

**DRAFT**  
**Minutes of the Meeting**  
**COMMITTEE ON LOCAL GOVERNMENT FINANCE**  
**SUBCOMMITTEE ON ENTERPRISE AND SPECIAL REVENUE FUND GUIDANCE**  
**April 24, 2015**  
**1:30 p.m.**

The meeting was held at Reno City Hall located at 1 East First Street, 7<sup>th</sup> Floor, Reno, Nevada. This meeting was also part of a teleconference.

**COMMITTEE MEMBERS PRESENT:**

Beth Kohn-Cole, Chairman  
Alan Kalt  
John Sherman

**COUNSEL TO COMMITTEE**

Dawn Buoncristiani

**DEPT OF TAXATION STAFF PRESENT:**

Terry Rubald  
Kelly Langley  
Janie Ware

**MEMBERS OF THE PUBLIC PRESENT:**

Name	Representing
Dan Krueger	
Dave Empey	City of Mesquite
Aaron Katz	Incline Village Resident
Frank Wright	Incline Village
Gerald Eick	IVGID
Jason Guinasso	IVGID / Reese Kintz, LLC
Steve Boline	Nevada Rural Hospital Partners
Chris Mulkerns	Town of Tonopah
Mark Mathers	Washoe County

**1. Roll Call and Opening Remarks**

Chairman Beth Kohn-Cole called the meeting to order at 1:40 p.m. Jane Ware, Administrative Assistant, Department of Taxation (Department), took roll call. All Subcommittee members were present, and there was a quorum. Chairman Kohn-Cole asked if there were any other members of the Committee on Local Government Finance (CLGF) on the teleconference, and there were not.

**2. Public Comment**

Chairman Kohn-Cole asked if there was any public comment.

Aaron Katz, resident of Incline Village, stated he was here because there is a problem in his community with financial reporting. On February 6<sup>th</sup>, Mr. Eick, Director of Finance, Incline Village General Improvement District (IVGID), made a presentation to the CLGF. Mr. Katz was supposed to be noticed so he would have an opportunity to speak. Through inadvertence, he did not get the notice and was unable to speak. He is here because he is interested in the enterprise fund and the special revenue fund distinction. He has public comment to make and a written statement to produce. In his opinion, Mr. Eick's representations to the CLGF were false. He stated that the reason for making the wholesale change of the accounting funds was to create greater financial transparency. Mr. Eick stated that the constituents would welcome these changes. Mr. Katz stated there is no added transparency. It is the exact opposite, and he is very much against a change like this. He had to wait for a copy of what the fund structure was going to look like under this new plan. Mr. Eick presented it IVGID Board for the first time several weeks ago. Mr. Eick used horizontal orientation of the paper instead of vertical. He changed the name of the Community Services Fund to the Special Revenue Fund. He took columns that were horizontal for capital expenditures and debt service and turned them into columns instead.

Mr. Eick then added in a breakdown of capital projects by recreational venue. They already have a far greater disclosure of what those are in their current budget, which is included in his written statement. That is it. There is no added transparency. Furthermore, this now opens the door for making improper transfers from an enterprise fund to the general fund. Mr. Katz has complained about IVGID doing this for quite a period of time. It is his understanding that if this fund structure changes to special revenue, there will no longer be a restriction under NRS 354.613 for making transfers out of the enterprise fund. His other concern is that when reporting an enterprise fund it shows cash flows. If it is a special revenue fund, you do not have to show cash flows. Cash flows are important to Incline Village residents. Although Incline Village is a political subdivision, it is really a series of commercial businesses. These business enterprises are losing over \$8 million a year. That \$8 million is involuntarily subsidized by what Mr. Katz considers an invalid tax and what the IVGID calls AP. People want to know if these venues are making money, losing money, how much and what they are spending the money on. They cannot get a clear picture venue by venue so they can go to their governing board to say they should not be in this business. It was his hope it would improve with the new accounting fund structure, but it is now evident that it did not. Mr. Katz objects to any approval that Mr. Eick received for making this change.

