

MEMORANDUM

TO: Audit Committee

FROM: Paul Navazio
Director of Finance

SUBJECT: Independent Auditor’s Report: Agreed-Upon Procedures Related to Capitalization of Assets

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2 - Finance

DATE: March 30, 2023

I. RECOMMENDATION

It is recommended that the Audit Committee receive a report (Attachment 1) from the District’s Independent Auditor, Davis Farr, LLP, on Agreed-Upon Procedures related to capitalization of fixed assets.

II. BACKGROUND

This agenda item was presented to the Audit Committee at their meeting of February 7, 2023. Action on this item was deferred until the March meeting in order to allow for the District’s Independent Auditor to discuss the report and address any questions raised by the Committee.

In their Annual Report to the Board of Trustees, dated March 9, 2022, the Audit Committee recommended that the annual financial audit for the fiscal year ended June 30, 2022 be augmented through supplemental engagements focusing on a review of the District’s internal controls. Following authorization by the Board of Trustees, the Audit Committee executed two supplemental engagement letters with the independent auditor to perform additional “agreed-upon” procedures to review the following areas:

- 1) Capitalization of Assets
- 2) Purchasing/Contracts

This agenda item serves to transmit to the Audit Committee a report, Attachment 1, prepared by the District’s Independent Auditor (Davis Farr, LLP) in response to a supplemental engagement to review compliance with policies, practices and procedures related to capitalization of assets.

The Audit Committee received the final report from the supplemental engagement related to purchasing/contracts at their meeting of December 5, 2022:

<https://www.yourtahoeplace.com/uploads/pdf-ivgid/D.2. - General Business - Supplemental Engagements.pdf>

Following is a summary of the scope of the work outlined in the Engagement Letter for the agreed-upon-procedures related to capitalization of assets (Attachment B):

Capitalization of Assets:

- Review of applicable Board Policies, Practices and internal accounting procedures
- Review detail of all capitalized costs for the fiscal year ended June 30, 2022; summarize the expenses by project, type of asset, and transaction amount.
- For the period July 1, 2021 through December 31, 2021, obtain supporting documentation for all capitalized costs less than \$5,000. Determine if transactions met the capitalization requirements of Board Policies 8.1.0 and 9.1.0 and Board Practice 2.9.0
- For the period January 1, 2022 through June 30, 2022, obtain supporting documentation for all capitalized costs less than \$10,000. Determine if transactions met the capitalization requirements of Board Policy 8.1.0
- For projects exceeding \$50,000 for the fiscal year ended June 30, 2022, perform the following procedures:
 - Review the Board approved capital project including any capital project summaries to obtain information about the project including the approved budget, the nature of the project, and the expected completion date of the project
 - Determine if the capital project met the capitalization requirements
- Prepare a report for the Audit Committee that summarizes the procedures and results of the procedures. We will include any recommendations for improvements to the District's policies, practices or procedures.

The report (Attachment A) prepared by Davis Farr, LLP summarizes the work performed, highlights findings of their review.

The report prepared by DavisFarr, LLP does not include any findings or recommendations requiring management's response.

III. ATTACHMENTS

- A. Report prepared by Davis Farr, LLP – Agreed-Upon Procedures Related to Purchasing and Contracts

B. Engagement Letter - Agreed-Upon Procedures Related to Purchasing and
Contracts

INDEPENDENT ACCOUNTANT’S REPORT

Audit Committee
Incline Village General Improvement District
893 Southwood Boulevard
Incline Village, NV 89451

We have performed the procedures enumerated below, in reviewing Incline Village General Improvement District’s (“District”) capitalized assets for the fiscal year ended June 30, 2022. District is responsible for adhering to the District’s Board of Trustee’s Policies and Practices (“Policies”).

The Audit Committee has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement to assist the District in evaluating adherence with the Board of Trustee’s Policies for the fiscal year ended June 30, 2022. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed, and the results of those procedures are as follows:

1. We obtained an understanding of the District’s policies, practices and procedures for capitalizing assets during the fiscal year ended June 30, 2022. For purposes of this engagement, Board Policy 8.1.0 updated and approved in January 2022 will be effective for costs incurred or assets received after January 1, 2022.

Results: We reviewed the following policies, practices and procedures and included the policies as attachments to this report.

Policy Name	Dated	Attachment
Board Policy 8.1.0	Updated January 2022	Exhibit A
Board Policy 8.1.0	Effective July 2016	Exhibit B
Board Policy 9.1.0	Effective July 2016	Exhibit C
Board Practice 2.9.0	Effective July 2016	Exhibit D

2. We compared the Board of Trustee’s policies and practices to the District’s Policies and Procedures Manual for Accounting & Financial Control and provided a listing of any inconsistencies. We obtained the Government Finance Officers Association capital assets best practice policies and identified any differences with the Board of Trustee’s policies and procedures.

