The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at 4:00 p.m., on Wednesday, May 10, 2017 in the Chateau, 955 Fairway Boulevard, Incline Village, Nevada.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

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

Public Comment Advisory Statement – A public body has a legitimate interest in conducting orderly meetings. IVGID may adopt and enforce reasonable restrictions on public comment to ensure the orderly conduct of a public meeting and orderly behavior on the part of persons attending the meeting. Public comment, as required by the Nevada Open Meeting Law, is an opportunity for people to publicly speak to the assembled Board of Trustees. Generally, it can be on any topic, whether or not it is included on the meeting agenda. In other cases, it may be limited to the topic at hand before the Board of Trustees. Public comment cannot be limited by point of view. That is, the public has the right to make negative comments as well as positive ones. However, public comment can be limited in duration and place of presentation. While content generally cannot be a limitation, all parties are asked to be polite and respectful in their comments and refrain from personal attacks. Willful disruption of the meeting is not allowed. Equally important is the understanding that this is the time for the public to express their respective views, and is not necessarily a question and answer period. This generally is not a time where the Board of Trustees responds or directs Staff to respond. If the Chair feels there is a question that needs to be responded to, the Chair may direct the General Manager to coordinate any such response at a subsequent time. Finally, please remember that just because something is stated in public comment that does not make the statement accurate, valid, or even appropriate. The law mitigates toward allowing comments, thus even nonsensical and outrageous statements can be made. However, the Chairperson and/or General Counsel may cut off public comment deemed in their judgment to be slanderous, offensive, inflammatory and/or willfully disruptive. Counsel has advised the Staff and the Board of Trustees not to respond to even the most ridiculous statements. Their non-response should not be seen as acquiescence or agreement just professional behavior on their part. IVGID appreciates the public taking the time to make public comment and will do its best to keep the lines of communication open.

C. APPROVAL OF AGENDA (for possible action)

D. GENERAL BUSINESS ITEM (for possible action)

1. Review, discuss and possibly approve the reissuance of pages 31, 92, 93 and the addition of page 94 of the Comprehensive Annual Financial Report – Fiscal Year Ending June 30, 2016 (Requesting Staff Member: General Manager Steve Pinkerton) – pages 1 - 6
NOTICE OF MEETING

Agenda for the Board Meeting of May 10, 2017 - Page 2

2. Review and discuss current schedule and status for audit of the fiscal year ending June 30, 2017 with the District’s Director of Finance (Requesting Trustee: Audit Committee Chairman Phil Horan)

3. Policy 15.1.0 – Review, discuss and possibly set a plan for future actions (Requesting Trustee: Audit Committee Chairman Phil Horan) – pages 7 - 8

E. APPROVAL OF THE MEETING MINUTES OF DECEMBER 14, 2016 (for possible action) – pages 9 - 27

F. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration; see Public Comment Advisory Statement above.

G. ADJOURNMENT (for possible action)

CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Friday, May 5, 2017 at 9:00 a.m., a copy of this agenda (Audit Committee Session of May 10, 2017) was delivered to the post office addressed to the people who have requested to receive copies of IVGID’s agendas; copies were either faxed or e-mailed to those people who have requested; and a copy was posted at the following six locations within Incline Village/Crystal Bay in accordance with NRS 241.020:

1. IVGID Anne Vorderbruggen Building (Administrative Offices)
2. Incline Village Post Office
3. Crystal Bay Post Office
4. Raley’s Shopping Center
5. Incline Village Branch of Washoe County Library
6. IVGID’s Recreation Center

/s/ Susan A. Herron, CMC
Clerk to the Board of Trustees (e-mail: sah@ivgid.org/phone # 775-832-1207)

Audit Committee Members: Phil Horan, Chairman, Peter Morris, Kendra Wong

Notes: Items on the agenda may be taken out of order; combined with other items; removed from the agenda; moved to the agenda of another meeting; moved to or from the Consent Calendar section; or may be voted on in a block. Items with a specific time designation will not be heard prior to the stated time, but may be heard later. Those items followed by an asterisk (*) are items on the agenda upon which the Board of Trustees will take no action. Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to call IVGID at 832-1100 at least 24 hours prior to the meeting. Copies of the packets containing background information on agenda items are available for public inspection at the Incline Village Library.