### **3. For Possible Action: Discussion and Consideration of Proposed Guidance Letter regarding the nature and use of special revenue funds and enterprise funds**

Terry Rubald, Deputy Executive Director, Department of Taxation, stated she asked this Subcommittee to convene today to provide a technical review of a proposed guidance letter from the Department on the subject of special revenue funds and enterprise funds. The purpose of providing guidance on this subject is to let local governments know what the requirements are for creating each kind of fund. GASB Statement No. 54 provides the standards for fund balance reporting. We have received questions about whether those fund balance classifications were necessary for budgeting purposes. With changes in NRS 354.613 governing enterprise funds, we felt it was time to provide general guidance on the use of those two types of classifications. We feel the authority for providing guidance on this can be found in the overview of the Local Government Budget and Finance Act, which has several clauses. One of them is to provide for the oversight of revenues, expenditures and expenses. Also, NRS 354.612 Subparagraph 2 states that fund financial statements and other schedules must be prepared in accordance with generally accepted accounting principles. It seems important to recognize that the general Accounting Standards Board would be recognized specifically as a generally accepted accounting principle. So that is why you see the specific statement in the draft under the application section. It says that all of the GASB Statements are recognized, but specifically No. 34 and No. 54 as they relate to enterprise and special revenue funds.

On Page 2 of the draft, we are trying to distinguish between the special revenue fund as a type of governmental fund as opposed to an enterprise fund which is a proprietary-type fund. There is also a paragraph on the difference between a major and non-major fund. The next section is devoted to the discussion of an enterprise fund and the definition of an enterprise fund. It is especially important to point out the GASB Statement No. 34 states that an enterprise fund must be used whenever the conditions in Paragraphs (a), (b) or (c) exist. Paragraph (a) states the activity is financed with debt solely secured by a pledge of the net revenues from fees and charges of the activity. Paragraph (b) states there are laws and regulations require that the cost of providing services must be recovered with fees and charges. Paragraph (c) states that pricing policies of the activity establish fees and charges.

The next section is special revenue funds about how GASB Statement No. 54 establishes five new classifications of fund balance. We are specifically referencing Paragraphs 30 and 31. There is also a short discussion of what the terms restricted and committed mean pertaining to the types of funds. In bold print on Page 4, we note specifically that the change in classifications of fund balances do not affect budgeted. This is why the budget forms that are prepared by the Department have not changed. Further down on Page 4, you

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will see that GASB Statement No. 54 states that the restricted or committed proceeds should be expected to continue to comprise a substantial portion. Regarding what is substantial, Ms. Rubald stated she tried to do a survey of literature. One source said the Government Finance Officer's Association (GFOA) says 20%. There was a ratio formula that she borrowed. On Page 5, there is a generic example trying to compare what is in our statutes with what is in our GASB statements to see how the two fit together. Ms. Rubald asked for feedback.

There was a two minute recess for IVGID's Council, Jason Guinasso, to speak with the Department's Counsel, Dawn Buoncristiani, for clarification before discussion ensued. Dawn Buoncristiani firmly stated she could not give legal advice. Mr. Guinasso stated the recess was not for legal advice. Chairman Kohn-Cole firmly stated that it could only be for two minutes.

Chairman Kohn-Cole stated that she believes there is no conflict of interest in connection with this guidance letter because it solely relates to GASB and has nothing to do with any services she provides. At every Committee on Local Government Finance (CLGF) meeting she disclosed that she works with a number of union representatives. She works with Devon Reese as part of a team during arbitrations with various local governments. He has nothing to do with her firm, and it is totally unrelated. She does not receive any revenue from Mr. Reese. She is hired as an expert witness through the union – not through Mr. Reese. Chairman Kohn-Cole does not perceive any conflict, especially in connection with this guidance letter.

Gerald Eick, on behalf of IVGID, stated that he does not see any conflict, as well.

Member Kalt clarified that Beth Kohn-Cole was appointed by the Nevada State Board of Accountancy to be the technical advisor that serves on the CLGF to represent the C.P.A. profession. Chairman Kohn-Cole stated this was correct. Since we are here to discuss technical guidance, Member Kalt stated Chairman Kohn-Cole was fulfilling her goal by the appointment of the Nevada State Board of Accountancy, and he did not see a conflict. He believes her input is valuable.

Member Sherman stated the matter before us is broadly applicable and not designed to benefit or harm any entity or person. It is designed for local governments that may have questions regarding classifications of fund types.

Terry Rubald stated that this guidance letter was written by the Department's initiative. CLGF did not necessarily request it, although it was discussed at the last CLGF meeting. This guidance letter has no force and effect of law. It is simply a guidance letter. It is not rulemaking, and it is not statutory. It is simply to provide with a synopsis of what GASB Statement No. 34 and GASB Statement No. 54 say with regard to enterprise funds and special revenue funds. There is not very much independent thinking in this with the exception of the fact that the Department finds that GASB Statements, including but not limited to, Statement No. 34 and Statement No. 54, are appropriate standards for the preparation of financial statements of all funds and comply with the requirements of NRS 354.612 as a generally accepted accounting principle. We at the Department wanted to get on the record that GASB Statements are generally accepted because they are not specifically recognized in our statutes or regulations. We are interpreting that GASB Statements fulfill the requirements to follow generally accepted accounting principles. That is the only part that is an opinion of the Department. The rest is summarizing and quoting. The second thing that is not a summary or a quote is the fact that we at the Department determined that the fund balance classifications mentioned in GASB Statement No. 54 are not required in our government budgets, and therefore, our forms do not require those subclassifications.

