

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Indra Winquest  
Interim General Manager

Paul C. Navazio  
Director of Finance

**SUBJECT:** **DISCUSSION ONLY** - Discuss consideration of initiating process to evaluate converting the District's existing Community Services and Beach Governmental Special Revenue Funds back to Proprietary Enterprise Funds for fund accounting and financial reporting as well as budgeting and long-range financial planning.

### **STRATEGIC PLAN**

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

**DATE:** March 25, 2020

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### **I. RECOMMENDATION**

At the request of Board of Trustees Chairman Callicrate, it is recommended that the Board of Trustees consider whether to initiate a process to evaluate converting the accounting and financial reporting of the District's Community Services and Beach activities currently accounted for on the bases of Governmental Special Revenue funds back to Proprietary Enterprise Funds, in accordance with Generally Accepted Accounting Principles and relevant state statutes applicable to each fund type.

### **II. BACKGROUND**

Prior to June 30, 2015, the activities of the Community Services and the Beaches had historically been budgeted, accounted for and reported as Proprietary Enterprise Funds in accordance with accounting principles established by the Governmental Accounting Standards Board (GASB) and in compliance with applicable state statutes.

Beginning with the 2015-16 Fiscal Year commencing on July 1, 2015 (based on Board Resolution #1838, adopted on May 21, 2015), the District's Community

Services activities and Beach activities were transitioned to accounting and financial reporting on the basis of Governmental Special Revenue Funds for operations, capital expenditures and debt service.

Under applicable Nevada Administrative Code, the District's transition from Proprietary Enterprise fund accounting to Governmental Special Revenue Fund accounting required approval by the Nevada Department of Taxation to ensure compliance with applicable Nevada Revised Statutes. District Staff informed the Nevada Department of Taxation of its intent to recommend the proposed change in accounting principles in January of 2015, and following the process outlined by the Department of Taxation, the District ultimately received concurrence that its filing of the 2015-16 Tentative Budget utilizing Governmental Special Revenue accounting principles.

Starting in Fiscal Year 2015-16, the District's Community Services and Beach activities have consistently been budgeted and accounted for using Governmental Special Revenue Fund accounting principles. This includes accounting for all activities within the current (2019-20) Fiscal Year, as well as the preparation of the District's Fiscal Year 2020-21 budget.

At the request of Board of Trustees Chairman Callicrate, Staff has initiated a preliminary review of implications for transitioning the District's Community Services and Beach activities back to Proprietary Enterprise Fund accounting. Staff's initial review suggests that while the District's accounting and financial reporting system could, more than likely, readily accommodate a transition back to proprietary fund accounting, there are potentially significant implementation considerations that warrant thorough discussion by the Board.

Moreover, based on recent discussions with both Staff and the Chairperson of the Local Government Finance Committee of the Nevada Department of Taxation (as recently as Thursday, March 19, 2020), staff was advised that any consideration by the Department of a request from the District to change its basis of accounting would again require approval by the state agency, pursuant to its established process that would extend beyond the timeframe required for submittal of the District's preliminary and final budgets for Fiscal Year 2020-21.

Absent the urgency for the Board to consider taking formal action on this matter so as to inform submittal of either the Fiscal Year 2020-21 tentative or final budgets (due to be filed April and May, respectively), should the Board wish to entertain transitioning accounting practices, it would be appropriate to schedule one or more meetings or workshops to thoroughly discuss a) transition process, b) accounting

implications, and, importantly, c) optimal alignment of accounting principles with the District's business practices.

Staff is prepared to support the Board's consideration of transitioning the Community Services activities and Beach activities from Governmental Special Revenue fund accounting back to Proprietary Enterprise Fund accounting, based on direction provided by the Board of Trustees.

### **III. FINANCIAL IMPACT AND BUDGET**

As an informational item, there is no direct financial impact of the Staff recommendation; nor does Staff believe there would be significant costs to the District to prepare and present an analysis of options, should the Board of Trustees so direct.

### **IV. ALTERNATIVES**

The Board of Trustees could choose to:

- 1) Refer this issue to the Board's Audit Committee for review and discussion, and direct the committee to return to the Board with a recommendation, or
- 2) Not consider the possibility of transitioning Community Services activities and the Beach activities from Governmental Special Revenue Funds to Proprietary Enterprise Funds.

#### **ATTACHMENTS:**

1. Opinion Letter, dated December 8, 2014, from District's Independent Auditor (Kafoury, Armstrong & Co.) related to proposed transition from Enterprise Funds accounting to Special Revenue Funds accounting.
2. Resolution #1838 (dated May 21, 2015) establishing Governmental Special Revenue funds for the District's Community Services and Beach activities.
3. Nevada Department of Taxation Guidance Letter 15-002 dated October 27, 2015
4. Note 19 - Subsequent Events (from IVGID CAFR for Year Ending June 30, 2014).



**KAFOURY, ARMSTRONG & CO.**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

*Serving our clients since 1941.*

December 8, 2014

To Gerald Eick, Director of Finance,  
Accounting, Risk Management  
and Information Technology  
Incline Village General Improvement District

We have reviewed the information provided by you regarding the Community Services Fund and the Beach Fund.

We understand the planned action is to utilize Special Revenue, Capital Project and Debt Service Fund accounting for these funds versus the prior utilization of Enterprise Fund accounting. Based on our understanding of the facts and circumstances obtained from your memorandum dated November 14, 2014 as well as our verbal discussions, we believe that the activities of the Community Services Fund and the Beach Fund, while appropriately accounted for as Enterprise funds in the past, could qualify for the use of Special Revenue, Capital Project and Debt Service Fund accounting in accordance with Statement of Governmental Accounting Standards Board (GASB Statement) No. 34 - *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No 54. - *Fund Balance Reporting and Governmental Fund Type Definitions*. We understand you plan to make the changes identified above on July 1, 2015.

Very Truly Yours,

Kafoury, Armstrong & Co.