IVGID’S agenda packets are now available at IVGID's web site, www.yourtahoeplace.com; go to “Board Meetings and Agendas”. A hard copy of the complete agenda packet is also available at IVGID’s Administrative Offices located at 893 Southwood Boulevard, Incline Village, Nevada, 89451.
MEMORANDUM

TO: Audit Committee: Trustees Phil Horan (Chairman), Peter Morris, and Kendra Wong

FROM: Gerald W. Eick CPA CGMA
       Director of Finance

SUBJECT: Review, discuss, and possibly accept a reissued June 30, 2016 Comprehensive Annual Financial Report including a Matter of Emphasis paragraph for a change in the classification of the fund balance in the Internal Services Statement of Net Position

DATE: May 3, 2017

I. RECOMMENDATION

That the District’s Audit Committee makes a motion to accept the reissued June 30, 2016 unmodified audit report, including a new Matter of Emphasis paragraph for a change in the classification of Fund Balance in the fund level financial Statement of Net Position for the Internal Services Fund, and direct Staff to file the reissued Comprehensive Annual Financial Report (CAFR) with the State of Nevada and make it generally available for public use.

Assuming the above motion is passed, this will be an item for consideration at the regular Board of Trustees meeting; Audit Committee Chairman Horan will be the lead on that item.

II. BACKGROUND

The District’s auditor, Eide Bailly LLP, completed their audit of the District’s 2015-2016 financial report and issued an unmodified report dated November 30, 2016. An unmodified report (clean opinion) is the highest level of assurance of an audit report that can be issued. It states that the financial statements are fairly presented in conformity with generally accepted accounting principles. For the year ending June 30, 2016, that report included a reference to the Change in Accounting Principle and that no modification is made to their report.

On March 30, 2017, members of the public brought to the District’s attention the possibility of a misstated classification of the fund balance for the Internal Services Fund that involved overstating the Net investment in capital assets and understating the unrestricted fund balance. Staff immediately took this possibility as a serious matter and once it was verified as accurate, Staff immediately notified the Nevada Department of Taxation and Eide Bailly, LLP; it is regrettable that this misstatement occurred and it should be noted that the total fund balance is unchanged.
Eide Bailly, LLP determined that, under their professional responsibility, they needed to reissue their report to allow disclosure through Note 21 to the Financial Statement that the amounts were changed, and to reissue their Report on Internal Control and add a Schedule of Findings and Responses; the Audit Committee Chairman, Director of Finance, and District General Manager wholeheartedly agreed. This is accomplished through (1) their Matters of Emphasis paragraph in their report along with a dual date; (2) the District adding Note 21; (3) making the requisite changes to the amounts presented on the Internal Services Fund Statement of Net Position; (4) making changes to the Report on Internal Control; and (5) adding a Schedule of Findings and Responses. In the District-wide Statement of Position, the numbers presented were those as shown under Reissued below thus no change is required to that document. Eide Bailly, LLP has reissued their report to include a reissuance date of May 3, 2017 for Note 21 only and once adopted by the District’s Board of Trustees, the reissued report will be provided to the State of Nevada who is in aware of and in concurrence with this process, and requests a Letter of Corrective Action.

As an executive summary, and for full transparency to the public, following is the change that is being made on page 31:

Comparison of the Fund Balance Section of the Internal Services Fund

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>Reissued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>$408,598</td>
<td>$84,956</td>
</tr>
<tr>
<td>Restricted by Third Party Agreement</td>
<td>$101,752</td>
<td>$101,572</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$920,955</td>
<td>$1,244,597</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$1,431,305</td>
<td>$1,431,305</td>
</tr>
</tbody>
</table>

Attached is page 94 which is a new page to the report and current page 94 now becomes page 95.