Results: The Government Finance Officer’s Association best practices pertaining to Capitalization Thresholds for Capital Assets. These best practices include:

- a. A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets;
- b. Establish a minimum capitalization threshold of \$5,000 for any individual item;
- c. Establish a minimum capitalization threshold of at least a two-year useful life for any individual item;
- d. Indirect costs pertaining only to capital projects should be capitalized, general overhead costs such as human resources services or the district's office staff not exclusively performing capital work should not be allocated to capital projects and capitalized.

During our fieldwork, we noted that the District does use different capitalization thresholds for different classes of assets. These thresholds range from no threshold (land and right to use assets); to \$10,000 for equipment, vehicles, and venue improvements; and finally at \$25,000 for building, structures and service infrastructure. In addition, no asset is capitalized if it has a useful life of less than three years.

Although our procedures did not test the calculation of how overhead was calculated and applied to construction in progress, the description used to capitalize overhead was titled "CIP Engineering Charges", indicating that the nature of the overhead being capitalized was not considered general overhead. This is consistent with best practices.

Finally, although we did not find any exceptions to the capitalization threshold component of the Board's policy, we noted that individual ski rental assets purchased from American Sports Winter and Outdoor were capitalized, although their individual asset values were less than \$5,000. The Board's policy does state that, "Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets." This is consistent with generally accepted accounting practices.

- 3. We obtained detail of all capitalized costs for the fiscal year ended June 30, 2022. We summarized the expenses by project, type of asset, and transaction amount.

Results: The detail provided included the following capitalized costs. Projects with costs under \$100,000 are summarized as Other Projects.

Asset	Amount
Burnt Cedar Swimming Pool Project	\$3,216,455
Mountain Golf Course Cart Path Reconstruction	\$491,932
Replace Snow Grooming Equipment	\$400,000
Effluent Export Pipeline Project	\$269,703
Purchase of Replacement Rental Shop Equipment	\$255,707
Slott Peak Watermains and PRV 3-1 Improvements	\$224,195
Recreation Center Lobby Restroom Remodel	\$195,753

Four Snowmaking Fan Guns	\$154,159
Recreation Center Expansion	\$121,063
Other Projects (less than \$100,000 of costs)	\$761,784
Total capital asset additions	\$6,090,751

4. For the period July 1, 2021 through December 31, 2021, we obtained supporting documentation for all capitalized costs less than \$5,000. We determined if transactions met the capitalization requirements of Board Policies 8.1.0 and 9.1.0 and Board Practice 2.9.0 as follows:
- Amount capitalized agrees to supporting documentation
 - Initial useful life was more than two years
 - Capitalized item met the \$5,000 capitalization threshold (i.e. multiple invoices were split but combined to over \$5,000)
 - Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset

Results: We identified 30 transactions totaling \$66,945 that met this definition, excluding CIP Engineering Overhead charges, journal entries to move costs between projects, and journal entries to close out funds.

All charges were properly recorded as either construction in progress or combined with other charges and capitalized as a complete asset that exceeded \$5,000. No exceptions were noted as a result of our procedures.

5. For the period January 1, 2022 through June 30, 2022, we obtained supporting documentation for all capitalized costs less than \$10,000. We determined if transactions met the capitalization requires of Board Policies 8.1.0:
- Amount capitalized agrees to supporting documentation
 - Initial useful life was three years or more
 - Capitalized item met the \$10,000 capitalization threshold (\$25,000 for certain assets)
 - If capitalization threshold was applied to a network or group of items:
 - Asset was part of a group purchase for similar assets (example: golf carts when they are components of a fleet; banquet facility furnishings)
 - Item is a component of a system or network (components of a computer/telephone network; snow-making system)
 - District documented justification for grouping the assets
 - Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset

Results: We determined that there were 105 transactions totaling \$284,330 that met this definition, excluding CIP Engineering Overhead charges, journal entries to move costs between projects, and journal entries to close out funds.

All charges were properly recorded as either construction in progress or combined with other charges and capitalized as a complete asset that exceeded \$10,000.

For the Effluent Storage Pond at the Water Recovery Facility, the District expensed 80% of the project costs and capitalized 20% of the project costs incurred. We were

provided rationale for the determination. However, the amount capitalized was subjective and not tied to specific invoices.