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The District has committed to these capital improvement projects through contractual arrangements:

	<u>Contract Award</u>	<u>Completed at June 30, 2015</u>	<u>Remaining Commitment</u>
Utility Fund			
Water main Replacement			
Q&D Construction, Inc.	\$596,560	\$267,848	\$328,712
Community Services Fund			
Creek Restoration			
Cardno, Inc.	\$227,000	\$197,773	\$ 29,227
Ski Resort Point of Sales System			
Active Network	\$313,449	\$132,400	\$181,049

#### 18. EXTRAORDINARY EXPENSE FOR UTILITY FUND

In April 2014, a leak occurred in the District's effluent pipeline that results in damage to an area highway. Leaks of this magnitude and consequence are not expected in the normal course of operations and thus the repairs costs have been reported as an extraordinary expense. In July 2014 the District incurred \$26,906 of repair costs to complete the paving of the State highway affected by the leak.

#### 19. SUBSEQUENT EVENT

Effective July 1, 2015, with its new fiscal and budget year, the District began utilizing Special Revenue, Capital Projects and Debt Service governmental fund accounting for the Community Services Fund and the Beach Fund, which have to date been accounted for as enterprise funds. The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide resources for capital expenditure and debt service cannot be displayed in a readily understandable fashion for its constituents.

The Board of Trustees has approved a budget, which has been filed with the State of Nevada Department of Taxation, which reflects this change. The remaining action will be to have the Board of Trustees approve the transfer of the Net Position of the Community Services Fund and the Beach Fund upon conclusion of the audit process and the acceptance of that report. The budget document filed with the State estimated that amount to be \$5,294,138 for the Community Services Fund, and \$1,302,486, for the Beach Fund. The District presented a template for calculating the transfer amount to the Nevada Department of Taxation Committee on Local Government Finance and outlined its intended method to convert from accrual based accounting under an enterprise fund, to modified accrual accounting for the Special Revenue governmental funds, which would go forward. No Net Position is considered directly related to either the capital projects funds or debt service funds at July 1, 2015.

Based on the audit as of June 30, 2015 the Net Position of the Community Services Fund is \$44,762,511. The Net Position for the Beach Fund is \$5,701,288. These amounts are adequate to satisfy their role in supporting the budget for the fiscal year ending June 30, 2016. The amount of capital project carryover \$1,115,576 (See Note 17) was known and set as a part of the approval of the operating and capital budget.

As of October 28, 2015 the District agreed to a settlement of the suit, described in Note 12, that will result in collecting \$245,000.



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

**RESOLVED**, by the Board of Trustees of the Incline Village General Improvement District, Washoe County, Nevada, that

**WHEREAS**, pursuant to Nevada Administrative Code (NAC) Section 354.241, a local government is required to adopt a Resolution to create a fund types covered by Nevada Revised Statute 354.624 5 (a); and

**WHEREAS**, the District Community Services and Beach Funds provides services as defined under Nevada Revised Statute (NRS) 318, which in effect requires the use of those Fund's fund balance for a specific purpose; and

**WHEREAS**, on December 10, 2014, the Board of Trustees directed staff to apply for approval of the District's 2015-16 budget by the Nevada Department of Taxation utilizing Special Revenue, Capital Projects and Debt Service Fund accounting for Community Services and the Beach Funds; and

**WHEREAS**, the District expects to receive notice that its budget is found to be in compliance with NRS 354.598 by the Nevada Department of Taxation.

**NOW, THEREFORE, IT IS ORDERED**, as follows:

1. Effective July 1, 2015 the Incline Village General Improvement District, Nevada shall establish the governmental fund type Special Revenue, Capital Projects and Debt Service Funds for use by its Community Services and Beach Funds.
2. The table on the last page of this Resolution contains the required elements 1-4 and 6-7 under NAC 354.241, element 5 is met by the existing fund balance of the affected funds.



**RESOLUTION NO. 1838**

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\* \* \* \* \*

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly passed and adopted at a regularly held meeting of the Board of Trustees of the Incline Village General Improvement District on the 21st day of May, 2015, by the following vote:

AYES, and in favor thereof, Trustees: Jim Smith, Kendra Wong, Bill Devine, and Jim Hammerel

NOES, Trustees: Trustee Callicrate

ABSENT, Trustees: None

*/s/ Jim Hammerel*

Jim Hammerel  
Secretary, IVGID Board of Trustees



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<b>Fund Name</b>	<b>Purpose</b>	<b>Source of Revenues</b>	<b>Short-term Expenditures</b>	<b>Long-term Expenditures</b>	<b>Plan for Fund Balance</b>	<b>Adequacy of Fund Balance</b>
Community Services – Special Revenue	Recreational activities conducted by the District under NRS 318, other than Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide recreational activities	Transfers out to capital purchases and debt service to support recreational activities	Meet the minimum necessary to maintain District recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Sales of coverage and capital assets and transfers from the Community Services Special Revenue Fund	Operating expenditures related to Community Services capital expenditures	Capital purchases to support Community Services recreational activities	Meet the minimum necessary to execute Community Services capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Transfer from the Community Services Special Revenue Fund	Operating expenditures related to Community Services debt service expenditures	Debt service expenditures to support Community Services recreational activities	Meet the minimum necessary to execute Community Services debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Special Revenue	Recreational activities conducted by the District under NRS 318 for Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide Beach recreational activities	Transfers out to capital purchases and debt service to support Beach recreational activities	Meet the minimum necessary to maintain District Beach recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Sales of coverage and capital assets and transfers from the Beach Special Revenue Fund	Operating expenditures related to Beach capital expenditures	Capital purchases to support Beach recreational activities	Meet the minimum necessary to execute Beach capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Transfer from the Beach Special Revenue Fund	Operating expenditures related to Beach debt service expenditures	Debt service expenditures to support Beach recreational activities	Meet the minimum necessary to execute Beach debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance



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**Guidance Letter 15-002**

Date: October 27, 2015

To: County Finance Officers

From: Terry E. Rubald, Deputy Executive Director, Department of Taxation

CC: Committee on Local Government Finance, Marvin Leavitt, Chairman  
Deonne Contine, Executive Director, Department of Taxation  
Kelly Langley, Supervisor, Local Government Finance, Division of Local Government Services

Subject: Special Revenue Funds and Enterprise Funds

**SUMMARY:**

This Guidance Letter recognizes Governmental Accounting Standards Board (“GASB”) Statements, including but not limited to, No. 33, “Accounting and Financial Reporting for Nonexchange Transactions;” No. 34, “Basic Accounting Standards and Management’s Discussion and Analysis” and No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles. In addition, this Guidance Letter discusses the nature and use of special revenue funds and enterprise funds, and provides examples.

