3 Engineering Staff. Responsibility: Accuracy of cost projections and coordination of project scheduling. **Duties:** Identify capital project scheduling issues correlated to timing of expenditures and acquisition of the capital assets. Coordinate input of operating staff receiving the capital asset.



Capital Planning Capital Expenditures Practice 13.2.0

3.8.4.4 Finance Staff Responsibility: Adequacy of identifiable and predictable financing resources to meet the timing of expenditures. **Duties:** Analyze alternative financing schemes and prepare capital financing program coordinated with appropriate Capital Improvement Project Budget and the Multi-Year Capital Improvement Plan.

3.8.5.0 Funding

3.8.5.1 Trustees. Responsibility: Adequate identifiable and predictable financial resources exist for the project prior to the approval to proceed. **Duties:** Establish appropriate identifiable predictable financing resources are available. Increase and decrease funding level.

3.8.5.2 General Manager Responsibility: Approve recommendations for project to proceed and increases in project financing resources beyond levels identified in Capital Project Report, prior to submitted to Board. **Duties:** Review updated financial analysis for the capital project with Finance Staff for adequate financing resources and cash flows. Approve close-out upon project termination or completion.

3.8.5.3 Project Manager. Responsibility: Accuracy. **Duties:** Assemble and update project cost estimates.

3.8.5.4 Finance Staff. Responsibility: Administration of project finances. **Duties:** Produce periodic report on capital project financing resources, obligations and expenditures. Recommend periodic action to establish, increase, decrease, and close out



**Capital Planning
Capital Expenditures
Practice 13.2.0**

financing resources. Consider the current affects of projects on the Capital Improvement Project Budget and the Multi-Year Capital Improvement Plan.

3.8.5.5 Engineering Staff. Duties: Coordinate estimates of project cost for periodic funding report.

3.8.6.0 Design/Specification

3.8.6.1 Trustees. Responsibility: General oversight of project design and specifications. **Duties:** Award and execute design contract according to Nevada Revised Statutes. Review and accept regulatory permit conditions on construction projects, if \$50,000 or more.

3.8.6.2 General Manager. Responsibilities: Ensure design and specifications correlate to defined capital project. **Duties:** Approve design methods and team. Provide guidance to Project Manager during design. Review and approve final design/specification reports on projects. Review and accept regulatory permit conditions.

3.8.6.3 Project Manager. Responsibility: Administration, detailed oversight and design functionality. **Duties:** Prepare scope of services and requests for proposals for design services. Administer selection process for design team. Prepare design contracts. Recommend for award and execute design contracts. Assemble cost estimates; prepare project budget and budget revisions. Prepare project schedule and schedule revisions. Approve project budget and budget revisions. Approve project schedule and schedule revisions. Establish, execute, and administer arrangements for surveys, analysis, environmental



Capital Planning Capital Expenditures Practice 13.2.0

studies, and other forms of technical support. Supervise designers. Establish functional and performance requirements. Coordinate activities of designers with the balance of the technical team, and operating staff. Present major design alternatives and issues. Provide direction to on major design alternatives and issues. Review and approve ongoing design reports and documents. Sign all regulatory permits and permit applications. Review, approve, and correct ongoing design reports and documents, including all technical specifications. Prepare construction contract forms. Assemble and submit regulatory permit applications and coordinate regulatory process. Approve all requests for payment.

3.8.6.4 Designer Duties: Analysis of design alternatives. Preparation of plans and specifications. Preparation of support material for permit applications, and other contract documents. Coordination of various members of the design team. Preparation of cost estimates.

3.8.7.0 Construction/Acquisition

3.8.7.1 Trustees. Responsibility: General oversight of contract awards, major payments and acceptance of capital assets constructed or acquired. **Duties:** Award and execute construction/acquisition contract according to Nevada Revised Statutes. Approve change orders cumulatively exceeding 10% of construction contract or \$50,000, whichever is the greater.