6. We selected a sample of 30 transactions greater than \$5,000 for the period July 1, 2021 through December 31, 2021 and greater than \$10,000 for the period January 1, 2022 through June 30, 2022 (15 transactions for each period). We determined if the transactions met the capitalization requirements as follows:
 - a. Amount capitalized agrees to supporting documentation
 - b. Initial useful life was two (or three) years or more, as applicable to the period
 - c. Item was not for a repair or maintenance that does not extend the original useful life of expand the capacity of the asset
 - d. Item was not a feasibility study for purposes of determining whether or not to move forward with a project
 - e. Transaction was not related to master plan costs that are not specific to a capital project

Results: We determined that there were 11 transactions totaling \$198,867 that met this definition, excluding CIP Engineering Overhead charges, journal entries to move costs between projects, journal entries to close out funds, and construction in progress. No exceptions were noted as a result of our procedures.

7. For projects exceeding \$50,000 for the fiscal year ended June 30, 2022, we performed the following procedures:
 - a. Reviewed the Board approved capital project including any capital project summaries to obtain information about the project including the approved budget, the nature of the project, and the expected completion date of the project
 - b. Met with the project manager to obtain additional information about the nature of the project
 - c. Determined if the capital project met the capitalization requirements as follows:
 - i. Initial useful life is three years or more
 - ii. Items was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
 - iii. Item was not a pre-planning activity or feasibility study
 - iv. Transaction was not related to master plan costs that are not specific to a capital project
 - d. If the project is a replacement project, the replaced asset was removed from the accounting system

Results: We determined that there were 15 projects that met this definition. We did not test CIP Engineering Overhead charges, journal entries to move costs between projects, and journal entries to close out funds.

For replacement projects, we verified the replaced asset was removed from the accounting system with the exception of the Fan Guns Purchase and Replacement Project. The District did not remove the replaced asset because it was not previously capitalized. Additionally, we noted certain assets were not yet replaced because the replaced capital asset had not been completed yet. Per management, the replaced asset will be removed at the completion of the project.

We were engaged by the Incline Village General Improvement District to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Tenant's accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures other matters might have come to our attention that would have been reported to you.

We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirement related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of management and the Audit Committee of the Incline Village General Improvement District and should not be used by anyone other than those specified parties.

Irvine, California
January 24, 2023

DRAFT



May 15, 2022

Incline Village General Improvement District
Attn: Audit Committee
893 Southwood Boulevard
Incline Village, NV 89451

We are pleased to confirm our understanding of the additional services we are to provide for the Incline Village General Improvement District ("District"). This letter will confirm the nature and limitations of the services we will provide and the various responsibilities and other terms of the engagement.

We agree to apply procedures to the District's capitalized assets for the fiscal year ended June 30, 2022. The District is responsible for complying with the District's Board of Trustee's Policies and Practices ("Policies").

The Audit Committee has agreed to and acknowledged that the procedures to be performed are appropriate to meet the intended purpose of the engagement to assist the District in evaluating compliance with the Board of Trustee's Policies for the fiscal year ended June 30, 2022. The procedures we will perform may not address all the items of interest to a user of our report and may not meet the needs of all users of our report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

These agreed-upon procedures are included on the attached schedule. These procedures will be applied for the purpose of reporting our findings in regard to the results of the procedures performed as compared to the Policies. The procedures we will perform are for the intended use of the following specified parties: the Board of Trustees, the Audit Committee, and Management of the Incline Village General Improvement District.

We will conduct our engagement in accordance with the attestation standards for agreed-upon procedures engagements established by the American Institute of Certified Public Accountants. The agreed-upon procedures are not designed to constitute an examination or a review of the subject matter. Therefore, we will not express an opinion or a conclusion on the subject matter. We have no obligation to perform any procedures beyond those agreed to as enumerated in this letter of engagement. However, the procedures may be expanded or modified by mutual agreement with the Audit Committee during the engagement. If additional time is necessary as a result of the modified procedures, we will discuss it with the Audit Committee and management and arrive at a new fee estimate as soon as reasonably practicable. If, for any reason, we are unable to complete the procedures, we will not issue a report as a result of this engagement.

At the conclusion of our engagement, we will request certain written representations from management about the subject matter information and related matters. We will issue a written report listing the agreed-upon procedures performed and our related findings. This report will be intended for use by and restricted to the use of the specified parties as identified above, and our report will contain such restricted use language.