*This Guidance Letter does not change any interpretations of any existing general accounting principles followed by a local government. The purpose in issuing this Guidance Letter is to raise awareness about differences between using special revenue fund and enterprise fund accounting, by highlighting and discussing certain GASB statements in relation to Nevada law.*

**AUTHORITY FOR THIS LETTER:**

NRS 354.472(1)(d): One of the purposes of the Local Government Budget and Finance Act is to provide for the control of revenues, expenditures and expenses in order to promote prudence and efficiency in the expenditure of public money. NRS 354.612(2) requires fund financial statements and other schedules to be prepared in accordance with generally accepted accounting principles.

Guidance Letter 15-002 was approved by the Committee on Local Government Finance on October 27, 2015.

**APPLICATION:**

The Department finds that Governmental Accounting Standards Board (“GASB”) Statements, including but not limited to, No. 33, “Accounting and Financial Reporting for Nonexchange Transactions;” No. 34,

“Basic Accounting Standards and Management’s Discussion and Analysis” and No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” are appropriate standards for the preparation of financial statements for all funds and comply with the requirements of NRS 354.612(2) as generally accepted accounting principles.

Based on the definitions of proprietary fund and special revenue fund found in NRS 354.553 and 354.570, as well as GASB No. 34, a special revenue fund is a type of governmental fund, whereas an enterprise fund is a type of proprietary fund.<sup>1</sup> In either case, the level of financial reporting must be based on a determination of whether the special revenue fund or the enterprise fund is a major or non-major fund.<sup>2</sup> The criteria for designation as a major fund is measured by whether the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type. In addition, the total assets, liabilities, revenues, or expenditures/expenses of the individual special revenue fund or enterprise fund must be at least 5 percent of the corresponding total for all governmental and enterprise funds combined.<sup>3</sup>

When establishing a new fund, it is important to examine the activities that meet the criteria for using a particular kind of fund. For example, a governmental fund, such as a special revenue fund, generally has activities which are financed through taxes, intergovernmental revenues, and other non-exchange revenues. In a *nonexchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return, as opposed to an *exchange* transaction, in which each party receives and gives up essentially equal values.<sup>4</sup> Business-type activities financed in whole or in part by fees charged to external parties for goods or services are usually, but not always, reported in enterprise funds.<sup>5</sup> An enterprise fund essentially reports exchange transactions.

GASB No. 34, ¶78 outlines the financial statements required for governmental funds, including a balance sheet and statement of revenues, expenditures, and changes in fund balances. GASB No. 34, ¶91 indicates the required financial statements for a proprietary fund include a statement of net assets or balance sheet; a statement of revenues, expenses, and changes in fund net assets or fund equity; and a statement of cash flows.

### ***Enterprise Funds***

NRS 354.517 defines an enterprise fund as a fund established to account for operations (1) which are financed and conducted in a manner similar to the operations of private business enterprises, where the intent of the governing body is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through charges to the users; or (2) for which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

Similarly, ¶67 of GASB Statement No. 34 states that an enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. In addition:

Activities are *required* to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity’s *principal revenue sources*.

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<sup>1</sup>See complete statutory reference for NRS 354.553 and 354.570 at the end of this Guidance Letter. *See also*, ¶63, ¶64, ¶66, ¶67, GASB Statement No. 34 (June 1999), pp. 25-26.

<sup>2</sup>¶75, GASB Statement No. 34 (June 1999), p. 28.

<sup>3</sup>¶76, GASB Statement No. 34 (June, 1999), p. 28.

<sup>4</sup>¶7, **GASB Statement No. 33 (December, 1998)**, p. 3.

<sup>5</sup>¶15, GASB Statement No. 34 (June, 1999), p. 9.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges *and* the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)<sup>6</sup>
- b. Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Footnote 33 to ¶67 states that:

These criteria do not require insignificant activities of governments to be reported as enterprise funds. For example, state law may require a county’s small claims court to assess plaintiffs a fee to cover the cost of frivolous claims. However, taxes, not fees, are the principal revenue source of the county’s court system, and the fees in question cover only the cost of frivolous small claims court cases. In this case, the county would not be required to remove its court system or the small claims court activity from its general fund and report it in an enterprise fund. Conversely, a state department of environmental protection regulation may require a water utility to recover the costs of operating its water plant, including debt service costs, through charges to its customers—the utility’s principal revenue source. Because these charges are the activity’s principal revenue source and because the water utility is required to recover its costs, the utility should be reported as an enterprise fund.

In explaining enterprise fund reporting requirements, GASB 34, ¶387 states that:

Perhaps most significantly, this Statement makes clear that enterprise fund reporting should be used for any activity that is financed with *debt secured solely by net revenue* from its fees and charges to external users. Enterprise fund reporting is also required for any activity that operates under *laws or regulations* requiring that its costs of providing services, including capital costs (depreciation or debt service), be recovered with fees and charges. The final criterion—requiring enterprise fund reporting for any activity for which management establishes fees and charges, pursuant to its *pricing policies*, designed to recover its costs of providing services, including capital costs—is similar to the existing criterion. However, it adds an element of objectivity by basing the standard on established policies rather than management’s intent. Further, this Statement makes clear that all criteria for required use of enterprise fund reporting should be applied only in the context of an activity’s principal revenue sources. For example, paragraph 67a requires an activity to be reported as an enterprise fund if the activity is financed by debt secured solely by a pledge of the net revenue from fees and charges of the activity. To apply the principal revenue source test in relation to this criterion, a government should compare an activity’s pledged revenues to its total revenues.

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<sup>6</sup> In practice, there are exceptions. For example, sometimes general obligation (GO) backing is needed for enterprise funds in small rural communities so a lower interest rate can be obtained from the state bond bank. Using GO backed revenue bonds does not automatically require a change from an enterprise fund to a special revenue fund.

