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AUDIT COMMITTEE MEETING OF SEPTEMBER 30, 2020 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Dent on Wednesday, September 30, 2020 at 3:00 p.m. at the Boardroom located at 893 Southwood Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member) and Derrek Aaron (At-Large Member).

Also present was Staff member Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016, 018, and 021).

B. PUBLIC COMMENTS*

Linda Newman said in reviewing the District Staff update on the Eide Bailly audit, she did not see any review of the more than 17 outstanding challenges to the District's accounting and reporting in the 2019 CAFR. It would be a grave mistake to continue these practices without an independent review of their compliance with GAAP, Nevada Revised Statutes and Board approved Policies and Practices. As you are aware, the Director of Finance has stated that he and Staff do not consider the cited District's accounting policies unlawful or inappropriate and in their opinion will not require the restatement of our CAFRs. These statements were not supported by any valid documentation –instead, a letter from the Department of Taxation approving the District's FY 2020/21 Budget was provided. The FY 2021 Budget has nothing to do with the District's 2019 CAFR. She requests a response from this Committee on how and when these outstanding issues will be addressed. In addition, please note that the District does not have to engage an independent auditing firm for the 2021 Audit until March of 2021. She recommends that this Committee change the timeline and create a new scope of work first before soliciting RFQs or RFPs. This can be done in January with responses reviewed by the Committee in February, along with interviews, and the choice approved by the Board in early March. The 2009 info provided is irrelevant. Although she reviewed the Legal Opinion – she was surprised to learn it wasn't a legal opinion at all. It was a memorandum, not an opinion on a law firm's letterhead, filled with an enormous amount of speculation and analogies on implied and incidental powers.

She respectfully requests that this Committee request the Office of the Attorney General render an opinion on the GID's expressed powers and whether or not the District's questioned use of public funds are in compliance with NRS 318. The Whistleblower procedure is a weak starting point. She has secured a number of templates, including one from the AICPA, which she believes are worthy of your review before you take any action on this item.

Margaret Martini said she wants to thank each and every one of you for serving on this Committee and investing your time, knowledge and experience in improving our District's financial transparency and compliance with all laws, regulations, policies and practices for the benefit of everyone in our community. After years of existence in name only as an Audit Committee, you are confronted with making things right with limited resources. Unfortunately, there is no licensed Nevada CPA on our accounting Staff including our Director of Finance. This limits your reliance upon information provided by Staff on compliance with Generally Accepted Accounting Principles and relevant GASB Statements. The fact that the new Director may be less familiar with the District's operations as well as Nevada law, than you are, makes your task even more difficult. When you combine this with a General Ledger and Chart of Accounts that would confound any reasonable accounting professional - she can only conclude that this Committee needs more assistance from independent, professional talent. She recommends that you engage an independent internal auditor to assist you and that you take the lead in engaging an independent firm to develop a written system of internal controls. She also recommends that this Committee have access to all the info provided by Management to the Auditor and have a greater involvement in the process. You also should be aware of Management's responsibilities under the Audit Engagement letter and exercise oversight of compliance with these responsibilities. Please, also, use the free resources of our State that can provide you with established Whistleblower policies as well as Opinions provided by the Office of the Attorney General on IVGID's expressed and incidental powers under NRS 318 regarding Dillon's Rule and other matters. This will save you time and conserve public money for other necessary and important expenditures. And, one last thing. The District is not complying with its appropriate level of fund balance for a number of funds. There is substantial excess fund balances that should be committed to capital projects -and aren't. Please address this at your earliest convenience.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent asked for any changes; none were received; the agenda was approved as submitted.