3.8.7.2 General Manager. Responsibility: Ensure contracts and requests for payments submitted to the Board of Trustees for approval meet the



Capital Planning Capital Expenditures Practice 13.2.0

requirements outlined in the Capital Improvement Project Budget. **Duties:** Approve change orders cumulatively not exceeding 10% of construction contract or \$50,000. Upon substantial completion, approve release of retention for Construction projects.

3.8.7.3 Project Manager Responsibility: Detailed oversight. **Duties:** Recommend award and execute construction/acquisition contracts. Recommend approval of change orders. Recommend release of retention to General Manager and Board of Trustees. Recommend approval of the final payment. Administer bid process. Recommend contract award. Coordinate final contract preparation, including insurance, bonding, and certificates. Establish, administer and execute arrangements for inspection and testing. Supervise construction representatives. Review all inspection, testing and construction observation reports. Serve as District's representative to contractor and regulatory agencies. Approve all shop drawings. Approve requests for equals. Approve all certificates for payment. Update construction schedule.

3.8.7.4 Construction Representative. Duties: Observe construction and testing. Prepare construction observation reports. Advise Project Manager of deficiencies when noted. Notify Project Manager of deviations from plans and specifications. Prepare and execute notice to proceed.

Exhibit "C"

**Incline Village General Improvement District
Utility Fund
Investment Earnings set aside for Phase II of Effluent Pipeline
Compliance with Board Policy and Practice 13.2.0 2.3**

Fiscal Year	Expressed in Thousands - From CAFR				Pipeline Portion	% Pipeline	CAFR Investment Earnings	Pipeline Portion
	Cash	Short Term Investments	Long Term Investments	Total				
2013	\$ 418	2,300	5,115	7,833	2,683	34.25%	56	\$ 19
2014	427	950	7,065	8,442	5,251	62.20%	61	38
2015	340	1,000	9,075	10,415	6,506	62.47%	82	51
2016	79	7,826	3,624	11,529	7,900	68.52%	154	106
2017	1,796	6,797	3,985	12,578	9,405	74.77%	60	45
2018	6,764	1,190	3,453	11,407	8,662	75.94%	71	54
2019	4,366	2,248	5,527	12,141	9,657	79.54%	283	225
							\$ 767	\$ 538

August 24, 2020

Memorandum

To: IVGID Audit Committee

From: Clifford F. Dobler

Re: Burnt Cedar Pools - Construction in Progress Costs for fiscal year 2018/2019 - \$119,497.56

Background

The fiscal year 2018/2019 CIP Budget provided \$75,000 to design and develop a project approach of replacing the underground piping and repairing water leaks in the main drains, skimmer and return lines. The pools were constructed in the mid 1960's.

Terracon was engaged on 9/6/2018 for \$25,000 to perform two tasks. The first task, for \$11,000, was a geophysical inspection of the pool shell and deck area to determine if a new gutter system could be installed. A report was issued on 12/8/2018 indicating that the existing pool and wading pool shells lack the required thickness to make proper structural repairs or alterations and the deck areas should be replaced to satisfy ADA compliance. The pool was drained for a short period of time to perform the inspection.

The second task, for \$14,000, was for design and development to replace the piping/mechanical equipment, resurface the existing pool and replace the decking. Apparently this task was never fully completed, however, was paid for presumably in error. On August 9, 2019 a breach of contract letter was issued to Terracon requesting the \$14,000 paid be returned to IVGID. This task was being performed between February and May of 2019.

Total paid invoices on the entire contact were \$23,600 during fiscal 2019 and the remaining \$1,400 was paid in fiscal 2020.

It appears that IVGID's efforts with Terracon may have been directed towards making alterations to the existing pool to upgrade perimeter piping, grade the pool bottom to reduce the depth and resurface the walls. The alterations were to be completed in fiscal 2020 at an estimated cost of \$800,000.