## **Examples of an Enterprise Fund**

### **Background**

A general power of a county is acquire, improve, equip, operate and maintain a variety of projects, including sewerage and water projects. *NRS 244A.057*. The Board of County Commissioners may issue special obligation bonds to acquire, improve and equip any sewerage or water project. *NRS 244A.0587*. A county may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 244A.063*.<sup>7</sup>

For example, the Douglas County Board of County Commissioners established the Carson Valley Water Utility Fund by resolution adopted May 3, 2012. See *Appendix for Exhibit 1, Resolution No. 2012R-037*. The Board resolved to use the existing working capital from four individual water utility funds to establish a consolidated water utility fund and further resolved to recover the costs of operation of the water system, including overhead, through user charges, without producing any significant amount of profit in the long run. The new Water Utility Fund is designed to account for all revenues and all charges related to the consolidated operations, management and rate setting of four legacy utilities.

### **Analysis**

In this example the Douglas County Board of County Commissioners has the authority to establish an enterprise fund pursuant to *NRS 354.612*. The resolution meets the conditions in *NRS 354.612* for an enterprise fund. For instance, subparagraph 4 requires the local government to furnish working capital for the fund which the resolution addressed by transferring the working capital from four legacy utilities to the current fund. In addition, *NRS 354.612(4)* requires the recovery of the costs of operation, including overhead, without “producing any significant amount of profit in the long run.” This objective was also included in the resolution and specifically referenced “user charges” as the means by which operation costs would be recovered. The resolution was consistent with the authority provided in *NRS Chapter 244A*.

“User charges” take the form of water usage fees and connection charges. Payment by water users of usage fees and connection charges are exchange transactions because each party gives up and receives something of equal value. Rates are typically set to recover costs of operation and maintenance. This meets the definition of *GASB 34 ¶ 67(c)* requiring the use of an enterprise fund when pricing policies for fees and charges are designed to recover costs.

### **Special Revenue Funds**

*GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,”* updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. The nature of a special revenue fund is discussed at Paragraph 30:

30. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “*proceeds of specific revenue sources*” establishes that one

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<sup>7</sup> Cities have similar authority. A general power of a city is to acquire, improve, equip, operate and maintain a variety of projects including sewerage and water projects. *NRS 268.730*. A city may defray the cost of acquisition, improvement and equipment through general obligation bonds, which may be payable from taxes and further secured by a pledge of other revenues derived from any other income-producing project of the city. *NRS 268.732*. A city may charge license fees or other excise taxes to acquire, operate and maintain a project, and ensure that revenue obligation bonds are paid. *NRS 268.738*.

or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them; however, those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

GASB Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: non-spendable, restricted, committed, assigned and unassigned. These classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

The terms “restricted” or “committed” are references to constraints placed on the use of the revenue source. For example, a fund balance is “restricted” when the constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.<sup>8</sup> A “committed” fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. “Committed” amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action, such as legislation, resolution, or ordinance, which was employed to previously commit those amounts. A committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.<sup>9</sup>

In the past, special revenue funds were reported in instances where there was a specific spending purpose, but not necessarily a specific revenue source. The new definition of a special revenue fund means that local governments need to evaluate resources *received* to determine if they qualify for reporting in a special revenue fund. An activity may no longer be reported as a special revenue fund based only on management’s desire to account for it separately. For all major special revenue funds reported, local governments will need to disclose the purpose of the fund and the revenues and other resources reported in the funds in the notes to the financial statements.

***Please note that the change in classifications of fund balance and special revenue fund financial statement reporting requirements detailed in Statement No. 54 does not require changes in the way a local government budgets and internally accounts for special revenue funds; and the Department has not changed the budget reporting forms to reflect the new classifications.***

In addition, GASB Statement No. 54 states at Paragraph 31:

The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a *substantial portion* of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Local governments may use the following calculation to determine whether an activity would qualify for reporting as a special revenue fund:

$$\text{Substantial portion of inflows} = \frac{\text{restricted revenues} + \text{committed revenues}}{\text{total revenues}}$$

<sup>8</sup> ¶34, GASB Statement No. 34 (June 1999), p. 16. See also ¶8, GASB Statement No. 8 (February 2009), p. 4.

<sup>9</sup> ¶10, GASB Statement No. 10 (February 2009), p. 5.

## Total Inflows reported in the fund

In the calculation, restricted revenues are defined as resources externally restricted or having restrictions imposed by internal enabling legislation (same definition as restricted net assets used in government-wide reporting). The committed revenues are resources with constraints imposed by the highest level of the government, where the constraints can be removed only by a similar action of the same governing body. Total Inflows are defined as the inflows of all financial resources. Total inflows will include transfers and other financing sources such as debt issuances.<sup>10</sup>

“Substantial portion” of inflows is not defined in Statement No. 54, however, the Government Finance Officers Association has indicated “around 20 percent” is reasonable for justifying a special revenue fund; and it is a commonly used threshold. Local governments also need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds.<sup>11</sup>

An example of how to analyze or “prove up” whether the total revenue sources are substantially restricted, committed or assigned to the specified purpose of the fund is attached as Exhibit 2 from Churchill County. If the analysis shows that the restricted and committed resources are less than 20%, then the local government can take action to remedy the situation by going through the process of formally committing additional resources so that the inflow of restricted and committed resources represent a substantial component of the total inflow.

### **Examples of Special Revenue Funds**

Two examples of a special revenue fund may be found in the Appendix of this Guidance Letter. The first example is a special revenue fund for a landscape maintenance district created by resolution adopted by the Douglas County Board of Commissioners. See *Exhibit 3 in the Appendix*. In this case, the initial financing source is a developer funded security deposit and subsequent revenue will be annual assessments levied on benefiting property owners. The revenue will be restricted to expenditures for improvements or maintenance of parcels within the district.

A second example of a special revenue fund is the “Infrastructure Fund” created by resolution adopted by the Carson City Board of Supervisors. See *Exhibit 4 in the Appendix*. The revenue source is a sales tax of one-eighth of one percent (0.125%). The proceeds of the tax may only be used to fund certain public infrastructure projects identified in the Plan of Expenditure adopted by the Board of Supervisors on April 17, 2014.

In both examples, the revenue source meets the definition of a “committed” fund source because the governing board took formal action to restrict the use of the revenue. However, we would need more information to determine whether those committed funds represent a “substantial” portion – at least 20% - of the total revenue inflow.