D. DISTRICT STAFF UPDATE (for possible action)

D.1. District's 2019/2020 Independent Financial Audit: Verbal update by the Director of Finance Paul Navazio on the District's 2019/2020 Independent Financial Audit being conducted by Eide Bailly (Requesting Staff Member: Director of Finance Paul Navazio)

Director of Finance Paul Navazio gave an overview of the submitted materials. Audit Committee Chairman Dent asked that Staff provide the general ledger trial balance and a draft of the basic financials to the Audit Committee. Director of Finance Navazio said that they will be sent on Friday. Audit Committee Chairman Dent said that a good thing to have is some type of checklist that goes with our policy as it is a good starting point for future Audit Committees. Audit Committee At-Large Member Ray Tulloch asked if Staff is looking at making some changes to the policies. Director of Finance Navazio said yes which will require approval by the Board of Trustees with input from the Audit Committee. Audit Committee At-Large Member Tulloch asked, as a follow-up, is Staff complying with current Board policies? Director of Finance Navazio said yes and that Staff looks forward to getting feedback from the Audit Committee on how we are doing. Audit Committee At-Large Member Cliff Dobler said that he wanted to talk about three things – one, are we allowing Eide Bailly to make bookkeeping adjustments and if there are any adjustments, will they have to disclose what they recommended? Director of Finance Navazio said we are not yet at the point where the auditors have proposed adjustments which would be reported in the CAFR. Audit Committee At-Large Member Dobler said he didn't understand. Audit Committee At-Large Member Derrek Aaron said that he had the same exact question and that is who is actually catching the adjustments or are these basically things that Eide Bailly discovered during their initial field work? He has that confusion as well. Director of Finance Navazio said the adjustments were done in consultation with the auditors and that there are a handful of these are done every year and that is because of timing. Every adjustment on this list has actually been posted to the ledger and have been processed. Once this list is completed and the documents are updated, the auditors will go through their part of the audit. Audit Committee At-Large Member Aaron said he understands and has no heartache with this and suggested pointing this out to the auditors so they can adjust their fieldwork. Audit Committee Member Schmitz said it is very helpful to have this list as it relates to field testing. What contra revenue is part of what they are testing and evaluating? Regarding assignment and/or reservation of fund balance, pertaining to both Utilities and Community Services, she would like to get clarification as this is the first time that

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the Board has restricted a portion of the \$2 million. And finally, one simple question – what are the deferred revenue at the beaches? Director of Finance Navazio said that contra revenues are being looked at it and we will have a note in the financial statements related to the contra revenue which will be updated. On the assignment and/or reservation issue, the answer is yes and it includes the General Fund. We have balances for deferred revenue that should be closed out each fiscal year so we need to get more background on that and we will follow up. There should not be a deferred revenue balance and it is a relatively small amount. There will be an adjustment to clear those out. District General Manager Winqest said that the small amount could be related to swim lesion and that Staff will have to go back and look at how kayak revenue is set up. Group picnic rentals could also be one of these items and Staff will follow up. Audit Committee Member Schmitz said that at the last meeting, 3 of the Trustees requested that contra revenue not be carried into this fiscal year; has that change happened? Director of Finance Navazio said that the change is pending and that backing out a number of adjustments manually is the simplest and easiest way, in the current fiscal year, to accomplish this however they will be there for July and August. Staff is also looking at what would be the appropriate process to reverse those and noted that is an item that is on the front burner. The focus is on getting through the audit, year-end and ensuring that the financials are done consistent with Board direction. On fund balances, there is a discussion we have had related to the Utility Fund and what he is suggesting is that we may end with financial statements that have all the revenues show up as restricted and not net unrestricted fund balances. Audit At-Large Member Dobler said that this is a little bit of housecleaning; one of the big problems we have always had is nomenclature and actually what he is saying is we don't have deferred revenue rather we have unearned revenues and it is the same way with beaches. When you go to open issues, there is no thing called reservation, it is either restricted, unassigned, etc. It is important because of the timeline and that he is not sure what we are getting. Our CAFR is not audited by the auditors rather it is only certain things. It would really help us with understanding to see the letter of transmittal, management discussion and analysis (MD&A), basic financial information, statistical, etc. When will we get the compliance section? We don't know when all the stuff will be presented. There is a whole of group of information that Staff is required to provide to the auditors and he would like to have some comfort that it being provided to ensure we are in compliance with the law. We need the whole pie and not just the selected items along with an easier to follow the format of the entire CAFR. The last thing are the open issues that are under review which he finds disheartening as it is being selective of what is being reviewed. He doesn't know how Staff is going to address the transfer and we need these to do our job. In the representation letter by the management, 52 representations were made last year to the auditor which takes the auditor off of