We plan to begin our procedures in August 2022 after the year end accruals and accounting entries are recorded to close the fiscal year ended June 30, 2022. Our fees will be billed at the hourly rates in our proposal for audit services dated December 14, 2020 which range from

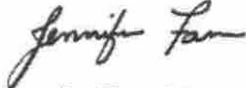
\$90-\$180 per hour based on the personnel used. We will also bill the District for any travel costs incurred, if applicable. We estimate the fees for this engagement will range from \$6,000-\$10,000 based on the number of transactions tested.

Jennifer Farr is the engagement partner for the services specified in this letter. Her responsibilities include supervising Davis Farr LLP's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the agreed-upon procedures report.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our engagement including our respective responsibilities. If you have any questions, please let us know.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Very truly yours,



Jennifer Farr, CPA
Partner

RESPONSE:

This letter correctly sets forth the understanding of the Incline Village General Improvement District.

By:  _____

Title: AUDIT COMMITTEE CHAIR

Date: 5/23/22

Procedures to be Performed

1. We will obtain an understanding of the District's policies, practices and procedures for capitalizing assets during the fiscal year ended June 30, 2022. For purposes of these procedures, Board Policy 8.1.0 updated and approved in January 2022 will be effective for costs incurred or assets received after January 1, 2022. We will include the following policies and practices as exhibits in our report:
 - Board Policy 8.1.0 (updated January 2022)
 - Board Policy 8.1.0 (effective July 2016)
 - Board Policy 9.1.0 (effective July 2016)
 - Board Practice 2.9.0 (effective July 2016)
2. We will compare the Board of Trustee's policies and practices to the District's *Policies and Procedures Manual for Accounting & Financial Control* and provide a listing of any inconsistencies. We will obtain the Government Finance Officers Association capital asset best practice policies and identify any differences with the Board of Trustee's policies and practices.
3. We will obtain detail of all capitalized costs for the fiscal year ended June 30, 2022. We will summarize the expenses by project, type of asset, and transaction amount.
4. For the period July 1, 2021 through December 31, 2021, we will obtain supporting documentation for all capitalized costs less than \$5,000. We will determine if transactions met the capitalization requirements of Board Policies 8.1.0 and 9.1.0 and Board Practice 2.9.0 as follows:
 - a. Amount capitalized agreed to supporting documentation
 - b. Initial useful life was more than two years
 - c. Capitalized item met the \$5,000 capitalization threshold
 - d. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
5. For the period January 1, 2022 through June 30, 2022, we will obtain supporting documentation for all capitalized costs less than \$10,000. We will determine if transactions met the capitalization requirements of Board Policy 8.1.0 as follows:
 - a. Amount capitalized agreed to supporting documentation
 - b. Initial useful life was three years or more
 - c. Capitalized item met the \$10,000 capitalization threshold (\$25,000 for certain assets)
 - d. If capitalization threshold was applied to a network or group of items:
 - i. Asset was part of a group purchase for similar assets (example: golf carts when they are components of a fleet; banquet facility furnishings)
 - ii. Item is a component of a system or network (components of a computer/telephone network; snow-making system)
 - iii. District documented justification for grouping the assets
 - e. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
6. We will select a random sample of 30 transactions greater than \$5,000 for the period July 1, 2021 through December 31, 2021 and greater than \$10,000 for the period January 1, 2022 through June 30, 2022 (15 transactions for each period). We will determine if transactions met the capitalization requirements as follows:
 - a. Amount capitalized agreed to supporting documentation

- b. Initial useful life was two (or three) years or more, as applicable to the period
 - c. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
 - d. Item was not a feasibility study for purposes of determining whether or not to move forward with a project
 - e. Transaction was not related to master plan costs that are not specific to a capital project
7. For projects exceeding \$50,000 for the fiscal year ended June 30, 2022, we will perform the following procedures:
- a. Review the Board approved capital project including any capital project summaries to obtain information about the project including the approved budget, the nature of the project, and the expected completion date of the project.
 - b. Meet with the project manager to obtain additional information about the nature of the project
 - c. We will determine if the capital project met the capitalization requirements as follows:
 - i. Initial useful life is three years or more
 - ii. Item was not for a repair or maintenance that does not extend the original useful life of the asset or expand the capacity of the asset
 - iii. Item was not a pre-planning activity or feasibility study
 - iv. Transaction was not related to master plan costs that are not specific to a capital project
 - d. If the project is a replacement project, determine if the replaced asset was removed from the accounting system
8. We will request written representations from the District's Management stating that the accounting records we examined are accurate.
9. We will prepare a report for the Audit Committee that summarizes the procedures and results of the procedures. We will include any recommendations for improvements to the District's policies, practices or procedures.
10. We will meet with Management and the Audit Committee to report on the results of our procedures prior to finalization of our report.