In mid April, 2019, IVGID was required to obtain a permit from the County of Washoe to operate the pools which required a minimum water exchange which apparently could not be met for the smaller pool. IVGID staff decided to replace the inflow and outflow piping from the larger pool's northern end to the mechanical room which included the smaller pool. At the same time another leak study was conducted to determine if leaks existed in the deep drains. Nothing was determined from the leak study. A contract/purchase order for \$77,700 was issued to Rapid Construction for the pipe replacement and an additional \$18,200 in IVGID staff charges were incurred.

The alteration plans were abandoned and in May 2019, IVGID Staff and Board of Trustees decided to build new pools including upgrades to the surrounding area rather than continue with alterations.

Accounting and Board Policy violations

What are the issues regarding the 2019 Comprehensive Annual Financial Report and violation of Board Policies:

- 1) The \$119,497.56 should NOT have remained as Construction in Progress in the 2019 CAFR. All work was completed prior to the end of fiscal 2019 and there was no further work required.
- 2) In light of the decisions to develop and build a completely new pool, these costs should have been expensed immediately.
- 3) Board policies were violated as the Budget for fiscal 2018/2019 provided for design only of a new pool only. Repairs were not budgeted.
- 4) The contract with Rapid Construction for over \$77,000 required Board of Trustee approval in order to be in compliance with Board Policy 3.1 regarding Contracts

Conclusion

The IVGID audit committee should include this memorandum to the long list of errors in the 2019 CAFR and instruct the Board of Trustees that expenses for repairs which have been capitalized should cease immediately. The true expenses of operating recreational venues are continually being distorted.

Exhibits

Summary of charges to Construction in Progress for the Burnt Cedar Pool - 2019 CAFR

RE: Public Records Request

Fri, Aug 21, 2020 10:15 am

Herron, Susan (Susan_Herron@ivgid.org) To: you Details

Dear Mr. Dobler,

This e-mail shall serve as IVGID's response to your records request dated August 14, 2020 which reads as follows:

Please provide for my examination a list of all charges for each vendor in detail and IVGID personnel charges for the period July 1, 2018 to June 30, 2019 for the Burnt Cedar Swimming and Toddler Pool Resurface and Mech. Improv. ACCOUNT # 3970BD2601 which totaled \$119,497 for the year.

Effective Date	Vendor	Vendor Invoice #	PO	Debit
11/24/2018	Terracon Consultants, Inc	TB41444	19-0075	2,500.00
01/01/2019	Terracon Consultants, Inc	TB50686	19-0075	1,400.00
01/01/2019	Terracon Consultants, Inc	TB29447	19-0075	9,900.00
01/31/2019	CIP Work Order Charges	January 2019		1,552.06
01/31/2019	CIP Engineering Charges	January 2019		2,500.00
02/25/2019	Terracon Consultants, Inc	TB73989	19-0075	2,800.00
02/28/2019	CIP Engineering Charges	February 2019		1,400.00
03/01/2019	Terracon Consultants, Inc	TB62405	19-0075	4,200.00
03/31/2019	CIP Work Order Charges	March 2019		1,304.28
03/31/2019	CIP Engineering Charges	March 2019		2,300.00
04/22/2019	Terracon Consultants, Inc	TB95471	19-0075	2,800.00
04/30/2019	CIP Work Order Charges	April 2019		315.99
04/30/2019	Interco - Buildings - Charges	April 2019		3,116.80
04/30/2019	CIP Engineering Charges	April 2019		4,500.00
05/24/2019	Zoro Tools Inc.			118.92
05/31/2019	CIP Engineering Charges	May 2019		1,100.00
06/01/2019	Rapid Construction, Inc	3422	19-0210	10,673.18
06/01/2019	Rapid Construction, Inc	1 PO 19-0210	19-0210	67,016.33
				<u>119,497.56</u>

The above list completes your records request in its entirety.