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90%, so he wants to review that letter. Unfortunately, in the audit engagement letter, he would like to know what we are representing and about half of them were wrong last year. Audit At-Large Member Aaron said that he would like clarification – deferred revenue and unearned revenue are the same thing. Audit At-Large Member Dobler said it is consistency with terminology. Audit At-Large Member Aaron said it is always important. Audit Committee Chairman Dent added that it has been an ongoing issue for similar years even with the popular report and that's why we created definitions. Director of Finance Navazio said that Staff gets it on the nomenclature and sometimes the same thing may be called one thing in one place and another in another place. Staff did this list in timeline format not CAFR format. The financial statements are basic and supplemental, notes are the notes, statistical information, draft letter and MD&A are being provided to the auditors in batches. What they will give back to us is a draft CAFR which will include their items. A draft will be prepared and submitted to the Audit Committee and then they will issue the full final CAFR by November 30. All of this is covered in the timeline which can be broken out and made more specific. We are not missing pieces but rather it has been consolidated. Audit Committee Chairman Dent said so Staff will be adding the additional items that Mr. Dobler brought up earlier? Director of Finance Navazio said we will highlight contra revenue and that this was in reference to the current work plan that Eide Bailly has for their work. We didn't attempt to include the Moss Adams work as that may inform where we finally land with the CAFR; the Moss Adams body work is a body of work in of itself. Audit Committee Chairman Dent asked how does that affect the timeline? Director of Finance Navazio said it affects the timeline for the Audit Committee review and recommendation to the Board of Trustees and the Board of Trustees action to accept and file the report. It is not clear to him, because project is just starting, how it will impact the Eide Bailly work plan. His sense is that Staff will proceed through the draft CAFR and then wherever Moss Adams is, it will inform the process from there. This brings up the issue about requesting an extension and we don't know if the Moss Adams scope of work will be completed within this timeframe listed here; Staff didn't want to assume anything. Audit Committee Chairman Dent asked if Staff will be including other items under review? Audit At-Large Member Dobler said this question is a yes or no answer - are we submitting to the auditors, right now today, information including the contra revenues and the transfer from Community Services to Beaches, and are you or are you not going to stop that – yes or no. Director of Finance Navazio answered that Fiscal Year 2019/2020 includes contra revenue transaction. Audit At-Large Member Dobler said will you reverse those or not? Director of Finance Navazio answered that the plan is to reverse or not reflect them in the current year financials and yes, they will be in the 2019/2020 CAFR. Audit At-Large Member Dobler said so there is no intention of reversing them? Director of Finance Navazio answered not at this time, no. Audit

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At- Large Member Dobler said you realize we are breaking the law and asked if Staff understood that? Director of Finance Navazio said that Staff understands that is your position on the contra revenue account. Audit Committee Member Schmitz said that when we have the kick off, we can prioritize that issue and get on it sooner than rather. Audit Committee Chairman Dent asked what is the date? Audit Committee Member Schmitz said tomorrow at 1 p.m. She would like to follow up on a comment that Audit At-Large Member Dobler made and that is what is the status of the representation letter and when will this committee have the opportunity to review that? Director of Finance Navazio said he will need to review and get back to you on that. Audit Committee Member Schmitz said that in the past the CAFR has been a bit of conglomeration with some sections being audited, and some not. Can we have it made clear on which sections are audited and which are not – is that something we can do? Audit At-Large Member Dobler asked if the table of contents could be put in the same format so as to tell us when we are getting items as he doesn't know why we have to juggle things. Remember the game Finding Waldo? We don't need to play that game so do it the same way. Director of Finance Navazio said that makes sense. Audit Committee Chairman Dent asked if, through September 30, can we get that direction incorporated into the memo – using the same nomenclature and adding the other items, updated by October 19? In looking at the long range calendar, on agenda packet page 52, it is up for discussion on October 19 so he would like to see if that date works? Audit At-Large Member Aaron said that if we believe that errors may exist, we have to have those reviewed before we come to a definitive presentation. Also the question asked by Audit At-Large Member Tulloch which was looking at capitalization and rewriting those policies, he doesn't know if it is issue that the policies are written but rather the application as there are two routes you can go down – capitalization or expense. There is a lot of judgment that goes into that at that time and that needs to be included with that conversation. On the audit timeline, completion of field testing, says it will not be done by September 30 – is that correct? Director of Finance Navazio said it is ongoing. Audit At-Large Member Aaron asked if there were any risks to Eide Bailly meeting that deadline or timeline of having a final CAFR issued? Director of Finance Navazio said it is the last one and yes, there is some risk. Audit At-Large Aaron said, notwithstanding those CAFR points, is the November 30 date at risk? Director of Finance Navazio said assuming that we get the auditors all the information they need in the next few days, they will make that timeline. They are waiting for information from management and this timeline is what is required for them to meet that date. Currently, we are on schedule; could something come up that puts it at risk – he is optimistic that we will meet the schedule. Audit At-Large Member Aaron said he understands the unknown and asked if the date is at risk - yes, no, or maybe? Director of Finance Navazio said we are good however he doesn't know if our Eide Bailly contact has relayed