### **Example of a Special Revenue Fund – Or is it? – Fire Districts**

#### **Background**

A fire protection district formed pursuant to NRS Chapter 474 may sue and be sued; arbitrate claims; and contract and be contracted with. *NRS 474.125*. In addition, a fire protection district may impose a property tax rate not to exceed 1 percent of the assessed value within the district, including net proceeds, to cover the costs of establishing, equipping and maintaining the district with fire-fighting facilities. *NRS 474.190*. Under *NRS 474.200(3)*, two separate funds must be created for the district,

<sup>10</sup> Washington State Auditor’s Office, “GASB Statement 54 – Focusing on Special Revenue Funds,” page 37, accessed 4-17-15 at <http://digitalarchives.wa.gov/WA.Media/do/BE1679E72F5484784D2834ACA64AE00E.pdf>

<sup>11</sup> Ibid, p. 37 and New York Division of Local Government and School Accountability, “Fund Balance Reporting and Governmental Fund Type Definitions,” p. 5, accessed 4-17-15 at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

an operating fund and a district emergency fund. The district emergency fund must be used solely for emergencies and must not be used for regular operating expenses. In addition, the district may issue bonds for purchase of equipment and acquisition of property; and may levy a tax sufficient to pay for the bonds. Under NRS 474.300(4), proceeds of the tax levied for debt service must be placed in a special fund to pay the principal and interest on the bonds.

### **Analysis**

Clearly the property taxes in this example are imposed non-exchange revenues resulting from an assessment on property. This is a characteristic of a governmental fund rather than a business-entity type fund.

Next, the analysis should consider whether the governmental fund is a special purpose fund. As discussed in GASB No. 54, ¶ 30, a special revenue fund is used to account for and report the proceeds of specific revenue sources which are restricted or committed to expenditure for specified purposes other than debt service or capital projects. In this example, the district may levy a tax to pay for bonds for equipment and property, so the revenue received for debt service does not necessarily mean the fund is a special revenue fund.

NRS 474.200(3) requires a portion of the property tax to be deposited in the district emergency fund, and the fund must be used solely for emergencies. In this case, the property tax revenue source appears to be restricted for a specified purpose other than debt service or capital projects. "Money collected to meet unforeseen emergencies" appears to be a restriction.

Further analysis is needed, however, because the emergency fund may still not qualify as a special revenue fund. This is so because the uses which may be made from the emergency fund need to be defined in order to determine whether the fund balance should be reported as restricted or committed.

Some governments formally set aside amounts in governmental funds under formal stabilization-type policies that can be expended only when certain specific non-routine circumstances exist. For example, typical purposes for which stabilization funds are set aside include emergency situations; unanticipated significant revenue shortages or budgetary imbalances; working capital needs; contingencies; and others. The authority for such funds generally is derived from statute, ordinance, resolution, charter, or constitution<sup>12</sup>, as in this example.

For purposes of reporting fund balance, stabilization amounts should be reported in the general fund as restricted or committed if they meet the criteria set forth in GASB Statement No. 54, as amended, based on the source of the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance classifications should be reported as unassigned in the general fund.

In this example, the source of the emergency fund is a portion of the property tax rate and is restricted. However, GASB 54 states that "a stabilization amount that can be accessed in an emergency would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed. If the revenue from the property tax is restricted or committed, then the emergency fund qualifies as a special revenue fund. If the source is not restricted or committed, then the stabilization arrangement discussed above applies.

### ***Example of Application of Criteria to determine whether Fund is an Enterprise Fund or a Special Revenue Fund***

#### ***Nevada General Improvement District***

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<sup>12</sup> ¶20, GASB Statement No. 54 (February 2009), p. 9.

NRS 318.197 permits a governing board of a general improvement district to fix rates, tolls or charges other than special assessments, including but not limited to, service charges and standby service charges, for services or facilities furnished by the district. NRS 318.197 is permissive rather than mandatory in that the governing board “may” fix rates, tolls or charges to cover the costs of services or facilities furnished.

The board may “pledge the revenue for the payment of any indebtedness or special obligations of the district.” Such rates and tolls constitute a perpetual lien on and against the property served, and may be collected on the tax roll together with the county’s general taxes (NRS 318.201). In addition, NRS 318.225 grants the governing board the power and authority to levy ad valorem taxes. NRS 318.275 permits the district to borrow money and issue GO bonds, revenue bonds, and special assessment bonds. Revenue bonds issued for the purpose of acquiring or improving facilities appertaining to the basic purpose of the district must be made payable solely out of the net revenues for any and all of the income-producing facilities and services provided by the district (NRS 318.320). General obligation bonds and other general obligation securities payable from general property taxes may be additionally secured by a pledge of and lien on net revenues. (NRS 318.325).

Applying GASB Statement 34, ¶67(a-c) to the Nevada statutory framework for general improvement districts, since a general improvement district is not required to recover costs through rates, tolls, or charges under NRS 318.197, an enterprise fund is not required to be used. However, if the general improvement district’s activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, then it would be required to use the enterprise fund accounting. This would be the case if the district issued revenue bonds pursuant to NRS 318.320. If the district’s activity is financed with debt secured by both taxes and user fees, then it is not required to use enterprise fund accounting, as would be the case under NRS 318.325 for GO bonds secured by taxes or a combination of taxes and fees. Finally, under ¶67(c), if the pricing policies of the district for the fees and charges are designed to recover its costs, including capital costs (such as depreciation or debt service), then enterprise fund accounting must be used.

If the general improvement district did not meet the conditions requiring the use of enterprise fund accounting pursuant to GASB Statement No. 34, ¶67, then standard governmental fund reporting must be used. If the general improvement district contemplated creating a major special revenue fund, then at least 20% of the total inflows reported in the fund must be restricted and/or committed to the purpose for which the fund was created. The restricted and committed revenue must be recognized as revenue of the special revenue fund rather than the general fund. Total inflows include restricted revenues, committed revenues, transfers in and any other financing sources.

**If you have any questions about this guidance letter, please call the Local Government Finance Section of the Division of Local Government Services, Department of Taxation at (775) 684-2100.**

WEBSITE LOCATIONS:

Nevada Revised Statutes (NRS): <http://www.leg.state.nv.us/NRS/>

Nevada Administrative Code: <http://www.leg.state.nv.us/NAC/CHAPTERS.html>

Department of Taxation Guidance letters: <http://www.tax.state.nv.us>; then select “Publications;” then select Assessment Standards Publications and “Guidance letters.”