III. COMMENT

The District would like to thank the members of the public who brought this to its attention. The District has taken corrective action to make sure that an error such as this doesn’t occur again in the future however the process of assembling the CAFR involves thousands of data points and while unfortunate, the misstatement was only in classification and has not affected any decision to date. The Director of Finance apologies that this misstatement occurred.
INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

<table>
<thead>
<tr>
<th>Assets</th>
<th>Business - type</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Enterprise Fund</td>
<td>Internal Service Funds</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$78,920</td>
<td>$450,501</td>
</tr>
<tr>
<td>Investments</td>
<td>7,827,467</td>
<td>11</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,268,403</td>
<td>4,135</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>20,349</td>
<td>5,479</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>330,052</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>166,966</td>
<td>58,485</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>177,109</td>
<td>15,786</td>
</tr>
<tr>
<td>Total current assets</td>
<td>9,869,266</td>
<td>534,397</td>
</tr>
</tbody>
</table>

| Noncurrent assets:          |                 |                         |
| Investments - long-term     | 3,624,333       | 1,107,122               |
| Restricted for debt service | 215,126         |                         |
| Restricted for TRPA Deposits| 11,082          |                         |
| Restricted State of Nevada  |                 | 101,752                 |
| Work Comp Deposit           |                 |                         |
| Total assets                | 3,850,541       | 1,208,874               |

| Capital Assets              |                 |                         |
| Land                        | 6,530,358       |                         |
| Construction in progress    | 3,177,580       |                         |
| Buildings and structures    | 11,028,062      |                         |
| Improvements and infrastructure | 103,389,486   |                         |
| Equipment and vehicles      | 3,233,384       | 246,777                 |
| Total capital assets        | 127,358,870     | 246,777                 |
| Less: accumulated depreciation | (63,288,260) | (161,821)               |
| Total capital assets (net)  | 64,070,610      | 84,956                  |
| Total noncurrent assets     | 67,921,151      | 1,293,380               |
| Total assets                | 77,790,417      | 1,828,227               |

| Liabilities                 |                 |                         |
| Current liabilities:        |                 |                         |
| Accounts payable            | 424,396         | 160,510                 |
| Accrued personnel costs     | 356,139         | 236,412                 |
| Accrued interest payable    | 82,120          |                         |
| Unearned revenue            | 603,668         |                         |
| Refundable deposits         | 1,000           |                         |
| Current maturities of long-term debt | 482,230 |           |
| Total current liabilities   | 1,949,553       | 396,922                 |
| Non-current liabilities:    |                 |                         |
| Non-current long term debt  | 5,614,366       |                         |
| Total liabilities           | 7,563,919       | 396,922                 |

| Net Position                |                 |                         |
| Net investment in capital assets | 57,974,014 | 408,598 |
| Restricted by Third Party Agreement | 226,208 | 101,752 |
| Unrestricted                | 12,026,276      | 920,955                 |
| Total net position          | $70,226,498     | $1,431,305              |

The notes to the financial statements are an integral part of this statement.
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Incline Village General Improvement District
Incline Village, Nevada

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Incline Village General Improvement District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2016-A to be a material weakness.
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Reno, Nevada
November 30, 2016
2016-A Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles Material Weakness

Criteria: Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reporting components of net position is a key component of an effective system of internal control over financial reporting.

Condition: Subsequent to the issuance of the June 30, 2016 financial statements, an error was discovered in the classification of net position for the Internal Services Fund in the Proprietary Funds Statement of Net Position.

Cause: An independent review of the financial statements, separate from the individual preparing them, is not performed.

Effect: The financial statements had to be restated to reclassify $323,642 of net position from net investment in capital assets to unrestricted.

Recommendation: We recommend Incline Village General Improvement District implement an additional level of review of the financial statements.

Views of Responsible Officials: Management agrees with this finding.
Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its residents. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results. As required by Nevada Revised Statute 354.624, each local government shall provide for an annual independent audit of all of its financial statements.

POLICY: Each year, the Board of Trustees may establish the need for an Audit Committee and appoint no less than three members to such committee. Members of the Audit Committee should be current Board members. As a general rule no one having managerial responsibilities that fall within the scope of the audit should serve as a member.

1.0 Independent accountants report directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication will include periodic executive sessions with each of these parties.

2.0 Scope of Audit Committee's authority and responsibilities

The Audit Committee at a minimum shall have the following authority and responsibilities:

1. To select, evaluate and, if necessary, replace the District's independent auditor, and to approve all audit engagement fees and terms.