Susan

From: cfdobler@aol.com [mailto:cfdobler@aol.com]
Sent: Friday, August 14, 2020 5:44 PM
To: Herron, Susan <Susan_Herron@ivgid.org>
Subject: Public Records Request

Please provide for my examination a list of all charges for each vendor in detail and IVGID personnel charges for the period July 1, 2018 to June 30, 2019 for the Burnt Cedar Swimming and Toddler Pool Resurface and Mech. Improv. ACCOUNT # 3970BD2601 which totaled \$119,497 for the year.

Clifford F. Dobler

Terracon Consultants	\$23,600.00
CIP Work Orders	\$ 3,172.33
IVGID Engineering	\$11,800.00
Interco - Building	\$ 3,116.80
Other	\$ 118.92
Rapid Construction	<u>\$ 77,689.51</u>
Total	\$119,497.56

POINT #22 (Revised)

Memorandum

November 15,2020

To: IVGID Audit Committee and Paul Navazio

From: Clifford F. Dobler

Re: Required reclassification of revenues collected from customers. for the specific purpose of replacing the Effluent Pipeline - Phase II

For eight fiscal years, since 2013, the IVGID Board of Trustees have authorized collection from customers \$2,000,000 per year in sewer rates which was to be set aside for the eventual replacement of 6 miles of effluent pipeline, known as the Effluent Pipeline Phase II project. In effect, the collection of money was to finance a future project and should have been characterized as NON operating revenue. Since the collection was nothing more than a financing mechanism the collections could not have been considered operating revenues. As a result, operating income, for the past 8 fiscal years, has been overstated by \$16,000,000.

GASB #34 paragraph 102 provides the required clarity on the classification of revenues: "*Transactions for which cash flows are reported as capital and related financing activities normally would not be reported as components of operating income.*"

IVGID had a choice of either financing the Effluent Pipeline Phase II project by the issuance of debt or collecting money in advance from customers. IVGID chose the latter. This method of financing used by IVGID is untraditional as the financial burden is placed on current users for a project which could last 50 to 100 years into the future. Bad business and an unfair treatment of existing customers.

Why does this reclassification matter? The IVGID Utility Fund is an enterprise fund and generates substantially all of its revenues by charges to customers which are designed to recover its costs (which includes depreciation and debt service) .

In order to determine what annual sewer rates customer should have been charged for operations , it was important to keep operating revenues clear of any capital project financing.

Exhibit "A" is a summary of the past 8 years (2013 to 2020) of CAFR's statements of revenues, expenses and changes in net position for the Utility Fund. Combined operating revenues were reported as \$91,301,209 with **operating income** reported as \$13,107,487. It would appear that the Utility Fund had achieved success in recovering its operating expenses. Not so.

As indicated on Exhibit "B" , if the \$16,000,000 collected from customers which was set aside for the future pipeline project was properly classified as a non operating revenue, the Utility Fund did not recover operating expenses over the eight year period and had combined operating LOSSES of \$2,892,513.

As a result of this poor accounting, the Utility Fund unrestricted net position (after restricting the collected funds for the pipeline) fell far below the IVGID Board Policy of an appropriate level of "fund balance" and has operated for several years without any required working capital (unless the pipeline money was included in the calculation).

This improper accounting has vastly misstated the Utility Fund operations. An in depth audit of the entire Utility Operations and Capital costs should be conducted based on the various memorandums of irregularities in accounting, capitalization techniques and contract administration.

Exhibit A - Utility Fund Revenues, Expenses and Changes in Net Position for 2013 to 2020

Exhibit B - Utility Fund Revenues, Expenses, and Changes in Net Position for 2013 to 2020 ADJUSTED TO RECLASSIFY \$16,000,000 ANNUAL COLLECTION OF MONEY SPECIFIED FOR THE EFFLUENT PIPELINE PHASE II AS NON OPERATING REVENUES.

Exhibit C - GASB #34 - paragraph 102

PS : This memorandum replaces the July 14, 2020 memorandum which was withdrawn in September after consultation with other professionals it was determined that the accounting method suggested was not appropriate.