## Appendix

Exhibit 1: Douglas County Board of County Commissioners, *Resolution No. 2012R-037,*

*Carson Valley Water Utility Fund*

Exhibit 2: Churchill County Comptroller's Office, *Fund Balance Analysis GASB #54*

Exhibit 3: Douglas County Board of County Commissioners, *Resolution 2014R-056,*

*Landscape Maintenance Districts Fund*

Exhibit 4: Carson City Board of Supervisors, *Resolution No. 2014-R-24, Infrastructure Fund*

Exhibit 5: Selected Nevada Statutes and Regulations

RESOLUTION NO. 2012R-037

A RESOLUTION ESTABLISHING THE  
CARSON VALLEY WATER UTILITY FUND

WHEREAS, NRS 354.612 requires the establishment of funds by resolution, and

WHEREAS, NRS 354.517 defines an enterprise fund as a fund established to account for operations which are financed and conducted in a manner similar to the operations of private business enterprises, where the intent of the governing body is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through charges to the users, and

WHEREAS, Douglas County previously established the East Valley Water Utility, the West Valley Water Utility, the Foothill Water Utility (Job's Peak), and the Sheridan Acres Water Utility funds, to account for the operations of these separate systems, and

WHEREAS, the purpose of this fund is to consolidate the accounting, budgeting, capital planning, operations, management and rate setting of the East Valley Water Utility, West Valley Water Utility, the Foothill Water Utility (Job's Peak) and the Sheridan Acres Water Utility, and

WHEREAS, existing working capital from the four individual water utility funds will be used to establish the fund, and one of the financial objectives of the fund is to recover the costs of operation of the water system, including overhead, through user charges, without producing any significant amount of profit in the long run, and

WHEREAS, the Carson Valley Water Utility Fund will account for all revenues and all charges properly related to the purpose of the fund, including, without limitation, debt service, capital outlay, and operating expenses,

NOW, THEREFORE, BE IT RESOLVED by the Douglas County Board of Commissioners that the Carson Valley Water Utility Fund is hereby established, and will be used for all transactions beginning July 1, 2012.

ADOPTED this 3rd day of May, 2012 by the following Vote:

Ayes:

Commissioners: MICHAEL A. OLSON

DOUG N. JOHNSON

LEE BONNER

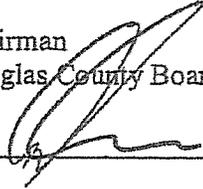
GREG LYNN

NANCY MCDERMID

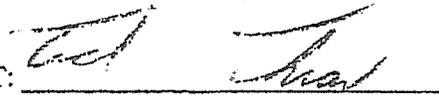
Nayes:

NONE

Chairman  
Douglas County Board of Commissioners



ATTEST:

  
Ted Thran, Douglas County Clerk

By:

  
Clerk to the Board

**Churchill County, Nevada**  
**Fund Balance Analysis GASB #54**  
**Social Services Fund**

Exhibit 2

Description	FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Revenues & Transfers												
Restricted	652,628	47%	1,189,394	62%	883,900	56%	910,903	55%	958,286	58%	819,232	53%
Committed	22,982	2%	8,986	0%	604,971	38%	716,910	43%	685,047	41%	697,919	45%
Assigned	711,337	51%	710,139	37%	95,366	6%	35,487	2%	21,915	1%	17,199	1%
Total Revenues & Transfers	1,386,947	100%	1,908,519	100%	1,584,237	100%	1,663,300	100%	1,665,247	100%	1,534,350	100%
Total Expenditures	959,467		1,540,945		1,346,525		1,472,634		1,672,141		1,547,753	
Change in Fund Balance	427,480		367,574		237,712		190,665		(6,893)		(13,403)	
<b>Fund Balance Classifications</b>	959,775	BFB										
Restricted	144,783		(206,768)	0	0	(561,731)	0	(713,855)	0	(728,520)		
Committed	38,886		(158,896)	0	1,525,462	0	2,242,372	1,680,641	2,365,687	1,651,833	2,349,751	1,621,231
Assigned	1,203,586.14		1,754,829	1,754,829	467,080	502,567	502,567	524,481	524,481	541,680	541,680	
Total Fund Balance	\$ 1,387,255		\$ 1,754,829	\$ 1,992,542		\$ 2,183,207		\$ 2,176,314		\$ 2,162,911		

**Notes:**

Due to expenditure levels, it appears the entire EFB is Assigned. No further analysis is necessary.

**Resolution 06-12 Specifically Committed Revenues at a baseline in accordance with GASB #54. CTX \$50,000 PILT \$50,000**

**Churchill County, Nevada**  
**Fund Balance Analysis GASB #54**  
**Parks & Recreation Fund**

Exhibit 2

Description	FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Revenues & Transfers												
Restricted	322,729	22%	341,272	28%	294,292	26%	262,972	23%	274,833	22%	298,173	25%
Committed	7,603	1%	4,190	0%	3,481	0%	262,628	23%	262,751	21%	263,246	22%
Assigned	1,134,956	77%	868,187	72%	843,222	74%	638,618	55%	706,288	57%	653,334	54%
Total Revenues & Transfers	1,465,288	100%	1,213,649	100%	1,140,995	100%	1,164,218	100%	1,243,872	100%	1,214,753	100%
Total Expenditures	1,094,511		1,128,681		1,104,340		1,131,566		1,182,885		1,148,025	
Change in Fund Balance	370,777		84,968		36,655		32,652		60,986		66,728	
<b>Fund Balance Classifications</b>	381,428	BFB										
Restricted	(687,772.66)	0	(787,409)	0	(810,048)	0	(868,594)	0	(908,052)	0	(849,852)	0
Committed	(678,190.53)	0	(783,219)	0	(806,567)	0	(605,966)	0	(645,302)	0	(586,606)	0
Assigned	752,205		837,173		873,828		906,480		967,466		1,034,194	
Total Fund Balance	\$752,205		\$837,173		\$873,828		\$906,479.65		\$967,466.09		\$1,034,194.27	

Notes:

Due to expenditure levels, it appears the entire EFB is Assigned. No further analysis is necessary.

