

MEMORANDUM

TO: Board of Trustees

THROUGH: Phil Horan
Audit Committee Chairman

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 Board of Trustees, with concurrence by 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.

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.

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

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May 1, 2017

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

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

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**

	Business - type Activities Enterprise Utility Fund	Governmental Activities Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,920	\$ 450,501
Investments	7,827,467	11
Accounts receivable	1,268,403	4,135
Interest receivable	20,349	5,479
Grants receivable	330,052	-
Inventories	166,966	58,485
Prepaid expenses	177,109	15,786
Total current assets	9,869,266	534,397
Noncurrent assets:		
Investments - long term	3,624,333	1,107,122
Restricted for debt service reserve	215,126	-
Restricted for TRPA Deposits	11,082	-
Restricted State of Nevada Work Comp Deposit	-	101,752
	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	1,293,830
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	5,614,366	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

where change will be made

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.

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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

**Incline Village General Improvement District
Schedule of Findings and Responses
For the Year Ended June 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