anything to Audit Committee Chairman Dent regarding timeline and that Staff is working really hard to make sure they meet that timeline. Audit Committee Chairman Dent said that he has nothing further from last Board meeting and that the only concerns were related to the Moss Adams scope of work and that potential delay. He does have a call on Friday with the Eide Bailly contact. Director of Finance Navazio said that there were some requests for information, which will be prior to the next agenda packet, that they will be receiving and that can be discussed at an upcoming committee meeting. He is not going to wait until next committee meeting to get that to you. Audit At-Large Member Dobler said on September 14 he asked for detail on unearned revenue for the beaches and that he would like to see the draft general ledger trial balance. Audit Committee Chairman Dent said we will have that and the preliminary financials on Friday, October 2.

E. GENERAL BUSINESS ITEM (for possible action)

E.1. Timeline and Request for Qualifications for external auditing services for Fiscal Year 2020/2021 – discussion only item [NO ACTION] (Requesting Staff Member: Director of Finance Paul Navazio)

Audit Committee Chairman Dent began the presentation on the submitted materials and Director of Finance Navazio completed the presentation. After some discussion by the Audit Committee members, Audit At-Large Members Dobler and Aaron volunteered to work together on this effort. Audit Committee Member Schmitz said that their work will need to be submitted by October 19 in order to be included in our meeting packet for October 27. Audit Committee Chairman Dent concurred and noted that the Audit Committee is a month behind this initial schedule. Audit At-Large Member Dobler said that we have to first agree on the scope of work. Audit Committee Chairman Dent said that is why we will discuss it on October 27 and then it will go into the Request for Proposal. District General Counsel Nelson reminded those working on the scope of work that if an initial scope of work does go out, comments should be routed through the District Clerk. Audit At-Large Member Dobler said that this is all backwards as he is going to prepare the scope of work. Audit Committee Chairman Dent said that you and Audit At-Large Member Aaron will be putting together the scope of work. Once you have put that scope of work together, there is an opportunity to get feedback prior to that meeting or to give us some talking points. You just have to get it to the District Clerk who will get it distributed and then comments will be routed back to the District Clerk. Audit At-Large Member

Aaron said that he and Audit At-Large Member Dobler are to work on the Request for Proposal and do so once the Director of Finance Navazio updates the financial figures. Then this will come back to all of us and then any of the other three who have questions or comments will submit those to the District Clerk and the District Clerk will channel those to us so we can incorporate them into the RFP so that we have one consolidated draft to present on October 27. District General Counsel Nelson said generally we can accommodate that and that we, Staff, may need to say this is a list of comments that were raised however we do have the Open Meeting Law hoop to jump through.

E.2. Review, discuss and possibly approve a Whistleblower procedure for financial matters (Requesting Staff Member: District General Manager Indra Winquest)

Audit Committee Chairman Dent said he will reach out to that public member who said they had a template so this item will be postponed until the next meeting.