2. To review, with management and the auditors, the District's annual audit planning, budgeting and staffing decisions.

3. To review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.

Adopted January 14, 2009
Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0

4. To review procedures for the confidential, anonymous submission by the District’s employees of concerns regarding questionable accounting or auditing matters, or suspected fraud, that can not be handled by other appropriate levels of management.

5. The Audit Committee should meet at least four times per year, and at additional times when necessary. These meetings may be combined with regularly scheduled meetings, or may be held more frequently as circumstances may require. The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.

6. To prepare and submit to the District’s Board of Trustees an annual Audit Committee report in conjunction with the acceptance of the annual audit.

7. To review and reassess, at least annually, the adequacy of the audit committee responsibilities and recommend any proposed changes to the Board of Directors for approval.

8. To appoint a Chair for the Audit Committee who will act as the primary contact with the independent auditor.

3.0 Structure of Audit Committee

Members of the Audit Committee should be current Board members and ideally, all members of the Audit Committee should possess or obtain a basic understanding of governmental financial reporting and auditing. The Audit Committee meets at least four times a year. Additional meetings may occur as the Audit Committee deems advisable. The Audit Committee will keep adequate minutes of its meetings and will report on its actions and activities at the next regular meeting of the District’s Board of Trustees. Audit Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Audit Committee is governed by the same open meeting laws NRS 241 as long as three current District Board members are on the Audit Committee and in attendance at the Audit Committee meetings.

Adopted January 14, 2009
MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 14, 2016
Incline Village General Improvement District

The Audit Committee meeting of the Board of Trustees of the Incline Village General Improvement District was called to order by Chairman Phil Horan on Wednesday, December 14, 2016 at 4:00 p.m. at the Chateau located at 955 Fairway Boulevard, Incline Village, Nevada.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS

On roll call, present were Trustees Jim Hammerel, Kendra Wong, and Phil Horan. Also present were District Staff Members Director of Finance Gerry Eick and General Manager Steve Pinkerton. The members of the public present were Dan Carter, Pete Todoroff, Paul Reynolds, Aaron Katz, Judith Miller, and Gene Brockman. (15 individuals in attendance which includes Trustees, Staff and members of the public.)

B. PUBLIC COMMENTS

Aaron Katz said that he formally objects to Trustee Hammerel participating as he is no longer qualified and has left his former residence and that the statutes are clear; he will have a written statement at the regular meeting. Mr. Katz continued that he has an objection to the CAFR. Back before the District switched to special revenue funds, the District’s financials were so much more clear and that with this change the exact opposite has taken place. The proposed CAFR is so convoluted and one used to be able to follow it and now it is very, very difficult to follow. The statement of revenue and expenses for each of our recreational venues and whether they are making or losing money doesn’t exist at all. Another objection is to the separate statement of major funds which is hidden within another fund. Using the Ski fund, which is eight or nine times the amount of the Beach fund, as an example, we separately state the Beach fund and not the Ski fund. Mr. Katz concluded by urging the committee to not recommend this report for approval and that it is his belief that the auditors have the duty to follow up on any information that comes forth and that no effort, by the auditors, has been made to do that especially if this committee is approving the contract. Go out to bid and get others and be sure and designate the type of audit that will be required.

C. APPROVAL OF AGENDA (for possible action)

Chairman Horan asked for any changes, receiving none, he approved the agenda as submitted.
D. **GENERAL BUSINESS** *(for possible action)*

D.1. Review, discuss and possibly accept the presentation of and the acceptance of June 30, 2016 Comprehensive Annual Financial Report including an Unmodified Report by the District’s Auditor including the Change in Accounting Principle *(Requesting Staff Member: Director of Finance Gerry Eick)*

Chairman Horan read the following:

*Our first agenda item today is acceptance of the 2016 audit report from Eide Bailly. The Board Packet that has been provided contains the 2015-2016 IVGID financial statements dated June 30, 2016 to be provided to the State along with the opinion letter from Eide Bailly. Just to be perfectly clear, the discussion today is not a review of the financial performance of the District for the year ending June 30, 2016. It is about the acceptance of the Eide Bailly report that the information presented complies with the reporting standards established by the State of Nevada both in content and form. IVGID is required to file reports three times each fiscal year with the State. 1) The annual budget which is filed in May, 2) The indebtedness report filed in July, and 3) the Audit report filed in December. In addition to these three reports, IVGID is also required to file a supplementary budget if the original budget is not sufficient to meet expenditures in a particular area. This does not mean that these are the only times we are in contact with the State. There is a regular dialogue during the year by Staff and I also have conversations with them and have visited their offices for conversations. During the past year, we have received inquiries from the public questioning the District’s financial reporting. These questions have centered on the following topics:*

- Information provided to the State is different than that provided to the public on our website
- Have we complied with GASB Statements # 33, 34 and 54
- Applicability of Special Revenue Fund Accounting for Community Services and the Beach Funds
- Treatment of Exchange versus Non Exchange transactions and the definition of substantial portion of revenues
- The accounting for punch card transactions
- Definition of terms used in the glossary on the web site.
The build up to our current practices has evolved over time and included feedback from audit firms, their audit partners and their technical review departments. Our reports have gone to the State Local Government Finance Committee and the Department of Taxation at several levels. Our practices are in compliance with the States’ Guidance letter on Special Revenue and Exchange Funds issued October 27, 2015. This is validated by the unmodified opinion letter in the Board Packet. We believe that the reporting format contained on our website gives detailed information regarding funds received and how these funds are expended. Our format is much more understandable than how we are required to report to the State and we understand that this can be confusing. The fact is, however, that it is comparable data and can be reconciled. Before Director Eick begins his presentation, I would like to ask General Manager Pinkerton whether we have had contact with members of the community regarding the questions mentioned earlier.

General Manager Pinkerton said yes that Staff has had contact with members of the public and Staff has met with them on a number of occasions.

Chairman Horan asked if this was placed on the District’s website with a guide to understanding. Director of Finance Eick said that part of the distribution was to make it accessible to everyone.

Chairman Horan said that the important part is that we can clearly demonstrate the data is the same and that the goal of the exercise is to demonstrate that, the same numbers, and that the challenge will be when we put this on our website that it is easy for the general public to understand and that the numbers do match up; that is the challenge. Director of Finance Eick said that he accepts the challenge and that Staff has posted the June financial statement and posted the Audit numbers and that one can see that they do match up and that the same thing is happening with the posting of the trial balance on.opengov.com. The challenge is that it is all the same financial information however it depends upon who is describing the standards. Trustee Hammerel asked if the statement of activities and reconciliation was included in the 2015 CAFR. Director of Finance Eick responded yes and said that the degree of reconciliation has been expanded. Trustee Hammerel said so after hearing the questions from the public, do you think this will clarify things a bit more and were you able to pinpoint the confusion. Director of Finance Eick said that the confusion is largely with the State form as the prescribed items
aren't very friendly which causes confusion. Why can't it be the same; it is because the standards aren't the same. He is happy to have gone to this because now we can talk to the full scope of the District. The State forms are very aggregated and are not designed to give a lot of detail and they are designed for them and looking for one total number. That is what we are up against.

Trustee Wong said that when people ask her about this that she explains it to the layperson as it is your checking accounts versus your taxes; reporting is different and to most people that makes sense. It might be useful to have a short explanation/definition to put that out on our website with a link. Director of Finance Eick said that is a good suggestion and that he will make it a part of the cover sheet. When he was asked about the punch card accounting, Staff added a segment/footnote #17 and that the column on the left charges for services and budget comparisons and the section on the right is informational and not an exact accounting. Something else is note #20 which is the change in accounting principle and it provides the background and purposes and reconciles some of the items/adjustments. There are nominal differences but that things were very close with the conversions of the funds and all of this is intended to help people understand.

General Manager Pinkerton said that one more improvement is that with Community Services and the Beach funds going into special revenue accounts, the public now sees more detail and a much more detailed breakdown than in the past. Director of Finance Eick added that this comes from reporting on functions i.e. golf, ski, etc. It is does tend to emphasize expenditures and that there was never anything close to that in the previous audit reports.