Member Sherman stated because the guidance letter is distinguishing between special revenue funds and enterprise funds, this may need to be expanded. The Government Improvement District (GID) is used as an example for an enterprise fund, but we may need to add an example of a special revenue fund. We need to

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specifically recognize that just because an entity is a GID, does not necessarily mean there is a requirement to report as an enterprise fund. There may be different fund types in a GID.

Chairman Beth Kohn-Cole suggested examples for different types of entities.

Member Sherman suggested examples for restricted funds. Member Sherman would like some more discussion on substantial portion which is talked about on Page 4.

Member Kalt stated he brought a spreadsheet from his entity. It is a math calculation. They looked back at three fiscal years and identified the revenue resources that by definition are restricted, committed, assigned or unassigned. The 20% rule guidance came from GFOA. That became the standard that everyone used. Member Kalt further explained his accounting practices.

Chairman Kohn-Cole suggested having a sample of that worksheet in the guidance letter. Member Sherman agreed.

Member Kalt stated that everyone should have implemented GASB Statement No. 54 long ago. He stated they had to prove to their auditors that it meets the technical definitions under GASB Statement No. 54. One of the concerns that Chairman Kohn-Cole brought up at the CLGF meeting was the feeling that there may not be proper due diligence or classification between restricted, committed, assigned and unassigned, at some level. Perhaps a workshop or a training session could be recommended to the Association of Governmental Accountants (AGA). There may be some confusion.

Member Sherman stated the classification of fund balance is a broader scope. We may need to have a discussion at the full Committee about the administrative code which has not been updated for over a decade. This is a significant challenge. If the full Committee would like this Subcommittee to do that, we should pick a couple of areas. GASB Statement No. 54 might be one of those areas. We may need to look at it in the context of statute and administrative code. One way to be sure the practitioners in the field are educated and have an understanding of this is to make sure the statutes and administrative codes are in better alignment with Governmental Accounting Standards.

Chairman Kohn-Cole stated this was a good idea. She stated that the summary should indicate that this does not change any existing accounting principles, and that it is just providing guidance.

Member Sherman stated that regarding statutory references on Page 2, it was helpful to have them footnoted. In the second paragraph on Page 2 where it talks about non-exchange revenues, we may want to give an explanation.

Terry Rubald stated she would incorporate some definitions.

Chairman Kohn-Cole asked for public comment.

Gerald Eick, Director of Finance, Accounting and Risk Management and Information Technology, Incline Village General Improvement District, stated he was here to help with guidance. He believes the reason people are having trouble understanding this is because, in the current situation, we are using an enterprise fund to present information that is hard to find. If you tell someone you are collecting revenue from capital expenditures, and they go to your operating statement and cannot find it, they wonder where their money went. You can say it may be found in the cash flow statement, but that only gets posted with the audit. He found the discussion about exchange and non-exchange transactions helpful as to which way they wanted to go. Under proprietary fund accounting, it pushes it to full accrual. Full accrual takes you to interperiod equity and costing. That takes you away from capital expenditure and what you are paying now to acquire something. Full accrual

and interperiod equity uses historical cost. People cannot relate to this. He believes the guidance letter is very good. He also believes the issue of whether you are dealing with exchange or non-exchange transactions is a valid point of reference in terms of enterprise and special revenue. Also, enterprise or proprietary fund accounting as opposed to governmental fund accounting does push you to this full costing interperiod equity. It puts a focus on certain types of measurements and accounting that may or may not be appropriate. This is why one serves better than the other. One of the problems with enterprises is they do not have the classifications of fund balance. So if you really have an amount of money that is part of your net position of a fund, you cannot give the true credibility that it is a commitment or an assignment, etc. We obviously have restricted and unrestricted, and most people are familiar with the net position of fixed assets. In their organization, they have some very real credible slices and dices that are now made available to them by using special revenue. They can use assignment and state that it is for this or that as opposed to it being aggregated and almost worthless. Regarding the guidance letter, he believes it is an appropriate document which is going in the right direction. He concurs with all of the observations about good examples.