E.3. Legal Opinion for community correspondence regarding Dillon's Rule (Requesting Staff Member: District General Counsel Joshua Nelson)

Audit Committee Chairman Dent said that this item is postponed until the next meeting.

Audit Committee Member Schmitz asked if the committee can get a comprehensive list of the policies that the committee should be reviewing or that need to be created as having that as a comprehensive list would be helpful? District General Counsel Nelson agreed to provide that list. Audit At-Large Member Tulloch said that he understood that we requested a legal opinion on this item. District General Counsel Nelson said he would be happy to move this onto BBK letterhead and that it is a legal opinion. Audit At-Large Member Tulloch said he would like it prepared on letter. District General Counsel Nelson said he is happy to do. Audit Committee Chairman Dent said this is something that we ran into with our other legal counsel.

F. APPROVAL OF MEETING MINUTES (for possible action)

F.1. Audit Committee Meeting Minutes of September 1, 2020

Audit Committee Chairman Dent asked for any changes to the meeting minutes. Audit Committee Member Schmitz said, on agenda packet page 37, very last sentence, which reads "...cost and activities which is budgeted..." should be changed to read "...which should be budgeted..." and that this is her only adjustment. Audit At-Large Member Dobler said on agenda packet page 41, page 9 of the minutes, that he would like to review that section. Audit Committee Chairman Dent said, hearing no further changes, that the minutes are approved with the changes that need to be made.

G. LONG RANGE CALENDAR

The following items were discussed:

- Would like to have some discussion about the additional 6 points that Audit At-Large Member Dobler provided;
- Would like to have some discussion about the interest earned on the pipeline monies and that the largest one is the money collected for the effluent pipeline;
- A concern raised by member of the public Dick Warren;
- Concern was raised that key items are stacking up so one member of the committee would like to have a 4-hour meeting to get back on track; and
- The Request for Proposal for an auditor was suggested as the committee's top priority.

The Audit Committee members agreed to have their next meeting on October 27 and to start at 2 p.m.

H. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

Margaret Martini passed on her opportunity to speak.

Linda Newman said in light of Staff's comment that the contra revenue will remain in the fiscal year 2020 financial statements, she would like to know if you will recommend to the Board that they amend the 2020 final budget to reflect transfers from the Community Services fund to the beaches. If there will not be a recommendation what are the penalties for the Board's failure to disclose the transfers from the Community Services fund to the beaches in the final fiscal year

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2020 budget submitted to the State? The second issue that she has is that she would like some clarification as Staff said they were trying to make some kind of legal determination of whether the \$2 million collected annually for the replacement of the 6-miles of effluent pipeline was committed or actually restricted by law even though the Board restricted it so she would like to know how does that apply with the money that the District shows is restricted for defensible space? There is one hundred thousand from the Utility fund and one hundred thousand from the Community Services and the beaches which is constituted in the financial statements as restricted and the only thing that she knows about is an agreement between the North Lake Tahoe Fire Protection District and IVGID which was dated in 2004 and she doesn't know of any other agreement and whether or how long that agreement lasted in terms of restricting money and at that time, the only amount was \$25,000 so she hopes that when Staff is coming up with a legal opinion as to whether this money is actually restricted for the Utility fund which the Board, through the highest authority, restricted; she would like an answer to that and she would like to know how the defensible space is restricted when the last agreement she is aware of is for \$25,000 and she doesn't know when that ended. The third thing is that she certainly does support additional meetings as she thinks that this committee is making incredible progress and is really on target with the important matters so she hopes you will schedule additional meetings and that the next meeting will have the 3 hours to cover the important agenda items.

Frank Wright said that he was shocked about not reporting the contra revenue the right way. Also there are some funds that are owed to Crystal Bay that are sitting in IVGID's coffers that should be returned. We have just lost our Director of Public Works and that he hopes that we get the audit done before he gets too far down the road. He doesn't know what severance he got or what kind of good bye party was held but we need to audit everything he has done because there is a lot of money missing.

I. ADJOURNMENT (for possible action)

The meeting was adjourned at 4:51 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

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