Director of Finance Eick then introduced Dan Carter of Eide Bailly.

Chairman Horan asked Mr. Carter if he considered the questions submitted by the public; Mr. Carter responded yes. Mr. Carter said that the District has an unmodified opinion which is the highest level of assurance and then went over the parts where they were responsible and said that the District received a clean audit and it was a good year.

Trustee Wong noticed two items that weren't included as adjustments; have you found any adjustments that needed to be made. Mr. Carter replied no.
Mr. Carter said that IVGID implemented GASB 72 which was a major change to classification on the investments and while not significant it was a change from prior years.

Trustee Hammerel asked what the ramifications to that change/modification were. Mr. Carter referred to page 43, note 2 and then the top of page 44 as well as page 43 and that it is just a classification change as to the levels and that the definitions are included.

Trustee Horan said that he recognizes that we are talking about the audit report and for verification and that we are in compliance with the State requirements. The discussions we have just had and the statements made by Mr. Carter ensures that we have addressed and taken up some of the issues brought up by our community; we have answered those but we still have a challenge to reconcile the State form to what we do every day. From a compliance standpoint, he is ready to accept this report.

Trustee Hammerel said that Mr. Carter mentioned a peer review - is it an annual event or have you had a recent one. Mr. Carter said that it is a great question and that the peer review is done every three years. The work done during 2016 will be reviewed by an independent CPA across the firm and issued an opinion. Trustee Hammerel followed up by asking if we will have that for next year. Mr. Carter said it will be available on their website and that the most recent one is 2013 which is available upon request.

Trustee Hammerel made a motion to accept the June 30, 2016 unmodified audit report, including the Change in Accounting Principle, and direct Staff to file the Comprehensive Annual Financial Report (CAFR) with the State of Nevada and make it generally available for public use. Trustee Wong seconded the motion.

Chairman Horan said it is important to note that the District is in compliance and that we understand that there will be disagreements with people and that is just a fact however the fact is that the District is in compliance.

Chairman Horan called the question and the motion was unanimously passed.
D.2. Review, discuss and possibly select Eide Bailly, LLP as the District’s Audit Firm for Audit Services for Fiscal Year Ending June 30, 2017; Cost would be $54,000 (Requesting Staff Member: Director of Finance Gerry Eick)

Director of Finance Eick gave an overview and stated that we are doing this now as requested by the Board; it is appropriate to appoint now.

Trustee Wong said, regarding the fee schedule, that Eide Bailly has been receiving a lot of requests and asked how that impacts the District. Mr. Carter said that Eide Bailly does have a clause in their most recent proposal and that these requests do time the firm’s time thus he has provided District Staff with one bill in the amount of approximately $4,700 for time spent to respond to these communications. Trustee Hammerel said that we need to remember to communicate this with the rest of the Board at the next meeting. Trustee Hammerel then asked for a reminder on when the contract was approved; was it last year and was it a five year contract. Director of Finance Eick said yes that it is all correct.

Chairman Horn said that he supports renewing Eide Bailly as they are well regarded and have a lot of experience with government audit. They have a history with the District so he very much supports renewal.

Trustee Hammerel made a motion to designate Eide Bailly, LLP as the District’s audit firm for the fiscal year ending June 30, 2017, under their multiyear contract. Trustee Wong seconded the motion. Chairman Horan, hearing no further comments, called the question - the motion passed unanimously.

E. APPROVAL OF THE MEETING MINUTES OF MARCH 30, 2016 (for possible action)

Chairman Horan asked for changes, hearing none, approved the Audit Committee Meeting Minutes of March 30, 2016 as submitted.