Chairman Kohn-Cole asked whether accrual versus modified accrual needs to be mentioned. She summarized the changes they were going to make. We will add more definitions regarding non-exchange revenue, add some additional examples for other types of entities and an example of the math worksheet. At the next CLGF meeting, we will discuss possibly looking at the administrative code and whether we want to make any modifications because of GASB Statement No. 54. We will need another meeting to look at the revised draft before we go to the Committee.

Terry Rubald stated she put the report on the CLGF agenda. We could just say that it is in progress.

Member Kalt asked if this could be sent out via email. If the budget analyst could state in the email to the local government that the Department is providing this to all entities to provide clarification and guidance, and this may or may not affect you.

Terry Rubald stated that we also have a place on the Department website where we put all the guidance letters. She stated she is hopeful that if this format works, we can fill in a lot of topics this way in the future.

Member Kalt believes this is going to be an effective tool.

Aaron Katz asked to make public comment at this time. Chairman Kohn-Cole asked if he would wait because we were almost to Item 5, Public Comment.

4. BRIEFING TO AND FROM THE SUBCOMMITTEE ON LOCAL GOVERNMENT FINANCE AND LOCAL GOVERNMENT FINANCE STAFF
  - a) Discussion of Matters Affecting Local Governments
  - b) For Possible Action: Schedule Date and Review Agenda Topics for the Next Meeting**

There was no discussion under Item 4(a).

There is a CLGF meeting next week. Terry Rubald stated the next CLGF meeting following that would be in July or August. Chairman Kohn-Cole stated she would like to have a Subcommittee meeting prior to the full Committee meeting in July or August. She suggested July. Various dates were discussed but no specific date was decided upon.



**5. PUBLIC COMMENT (See Note 2)**

Aaron Katz stated he was a lay person. He does not interpret the guidance letter as merely being guidance. He finds it very unique that General Improvement Districts were specifically selected to show how it would apply. As he reads through this discussion on GIDs, it sounds to him like a legal opinion. A GID can make a switch to a special revenue fund. Why? Because it has a general obligation bond that partially pays for general obligation debt. It purportedly has committed funds coming in for a particular purpose. It goes through the GASB list. But this is a lot more than just mere guidance, and he takes issue with some of the factual determinations that are made there. He did a written statement on this, but there are three items in there that are telling him, and will tell other people of his community, that Mr. Eick can do whatever Mr. Eick wants to do. Mr. Katz believes there will be less transparency. IVGID is required by a regulation to recover costs, rates, tolls and charges. IVGID has adopted a policy which is intended to ensure prudent financial practices. One of these is a balanced budget. IVGID cannot balance any of its budgets unless it accesses this improper fee. This is about \$7 million per year. This is why people are complaining about it. IVGID's pricing policies are designed to recover its costs for providing services, including capital costs, for which management establishes the fees. IVGID establishes a budget of what it wants to spend, and it comes up with a deficiency. The rec fee becomes the payment for the deficiency. It is designed to recover the cost. He does not know any jurisdiction in the state which issues general obligation bonds and does not go to the voters to get approval. IVGID found a loophole in the statute. It says that if you additionally secure the repayment of the general obligation bonded indebtedness with a revenue source then you do not have to go to the public to get approval. This rec fee becomes the additional pledge source. Again, IVGID has adopted policies that say you will use this designated source to pay off general obligation bonded indebtedness. Maybe in a vacuum it is possible that some taxes could be used to pay general obligation bond. It never happens at IVGID, and it has not happened for at least 40 years. There are hardly any revenues that are designated for restricted or committed purposes. All of this money is used for everything under the sun. There is not a minimum of 20% for restricted or committed purposes. This guidance letter seems to be a sanction to do that. He knows this is going to go back to IVGID, and Mr. Eick is going to tell them he came before the Committee, and they approved what he wanted to do. He is going to change the fund structure. The board members are lay persons who will not understand. His fear is that now there will be all these transfers that are impermissible under NRS 354 because they come from an enterprise fund. The Committee needs to protect us if they are going to change over. IVGID cannot make all these transfers. That is why there was a change in the law. He hopes the Committee will read his written statement and look at his documents. The public only sees the budgets that IVGID publishes. They are in a format that is different than the format that goes to the Department. When they want to see revenue and expenses, they look at what is published online. One does not need to go through this for transparency. Please protect them with the guidance so it does not open up the door.

**6. For Possible Action: ADJOURNMENT**

The meeting was adjourned at 2:34 p.m.