Incline Village General Improvement District

EXHIBIT "A"

Utility Fund Revenues, Expenses and change in Net Position
As Audited and Reported
Fiscal years ending June 30, 2013-2020

AS REPORTED

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019 (1)</u>	Draft <u>2020</u>	<u>Total</u>
Revenues	\$ 9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	12,564,466	\$ 91,301,209
Total Operating Revenues	9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	12,564,466	91,301,209
Operating Expenses	(8,480,954)	(9,029,675)	(9,415,760)	(9,733,565)	(9,729,775)	(10,113,371)	(10,428,137)	(11,262,485)	(78,193,722)
Operating Income (Loss)	1,286,521	1,404,443	1,435,363	1,424,554	2,083,394	1,812,186	2,359,045	1,301,981	13,107,487
Non Operating Revenues (Expenses)									
Investment Earnings	55,666	61,007	81,996	154,162	60,132	77,280	282,484	298,225	1,070,952
Gain or (Loss) on sale of assets	17,856	25,875	(34,499)	42,764	17,730	50,020	15,066	(19,184)	115,628
Extraordinary Expense		(30,587)		(47,600)					(78,187)
Interest on Bonds	(186,608)	(193,123)	(180,505)	(167,530)	(154,186)	(140,463)	(126,351)	(111,838)	(1,260,604)
Total Non Operating Revenues (Expenses)	(113,086)	(136,828)	(133,008)	(18,204)	(76,324)	(13,163)	171,199	167,203	(152,211)
Transfers In (Out) and Capital Grants	2,013,853	461,994	329,705		425,509	319,934	120,000	45,000	3,715,995
Change in Net Position- Increase (Decrease)	\$ 3,187,288	1,729,609	1,632,060	1,406,350	2,432,579	2,118,957	2,650,244	1,514,184	\$ 16,671,271

Sources

Comprehensive Annual Financial Report for the Year ended June 30,2013	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2014	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2015	page 26
Comprehensive Annual Financial Report for the Year ended June 30,2016	Page 32
Comprehensive Annual Financial Report for the Year ended June 30,2017	Page 30
Comprehensive Annual Financial Report for the Year ended June 30,2018	Page 31
Comprehensive Annual Financial Report for the Year ended June 30,2019	Page 31
Draft Comprehensive Annual Financial Report for Year ended June 30,2020	

(1) REVENUES FOR FISCAL 2019 WERE INFLATED BY RECOGNIZING HISTORICALLY DEFERRED REVENUES AS CURRENT REVENUES - \$417,402 NOT GAAP

Incline Village General Improvement District

EXHIBIT "B"

Utility Fund Revenues, Expenses and change in net position

ADJUSTED TO RECLASSIFY \$16,000,000 ANNUAL COLLECTION OF MONEY SPECIFIED FOR THE EFFLUENT PIPELINE PAHFE II AS NO OPERATING INCOME