F. PUBLIC COMMENTS*

Frank Wright said this is unbelievable and that he can’t believe that the District’s Attorney sat there quietly while all of this was going down and that as the District’s legal beagle you are allowing this crap. Trustee Wong made no reference nor asked the question as to whether Trustee Hammerel should even be sitting there. We have been speculating as to how ridiculous it would be to
have this guy [Trustee Hammerel] participate when he lives in Wyoming. The District Attorney and others are all watching. The Washoe County Commissioner is absolutely appalled that you [Trustee Hammerel] is sitting here when you are not a resident. You are all making policy and unless you know something that he doesn’t know or you are participating in this as co-conspirators, you have just allowed someone who doesn’t meet the qualifications to vote when they have no interest. Trustee Wong participated and acknowledged/okayed it and went along with it. He thinks that you are all absolutely crazy. The District’s legal beagle has had conversations with the District Attorney and he [Trustee Hammerel] was warned not to show up so he can’t believe he is here. You are going to compound it by doing the same thing at the next meeting. He can’t believe that we have this must of an inept Board and that he [Trustee Hammerel] is disengaged now which doesn’t seem to bother any of you; where is your conscious and your ethics. You are crazy, arrogant, think you are above the law - you have got to be kidding him. Don’t smile Trustee Hammerel as they are coming to get you.

Aaron Katz said that he wanted to comment on two items that came up in the presentation and do so for the benefit of the community. General Manager Pinkerton must think we are stupid as we keep hearing the garbage about transparency then he misstates the history of IVGID. It was intentional and he hopes that the people in this community take a look at the packet especially page 41 and look at all the transparency and the information never given before. As to the revenue and expenses by recreational venues, let’s look at expenses as the numbers are there but what is the breakdown, where do they come - you are out of your mind as some of us know the trust. Footnote 17 is what Staff concocted on the transfer went and was authorized. It was brought to the attention of the auditor and until the change, they were enterprise funds, see NRS Chapter 354. The District can’t make this transfer as it is unlawful unless it meets the requirements. Three years before there was an authorized transfer that was not approved by the Board and the auditor hasn’t called it out which is irresponsible and it will be investigated and pursued thus he is asking this committee to rescind its actions.

G.  **ADJOURNMENT (for possible action)**

The meeting was adjourned at 4:48 p.m.

Respectfully submitted,

Susan A. Herron, CMC
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.


November 30, 2016

To the Audit Committee
Incline Village General Improvement District
Incline Village, Nevada

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Incline Village General Improvement District (the District) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 31, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. Accordingly, the notes to the financial statements have been updated to categorize the District’s investments using the fair value measurements based on the hierarchy established by generally accepted accounting principles and the related valuation methods have been disclosed. No other new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting the District’s financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No material misstatements were detected as a result of our audit procedures. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statement taken as a whole.

In addition, the following summarizes uncorrected misstatements of the financial statements, for which management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

<table>
<thead>
<tr>
<th>Misstatement</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understatement of services and supplies and accounts payable</td>
<td>$5,621</td>
</tr>
<tr>
<td>Overstatement of prepaid expenses and understatement of accounts payable</td>
<td>$11,488</td>
</tr>
</tbody>
</table>

The effect of these uncorrected misstatement is an overstatement of net income of $5,621, and an overstatement of net position of $5,621, as of and for the year ended June 30, 2016.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 30, 2016.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.
Other Matters

We applied certain limited procedures to management’s discussion and analysis (MD&A) and the schedule of employer required contributions, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund statements and schedules including budgetary comparisons, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use
This information is intended solely for the use of Audit Committee, Board of Trustees and management of Incline Village General Improvement District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

[Signature]

Reno, Nevada
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. 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. 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.

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. 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. 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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1See 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.
2 ¶75, GASB Statement No. 34 (June 1999), p. 28.
3 ¶76, GASB Statement No. 34 (June, 1999), p. 28.
4 ¶77, GASU Statement No. 33 (December, 1998), p. 3.
5 ¶15, GASB Statement No. 34 (June, 1999), p. 9.
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.)

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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6 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.063.7

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

7 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. 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.

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:

\[
\text{Substantial portion of inflows} = \text{(restricted revenues + committed revenues)}
\]

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8 ¶34, GASB Statement No. 34 (June 1999), p. 16. See also ¶8, GASB Statement No. 8 (February 2009), p. 4.
9 ¶10, GASB Statement No. 10 (February 2009), p. 5.
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.\textsuperscript{10}

"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.\textsuperscript{11}

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.


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\(^\text{12}\), 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*

\(^{12}\) ¶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.