**Resolution 06-12 Specifically Committed Revenues at a baseline in accordance with GASB #54. Fed PILT \$200,000 CTX \$60,000**

**Churchill County, Nevada**  
**Fund Balance Analysis GASB #54**  
**Regional Streets & Highways Fund**

**Exhibit 2**

Description	FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Revenues & Transfers												
Restricted	768,759	100%	823,009	100%	916,339	100%	840,852	100%	768,481	100%	746,667	100%
Committed	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Assigned	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Total Revenues & Transfers	768,759	100%	823,009	100%	916,339	100%	840,852	100%	768,481	100%	746,667	100%
Total Expenditures	724,325		671,816		750,088		711,441		946,275		1,215,708	
Change in Fund Balance	44,434		151,193		166,251		129,411		(177,794)		(469,041)	
<b>Fund Balance Classifications</b>	771,141	BFB										
Restricted	815,575.00	100%	966,768	100%	1,133,019	100%	1,262,430	100%	1,084,636	100%	615,596	100%
Committed	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Assigned	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Total Fund Balance	\$ 815,575	100%	\$ 966,768	100%	\$ 1,133,019	100%	\$ 1,262,430	100%	\$ 1,084,636	100%	\$ 615,596	100%

Statutorial interest earned on this fund is restricted as it must be spent on RTC projects.

**Churchill County, Nevada**  
**Fund Balance Analysis GASB #54**  
**Technology Fund**

Exhibit 2

Description	FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Revenues & Transfers												
Restricted	105,638	95%	142,034	98%	180,595	99%	149,157	99%	148,294	98%	100,662	98%
Committed	5,901	5%	2,276	2%	1,920	1%	1,689	1%	3,194	2%	1,546	2%
Assigned	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Total Revenues & Transfers	111,539	100%	144,310	100%	182,515	100%	150,846	100%	151,488	100%	102,208	100%
Total Expenditures	31,540		116,307		50,336		91,506		234,521		136,180	
Change in Fund Balance	79,999		28,003		132,179		59,340		(83,032)		(33,972)	
<b>Fund Balance Classifications</b>	253,760	BFB										
Restricted	314,432.76	94%	340,159.76	94%	470,419	95%	528,070	95%	441,843	94%	406,325	86%
Committed	19,326.24	6%	21,602	6%	23,522	5%	25,212	5%	28,406	6%	29,952	6%
Assigned	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Total Fund Balance	\$ 333,759	100%	\$ 361,762	100%	\$ 493,941	100%	\$ 553,281	100%	\$ 470,249	100%	\$ 436,277	93%

Notes:

15 year history of Committed Revenues: Interest Income												
Fund Balance Classifications	FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Restricted			\$ 326,011	90%	\$ 456,270	92%	\$ 513,921	93%	\$ 427,694	91%	\$ 392,176	90%
Committed	-		\$ 35,751	10%	\$ 37,671	8%	\$ 39,361	7%	\$ 42,555	9%	\$ 44,101	10%
Assigned	-		-	0%	\$ -	0%	\$ -	0%	\$ -	0%	\$ -	0%
Total Fund Balance	\$ 333,759		\$ 361,762	100%	\$ 493,941	100%	\$ 553,281	100%	\$ 470,249	100%	\$ 436,277	100%
15 year history of Committed Revenues: Interest Income												

RESOLUTION 2014R-056

A RESOLUTION ESTABLISHING THE
LANDSCAPE MAINTENANCE DISTRICTS FUND
(A Special Revenue Fund)

WHEREAS, NRS 354.612 allows for the establishment of funds by resolution, and

WHEREAS, NRS 354.570 defines a special revenue fund as a fund used to account for
specific revenue sources, other than sources for major capital projects, which are restricted by
law to expenditure for specified purposes, and

WHEREAS, the purpose of this fund is to separately account for special assessments
levied for small maintenance districts, that are restricted for expenditures for improvements or
maintenance, that specifically benefit the parcels within the districts, and

WHEREAS, the resources used to initially establish the fund will be a developer funded
security deposit, and

WHEREAS, the financing sources to be used to continue the fund will be annual
assessments levied on benefiting property owners and collected in installments through property
tax bills, and

WHEREAS, the method for controlling expenditures and establishing revenues of this
fund, as well as determining whether the reserve of the fund is reasonable and necessary to carry
out the purpose of the fund, will be a periodic rate setting review of the adequacy of the
assessments to cover expenditures, and provide a reserve adequate for cash flow purposes.

NOW, THEREFORE, BE IT RESOLVED by the Douglas County Board of
Commissioners that the "Landscape Maintenance Districts Fund" is hereby established.

ADOPTED this 3rd day of July, 2014 by the following Vote:

Ayes: Commissioners: BARRY PENZEL
DOUG N. JOHNSON
LEE BONNER
GREG LYNN
NANCY MCDERMID

Nays: Commissioners: NONE

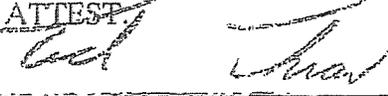
Absent: Commissioners:

NONE



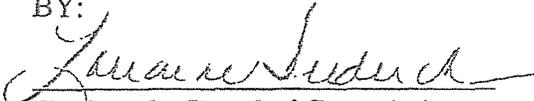
Doug N. Johnson, Chairman  
Douglas County Board of Commissioners

~~ATTEST~~



Theodore Thran,  
Douglas County Clerk

BY:



Suzanne Sudech  
Clerk to the Board of Commissioners





**Explanation of Impact:** FY 15 revenue is expected to be approximately \$787,133 based on a collection start date of October 1, 2014. The annualized amount is approximately \$1,049,511.

**Funding Source:** One-eighth of one percent (0.125%) of the gross receipts of any retailer from the sale of all tangible personal property sold at retail, or stored, used or otherwise consumed in Carson City.