Fiscal years ending June 30, 2013-2020

	ADJUSTED								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019 (1)</u>	<u>2020</u>	<u>Total</u>
Revenues as Reported	\$ 9,767,475	10,434,118	10,851,123	11,158,119	11,813,169	11,925,557	12,787,182	12,564,466	\$ 91,301,209
Adjustment for Advanced Collectons	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(16,000,000)</u>
Adjusted Revenues	7,767,475	8,434,118	8,851,123	9,158,119	9,813,169	9,925,557	10,787,182	10,564,466	\$ 75,301,209
Operating Expenses - as Reported	<u>(8,480,954)</u>	<u>(9,029,675)</u>	<u>(9,415,760)</u>	<u>(9,733,565)</u>	<u>(9,729,775)</u>	<u>(10,113,371)</u>	<u>(10,428,137)</u>	<u>(11,262,485)</u>	<u>(78,193,722)</u>
Adjusted Operating Income (Loss)	<u>\$ (713,479)</u>	<u>(595,557)</u>	<u>(564,637)</u>	<u>(575,446)</u>	<u>83,394</u>	<u>(187,814)</u>	<u>359,045</u>	<u>(698,019)</u>	<u>(2,892,513)</u>
Non Operating Revenues (Expenses)									
Collections for long term capital project	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	\$ 16,000,000
Investment Earnings	55,666	61,007	81,996	154,162	60,132	77,280	282,484	298,225	1,070,952
Gain or (Loss) on sale of assets	17,856	25,875	(34,499)	42,764	17,730	50,020	15,066	(19,184)	115,628
Extraordinary Expense		(30,587)		(47,600)					(78,187)
Interest on Bonds	<u>(186,608)</u>	<u>(193,123)</u>	<u>(180,505)</u>	<u>(167,530)</u>	<u>(154,186)</u>	<u>(140,463)</u>	<u>(126,351)</u>	<u>(111,838)</u>	<u>(1,260,604)</u>
Total Non Operating Revenues (Expenses)	<u>1,886,914</u>	<u>1,863,172</u>	<u>1,866,992</u>	<u>1,981,796</u>	<u>1,923,676</u>	<u>1,986,837</u>	<u>2,171,199</u>	<u>2,167,203</u>	<u>15,847,789</u>
Transfers in (Out) and Capital Grants	<u>2,013,853</u>	<u>461,994</u>	<u>329,705</u>		<u>425,509</u>	<u>319,934</u>	<u>120,000</u>	<u>45,000</u>	<u>3,715,995</u>
Change in Net Position - Increase (Decrease)	<u>\$ 3,187,288</u>	<u>1,729,609</u>	<u>1,632,060</u>	<u>1,406,350</u>	<u>2,432,579</u>	<u>2,118,957</u>	<u>2,650,244</u>	<u>1,514,184</u>	<u>\$ 16,671,271</u>

Sources

Comprehensive Annual Financial Report for the Year ended June 30,2013	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2014	Page 26
Comprehensive Annual Financial Report for the Year ended June 30,2015	page 26
Comprehensive Annual Financial Report for the Year ended June 30,2016	Page 32
Comprehensive Annual Financial Report for the Year ended June 30,2017	Page 30
Comprehensive Annual Financial Report for the Year ended June 30,2018	Page 31
Comprehensive Annual Financial Report for the Year ended June 30,2019	Page 31
Draft Comprehensive Annual Financial Report for the Year ended June 30,2020	

(1) REVENUES FOR FISCAL 2019 HAVE BEEN INCREASED BY RECOGNIZING HISTORIC UNEARNED REVENUES AS CURRENT REVENUES - \$417,402 NOT GAAP

GASB #34

Defining operating revenues and expenses

102. Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Statement 9. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would *not* be reported as components of operating income.⁴² This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges).

Reporting capital contributions and additions to permanent and term endowments

103. All proprietary fund revenues, including capital contributions and additions to permanent and term endowments, should be reported in the statement of revenues, expenses, and changes in fund net assets. As discussed in paragraphs 100 and 101, capital contributions and additions to permanent and term endowments should be reported after nonoperating revenues and expenses. Revenue recognition for these and all other nonexchange revenues should be based on the requirements of Statement 33. Net assets resulting from certain capital contributions may be required to be reported as invested in capital assets net of related debt, as discussed in paragraph 33. Paragraph 35 provides that restricted net assets should be separated into expendable and nonexpendable subcategories when net assets arise from additions to permanent endowments.

In a way the pipeline set aside is a term endowment.

Required reconciliations

104. Generally, the amounts reported as net assets and changes in net assets in the proprietary fund financial statements for total enterprise funds will be the same as net assets and changes in net assets of business-type activities in the government-wide statement of activities. However, if there are differences (for

⁴²Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses if those transactions constitute the reporting proprietary fund's principal ongoing operations. For example, interest revenue and expense transactions should be reported as operating revenue and expense by a proprietary fund established to provide loans to first-time homeowners.

Pipeline is not a principal activity