**Alternatives:** Amend resolution

**Supporting Material:** Resolution

Prepared By: Nick Providenti *Nick Providenti* Date: 8/12/14  
Reviewed By: *Nick Providenti* (Department Head) Date: 8/12/14  
*Nicholas Marano* (City Manager) Date: 8/12/14  
*[Signature]* (District Attorney) Date: 8/12/14  
*Nick Providenti* (Finance Director) Date: 8/12/14

**Board Action Taken:**

Motion: 2014-R-24 1) BB 5 Aye/Nay  
2) JM 0  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*[Signature]*  
(Vote Recorded By)

## Selected Nevada Revised Statutes (NRS) and Nevada Administrative Code (NAC)

### NRS 354.472 Purposes of Local Government Budget and Finance Act.

1. The purposes of NRS 354.470 to 354.626, inclusive, are:
  - (a) To establish standard methods and procedures for the preparation, presentation, adoption and administration of budgets of all local governments.
  - (b) To enable local governments to make financial plans for programs of both current and capital expenditures and to formulate fiscal policies to accomplish these programs.
  - (c) To provide for estimation and determination of revenues, expenditures and tax levies.
  - (d) To provide for the control of revenues, expenditures and expenses in order to promote prudence and efficiency in the expenditure of public money.
  - (e) To provide specific methods enabling the public, taxpayers and investors to be apprised of the financial preparations, plans, policies and administration of all local governments.
2. For the accomplishment of these purposes, the provisions of NRS 354.470 to 354.626, inclusive, must be broadly and liberally construed.

### NRS 354.517 "Enterprise fund" defined. "Enterprise fund" means a fund established to account for operations:

1. Which are financed and conducted in a manner similar to the operations of private business enterprises, where the intent of the governing body is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through charges to the users; or
  2. For which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.
- (Added to NRS by 1971, 200; A 1981, 1761)

### NRS 354.553 "Proprietary fund" defined. "Proprietary fund" means an internal service fund or enterprise fund.

(Added to NRS by 2001, 1793)

### NRS 354.570 "Special revenue fund" defined. "Special revenue fund" means a fund used to account for specific revenue sources, other than sources for major capital projects, which are restricted by law to expenditure for specified purposes.

(Added to NRS by 1965, 729; A 1971, 200; 1981, 1763; 2001, 1798)

### NRS 354.612 Establishment of one or more funds by resolution required; contents of resolution; accounting requirements; copy of resolution to be provided to Department of Taxation; proprietary funds; enterprise funds.

1. A local government shall establish by resolution one or more funds. The resolution establishing the fund must set forth in detail:
    - (a) The object or purpose of the fund;
    - (b) The resources to be used to establish the fund;
    - (c) The source or sources from which the fund will be replenished;
    - (d) The method for controlling expenses and establishing revenues of the fund; and
    - (e) The method by which a determination will be made as to whether the balance, reserve or retained earnings of the fund are reasonable and necessary to carry out the purpose of the fund.
  2. Financial statements and other schedules required for funds must be prepared in accordance with generally accepted accounting principles.
  3. Upon adoption of a resolution establishing a fund, a local government shall provide an executed copy of the resolution to the Department of Taxation.
  4. In establishing a proprietary fund, a local government shall, besides furnishing working capital for the fund, provide that one of its financial objectives is to recover the complete costs of operation of the activity being financed, including overhead, without producing any significant amount of profit in the long run.
  5. Each enterprise fund established must account for all charges properly related to the purpose of the enterprise fund, including, without limitation, debt service, capital outlay and operating expenses. Upon dissolution of the enterprise fund, no transfer of equity that may be made available to other funds or functions may be declared until after all proper obligations have been charged against the enterprise fund.
- (Added to NRS by 1965, 734; A 1971, 201; 1981, 1767; 1991, 390; 2001, 1810; 2005, 579)

Other statutes and regulations referenced may be found at <https://www.leg.state.nv.us/law1.cfm> or <https://www.leg.state.nv.us/NAC/>

The District has committed to these capital improvement projects through contractual arrangements:

	<u>Contract Award</u>	<u>Completed at June 30, 2015</u>	<u>Remaining Commitment</u>
Utility Fund			
Water main Replacement			
Q&D Construction, Inc.	\$596,560	\$267,848	\$328,712
Community Services Fund			
Creek Restoration			
Cardno, Inc.	\$227,000	\$197,773	\$ 29,227
Ski Resort Point of Sales System			
Active Network	\$313,449	\$132,400	\$181,049

**18. EXTRAORDINARY EXPENSE FOR UTILITY FUND**

In April 2014, a leak occurred in the District’s effluent pipeline that results in damage to an area highway. Leaks of this magnitude and consequence are not expected in the normal course of operations and thus the repairs costs have been reported as an extraordinary expense. In July 2014 the District incurred \$26,906 of repair costs to complete the paving of the State highway affected by the leak.

**19. SUBSEQUENT EVENT**

Effective July 1, 2015, with its new fiscal and budget year, the District began utilizing Special Revenue, Capital Projects and Debt Service governmental fund accounting for the Community Services Fund and the Beach Fund, which have to date been accounted for as enterprise funds. The District has changed its approach to the pricing of services and in particular recognizes that the use of the facility fee to provide resources for capital expenditure and debt service cannot be displayed in a readily understandable fashion for its constituents.

The Board of Trustees has approved a budget, which has been filed with the State of Nevada Department of Taxation, which reflects this change. The remaining action will be to have the Board of Trustees approve the transfer of the Net Position of the Community Services Fund and the Beach Fund upon conclusion of the audit process and the acceptance of that report. The budget document filed with the State estimated that amount to be \$5,294,138 for the Community Services Fund, and \$1,302,486, for the Beach Fund. The District presented a template for calculating the transfer amount to the Nevada Department of Taxation Committee on Local Government Finance and outlined its intended method to convert from accrual based accounting under an enterprise fund, to modified accrual accounting for the Special Revenue governmental funds, which would go forward. No Net Position is considered directly related to either the capital projects funds or debt service funds at July 1, 2015.

Based on the audit as of June 30, 2015 the Net Position of the Community Services Fund is \$44,762,511. The Net Position for the Beach Fund is \$5,701,288. These amounts are adequate to satisfy their role in supporting the budget for the fiscal year ending June 30, 2016. The amount of capital project carryover \$1,115,576 (See Note 17) was known and set as a part of the approval of the operating and capital budget.

As of October 28, 2015 the District agreed to a settlement of the suit, described in Note 12, that will result in collecting \$245,000.